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# **SMALL COMPANIES DIVIDEND TRUST PLC**

## **Annual Report**

for the year ended 30 April 2014

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## Investment Objective and Policy

The investment objective of Small Companies Dividend Trust PLC (the ‘Company’) is to provide Ordinary shareholders with a high income and the opportunity for capital growth, having provided a capital return sufficient to repay the capital entitlement of the Zero Dividend Preference shares issued by the subsidiary company, Small Companies ZDP PLC (‘SCZ’).

The Group’s funds are invested principally in smaller capitalised UK companies. The portfolio comprises companies listed on the Official List and companies admitted to trading on AIM. The Group does not invest in other investment trusts or in unquoted companies. No investment is made in preference shares, loan stock or notes, convertible securities or fixed interest securities.

The full details of the investment policy can be found in the Strategic Report.

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## Financial Highlights

	<b>30 April</b>	30 April	
	<b>2014</b>	2013	% change
<b>Capital</b>			
Total net assets (£'000)	<b>31,706</b>	22,579	40.42
Net asset value per Ordinary share	<b>191.58p</b>	138.95p	37.88
Mid-market price per Ordinary share	<b>188.00p</b>	128.50p	46.30
Discount	<b>1.87%</b>	7.52%	
Net asset value per Zero Dividend Preference share	<b>110.24p</b>	104.00p	6.00
Mid-market price per Zero Dividend Preference share	<b>117.00p</b>	112.75p	3.77
Premium	<b>6.13%</b>	8.41%	
	<b>Year ended</b>	Year ended	
	<b>30 April</b>	30 April	
	<b>2014</b>	2013	% change
<b>Revenue</b>			
Return per Ordinary share	<b>11.47p</b>	7.02p	63.39
Dividends declared per Ordinary share	<b>9.575p</b>	6.60p	
<b>Total Return</b>			
Total return on Group's net assets* (prior to deduction for provision of Zero Dividend Preference share entitlement)	<b>34.28%</b>	46.35%	
Total return on Group's net assets*	<b>45.36%</b>	37.10%	
Ongoing charges**	<b>2.00%</b>	2.38%	

\* Adding back dividends paid in the year.

\*\* Calculated in accordance with the Association of Investment Companies ('AIC') guidelines. Based on total expenses, excluding finance costs, for the year and average net asset value.

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# Strategic Report

The Strategic Report has been prepared in accordance with section 414A of the Companies Act 2006 (the “Act”). Its purpose is to inform members of the Company and help them understand how the Directors have performed their duty under section 172 of the Act to promote the success of the Company.

## Chairman’s Statement

### Results

The Company’s net asset value per Ordinary share at 30 April 2014 was 191.58p (2013:138.95p), an excellent increase over the year of 37.88%. In the year total dividends of 9.575p per Ordinary share were paid and declared including a Special Dividend of 2.75p. During the same period the MSCI Index increased by 9.19% and the MSCI UK SmallCap Index increased by 19.29%.

Since the Company was launched, on 12 May 1999, the net asset value per Ordinary share has risen by 99.56% and a total of 139.325p has been paid in dividends. Since the year end, the net asset value per Ordinary share has fallen to 184.89p as at 30 June 2014, including the fourth interim dividend of 2.40p per Ordinary share and the Special Dividend of 2.75p per Ordinary share which both went ex-dividend on 25 June 2014.

The Company is currently invested in 74 companies spread across 22 sectors. This spread creates a well diversified portfolio which we are confident will lead to steady revenue growth and, in time, capital growth.

Dividend growth has again been strong in the past year and we received a number of Special Dividends. As a result, despite paying an increased dividend of 6.825p per Ordinary share and the Special Dividend of 2.75p per Ordinary share the Company has been able to add to revenue reserves. The introduction of the Zero Dividend Preference shares in the 2013 financial year had a full year impact in this year.

The Company has enjoyed a strong year with share prices generally increasing. Since January the focus of investor’s attention has been more on the largest of companies and this is reflected in the Small and Mid Cap Indices largely trading sideways for the past few months.

### Ordinary share issue

To meet demand for the Ordinary shares which could not be met from the market the Company issued 300,000 new shares at a small premium to the prevailing net asset value.

### Zero Dividend Preference Shares

The Zero Dividend Preference Shares have traded throughout the year at a premium to their redemption value. The Zero Dividend Preference shares have a redemption date of 8 January 2018 and an annual gross coupon of 6%.

### Dividend

The Board has declared a fourth interim dividend of 2.40p per Ordinary share (2013: 2.40p) which when added to the three quarterly interim dividends of 1.475p per Ordinary share (2013: 1.40p), equates to a total dividend for the year of 6.825p per Ordinary share (2013: 6.60p), an increase of 3.41% over the previous year.

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## **Strategic Report** (continued)

### **Chairman's Statement** (continued)

In addition the Board has declared a Special Dividend of 2.75p per Ordinary share to be paid with the fourth interim dividend. So shareholders will effectively receive a fourth dividend of 5.15p per Ordinary share.

The Company has revenue reserves, which after payment of the fourth interim dividend and Special Dividend represent 110.14% of the current annual dividend or 7.46p per Ordinary share.

#### **Outlook**

As the economic recovery in the UK broadens and deepens the companies invested in by the fund should enjoy further increases in sales and profits. Generally it is expected that results will start to improve towards the end of this year and be announced in 2015.

The background environment is very positive for a portfolio of "UK centric" companies with low inflation, rising employment and greater confidence, both consumer and corporate, anticipated in the future. However the problems of the Eurozone may continue to act as a potential drag on UK growth. In time we can expect these to diminish and greater confidence and better performance to return.

The Board are confident that the Company will show further progress over the next year.

#### **Changes to the Annual Report**

You will note that there have been some changes to your Company's Annual Report this year. These are the results of the new narrative reporting requirements that have now come into effect. There is now a Strategic Report, which contains many of the disclosures previously contained within the Business Review section of the Directors' Report, and a new Directors' Remuneration Report. In relation to the latter, shareholders will be asked to vote on both the Directors' Remuneration Policy and the Directors' Remuneration Report at the forthcoming Annual General meeting.

#### **Alternative Investment Fund Manager's Directive ("AIFMD")**

AIFMD was conceived to address a perceived regulatory gap to protect investors and is intended to provide a harmonised regulatory and supervisory framework throughout the European Union ('EU') for regulating Alternative Investment Funds. Although it was principally aimed at private equity and hedge funds, investment trusts and venture capital trusts are also required to comply.

AIFMD was implemented by the UK on 22 July 2013, with existing investment companies, such as your Company, having until 22 July 2014 to comply fully with the requirements. The Board has been appointed as the Alternative Investment Fund Manager of the Company.

#### **Annual General Meeting**

We hope that as many shareholders as possible will attend the Company's Annual General Meeting, which will be held at 11.00am on Wednesday, 17 September 2014 at the offices of the Association of Investment Companies, 9th Floor, 24 Chiswell Street, London, EC1Y 4YY.

#### **Lord Lamont of Lerwick**

Chairman

3 July 2014

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## Strategic Report (continued)

### Investment Manager's Report

The year to 30 April 2014 has seen strong growth in the Company's net asset value per share and with the full year effect of the introduction of the Zero Dividend Preference Shares the revenue account has seen the full benefit of the capital structure introduced in 2012.

In the year under review we saw a strong performance in the underlying portfolio from the first eight months and then a weaker second period where companies' share prices generally drifted whilst investors' attention moved to larger companies.

We believe that company results due to be announced towards the end of the year and early next year will indicate that many companies whose business is predominantly in the UK are starting to experience good trading performance, which will encourage further interest and investment in our trading universe.

It is also clear that investment is beginning to take place by companies to expand capacity, improve efficiency and to develop new markets.

With the introduction a few years ago of a number of funds whose remit is to invest in Small and Mid Cap companies with a yield, and their success at attracting funds, there is now several billion pounds being targeted at our sector. This change in attitude towards the type of companies we invest in is very much to be welcomed.

In the past year we have seen continued strong dividend growth and also a number of companies paying a Special Dividend. It is the number and scale of these dividends that has allowed the Company in turn to pay a Special Dividend. The fourth interim dividend of 2.40p will be aggregated with a Special Dividend of 2.75p to make a payment of 5.15p per Ordinary share.

#### Portfolio Review

In the last year we had one takeover, Abbey Protection, at a very small and unsatisfactory premium. After the year end two of our portfolio companies, Braemar Shipping Services and ACM Shipping, announced that they were going to merge.

Acal, one of the better performers in the portfolio over the past year – up 70%, announced a 1 for 1 rights issue to finance a major strategic acquisition. It is developments like this that will drive the capital value forward in the future.

We expect to see a number of takeovers of companies in our portfolio once confidence in the future is more widespread, but at the moment, there are too many “half reasons” for people to pause and reflect again before doing anything. However as the UK banks and then the European banks continue to strengthen their balance sheets there will be a pressure to lend to ambitious companies again.

Seven stocks from the portfolio were sold in their entirety, Abbey Protection – taken over, Arbuthnot, Close Brothers, First Group, Victoria, Vp and Zotefoams. All had been good contributors to the capital performance and were sold because the dividend yield had declined to a point where their income contribution had fallen below the required level of an income fund. Albemarle & Bond was sold at a very significant loss prior to it going into administration.

Shareholdings were reduced in Beazley, Chesnara, Connect Group (renamed from Smiths News), Dairy Crest, GVC, ISG, Intermediate Capital, Jarvis Securities, Macfarlane, Marshalls, Numis Securities, Photo-Me International, Portmerion, Sanderson, St Ives, Trifast and Wilmington, after strong share price performances.

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## Strategic Report (continued)

### Investment Manager's Report (continued)

Eleven new shareholdings were added to the Company's investments in the year and two others after the year end. Stocks acquired include Amino Technologies – a producer of software and set-top boxes, Amlin – an insurer and reinsurer, Bloomsbury – a publisher, GLI Finance – a loan business providing loans to small companies, Go-Ahead – a public transport provider, Greggs – the largest bakery chain in the UK, Ladbrokes – gaming, Moss Bros – the eponymous clothing retailer, Town Centre Securities – a property investor, and Tritax Big Box – a specialist property investor specialising in very large distribution centres. After the year end we subscribed for shares in the flotation of Shoe Zone – a budget retailer of shoes.

#### Outlook

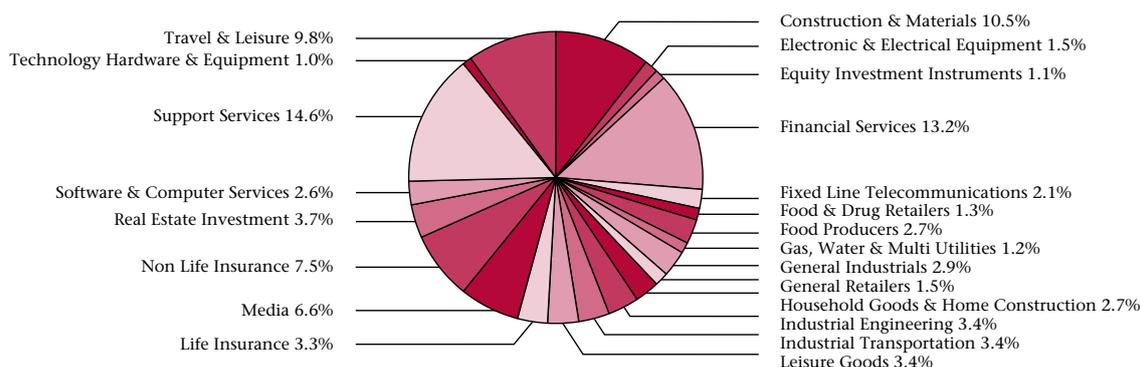
We are now seeing growth in most sectors of the economy and also geographically across the UK. This in turn is leading to increasing employment and strong GDP growth. Compared to the members of the Eurozone the UK is becoming the place to do business and to produce products.

We believe that on the basis of profit forecasts and medium term cash flow prospects, current valuations in our investment universe remain attractive and we continue to focus on the ability of our portfolio to deliver income as a key component of total return.

We repeat again that once mergers and acquisitions become more common, rather than just the one takeover in the past year, we would expect to see further growth in the value of the Company. The Company has a well balanced portfolio with 74 investments and is in a good position to take advantage of buying opportunities as they become available when short sharp corrections take place.

#### Breakdown of Portfolio by Industry

at 30 April 2014



Source: Capita Sinclair Henderson Limited

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## Strategic Report (continued)

### Investment Manager's Report (continued)

#### Twenty Largest Holdings

at 30 April 2014

		Market value £'000	% of portfolio
<b>Connect Group</b>	The UK leading wholesaler of newspapers and magazines and a leading UK book wholesaler	990	2.4
<b>Clarke (T)</b>	Electrical contractors with a distinctive regional business covering the UK	978	2.4
<b>Jarvis Securities</b>	Operates a number of retail stockbroking brands that provide nominee, certificated, SIPP and ISA accounts to individuals and organisations. It also provides outsourced financial administration services to investment firms.	922	2.3
<b>St Ives</b>	Printing and marketing solutions	891	2.2
<b>Marshalls</b>	Supplies the domestic, public sector and commercial markets with ranges of hard landscaping products	886	2.2
<b>Macfarlane Group</b>	Packaging distribution	873	2.1
<b>Braemar Shipping Services</b>	Provides broking and consulting services to the global shipping industry across four business segments: shipbroking, logistics, technical services and environmental services	863	2.1
<b>Cineworld Group</b>	Operations of cinemas in the UK, Ireland and Spain	852	2.1
<b>Personal Group Holdings</b>	A group of companies providing accident and health insurance, employee benefits, financial advice, and personal insurance and reinsurance broking services	849	2.1
<b>KCOM Group</b>	Fixed line telecommunications service company	847	2.1
<b>S &amp; U</b>	Consumer credit and car finance throughout the UK	819	2.0
<b>Photo-Me International</b>	Provides consumers with a convenient & cost-effective means of obtaining ID photos which are compliant with UK passport & driving licence standards	810	2.0
<b>Wilmington Group</b>	Provides information and training to selected professional business markets	795	1.9
<b>Morgan Sindall Group</b>	UK construction and urban regeneration group	793	1.9
<b>GVC Holdings</b>	Provides B2B and B2C services to the online gaming and sports betting markets	776	1.9
<b>Ladbrokes</b>	Leader in global betting and gaming market	767	1.9
<b>Tritax Big Box</b>	Investor in "Big Box" logistics assets in the UK	761	1.9
<b>Sanderson Group</b>	UK provider of software solutions and IT services	750	1.8
<b>Town Centre Securities</b>	Property investment and development company	744	1.8
<b>Randall &amp; Quilter</b>	Specialist non-life insurance investor, service provider and underwriting manager	740	1.8
		<hr/>	<hr/>
Top twenty companies total		16,706	40.9
Balance held in 54 holdings		<hr/> 24,114	<hr/> 59.1
<b>Total portfolio</b>		<hr/> <b>40,820</b>	<hr/> <b>100.0</b>

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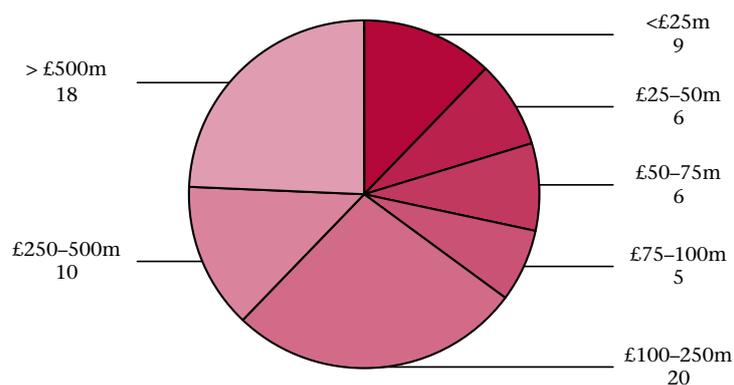
## Strategic Report (continued)

### Investment Manager's Report (continued)

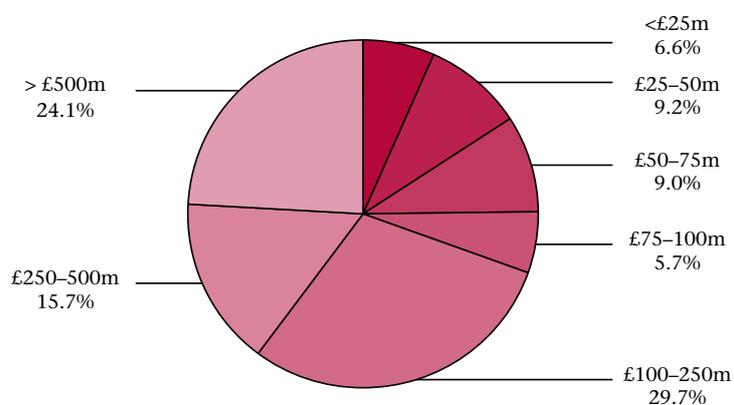
#### Breakdown of Portfolio by Market Capitalisation

at 30 April 2014

##### Number of Companies



##### % of Portfolio



Source: Capita Sinclair Henderson Limited

**David Horner and David Taylor**

Chelverton Asset Management Limited

3 July 2014

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## Strategic Report (continued)

### Other Statutory Information

#### *Company status, objective, review and business model*

The Company was incorporated on 6 April 1999 and commenced trading on 12 May 1999. The registered number of Small Companies Dividend Trust PLC is 3749536. Its capital structure consists of Ordinary shares of 25p. On 14 January 2014, the Company announced the issue of 300,000 Ordinary shares at a price of 189.5p each, which were to rank *pari passu* in all respects with the Ordinary shares in issue. The shares were issued for cash in order to meet investor demand.

Following this admission there are now 16,550,000 Ordinary shares in issue. The Company has only one class of share and this figure represents 100% of the Company's share capital and voting rights.

The Group financial statements consolidate the audited financial statements of the Company and its subsidiary undertaking drawn up for the year ended 30 April 2014.

The Company owns 100% of the shares of Small Companies ZDP PLC ("SCZ") which was incorporated on 13 July 2012. SCZ issued 8,500,000 Zero Dividend Preference shares on 28 August 2012, which have been admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. Further details of the Zero Dividend Preference shares and the loan and contribution agreements entered into by the Company and SCZ can be found in notes 15 and 16 to the financial statements on page 50. SCZ, at its Annual General Meeting on 17 September 2014 will put an Ordinary Resolution to its shareholders to allot shares up to an aggregate value of 2,833,333, being one third of the issued Zero Dividend Preference share capital as at 30 April 2014.

The principal activity of the Company is to carry on business as an investment trust. The Company has applied for, and been granted, approval from HMRC as an investment trust under sections 1158/1159 of the Corporation Tax Act 2010 ('1158/1159') on an ongoing basis. The Company will be treated as an investment trust company for each subsequent accounting period, subject to there being no subsequent serious breaches of the conditions for approval. The Company is also an investment company as defined in section 833 of the Companies Act 2006.

The new rules removed the maximum holding in any one investment of 15% and replaced this with a risk diversification approach. The Board has considered this and agreed that the Company's investment policy offers suitable risk diversification. One of the criteria for continued compliance is that the Company distributes a minimum of 85% of all its income as dividend payments. The Company could lose its investment trust company status if it became a close company at any time during the accounting period. Failure by the Company to satisfy the new requirements could result in it being subject to capital gains tax arising on the sale of investments. Further details on the operation of investment trusts can be obtained from the AIC on their website at [www.theaic.co.uk](http://www.theaic.co.uk).

The investment objective of the Company is to provide Ordinary shareholders with a high income and opportunity for capital growth, having provided a capital return sufficient to repay the capital entitlement of the Zero Dividend Preference shares issued by the subsidiary company SCZ.

#### *Investment policies and restrictions*

The Company's investment policy, is that:

- The Company's assets comprise investments in equities in order to achieve its investment objectives. It is the aim of the Company to provide both income and capital growth predominantly through investment in smaller capitalised UK companies admitted to the Official List of the UK Listing Authority and traded on the London Stock Exchange Main Market or traded on AIM.
- The Company will not invest in preference shares, loan stock or notes, convertible securities or fixed interest securities or any similar securities convertible into shares; nor will it invest in the securities or other investment trusts or in unquoted companies.
- There is no set limit on the Company's gearing.

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## Strategic Report (continued)

### Other Statutory Information (continued)

The Chairman's report on pages 2 and 3 and the Investment Manager's report on pages 4 to 7 give details of the Company's activities during the financial year under review.

#### *Performance analysis using key performance indicators*

At each quarterly Board meeting the Directors consider a number of key performance indicators ('KPIs') to assess the Group's success in achieving its objectives, including the net asset value ('NAV'), the dividend per share and the total ongoing charges.

- The Group's Consolidated Statement of Comprehensive Income is set out on page 36.
- A total dividend for the year to 30 April 2014 of 9.575p (2013: 6.60p) per Ordinary share has been declared to shareholders by way of three payments of 1.475p per Ordinary share and a fourth interim dividend payment of 2.40p per Ordinary share and a Special Dividend of 2.75p per Ordinary share.
- The NAV per Ordinary share at 30 April 2014 was 191.58p (2013: 138.95p).
- The ongoing charges (including investment management fees and other expenses but excluding performance fees and exceptional items) for the year ended 30 April 2014 were 2.00% (2013: 2.38%).

#### *Principal risks*

The Board considers the following as the principal risks facing the Company. Mitigation of these risks is sought and achieved in a number of ways as set out below:

##### *Market risk*

The Company is exposed to UK market risk due to fluctuations in the market prices of its investments.

The Investment Manager actively monitors economic performance of investee companies and reports regularly to the Board on a formal and informal basis. The Board formally meets with the Investment Manager on a quarterly basis when the portfolio transactions and performance are discussed and reviewed.

The Company is substantially dependent on the services of the Investment Manager's investment team for the implementation of its investment policy.

The Company may hold a proportion of the portfolio in cash or cash equivalent investments from time to time. Whilst during positive stock market movements the portfolio may forego notional gains, during negative market movements this may provide protection.

##### *Discount volatility*

As with many investment trust companies, discounts can fluctuate significantly.

The Board recognises that, as a closed ended company, it is in the long-term interests of shareholders to reduce discount volatility and believes that the prime driver of discounts over the longer term is performance. The Board, with its advisers, monitors the Company's discount levels and shares may be bought back should it be thought appropriate to do so by the Board.

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## **Strategic Report** (continued)

### **Other Statutory Information** (continued)

#### *Regulatory risks*

A breach of Companies Act regulations and Financial Conduct Authority (“FCA”) rules may result in the Group’s companies being liable to fines or the suspension of either of the Group companies from listing and from trading on the London Stock Exchange. The Board, with its advisers, monitors the Company’s and SCZ’s regulatory obligations both on an ongoing basis and at quarterly Board meetings.

#### *Financial risk*

The financial situation of the Group is reviewed in detail at each Board meeting and monitored by the Audit Committee.

New developments in accounting standards and industry related issues are actively reported to and monitored by the Board and its advisers, ensuring that appropriate accounting policies are adhered to.

A more detailed explanation of the financial risks facing the Group is given in note 24 to the financial statements on pages 55 to 59.

#### *Employees, environmental, human rights and community issues*

The Board recognises the requirement under Section 414C of the Act to detail information about employees, human rights and community issues, including information about any policies it has in relation to these matters and the effectiveness of these policies. These requirements do not apply to the Company as it has no employees and no physical assets, all the Directors are non-executive and it has outsourced all its management and administrative functions to third party service providers; the Company has therefore not reported further in respect of these provisions. However, in carrying out its activities and in relationships with suppliers, the Company aims to conduct itself responsibly, ethically and fairly.

#### *Current and future developments*

A review of the main features of the year and the outlook for the Company are contained in the Chairman’s Statement on pages 2 and 3 and the Investment Manager’s report on pages 4 to 7.

The Directors are seeking to renew the appropriate powers at the next Annual General Meeting (‘AGM’) to enable the issue and purchase of its own shares, when it is in shareholders’ interests as a whole.

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## Strategic Report (continued)

### Other Statutory Information (continued)

#### *Dividends paid/declared*

	<b>Payment date</b>	<b>30 April 2014</b>	30 April 2013
		<b>pence</b>	pence
First interim	4 October 2013	<b>1.475</b>	1.40
Second interim	10 January 2014	<b>1.475</b>	1.40
Third interim	4 April 2014	<b>1.475</b>	1.40
Fourth interim	10 July 2014	<b>2.40</b>	2.40
Special Dividend	10 July 2014	<b>2.75</b>	–
		<b><u>9.575</u></b>	<u>6.60</u>

The Directors have not recommended a final dividend in respect of the year ended 30 April 2014.

#### *Diversity*

The Board of Directors of the Company comprised four male Directors in the year to 30 April 2014. While the Board recognises the benefits of diversity in future appointments to the Board, the key criteria for the appointment of new directors will be the appropriate skills and experience in the interests of shareholder value. The Directors are satisfied that the Board currently contains members with an appropriate breadth of skills and experience. No new appointments to the board have been made or are contemplated at present.

On behalf of the Board

**Lord Lamont of Lerwick**

Chairman

3 July 2014

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## Directors

The Directors are:

**The Rt Hon. Lord Lamont of Lerwick\*** (Chairman) was Chancellor of the Exchequer between 1990-1993. Prior to his appointment, Lord Lamont was Chief Secretary to the Treasury between 1989-1990. Following his retirement as a Member of Parliament in 1997, he has held numerous positions as a director of various organisations and funds including NM Rothschild and Sons Ltd. His current directorships include Phorm, Inc. and he is Chairman of Jupiter Second Split Trust PLC. He is an adviser to BC Partners and Stanhope Capital.

Lord Lamont was appointed to the Board on 27 February 2006.

**David Harris\*** is chief executive of InvaTrust Consultancy Limited. The company specialises in marketing issues relating to the investment and financial services industry. He writes regular articles for the national and trade press on investment matters. From 1995 to 1999 he was a director of the AIC with specific responsibility for training and education of independent financial advisers. He is a non-executive director of the Character Group plc, Aseana Properties Limited, Core VCT V PLC, F&C Managed Portfolio Trust plc and Manchester and London Investment Trust plc.

Mr Harris was appointed to the Board on 30 May 2000 and is Audit Committee Chairman.

**William van Heesewijk** began his career with Lloyds Bank International in 1981 working for both the merchant banking and investment management arms. He has been involved in the investment trust industry since 1987 in various capacities. During his tenure with Fidelity Investments International, Gartmore Investment Management plc and BFS Investments plc he managed several launches of onshore and offshore investment funds, including a number of roll-overs and reconstructions involving complex capital structures and across several geographic regions. His roles involved business development, project management, sales and marketing. He is Business Development Director with Chelverton Asset Management Limited. He is a member of the Association of Investment Companies Managers forum.

Mr van Heesewijk was appointed to the Board on 1 December 2005.

**Howard Myles\*** was a partner in Ernst & Young from 2001 to 2007 and was responsible for the Investment Funds Corporate Advisory team. He was previously with UBS Warburg from 1987 to 2001. Mr Myles began his career in stockbroking in 1971 as an equity salesman and in 1975 joined Touche Ross & Co where he qualified as a chartered accountant. In 1978 he joined W Greenwell & Co. in the corporate broking team and in 1987 moved to SG Warburg Securities where he was involved in a wide range of commercial and industrial transactions in addition to leading Warburg's corporate finance function for investment funds. He is now a non-executive director of The World Trust Fund, Aberdeen Private Equity Fund Limited, Baker Steel Resources Trust Limited, BlackRock Hedge Selector Limited, JPMorgan Brazil Investment Trust plc and BBGI SICAV S.A.

Mr Myles was appointed to the Board on 15 March 2011. He is Chairman of the Management Engagement Committee, Nomination Committee and Remuneration Committee.

\* Independent of the Investment Manager

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## Investment Manager and Secretary

### **Investment Manager: Chelverton Asset Management Limited ('Chelverton')**

Chelverton was formed in 1998 by David Horner who has considerable experience of analysing investments and working with smaller companies. Chelverton is largely owned by its employees.

Chelverton is a boutique fund manager focused on UK small companies and has a successful track record. At 30 April 2014, total funds under management were approximately £385 million including two investment companies and an OEIC. The fund management team comprises David Horner and David Taylor.

Chelverton is authorised and regulated by the FCA.

### **Secretary: Capita Sinclair Henderson Limited** (trading as Capita Asset Services)

Capita Sinclair Henderson Limited provides company secretarial and administrative services for the Group. It provides similar services for a large number of different types of companies, including a significant number of investment trust companies.

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## Directors' Report

The Directors present their Annual Report and financial statements for the Group and the Company for the year ended 30 April 2014.

### Directors

The Directors who served during the year ended 30 April 2014 were as follows:

Lord Lamont

D Harris

W van Heesewijk

H Myles

None of the Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements during the year, except Mr van Heesewijk who by virtue of his employment with Chelverton is interested in the Investment Management Agreement. None of the Directors has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company, and which was effected by the Company during the current financial year.

There have been no loans or guarantees from the Company or its subsidiary undertakings, to any Director at any time during the year or thereafter.

### Corporate Governance

A formal statement on Corporate Governance and the Company compliance with the UK Corporate Governance Code and the AIC on Corporate Governance can be found on pages 18 to 24.

### Management agreements

The Company's investments are managed by Chelverton Asset Management Limited under an agreement ('the Investment Management Agreement') dated 30 April 2006 (effective from 1 December 2005). A periodic fee is payable quarterly in arrears at an annual rate of 1% of the value of the gross assets under management of the Company.

The Investment Management Agreement may be terminated by twelve months' written notice. There are no additional arrangements in place for compensation beyond the notice period.

Under another agreement ('the Administration Agreement') dated 7 May 1999, company secretarial services and the general administration of the Group are undertaken by Capita Sinclair Henderson Limited. Their fee is subject to annual upward adjustments in accordance with the Retail Price Index. The Administration Agreement may be terminated by six months' written notice.

It is the Directors' opinion that the continuing appointment of the Investment Manager and the Secretary on the terms agreed is in the best interests of the Group and its shareholders. The Directors are satisfied that Chelverton has the required skill and expertise to continue to successfully manage the Group's assets.

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## Directors' Report (continued)

### Substantial shareholdings

The Directors have been informed of the following notifiable interests in the voting shares of the Company at 30 April 2014:

Ordinary shares	Number of shares	% of voting rights
Charles Stanley Group (nominee holding)	1,511,832	9.13
Henderson Global Investors <i>New Star Higher Income Fund</i>	910,497	5.50
Philip J Milton & Company	801,121	4.84
Consistent Unit Trust Management	775,000	4.68
Dartmoor Investment Trust	630,000	3.81
Jupiter Asset Management Limited	600,000	3.63

The Company has not been notified of any changes to the above holdings between 30 April 2014 and the date of this report.

### Special business at the Annual General Meeting

The Company's AGM will be held at 11.00 am on Wednesday 17 September 2014. The Notice of meeting is set out on pages 65 to 68.

In addition to the ordinary business of the meeting, there are a number of items of special business, as follows:

#### *Authority to issue shares and disapply pre-emption rights*

An Ordinary Resolution was passed at the last AGM held on 18 September 2013 giving Directors authority, pursuant to Section 551 of the Companies Act 2006, to allot Ordinary shares up to an aggregate nominal value equal to £1,354,166 (which figure represented one-third of the issued share capital of the Company). This authority expires at the conclusion of the next AGM. As set out above 300,000 Ordinary shares were issued on 14 January 2014, which increased the issued share capital to 16,550,000. The Directors are seeking renewal, pursuant to Section 551 of the Companies Act 2006, to allot up to an aggregate nominal value equal to £1,379,167, being one-third of the Ordinary shares in issue at the date of this report, as set out in Resolution 8 in the Notice of meeting. This authority will expire at the AGM to be held in 2015 or fifteen months from the passing of the resolution, whichever is earlier.

A Special Resolution was also passed on 18 September 2013 giving the Directors power to issue Ordinary shares for cash notwithstanding the pre-emption provisions of the Companies Act 2006 and permitting the Directors to issue shares without being required to offer them to existing shareholders in proportion to their current holdings. This power expires at the conclusion of the next AGM and the Directors are seeking its renewal, pursuant to Sections 570 and 573 of the Companies Act 2006, to enable the Directors to issue up to 10% of the issued Ordinary share capital, representing 1,655,000 Ordinary shares at the date of this report, as set out in the Notice of meeting as Resolution 9.

This authority will also cover the sale of shares held in Treasury, and will expire at the AGM to be held in 2015 or fifteen months from the passing of the resolution, whichever is earlier. The authorities to issue shares will only be used when it would be in the interests of shareholders as a whole.

#### *Dividends*

Details of the dividends recommended by the Board are set out in the Strategic Report on page 11.

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## Directors' Report (continued)

### *Purchase of own shares*

At the AGM held on 18 September 2013 the Directors were granted the authority to buy back in the market up to 14.99% of the Company's Ordinary shares in circulation at that date for cancellation or placing into Treasury. No shares have been purchased under this authority which remains in force. Resolution 10 as set out in the Notice of meeting will renew this authority for up to 14.99% of the current issued Ordinary share capital in circulation, which represents 2,480,845 Ordinary shares at the date of this report. The Directors do not intend to use the authority to purchase the Company's shares unless to do so would result in an increase in the net asset value per share for the remaining shareholders and would be in the interests of all shareholders. The authority, if given, will lapse at the AGM to be held in 2015 or eighteen months from the passing of this resolution, whichever is earlier.

Purchases will be made on the open market. The price paid for Ordinary shares will not be less than 25p and not more than the higher of (i) 5% above the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) of the Ordinary shares for the five business days immediately preceding the date on which the Ordinary share is purchased, and (ii) the higher of the price of the last independent trade and the current highest independent bid on the London Stock Exchange. Shares may be cancelled or placed in Treasury.

Pursuant to the loan agreement between the Company and SCZ, the Company will not purchase any of its Ordinary shares out of capital reserves unless the cover for the Zero Dividend Preference shares is at least 1.9 times after the purchase.

### *Notice period for general meetings*

Resolution 11 is a special resolution that will give the Directors the ability to convene general meetings, other than annual general meetings, on a minimum of 14 clear days' notice. The minimum notice period for annual general meetings will remain at 21 clear days. The approval will be effective until the Company's Annual General Meeting to be held in 2015, at which it is intended that renewal will be sought. The Company will have to offer facilities for all shareholders to vote by electronic means for any general meeting convened on 14 days' notice. The Directors will only call a general meeting on 14 days' notice where they consider it to be in the interests of shareholders to do so and the relevant matter is required to be dealt with expeditiously.

### *Recommendation*

The Board considers that the resolutions to be proposed at the AGM are in the best interests of shareholders as a whole and the Company and, accordingly, recommends that shareholders vote in favour of each resolution, as the Directors intend to do in respect of their own beneficial shareholdings.

## **Company information**

The following information is disclosed in accordance with the Companies Act 2006.

- The Group's capital structure and voting rights are summarised on page 62.
- Details of the substantial shareholders in the Company are listed on page 15.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association.

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## Directors' Report (continued)

- Amendment of the Articles of Association and the giving of powers to issue or buy back the Company's shares require the relevant resolution to be passed by shareholders. The Board's current powers to issue or buy back shares and proposals for their renewal are detailed on pages 15 and 16.
- There are no restrictions concerning the transfer of securities in the Company; no restrictions on voting rights, no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.
- Consideration of likely future developments is detailed in the Strategic Report on pages 2 to 11.

### ISA status

The Company's Ordinary shares are qualifying investments for Individual Savings Accounts ('ISAs'), as are the Zero Dividend Preference shares of Small Companies ZDP PLC.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are described in the Chairman's Statement on pages 2 and 3 and in the Investment Manager's report on pages 4 to 7. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial statements. In addition, note 24 to the financial statements sets out the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk. The Group has adequate financial resources and as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the economic outlook, and continue to adopt the going concern basis.

### Global greenhouse gas emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emission-producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

### Auditor

The Auditor, Hazlewoods LLP, has indicated its willingness to continue in office, and Resolution 7 proposing its re-appointment and authorising the Directors to determine its remuneration for the ensuing year will be submitted at the AGM.

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are each aware, that there is no relevant audit information of which the Auditor is unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditor.

On behalf of the Board

### Lord Lamont of Lerwick

Chairman

3 July 2014

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## Statement on Corporate Governance

The Company is committed to maintaining high standards of corporate governance and the Directors are accountable to shareholders for the governance of the Group's affairs.

### Statement of compliance with the UK Corporate Governance Code ('the Governance Code')

The Directors have reviewed the detailed principles outlined in the Governance Code and confirm that, to the extent that they are relevant to the Company's business, they have complied with the provisions of the Governance Code throughout the year ended 30 April 2014 except as explained in this section as being non-compliant and that the Company's current practice is in all material respects consistent with the principles of the Governance Code.

The Board also confirms that, to the best of its knowledge and understanding, procedures were in place to meet the requirements of the Governance Code relating to internal controls throughout the year under review. This statement describes how the principles of the Governance Code have been applied in the affairs of the Company.

As an investment trust, the Company has also taken into account the Code of Corporate Governance produced by the Association of Investment Companies ('the AIC Code'), which is intended as a framework of best practice specifically for AIC member companies.

The AIC Code, as explained by the AIC Corporate Governance Guide ('the AIC Guide'), addresses all the principles set out in the Governance Code, and there are some areas where the AIC Code is more flexible than the Governance Code for investment companies. The Board has taken steps to adhere to its principles and follow the recommendations in the AIC Code where it believes they are appropriate.

A copy of the AIC Code and the AIC Guide can be obtained via the AIC website, [www.theaic.co.uk](http://www.theaic.co.uk), and a copy of the Governance Code can be obtained at [www.frc.org.uk](http://www.frc.org.uk).

The Company has not complied with the following provisions of the Governance Code:

- Owing to the size of the Board, it is also felt inappropriate to appoint a senior independent non-executive Director.
- The Directors do not have service contracts, but all are required to retire and seek re-election at least every three years. The recommendation of the Governance Code is for fixed term renewable contracts.
- As the Group has no staff, other than Directors, there are no procedures in place in relation to whistle-blowing. The Board has satisfied itself there are appropriate whistle-blowing procedures in place at its service providers.

### Board responsibilities and relationship with Investment Manager

The Board is responsible for the investment policy and strategic and operational decisions of the Group and for ensuring that the Group is run in accordance with all regulatory and statutory requirements. These procedures have been formalised in a schedule of matters reserved for decision by the full Board and which has been adopted for all meetings. These matters include:

- the maintenance of clear investment objectives and risk management policies, changes to which require Board approval;
- the monitoring of the business activities of the Group, including investment performance and annual budgeting; and
- review of matters delegated to the Investment Manager, Administrator or Secretary.

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## Statement on Corporate Governance (continued)

The Group's day-to-day functions have been delegated to a number of service providers, each engaged under separate legal agreements. At each Board meeting the Directors follow a formal agenda prepared and circulated in advance of the meeting by the Company Secretary to review the Group's investments and all other important issues, such as asset allocation, gearing policy, corporate strategic issues, cash management, peer group performance, marketing and shareholder relations, investment outlook and revenue forecasts, to ensure that control is maintained over the Group's affairs. The Board regularly considers its overall strategy.

The management of the Group's assets is delegated to Chelverton. At each Board meeting, representatives of Chelverton are in attendance to present verbal and written reports covering its activity, portfolio composition and investment performance over the preceding period. Ongoing communication with the Board is maintained between formal meetings. The Investment Manager ensures that Directors have timely access to all relevant management and financial information to enable informed decisions to be made and contacts the Board as required for specific guidance. The Company Secretary and Investment Manager prepare briefing notes for Board consideration on matters of relevance, for example changes to the Group's economic and financial environment, statutory and regulatory changes and corporate governance best practice.

Small Companies Dividend Trust PLC has arranged a Directors' and Officers' Liability insurance policy which includes cover for legal expenses.

The Articles of Association of both the Company and SCZ provide the Directors, subject to the provisions of UK legislation, with an indemnity in respect of liabilities which they may sustain or incur in connection with their appointment. Save for this, there are no qualifying third party indemnity provisions in force.

### **Board membership**

At the year end the Board consisted of four Directors, all of whom are non-executive. The Group has no employees. The Board seeks to ensure that it has the appropriate balance of skills, experience and length of service amongst its members. The Board's policy on tenure is that Directors can stand for more than nine years. The Board considers that length of service does not necessarily compromise the independence or contribution of directors of investment trust companies where experience and continuity can be a significant strength. The Directors possess a wide range of business and financial expertise relevant to the direction of the Group and Company and consider that they commit sufficient time to the Group and Company's affairs. On appointment to the Board, Directors are fully briefed as to their responsibilities by the Chairman and the Investment Manager. Brief biographical details of the Directors can be found on page 12.

The Directors meet at regular Board Meetings, held at least four times a year, and additional meetings and telephone meetings are arranged as necessary. During the year to 30 April 2014 the Board met four times and all Directors were present at all Board Meetings.

### **Chairman**

The Chairman, Lord Lamont, is independent. He has shown himself to have sufficient time to commit to the Group's affairs. The Company does not have a chief executive officer, as it has no executive directors. The Chairman has no relationships that may create a conflict of interest between the Chairman's interest and those of the shareholders. The Chairman does not sit on the Board of any other investment company managed by Chelverton.

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## Statement on Corporate Governance (continued)

### Directors' independence

In accordance with the Listing Rules for investment entities, the Board has reviewed the status of its individual Directors and the Board as a whole.

The Governance Code requires that this report should identify each non-executive Director the Board considers to be independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement, stating its reasons if it determines that a Director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination.

Lord Lamont and Mr Myles are deemed to be independent of the Investment Manager. Despite being on the Board for over nine years, the Board believes Mr Harris to be independent of the Board and he continues to perform his role effectively. He is considered by the Board to be independent of the Investment Manager. Mr van Heesewijk is not deemed independent by virtue of his employment by Chelverton. In accordance with the requirements of the Listing Rules, Mr van Heesewijk is subject to annual re-election due to this connection. The majority of the Board, being three of the four Directors, is therefore independent.

Under the Articles of Association, one-third of Directors will retire by rotation at each AGM and no Director shall serve a term of more than three years before re-election, in accordance with corporate governance principles. The Board has reviewed the appointment of those Directors retiring at the forthcoming AGM. In accordance with the Governance and AIC Codes, Mr Harris will offer himself for re-election (and do so on an annual basis), having served on the Board for over nine years. Mr van Heesewijk as a non-independent Director will also stand for re-election. Mr Myles will also stand for re-election, it being his third year on the Board. The Board recommends that shareholders vote for the re-election of Mr Harris, Mr van Heesewijk and Mr Myles as it believes their contributions to the Board to be effective, that they demonstrate commitment to their roles as non-executive Directors of the Company and have actively contributed throughout the year.

### Senior Independent Director

The Company's Board of which Rt Hon. Lord Lamont is Chairman, comprises of three non-executive Directors. No separate Senior Independent Director has been appointed to the Board as in the view of the Directors it is inappropriate to do so given the size and composition of the Board. Three out of four of the Directors are considered to be independent of the Investment Manager.

### Committees of the Board

The Board has appointed a number of Committees, as set out below, to which certain Board functions have been delegated. Each of these Committees has formal written terms of reference, which clearly define their responsibilities and incorporate the best practice recommendations and requirements of the Governance Code. The terms of reference can be inspected at the Registered Office.

### Audit Committee

The Audit Committee comprises the independent Directors, with Mr Harris as Chairman. The Committee met twice during the year ended 30 April 2014. All members of the Committee were present at both meetings.

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## Statement on Corporate Governance (continued)

The primary responsibilities of the Audit Committee are: to review the effectiveness of the internal control environment of the Group and monitor adherence to best practice in corporate governance; to make recommendations to the Board in relation to the re-appointment of the Auditor and to approve their remuneration and terms of engagement; to review and monitor the Auditor's independence and objectivity and the scope and effectiveness of the audit process and to provide a forum through which the Group's Auditor reports to the Board. The Audit Committee also has responsibility for monitoring the integrity of the financial statements and accounting policies of the Group and for reviewing the Group's financial reporting and internal control policies and procedures. Committee members consider that individually and collectively they are appropriately experienced in accounting and audit processes to fulfil the role required.

The Audit Committee has direct access to the Group's Auditor, Hazlewoods LLP, and representatives of Hazlewoods LLP attend the year end Audit Committee meeting. On the basis of this meeting the Audit Committee has been able to assess the effectiveness of the external audit. A formal statement of independence is received from the external Auditor each year.

The Committee has considered the independence and objectivity of the Auditor and it is satisfied in these respects that Hazlewoods LLP has fulfilled its obligations to the Group and its shareholders. No non-audit services were provided in the year. The Committee has advised that based on its assessment of their performance and independence, Hazlewoods LLP has fulfilled its obligations to the Group and its shareholders and on this basis recommends their reappointment as Auditor.

The Chairman of the Audit Committee will be present at the Annual General Meeting to deal with any questions from shareholders relating to the financial statements.

### **Management Engagement Committee**

The Management Engagement Committee comprises the independent Directors, with Mr Myles as Chairman. The Committee meets as necessary to review the performance of the Investment Manager's obligations under the Investment Management Agreement and to consider any variation to the terms of the Agreement and reports its findings to the Board. Based on the Investment Manager's performance, it has recommended to the Board that the Investment Manager's appointment continues. The Management Engagement Committee also reviews the performance of the Company Secretary, the Custodian and the Registrar and any matters concerning their respective agreements with the Company.

The Management Engagement Committee met once during the year, with all independent Directors in attendance.

### **Nominations Committee**

The Nominations Committee comprises the independent Directors, with Mr Myles as Chairman, and has been formally constituted to assist the Board in making recommendations on all new Board appointments.

The role of the Committee is to review the balance and effectiveness of the Board and to identify the skills and expertise needed to meet the future challenges and opportunities facing the Group and those individuals who might best provide them. The Committee makes recommendations to the Board, as and when necessary, with regard to the criteria for future Board appointments, the methods of selection, membership of the Audit Committee and the rationale for the re-appointment of those Directors standing for re-election at Annual General Meetings. The Committee is responsible for assessing the time commitment required for each Board appointment and ensuring that the present incumbents have sufficient time to undertake them.

The Nominations Committee facilitates the formal Board evaluation process of individual Directors' performance and that of the Chairman.

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## Statement on Corporate Governance (continued)

At its meeting held on 18 June 2014, the Nomination Committee evaluated the performance of individual Directors and the Chairman for the year ended 30 April 2014. As a result of the evaluation, and subsequent recommendation to the Board, the Board considers that all Directors contribute effectively and have the skills and experience relevant to the leadership and direction of the Company.

The Nominations Committee met once during the year ended 30 April 2014, with all independent Directors in attendance.

### Remuneration Committee

Due to the small size of the Board, the Remuneration Committee comprises the entire Board, and is chaired by Mr Myles. The Committee meets as necessary to determine and approve Directors' fees, following proper consideration of the role that individual Directors fulfil in respect of Board and Committee responsibilities, the time committed to the Group's affairs and remuneration levels generally within the investment trust sector.

Under the Listing Rules, the Governance Code principles relating to directors' remuneration do not apply to an investment trust company other than to the extent that they relate specifically to non-executive directors. Detailed information on the remuneration arrangements can be found in the Directors' Remuneration Report on pages 27 to 30 and in note 5 to the financial statements.

The Remuneration Committee met once during the year ended 30 April 2014, on 19 June 2013, with all independent Directors in attendance.

### Independent professional advice

The Board has formalised arrangements under which the Directors, in the furtherance of their duties, may take independent professional advice at the Company's expense.

### Institutional investors – use of voting rights

The Investment Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights.

### Conflicts of interest

It is the responsibility of each individual Director to avoid an unauthorised conflict arising. He must notify and request authorisation from the Board as soon as he becomes aware of the possibility of a conflict arising.

The Board is responsible for considering Directors' requests for authorisation of conflicts and for deciding whether or not the conflict should be authorised. The factors to be considered will include whether the conflict could prevent the Director from properly performing his duties, whether it has, or could have, any impact on the Group and whether it could be regarded as likely to affect the judgement and/or actions of the Director in question. When the Board is deciding whether to authorise a conflict or potential conflict, only Directors who have no interest in the matter being considered are able to take the relevant decision, and in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Group's success. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate in the circumstances.

A register of conflicts is maintained by the Company Secretary and is reviewed at Board meetings, to ensure that any authorised conflicts remain appropriate. Directors are required to confirm at these meetings whether there has been any change to their position.

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## Statement on Corporate Governance (continued)

### Internal control review

The Board is responsible for establishing and maintaining the Group's systems of internal control and for reviewing their effectiveness.

An ongoing process, in accordance with the guidance supplied by the Financial Reporting Council: 'Internal Control: Revised Guidance for Directors on the Combined Code', is in place for identifying, evaluating and managing risks faced by the Company and the Group. This process ensures that the Board maintains a sound system of internal control to safeguard shareholders investments and the Group's assets. This process, together with key procedures established with a view to providing effective financial control, has been in place for the full financial year and up to the date the financial statements were approved.

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. It should be recognised that such systems can only provide reasonable, rather than absolute, assurance against material misstatement or loss. No significant failings or weaknesses have been identified.

### Internal control assessment process

Risk assessment and the review of internal controls is undertaken by the Board in the context of the Group's overall investment objective. The review covers the key business, operational, compliance and financial risks facing the Company. In arriving at its judgement of what risks the Company faces, the Board has considered the Company's operations in the light of the following factors:

- the nature and extent of risks which it regards as acceptable for the Company to bear within its overall business objective;
- the threat of such risks becoming a reality;
- the Company's ability to reduce the incidence and impact of risk on its performance;
- the cost to the Company and benefits related to the review of risk and associated controls of the Group; and
- the extent to which third parties operate the relevant controls.

Against this background the Board has split the review into four sections reflecting the nature of the risks being addressed. The sections are as follows:

- corporate strategy;
- published information and compliance with laws and regulations;
- relationship with service providers; and
- investment and business activities.

Given the nature of the Company's activities and the fact that most functions are subcontracted, the Directors have obtained information from key third-party suppliers regarding the controls operated by them. To enable the Board to make an appropriate risk and control assessment, the information and assurances sought from third parties include the following:

- details of the control environment;
- identification and evaluation of risks and control objectives;
- assessment of the communication procedures; and
- assessment of the control procedures.

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## Statement on Corporate Governance (continued)

The key procedures which have been established to provide effective internal financial controls are as follows:

- investment management is provided by Chelverton. The Board is responsible for the implementation of the overall investment policy and monitors the actions of the Investment Manager at regular Board meetings;
- the provision of administration, accounting and company secretarial duties is the responsibility of Capita Sinclair Henderson Limited;
- custody of assets is undertaken by Jarvis Investment Management Limited;
- the duties of investment management, accounting and custody of assets are segregated. The procedures of the individual parties are designed to complement one another;
- the non-executive Directors of the Group clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved; the Board via the Management Engagement Committee monitors their ongoing performance and contractual arrangements;
- mandates for authorisation of investment transactions and expense payments are set by the Board; and
- the Board reviews detailed financial information provided by the Administrator on a regular basis.

The Group does not have an internal audit function. All of the Group's management functions are delegated to independent third parties whose controls are reviewed by the Board. It is therefore felt that there is no need for the Group to have an internal audit function. However, this need is reviewed annually.

### Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Capita Sinclair Henderson Limited, which is responsible for ensuring that Board and Committee procedures are followed and that applicable regulations are complied with. The Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Group are met.

### Dialogue with shareholders

Communication with shareholders is given a high priority by both the Board and the Investment Manager and all Directors are available to enter into dialogue with shareholders. Major shareholders of the Group have the opportunity to meet with the independent non-executive Directors of the Board in order to ensure that their views are understood. All shareholders are encouraged to attend the AGM, during which the Board and the Investment Manager are available to discuss issues affecting the Group and shareholders have the opportunity to address questions to the Investment Manager, the Board and the Chairmen of the Board's standing committees.

Any shareholder who would like to lodge questions in advance of the AGM is invited to do so either on the reverse of the proxy card or in writing to the Company Secretary at the address given on page 64. The Company always responds to letters from individual shareholders.

The Annual and Half Yearly Reports of the Group are prepared by the Board and its advisers to present a full and readily understandable review of the Group's performance. Copies are available for downloading from the Investment Manager's website [www.chelvertonam.com](http://www.chelvertonam.com) and on request from the Company Secretary on 01392 412122. Copies of the Annual Report are mailed to shareholders.

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## Audit Committee Report

I am pleased to present the Audit Committee Report for the year ended 30 April 2014.

### Role of the Committee

The Audit Committee (the “Committee”) provides a forum through which the Group’s Auditor reports to the Board. The Committee is responsible for monitoring the process of production and ensuring the integrity of the Group’s financial statements. The other primary responsibilities of the Committee are:

- to monitor adherence to best practice in corporate governance;
- to review the effectiveness of the internal control and risk management environment of the Group;
- to receive compliance reports from the Investment Manager;
- to consider the accounting policies of the Group;
- to make recommendations to the Board in relation to the re-appointment of the Auditor;
- to approve the auditors’ remuneration and terms of engagement; and
- to review and monitor the Auditor’s independence and objectivity and the effectiveness of the audit process.

### Matters considered in the year

The Committee met twice during the financial year to consider the financial statements and to review the internal control systems. The principal issues identified by the Committee were the valuation of the Group’s assets, proof of ownership of its investments and cash, and the maintenance of its approval as an investment trust.

The Manager and Administrator have reported to the Committee to confirm continuing compliance with the requirements for maintaining investment trust status. The position is also reviewed by the Auditor as part of the audit process.

The Committee liaised with the appointed Investment Manager, Chelverton Investment Management Limited throughout the year, and received reports on their legal compliance at each meeting. A Risk Assessment and Review of Internal Controls document maintained by the Board was considered in detail and amended as necessary. This document is reviewed by the Committee at each meeting.

### Internal Audit

The Group does not have an internal audit function as most of its day-to-day operations are delegated to third parties, all of whom have their own internal control procedures. The Committee discussed whether it would be appropriate to establish an internal audit function, and agreed that the existing system of monitoring and reporting by third parties remains appropriate and sufficient.

### External Audit

The Audit Committee monitors and reviews the effectiveness of the external audit process for the publication of the Annual Report and makes recommendations to the Board on their re-appointment, remuneration and terms of engagement.

Prior to each Annual Report being published, the Committee considers the appropriateness of the scope of the audit plan, the terms under which the audit is to be conducted as well as the matter of remuneration, with a view to ensuring the best interests of the Group are promoted.

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## **Audit Committee Report** (continued)

Audit fees are computed on the basis of the time spent on Group affairs by the Audit partners and staff and on the levels of skill and responsibility of those involved.

Hazlewoods LLP did not provide non-audit services to the Group during the year. In the event of any proposed non-audit services, the Committee would review the scope and nature of the proposed non-audit service before engagement, to ensure that auditor independence and objectivity was safeguarded.

Hazlewoods LLP was first appointed as Auditor to the Group on 2 May 2007. As part of its review of the continuing appointment of the Auditor, the Committee considers the length of tenure of the audit firm, its fees and independence, along with any matters raised during each audit. The Committee has discussed with Hazlewoods LLP its objectivity, independence and experience in the investment trust sector.

The Committee has recommended the re-appointment of Hazlewoods LLP on each occasion since their initial appointment, and no tender has been undertaken for the audit of the Group. The Audit Partner for the Group has been rotated once since their initial appointment, most recently in respect of the financial year ended 30 April 2012.

Hazlewoods LLP has indicated its willingness to continue in office as Auditor of the Group. Following its review, the Committee considers that individually and collectively the Auditor is appropriately experienced to fulfil the role required and has recommended their re-appointment to the Board. A resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

**David Harris**

Audit Committee Chairman

*3 July 2014*

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## Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The law requires the Group's Auditor, Hazlewoods LLP, to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 32 to 35.

### Statement from the Chairman of the Remuneration Committee – Howard Myles

I am pleased to present the Directors' Remuneration Report for the year ended 30 April 2014.

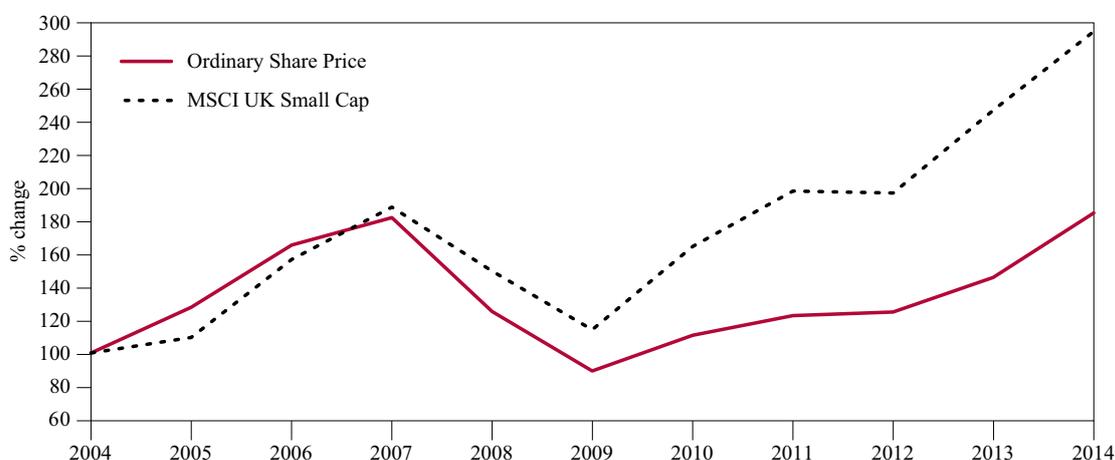
Shareholders may be aware that new rules for the reporting of Directors' remuneration came into effect on 1 October 2013. These now require companies to ask shareholders to approve annually the Directors' Remuneration Report and to formally approve the Directors' Remuneration Policy on a three-yearly basis. Any change to the Directors' Remuneration Policy will require shareholder approval. The vote on the Directors' Remuneration Report is, as previously, an advisory vote, whilst the vote on the Directors' Remuneration Policy is subject to a binding vote. Accordingly, Ordinary Resolutions will be put to shareholders as the forthcoming Annual General Meeting to be held on 17 September 2014, to receive and approve the Directors' Remuneration Report and to receive and approve the Directors' Remuneration Policy, which is set out on page 29 below.

The Company has a Remuneration Committee comprising the whole Board, which considers and approves Directors' remuneration. No major decisions on or changes to Directors' remuneration have been made during the year ended 30 April 2014.

During the year ended 30 April 2014, the fees were set at a rate of £20,000 for the Chairman, £17,500 for other Directors with an additional payment of £2,500 to the Chairman of the Audit Committee.

### Your Company's performance

The graph below compares the total return (assuming all dividends are reinvested) to Ordinary shareholders, compared to the total shareholder return of the MSCI UK Small Cap Index. Although the Company has no formal benchmark the MSCI UK Small Cap Index has been selected as it is considered to represent a broad equity market index against which the performance of the Company's assets may be adequately assessed.



## Directors' Remuneration Report (continued)

### Director's service contracts

None of the Directors has a contract of service with the Company, nor has there been any contract or arrangement between the Company and any Director at any time during the year. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after their appointment, and at least every three years after that. Directors who have served on the Board for more than nine years must offer themselves for re-election on an annual basis. There is no notice period and no provision for compensation upon loss of office.

### Directors' emoluments for the year ended 30 April 2014 (audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Fees		Total	
	Year to 30 April 2014	Year to 30 April 2013	Year to 30 April 2014	Year to 30 April 2013
Lord Lamont (Chairman)	20,000	20,000	20,000	20,000
D Harris	20,000	20,000	20,000	20,000
H Myles	17,500	17,500	17,500	17,500
W van Heesewijk*	–	–	–	–
	<b>57,500</b>	<b>57,500</b>	<b>57,500</b>	<b>57,500</b>

\*William van Heesewijk has waived his entitlement to fees.

### Directors' interests (audited)

The interests of the Directors and any connected persons in the Ordinary shares and Zero Dividend Preference ("ZDP") shares of the subsidiary Company are set out below:

Director	Number of Ordinary shares held at 30 April 2014	Number of ZDP shares held at 30 April 2014	Number of Ordinary shares held at 1 May 2013	Number of ZDP shares held at 1 May 2013
Lord Lamont (Chairman)	62,719	10,000	62,305	10,000
D Harris	5,802	n/a	5,802	n/a
H Myles	n/a	n/a	n/a	n/a
W van Heesewijk	82,000	n/a	82,000	n/a

There have been no changes to these holdings between 30 April 2014 and the date of this report.

### Relative importance of spend on pay

	2014	2013	Change %
Dividends paid to Ordinary shareholders in the year	1,114,000	1,064,000	46.99
Total remuneration paid to Directors	57,500	57,500	–

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## Directors' Remuneration Report (continued)

None of the Directors nor any persons connected with them had a material interest in the Company's transactions, arrangements or agreements during the year.

The Directors' Remuneration Report for the year ended 30 April 2013 was approved by shareholders at the Annual General Meeting held on 18 September 2013. The votes cast by proxy were as follows:

	Number of votes	% of votes cast
For	4,871,835	99.85
Against	7,070	0.14
At Chairman's discretion	398	0.01
Total votes cast	4,879,303	
Number of votes withheld	720,824	

The AGM on 17 September 2014 will be the first AGM where the Directors' Remuneration Report and the Directors' Remuneration Policy will be approved separately by shareholders. Future Annual Reports will show the breakdown in number of votes and percentage of votes cast for each separate resolution,

### Remuneration Policy

The Board's policy is that the remuneration of non-executive Directors should be sufficient to attract and retain directors with suitable skills and experience, and is determined in such a way as to reflect the experience of the Board as a whole, in order to be comparable with other organisations and appointments. It is intended that this policy will continue for the year ending 30 April 2014 and thereafter.

The fees of the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The approval of shareholders would be required to increase the limits set out in the Articles of Association. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits, as the Board does not consider such arrangements or benefits necessary or appropriate. Fees for any new Director appointed will be made on the same basis.

A binding vote on the Remuneration Policy will be put to shareholders for an approval at the AGM on 17 September 2014.

	Expected Fees for Year to 30 April 2015	Fees for Year to 30 April 2014
Chairman basic fee	20,000	20,000
Non-Executive Director basic fee	17,500	17,500
Audit Committee Chairman additional fee	2,500	2,500
Non-independent Director basic fee	Nil	Nil

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## **Directors' Remuneration Report** (continued)

The Company intends to implement the Directors' Remuneration Policy over the next financial year on the above basis. Fees for any new Director would be made on the above basis. Fees payable in respect of subsequent periods will be determined following an annual review. Any views expressed by shareholders on remuneration being paid to Directors would be taken into consideration by the Board.

Assuming this policy is approved by shareholders at the forthcoming Annual General Meeting, it is intended that it will be effective immediately upon the passing of the resolution. In accordance with the regulations, an ordinary resolution to approve the Directors' remuneration policy will be put to shareholders at least once every three years.

### **Approval**

The Directors' Remuneration Report on pages 27 to 30 was approved by the Board on 3 July 2014.

On behalf of the Board

### **Lord Lamont of Lerwick**

Chairman

*3 July 2014*

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## Statement of Directors' Responsibilities

in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU. Company law requires the Directors to prepare such financial statements in accordance with IFRSs and the Companies Act 2006.

Under company law the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group and the Company for that period.

In preparing each of the Group and the Company's financial statements, the Directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard ('IAS') 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and the Company's financial position and financial performance;
- state that the Group and the Company have complied with IFRSs, as adopted by the EU subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group's financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, a Directors' Report, Directors' Remuneration Report and Statement on Corporate Governance that comply with that law and those regulations, and for ensuring that the Annual Report includes information required by the Listing Rules of the FCA.

The Directors are responsible for the integrity of the information relating to the Company on the Investment Manager's website. Legislation in the UK governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

The Directors confirm that, to the best of their knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Annual Report includes a fair review of the development and performance of the Group, together with a description of the principal risks and uncertainties faced.
- the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
- the Investment Managers' Report includes a fair review of the development and performance of the business and the Company and its undertakings included in the consolidation taken as a whole and adequately describes the principal risks and uncertainties they face.

On behalf of the Board of Directors

**Lord Lamont of Lerwick**

Chairman

3 July 2014

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## **Independent Auditor's Report**

to the members of Small Companies Dividend Trust PLC

We have audited the Group financial statements of Small Companies Dividend Trust PLC for the year ended 30 April 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Changes in Net Equity, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU.

This report is made solely to the Group's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an audit report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members as a body, for our audit work, for this report or for the opinions we have formed.

### **Respective responsibilities of Directors and Auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards required us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 April 2014 and of its net return and comprehensive income for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulations.

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## **Independent Auditor's Report** (continued)

to the members of Small Companies Dividend Trust PLC

### **Our assessment of risks of material misstatement**

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual transactions, balances or disclosures.

#### *Allocation of costs between capital and revenue*

The Group is required to apportion its expenses between revenue and capital. This allocation is important as the company can only pay dividends out of revenue. The split has to be performed on the basis of the Board's expected long-term capital and revenue returns. Our audit work included, but was not restricted to, a detailed review of the actual dividend and capital income received in the past 11 years compared to the Boards' expected long-term capital and revenue returns. The Group's accounting policy on this allocation is included in note 1.

#### *Revenue recognition*

Investment income is the Group's main source of revenue and is recognised when the Group's right to the return is established in accordance with the Statement of Recommended Practice. Our audit work included, but was not restricted to a detailed review of those sources of income recorded in the financial statements and further consideration of other potential sources of income. The Group's accounting policy on income is included in note 1 and its disclosures about income are included in note 2.

#### *Management override of financial controls*

The Group operates a system of financial controls to mitigate its vulnerability to fraud and its financial statements to material error and is reliant upon the efficacy of these controls to ensure that its financial statements present a true and fair view. The financial statements contain a number of significant accounting estimates that require an element of judgement on behalf of management and that are, therefore, potentially open to manipulation. Our audit work included, but was not restricted to, a review of all significant management estimates and detailed consideration of all material judgements applied during the completion of the financial statements. We also reviewed material journal entries processed by management during the period. The Group's principal accounting policies are included in note 1.

### **Our application of materiality**

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We established materiality for the financial statements as a whole to be £413,000, which is 1% of the value of the Group's total assets. For income and expenditure items we determined that misstatements of lesser amounts than materiality for the financial statements as a whole would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. Accordingly, we established materiality for revenue items within the income statement to be £103,250.

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## **Independent Auditor's Report** (continued)

to the members of Small Companies Dividend Trust PLC

### **An overview of the scope of our audit**

Our audit approach was based on a thorough understanding of the Group's business and is risk-based. The day-to-day management of the Group's investment portfolio, the custody of its investments and the maintenance of the Group's accounting records is outsourced to third-party service providers. Accordingly, our audit work is focussed on obtaining an understanding of, and evaluating, internal controls at the Group and the third-party service providers, and inspecting records and documents held by the third-party service providers. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to the Board if, in our opinion, information in the Strategic Report and the Directors' Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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**Independent Auditor's Report** (continued)  
to the members of Small Companies Dividend Trust PLC

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 17, in relation to going concern; and
- the part of the Statement on Corporate Governance relating to the Group's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

**Scott Lawrence (Senior Statutory Auditor)**

For and on behalf of Hazlewoods LLP, Statutory Auditor

Cheltenham

*3 July 2014*

## Consolidated Statement of Comprehensive Income

for the year ended 30 April 2014

	Note	2014			2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments at fair value through profit or loss	10	–	8,649	8,649	–	6,094	6,094
Investment income	2	2,179	–	2,179	1,420	–	1,420
Investment management fee	3	(97)	(292)	(389)	(69)	(208)	(277)
Other expenses	4	(208)	(21)	(229)	(196)	(18)	(214)
<b>Net return before finance costs and taxation</b>		<b>1,874</b>	<b>8,336</b>	<b>10,210</b>	<b>1,155</b>	<b>5,868</b>	<b>7,023</b>
<b>Finance costs</b>	6	<b>–</b>	<b>(530)</b>	<b>(530)</b>	<b>(15)</b>	<b>(384)</b>	<b>(399)</b>
<b>Net return before taxation</b>		<b>1,874</b>	<b>7,806</b>	<b>9,680</b>	<b>1,140</b>	<b>5,484</b>	<b>6,624</b>
<b>Taxation</b>	7	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net return after taxation</b>		<b>1,874</b>	<b>7,806</b>	<b>9,680</b>	<b>1,140</b>	<b>5,484</b>	<b>6,624</b>
<b>Other comprehensive income</b>							
Movement in fair value of cash flow hedge				–			52
<b>Total comprehensive income for the year</b>				<b>9,680</b>			<b>6,676</b>
		<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>
		<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>
<b>Net return per:</b>							
Ordinary share	8	11.47	47.79	59.26	7.02	33.75	40.77
Zero Dividend Preference share	8	–	6.24	6.24	–	4.00	4.00

The total column of this statement is the Statement of Comprehensive Income of the Group prepared in accordance with IFRS as adopted by the EU. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year. All of the net return for the period and the total comprehensive income for the period is attributable to the shareholders of the Group. The supplementary revenue and capital return columns are presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

The notes on pages 40 to 59 form part of these financial statements.

## Consolidated and Parent Company Statement of Changes in Net Equity

for the year ended 30 April 2014

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Hedge reserve £'000	Revenue reserve £'000	Total £'000
Note						
<b>Year ended 30 April 2014</b>						
30 April 2013	4,063	11,917	5,273	–	1,326	22,579
Total comprehensive return for the year	–	–	7,806	–	1,874	9,680
Ordinary shares issued	75	493	–	–	–	568
Expenses of Ordinary share issue	–	(7)	–	–	–	(7)
Transactions with owners:						
Dividends paid	9	–	–	–	(1,114)	(1,114)
	<u>4,138</u>	<u>12,403</u>	<u>13,079</u>	<u>–</u>	<u>2,086</u>	<u>31,706</u>
30 April 2014						
<b>Year ended 30 April 2013</b>						
30 April 2012	4,063	11,917	2	(52)	1,250	17,180
Total comprehensive return for the year	–	–	5,484	52	1,140	6,676
Expenses of Zero Dividend Preference share issue	–	–	(213)	–	–	(213)
Transactions with owners:						
Dividends paid	9	–	–	–	(1,064)	(1,064)
	<u>4,063</u>	<u>11,917</u>	<u>5,273</u>	<u>–</u>	<u>1,326</u>	<u>22,579</u>
30 April 2013						

The notes on pages 40 to 59 form part of these financial statements.

## Consolidated and Parent Company Balance Sheets

as at 30 April 2014

	Note	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
<b>Non-current assets</b>					
Investments at fair value through profit or loss	10	40,820	31,318	40,820	31,318
Investments in subsidiary	12	–	–	13	13
		<u>40,820</u>	<u>31,318</u>	<u>40,833</u>	<u>31,331</u>
<b>Current assets</b>					
Trade and other receivables	13	291	194	291	194
Cash and cash equivalents		136	39	136	39
		<u>427</u>	<u>233</u>	<u>427</u>	<u>233</u>
<b>Total assets</b>		<u>41,247</u>	<u>31,551</u>	<u>41,260</u>	<u>31,564</u>
<b>Current liabilities</b>					
Trade and other payables	14	(171)	(132)	(184)	(145)
<b>Total assets less current liabilities</b>		<u>41,076</u>	<u>31,419</u>	<u>41,076</u>	<u>31,419</u>
<b>Non-current liabilities</b>					
Zero Dividend Preference shares	15	(9,370)	(8,840)	–	–
Loan from subsidiary	16	–	–	(9,370)	(8,840)
		<u>(9,370)</u>	<u>(8,840)</u>	<u>(9,370)</u>	<u>(8,840)</u>
<b>Total liabilities</b>		<u>(9,541)</u>	<u>(8,972)</u>	<u>(9,554)</u>	<u>(8,985)</u>
<b>Net assets</b>		<u>31,706</u>	<u>22,579</u>	<u>31,706</u>	<u>22,579</u>
<b>Represented by:</b>					
Share capital	17	4,138	4,063	4,138	4,063
Share premium account	18	12,403	11,917	12,403	11,917
Capital reserve	18	13,079	5,273	13,079	5,273
Revenue reserve	18	2,086	1,326	2,086	1,326
<b>Equity shareholders' funds</b>		<u>31,706</u>	<u>22,579</u>	<u>31,706</u>	<u>22,579</u>

The notes on pages 40 to 59 form part of these financial statements.

These financial statements were approved by the Board of Small Companies Dividend Trust PLC and authorised for issue on 3 July 2014.

### Lord Lamont of Lerwick

Chairman

3 July 2014

Company Registered Number: 3749536

## Consolidated and Parent Company Statement of Cash Flows

for the year ended 30 April 2014

	Note	2014 £'000	2013 £'000
<b>Operating activities</b>			
Investment income received		2,081	1,432
Investment management fee paid		(365)	(254)
Administration and secretarial fees paid		(57)	(60)
Other cash payments		(156)	(146)
<b>Cash generated from operations</b>		<b>1,503</b>	972
Loan interest paid		–	(101)
<b>Net cash inflow from operating activities</b>	20	<b>1,503</b>	871
<b>Investing activities</b>			
Purchases of investments		(8,807)	(7,643)
Sales of investments		7,954	4,538
<b>Net cash outflow from investing activities</b>		<b>(853)</b>	(3,105)
<b>Financing activities</b>			
Issue of Zero Dividend Preference shares		–	8,500
Expenses of Zero Dividend Preference share issue		–	(213)
Issue of Ordinary shares		568	–
Expenses of Ordinary share issue		(7)	–
Repayment of bank loan		–	(4,000)
Dividends paid		(1,114)	(1,064)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(553)</b>	3,223
<b>Increase in cash and cash equivalents for year</b>	21	<b>97</b>	989
<b>Cash and cash equivalents at start of year</b>	22	<b>39</b>	(950)
<b>Cash and cash equivalents at end of year</b>	22	<b>136</b>	39

The notes on pages 40 to 59 form part of these financial statements.

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## Notes to the Financial Statements

as at 30 April 2014

### 1 ACCOUNTING POLICIES

Small Companies Dividend Trust PLC is a company domiciled in the UK. The consolidated financial statements for the Group for the year ended 30 April 2014 comprise the Company and its subsidiary, SCZ (together referred to as the 'Group').

#### **Basis of preparation**

The consolidated financial statements of the Group and the financial statements of the Company have been prepared in conformity with IFRSs issued by the International Accounting Standards Board (as adopted by the EU) and Interpretations issued by the International Financial Reporting Interpretations Committee, and applicable requirements of UK company law, and reflect the following policies which have been adopted and applied consistently.

#### **New standards, interpretations and amendments adopted by the Group**

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations as described below:

The Group has adopted IFRS 13 Fair Value Measurement with an initial application date of 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. It also replaces and expands the disclosure requirements about fair value measurements in other IFRS's, including IFRS 7 Financial Instruments: Disclosures. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The adoption of this standard has therefore had no impact on the financial statements.

Several other new standards and amendments apply for the first time for the financial year ended 30 April 2014. However, they do not impact the consolidated financial statements of the Group.

At the date of authorisation of the financial statements, the following Standards which have not been applied in these financial statements were in issue but were not yet effective:

- IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities (effective 1 January 2014)
- IFRS 7 Financial Instruments: Disclosures – Amendments requiring disclosures about the initial application of IFRS 9 (effective 1 January 2015 or otherwise when IFRS 9 is first applied)
- IFRS 9 Financial Instruments – Classification and measurement of financial assets (no stated effective date)
- IFRS 9 Financial Instruments – Classification and measurement of financial liabilities and de-recognition requirements from IAS 39 Financial Instruments Recognition and Measurement (no stated effective date)
- Investment Entities – Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Joint Arrangements and IAS 27 Separate Financial Statements (effective 1 January 2014)

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 1 ACCOUNTING POLICIES (continued)

#### **Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and its wholly-owned subsidiary undertaking, SCZ, drawn up to the same accounting date.

The subsidiary is consolidated from the date of its incorporation, being the date on which the Company obtained control, and will continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights. The financial statements of the subsidiary are prepared for the same reporting year as the Company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income. The amount of the Company's return for the financial period dealt with in the financial statements of the Group is a profit of £9,680,000 (2013: £6,676,000).

#### **Convention**

The financial statements are presented in Sterling rounded to the nearest thousand. The financial statements have been prepared on a going concern basis under the historical cost convention, except for the measurement at fair value of investments classified as fair value through profit or loss and interest rate swaps taken out as cash flow hedges. Where presentational guidance set out in the Statement of Recommended Practice regarding the Financial Statements of Investment Trust Companies and Venture Capital Trusts ('SORP'), issued by the Association of Investment Companies in January 2009, is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

#### **Segmental reporting**

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment business. The Group only invests in companies listed in the UK.

#### **Investments**

All investments held by the Group are recorded at 'fair value through profit or loss'. Investments are initially recognised at cost, being the fair value of the consideration given.

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Consolidated Statement of Comprehensive Income and allocated to capital. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and cost.

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices and SETS at last trade price at the close of business on the Balance Sheet date, without adjustment for transaction costs necessary to realise the asset.

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 1 ACCOUNTING POLICIES (continued)

#### Trade date accounting

All 'regular way' purchases and sales of financial assets are recognised on the 'trade date' i.e., the day that the Group commits to purchase or sell the asset. Regular way purchases, or sales, are purchases or sales of financial assets that require delivery of the asset within a time frame generally established by regulation or convention in the market place.

#### Income

Dividends receivable on quoted equity shares are taken into account on the ex-dividend date. Where no ex-dividend date is quoted, they are brought into account when the Group's right to receive payment is established. Other investment income and interest receivable are included in the financial statements on an accruals basis. Dividends received from UK registered companies are accounted for net of imputed tax credits.

#### Expenses

All expenses are accounted for on an accruals basis. All expenses are charged through the revenue account in the Consolidated Statement of Comprehensive Income except as follows:

- expenses which are incidental to the acquisition of an investment are included within the costs of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment;
- expenses are charged to capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated; and
- operating expenses of the subsidiary are borne by the Company and taken 100% to capital.

All other expenses are allocated to revenue with the exception of 75% (2013: 75%) of the Investment Manager's fee which is allocated to capital. This is in line with the Board's expected long-term split of returns from the investment portfolio, in the form of income and capital gains respectively.

#### Cash and cash equivalents

Cash in hand and in banks and short-term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

#### Loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received, less issue costs, where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Any difference between cost and redemption value is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 1 ACCOUNTING POLICIES (continued)

#### Zero Dividend Preference shares

Shares issued by the subsidiary are treated as a liability of the Group, and are shown in the Balance Sheet at their redemption value at the Balance Sheet date. The appropriations in respect of the Zero Dividend Preference shares necessary to increase the subsidiary's liabilities to the redemption values are allocated to capital in the Consolidated Statement of Comprehensive Income. This treatment reflects the Board's long-term expectations that the entitlements of the Zero Dividend Preference shareholders will be satisfied out of gains arising on investments held primarily for capital growth.

#### Share issue costs

Costs incurred directly in relation to the issue of shares in the subsidiary are borne by the Company and taken 100% to capital. Share issue costs relating to Ordinary share issues by the Company are taken 100% to share premium account.

#### Taxation

There is no charge to UK income tax as the Group's allowable expenses exceed its taxable income. Deferred tax assets in respect of unrelieved excess expenses are not recognised as it is unlikely that the Group will generate sufficient taxable income in the future to utilise these expenses. Deferred tax is not provided on capital gains and losses because the Company meets the conditions for approval as an investment trust company.

#### Dividends payable to shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid or approved in general meetings and are taken to the Statement of Changes in Net Equity. Dividends declared and approved by the Group after the Balance Sheet date have not been recognised as a liability of the Group at the Balance Sheet date.

<b>2 INCOME</b>	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Income from listed investments</b>		
UK dividend income	1,911	1,200
Overseas dividend income	268	220
<b>Total income</b>	<b>2,179</b>	<b>1,420</b>
<b>Total income comprises:</b>		
Dividends	2,179	1,420
Interest	–	–
	<b>2,179</b>	<b>1,420</b>

## Notes to the Financial Statements (continued)

as at 30 April 2014

### 3 INVESTMENT MANAGEMENT FEE

	2014			2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	97	292	389	69	208	277

At 30 April 2014 there were amounts outstanding of £103,000 (2013: £79,000).

### 4 OTHER EXPENSES

	2014 £'000	2013 £'000
Administration and secretarial fees	62	60
Directors' remuneration (note 5)	58	58
Auditor's remuneration:		
audit services*	21	20
Insurance	4	6
Other expenses*	84	70
	<u>229</u>	<u>214</u>
Subsidiary operating costs taken 100% to capital	(21)	(18)
	<u>208</u>	<u>196</u>

\* The above amounts include irrecoverable VAT where applicable.

### 5 DIRECTORS' REMUNERATION

	2014 £	2013 £
<b>Total fees</b>	<u>57,500</u>	<u>57,500</u>
<b>Remuneration to Directors</b>		
Lord Lamont (Chairman)	20,000	20,000
D Harris	20,000	20,000
H Myles	17,500	17,500
W van Heesewijk*	–	–

\* Mr van Heesewijk has waived his entitlement to fees.

## Notes to the Financial Statements (continued)

as at 30 April 2014

### 6 FINANCE COSTS

	2014			2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest payable on bank overdraft and bank loan	–	–	–	18	54	72
Movement in fair value of ineffective element of interest rate swap	–	–	–	(3)	(10)	(13)
Appropriations in respect of Zero Dividend Preference shares	–	530	530	–	340	340
	–	530	530	15	384	399

### 7 TAXATION

	2014 £'000	2013 £'000
<b>Based on the revenue return for the year</b>		
Current tax	–	–

The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 23% to 31 March 2014 and 21% from 1 April 2014. The differences are explained below:

	2014			2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Return on ordinary activities before taxation</b>	<b>1,874</b>	<b>7,806</b>	<b>9,680</b>	1,140	5,484	6,624
Theoretical corporation tax at 22.83% (2013: 23.92%)	428	1,782	2,210	273	1,312	1,585
Effects of:						
Capital items not taxable	–	(1,854)	(1,854)	–	(1,376)	(1,376)
UK and overseas dividends which are not liable to corporation tax	(494)	–	(494)	(340)	–	(340)
Expenses not deductible for tax purposes	–	1	1	–	–	–
Excess expenses in the year	66	71	137	67	64	131
Actual current tax charged to the revenue account	–	–	–	–	–	–

The Group has unrelieved excess expenses of £18,500,000 (2013: £17,902,000). It is unlikely that the Group will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 8 RETURN PER SHARE

#### Ordinary shares

Revenue return per Ordinary share is based on revenue on ordinary activities after taxation of £1,874,000 (2013: £1,140,000) and on 16,335,000 (2013: 16,250,000) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

Capital return per Ordinary share is based on the capital profit of £7,806,000 (2013: £5,484,000) and on 16,335,000 (2013: 16,250,000) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

#### Zero Dividend Preference shares

Capital return per Zero Dividend Preference share is based on allocations from the Company of £530,000 (2013: £340,000) and on 8,500,000 (2013: 8,500,000) Zero Dividend Preference shares, being the weighted average number of Zero Dividend Preference shares in issue during the year.

### 9 DIVIDENDS

	2014 £'000	2013 £'000
<b>Declared and paid per Ordinary share</b>		
Fourth interim dividend for the year ended		
30 April 2013 of 2.40p (2012: 2.35p)	390	382
First interim dividend of 1.475p (2013: 1.40p)	240	227
Second interim dividend of 1.475p (2013: 1.40p)	240	227
Third interim dividend of 1.475p (2013: 1.40p)	244	228
	<u>1,114</u>	<u>1,064</u>
<b>Declared per Ordinary share*</b>		
Fourth interim dividend for the year ended		
30 April 2014 of 2.40p (2013: 2.40p)	397	390
Special dividend for the year ended		
30 April 2014 of 2.75p (2013: Nil)	455	–
	<u>852</u>	<u>390</u>

\* Dividend paid subsequent to the year end.

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 10 INVESTMENTS – Group and Company

	Listed	AIM	2014 Total
<b>Year ended 30 April 2014</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening book cost	18,704	9,340	28,044
Opening investment holding gains	1,395	1,879	3,274
	<hr/>	<hr/>	<hr/>
Opening valuation	20,099	11,219	31,318
Movements in the year:			
Purchases at cost	7,234	1,573	8,807
Disposals:			
Proceeds	(4,449)	(3,505)	(7,954)
Net realised gains on disposals	1,704	1,217	2,921
Movement in investment holding gains	4,047	1,681	5,728
	<hr/>	<hr/>	<hr/>
Closing valuation	28,635	12,185	40,820
	<hr/>	<hr/>	<hr/>
Closing book cost	23,193	8,625	31,818
Closing investment holding gains	5,442	3,560	9,002
	<hr/>	<hr/>	<hr/>
	28,635	12,185	40,820
	<hr/>	<hr/>	<hr/>
Realised gains on disposals	1,704	1,217	2,921
Movement in investment holding gains	4,047	1,681	5,728
	<hr/>	<hr/>	<hr/>
Gains on investments	5,751	2,898	8,649
	<hr/>	<hr/>	<hr/>

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 10 INVESTMENTS – Group and Company (continued)

	<b>Listed</b>	<b>AIM</b>	<b>2013</b>
<b>Year ended 30 April 2013</b>	<b>£'000</b>	<b>£'000</b>	<b>Total</b>
			<b>£'000</b>
Opening book cost	15,873	9,909	25,782
Opening investment holding losses	(2,010)	(1,652)	(3,662)
	<hr/>	<hr/>	<hr/>
Opening valuation	13,863	8,257	22,120
Movements in the year:			
Purchases at cost	5,264	2,378	7,642
Disposals:			
Proceeds	(3,481)	(1,057)	(4,538)
Net realised gains/(losses) on disposals	816	(1,658)	(842)
Transfers from AIM to Listed	232	(232)	–
Movement in investment holding losses	3,405	3,531	6,936
	<hr/>	<hr/>	<hr/>
Closing valuation	20,099	11,219	31,318
	<hr/>	<hr/>	<hr/>
Closing book cost	18,704	9,340	28,044
Closing investment holding gains	1,395	1,879	3,274
	<hr/>	<hr/>	<hr/>
	20,099	11,219	31,318
	<hr/>	<hr/>	<hr/>
Realised gains/(losses) on disposals	816	(1,658)	(842)
Movement in investment holding losses	3,405	3,531	6,936
	<hr/>	<hr/>	<hr/>
Gains on investments	4,221	1,873	6,094
	<hr/>	<hr/>	<hr/>

#### Transaction costs

During the year the Group incurred transaction costs of £59,000 (2013: £70,000) and £21,000 (2013: £15,000) on purchases and sales of investments respectively. These amounts are included in losses on investments, as disclosed in the Consolidated Statement of Comprehensive Income.

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 11 SIGNIFICANT INTERESTS

The Company has a holding of 3% or more in the following investments:

Name of undertaking	Class of share	30 April 2014	
			% held
Chamberlin	Ordinary		3.77
RTC Group	Ordinary		3.48
Stadium Group	Ordinary		3.38
Office 2 Office	Ordinary		3.30
Avesco Group	Ordinary		3.18

### 12 INVESTMENT IN SUBSIDIARY

The Company owns the whole of the issued ordinary share capital of SCZ, especially formed for the issuing of Zero Dividend Preference shares, which is incorporated and registered in England and Wales, under company number: 8142169.

### 13 TRADE AND OTHER RECEIVABLES

	Group	Group	Company	Company
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Dividends receivable	284	189	284	189
Prepayments and accrued income	7	5	7	5
	<u>291</u>	<u>194</u>	<u>291</u>	<u>194</u>

### 14 TRADE AND OTHER PAYABLES

	Group	Group	Company	Company
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Trade and other payables	171	132	171	132
Loan from subsidiary undertaking	–	–	13	13
	<u>171</u>	<u>132</u>	<u>184</u>	<u>145</u>

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 15 ZERO DIVIDEND PREFERENCE SHARES

On 28 August 2012, SCZ issued 8,500,000 Zero Dividend Preference shares at 100p per share and with net proceeds of £8.3 million. The expenses of the placing were borne by the Company. The Zero Dividend Preference shares each have an initial capital entitlement of 100p per share, growing by an annual rate of 6% compounded daily to 136.70p on 8 January 2018, a total of £11,620,000. The accrued entitlement as per the Articles of Association of SCZ at 30 April 2014 was 110.24p, (2013: 104.00p) per share, being £9,370,000 (2013: £8,840,000) in total, and the total amount accrued for the year of £530,000 (2013: £340,000) has been charged to capital.

### 16 SECURED LOAN

Pursuant to a loan agreement between SCZ and the Company, SCZ has lent the gross proceeds of £8,500,000, raised from the placing on 28 August 2012 of 8,500,000 Zero Dividend Preference shares at 100p, to the Company. The loan is non-interest bearing and is repayable three business days before the Zero Dividend Preference share redemption date of 8 January 2018 or, if required by SCZ, at any time prior to that date in order to repay the Zero Dividend preference share entitlement. The funds are to be managed in accordance with the investment policy of the Company.

The loan is secured by way of a floating charge on the Company's assets under a debenture entered into between the Company and SCZ dated 1 August 2012.

A contribution agreement between the Company and SCZ has also been made whereby the Company will undertake to contribute such funds as would ensure that SCZ will have in aggregate sufficient assets on 8 January 2018 to satisfy the final capital entitlement of the Zero Dividend Preference shares. At 30 April 2014 the contribution due from the Company to cover the accrued entitlement was £530,000 (2013: £340,000).

	<b>Company</b>	Company
	<b>2014</b>	2013
	<b>£'000</b>	£'000
Value at 1 May	<b>8,840</b>	–
Loan issued in year	–	8,500
Contribution to accrued capital entitlement of Zero Dividend Preference shares	<b>530</b>	340
	<hr/>	<hr/>
Value at 30 April	<b>9,370</b>	8,840
	<hr/>	<hr/>

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 17 SHARE CAPITAL

<b>Issued, allotted and fully paid</b>	<b>2014</b>		<b>2013</b>	
	<b>Number</b>	<b>£'000</b>	<b>Number</b>	<b>£'000</b>
Opening balance	16,250,000	4,063	16,250,000	4,063
Issue of Ordinary shares	300,000	75	–	–
	<b>16,550,000</b>	<b>4,138</b>	<b>16,250,000</b>	<b>4,063</b>

On 14 January 2014, the Company announced the issue of 300,000 Ordinary shares of 25p each at an issue price of 189.5p per Ordinary share.

For details regarding the issue of Zero Dividend Preference shares by SCZ please see note 15.

The rights attaching to the Ordinary shares are:

#### **As to dividends each year**

Ordinary shares are entitled to all the revenue profits of the Company available for distribution, including all undistributed income.

#### **As to capital on winding up**

On a winding up, holders of Zero Dividend Preference shares issued by SCZ are entitled to a payment of an amount equal to 100p per share, increased daily from 28 August 2012 at such a compound rate as will give an entitlement to 136.70p for each Zero Dividend Preference share at 8 January 2018, £11,620,000 in total.

The holders of Ordinary shares will receive all the assets available for distribution to shareholders after payment of all debts and satisfaction of all liabilities of the Company rateably according to the amounts paid or credited as paid up on the Ordinary shares held by them respectively.

#### **Voting**

Each holder of Ordinary shares on a show of hands will have one vote and on a poll will have one vote for each Ordinary share held. Each holder of Zero Dividend Preference shares on a show of hands will have one vote at meetings where Zero Dividend Preference shareholders are entitled to vote and on a poll will have one vote for every Zero Dividend Preference share held.

#### **Duration**

Under the Parent Company's Articles of Association, the Directors are required to convene a general meeting of the Company to be held in October 2017 or on a date which is either four months before or four months after this date so as to align the vote with any timetable for a further issue of zero dividend preference shares or to save costs by proposing the Continuation Resolution (as defined below) at the annual general meeting or some other general meeting of the Company ('the First GM'), at which an ordinary resolution will be proposed to the effect that the Company continues in existence ('the Continuation Resolution'). In the event that such resolution is not passed the Directors shall, subject to the Statutes, put forward further proposals to shareholders regarding the future of the Company (which may include voluntary liquidation, unitisation or other reorganisation of the Company) ('the Restructuring Resolution') at a general meeting of the Company to be convened not more than four months after the date of the First GM (or such adjournment).

## Notes to the Financial Statements (continued)

as at 30 April 2014

### 17 SHARE CAPITAL (continued)

The Restructuring Resolution shall be proposed as a special resolution. If the Restructuring Resolution is either not proposed or not passed then the Directors shall convene a general meeting not more than four months after the date of the First GM (or such adjournment). If the Restructuring Resolution is not proposed or four months after the date the Restructuring Resolution is not passed an ordinary resolution pursuant to section 84 of the Insolvency Act 1986 to voluntarily wind-up the Company shall be put to shareholders and the votes taken on such resolution shall be on a poll.

### 18 RESERVES – Group and Company

	Share premium account £'000	Capital reserve £'000	Hedge reserve £'000	Revenue reserve £'000
At 1 May 2013	11,917	5,273	–	1,326
Net return on realisation of investments	–	2,921	–	–
Movement in investment holding gains	–	5,728	–	–
Costs charged to capital	–	(313)	–	–
Ordinary shares issued	493	–	–	–
Expenses of Ordinary share issue	(7)	–	–	–
Appropriations in respect of Zero Dividend Preference shares	–	(530)	–	–
Net return after dividends for the year retained	–	–	–	760
	<b>12,403</b>	<b>13,079</b>	<b>–</b>	<b>2,086</b>
At 30 April 2014				
At 1 May 2012	11,917	2	(52)	1,250
Net return on realisation of investments	–	(842)	–	–
Movement in investment holding losses	–	6,936	–	–
Costs charged to capital	–	(270)	–	–
Expenses of Zero Dividend Preference share issue	–	(213)	–	–
Appropriations in respect of Zero Dividend Preference shares	–	(340)	–	–
Net return after dividends for the year retained	–	–	–	76
Movement in fair value of cash flow hedge	–	–	52	–
	<b>11,917</b>	<b>5,273</b>	<b>–</b>	<b>1,326</b>
At 30 April 2013				

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 19 NET ASSET VALUE PER SHARE

The net asset value per share and the net assets attributable to the Ordinary shareholders and Zero Dividend Preference shareholders are as follows:

	Net asset value per share	Net assets attributable to shareholders	Net asset value per share	Net assets attributable to shareholders
	2014	2014	2013	2013
	pence	£'000	pence	£'000
Ordinary shares	191.58	31,706	138.95	22,579
Zero Dividend Preference shares	110.24	9,370	104.00	8,840

The net asset value per Ordinary share is calculated on 16,550,000 (2013: 16,250,000) Ordinary shares, being the number of Ordinary shares in issue at the year end.

The net asset value per Zero Dividend Preference share is calculated on 8,500,000 (2013: 8,500,000) Zero Dividend Preference shares, being the number of Zero Dividend Preference shares in issue at the year end.

### 20 RECONCILIATION OF NET RETURN BEFORE AND AFTER TAXATION TO NET CASH FLOW FROM OPERATING ACTIVITIES – Group and Company

	2014	2013
	£'000	£'000
Net return before taxation	9,680	6,624
Taxation	–	–
Net return after taxation	9,680	6,624
Net capital return	(7,806)	(5,484)
Movement in fair value of ineffective element of interest rate swap	–	(13)
(Increase)/decrease in receivables	(97)	11
Increase in payables	39	3
Interest and expenses charged to the capital reserve	(313)	(270)
Net cash inflow from operating activities	1,503	871

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH/(DEBT) – Group and Company

	<b>2014</b>	2013
	<b>£'000</b>	£'000
Increase in cash in year	<b>97</b>	989
Repayment of bank loan	–	4,000
	<hr/>	<hr/>
Change in net cashflow	<b>97</b>	4,989
Net cash/(debt) at 1 May	<b>39</b>	(4,950)
	<hr/>	<hr/>
Net cash at 30 April	<b>136</b>	39
	<hr/>	<hr/>

### 22 ANALYSIS OF CHANGES IN NET CASH – Group and Company

	At 1 May	Cash flows	At 30 April
	2013	£'000	2014
	£'000	£'000	£'000
Cash at bank	39	97	<b>136</b>
	<hr/>	<hr/>	<hr/>
	39	97	<b>136</b>
	<hr/>	<hr/>	<hr/>

### 23 RELATED PARTY TRANSACTIONS

Under the terms of an agreement dated 30 April 2006 (effective from 1 December 2005), the Company appointed Chelverton to be Investment Manager. The fee arrangements for these services and fees payable are set out in the Directors Report on page 14 and in note 3 to the financial statements.

Chelverton contributed £100,000 towards the issue costs relating to the Zero Dividend Preference share issue in the year ended 30 April 2013.

### 24 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

#### Objectives, policies and strategies

The Group primarily invests in companies with a market capitalisation of up to £500 million. All of the Group's investments comprise ordinary shares in companies listed on the Official List and companies admitted to AIM.

The Group finances its operations through Zero Dividend Preference shares issued by SCZ and equity.

Cash, liquid resources and short-term debtors and creditors arise from the Group's day-to-day operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 24 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

#### Objectives, policies and strategies (continued)

In pursuing its investment objective, the Group is exposed to a variety of risks that could result in either a reduction in the Group's net assets or a reduction of the profits available for distribution. These risks are market risk (comprising currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

As required by IFRS 7: Financial Instruments: Disclosures, an analysis of financial assets and liabilities, which identifies the risk to the Group of holding such items, is given below.

#### Market risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Group's business. It represents the potential loss the Group might suffer through holding market positions by way of price movements and movements in exchange rates and interest rates. The Investment Manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the Investment Manager on a regular basis and the Board at quarterly meetings with the Investment Manager.

#### Market price risk

Market price risks (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of investments.

The Board manages the risks inherent in the investment portfolios by ensuring full and timely reporting of relevant information from the Investment Manager. Investment performance is reviewed at each Board meeting.

The Group's exposure to changes in market prices at 30 April on its investments is as follows:

	2014 £'000	2013 £'000
Fair value through profit or loss investments	<u>40,820</u>	<u>31,318</u>

#### Sensitivity analysis

A 10% increase in the market value of investments at 30 April 2014 would have increased net assets by £4,082,000 (2013: £3,132,000). An equal change in the opposite direction would have decreased the net assets available to shareholders by an equal but opposite amount.

#### Foreign currency risk

All the Group's assets are denominated in Sterling and accordingly the only currency exposure the Group has is through the trading activities of its investee companies.

#### Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits. The Group does not currently receive interest on its cash deposits.

The majority of the Group's financial assets are non-interest bearing. As a result the Group's financial assets are not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 24 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

#### Interest rate risk (continued)

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

The exposure at 30 April 2014 of financial assets and financial liabilities to interest rate risk is limited to cash and cash equivalents of £136,000 (2013: £39,000). Cash and cash equivalents are all due within one year.

#### Credit risk

Credit risk is the risk of financial loss to the Group if the contractual party to a financial instrument fails to meet its contractual obligations.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the Balance Sheet date.

Listed investments are held by Jarvis Investment Management Limited acting as the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Board monitors the Group's risk by reviewing the custodian's internal controls reports.

Investment transactions are carried out with a number of brokers whose creditworthiness is reviewed by the Investment Manager. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Group has delivered in its obligations before any transfer of cash or securities away from the Group is completed.

Cash is only held at banks that have been identified by the Board as reputable and of high credit quality.

The maximum exposure to credit risk as at 30 April 2014 was £41,247,000 (2013: £31,551,000). The calculation is based on the Group's credit risk exposure as at 30 April 2014 and this may not be representative of the year as a whole.

None of the Group's assets are past due or impaired.

#### Liquidity risk

The majority of the Group's assets are listed securities in small companies, which can under normal conditions be sold to meet funding commitments if necessary. They may however be difficult to realise in adverse market conditions.

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 24 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

#### Financial instruments by category

The financial instruments of the Group fall into the following categories:

#### 30 April 2014

	At cost £'000	Loans and receivables £'000	Assets at fair value through profit or loss £'000	Total £'000
<b>Assets as per Balance Sheet</b>				
Investments	–	–	40,820	40,820
Trade and other receivables	–	291	–	291
Cash and cash equivalents	136	–	–	136
Total	136	291	40,820	41,247
<b>Liabilities as per Balance Sheet</b>				
Trade and other payables	171	–	–	171
Total	171	–	–	171

#### 30 April 2013

	At cost £'000	Loans and receivables £'000	Assets at fair value through profit or loss £'000	Total £'000
<b>Assets as per Balance Sheet</b>				
Investments	–	–	31,318	31,318
Trade and other receivables	–	194	–	194
Cash and cash equivalents	39	–	–	39
Total	39	194	31,318	31,551
<b>Liabilities as per Balance Sheet</b>				
Trade and other payables	132	–	–	132
Total	132	–	–	132

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 24 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

#### IFRS 7 hierarchy

As required by IFRS 7 the Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following three levels:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Quoted prices provided by external pricing services, brokers and vendors are included in Level 1, if they reflect actual and regularly occurring market transactions on an arms length basis.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 2 inputs include the following:

- quoted prices for similar (i.e. not identical) assets in active markets.
- quoted prices for identical or similar assets or liabilities in markets that are not active. Characteristics of an inactive market include a significant decline in the volume and level of trading activity, the available prices vary significantly over time or among market participants or the prices are not current.
- inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals).
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes ‘observable’ requires significant judgement by the Company. The Company considers observable data to investments actively traded in organised financial markets. Fair value is generally determined by reference to Stock Exchange quoted market bid prices (or last traded in respect of SETS) at the close of business on the Balance Sheet date, without adjustment for transaction costs necessary to realise the asset.

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## Notes to the Financial Statements (continued)

as at 30 April 2014

### 24 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

#### IFRS 7 hierarchy (continued)

Investments whose values are based on quoted market prices in active markets, and therefore classified within Level 1, include active listed equities. The Company does not adjust the quoted price for these investments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2.

Investments classified within Level 3 have significant unobservable inputs. Level 3 instruments include private equity and corporate debt securities. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value. The Company has no Level 2 or Level 3 investments (2013: same).

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## Shareholder Information

### Financial calendar

Group's year end	30 April
Interim dividends paid	April, July, October and January
Special Dividend paid	July
Annual results announced	July
Annual General Meeting	September
Group's half year	31 October
Half year results announced	December

### Share prices and performance information

The Company's Ordinary shares and the Zero Dividend Preference shares issued through SCZ are listed on the London Stock Exchange.

The net asset values are announced weekly to the London Stock Exchange and published monthly via the AIC.

Information about the Group can be obtained on the Chelverton internet site at [www.chelvertonam.com](http://www.chelvertonam.com). Any enquiries can also be e-mailed to [cam@chelvertonam.com](mailto:cam@chelvertonam.com).

### Share register enquiries

The register for the Ordinary shares and the Zero Dividend Preference shares are maintained by Share Registrars Limited. In the event of queries regarding your holding, please contact the Registrar on 01252 821390. Changes of name and/or address must be notified in writing to the Registrar.

### Interim management statements

Under the EU Disclosure and Transparency Rules DTR 4.3.2R the Company is required to publish interim management statements. These statements are released to the London Stock Exchange and are also available on the Investment Manager's website [www.chelvertonam.com](http://www.chelvertonam.com).

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## Company Summary

### History

The Company was launched on 12 May 1999, raising £21.38 million before expenses, by a placing of 15,000,000 Ordinary shares and, through its former subsidiary company, Small Companies PLC, 6,250,000 Zero Dividend Preference shares and 31,260 Preference shares. A further 750,000 Ordinary shares were issued as a result of a placing for cash on 3 March 2000 and on 26 October 2005 a further 500,000 shares were issued. The subsidiary, Small Companies PLC, was placed into members' voluntary liquidation on 30 April 2007, following which the capital entitlements of the Zero Dividend Preference and Preference shares were repaid.

### Group structure

The Company has in issue one class of Ordinary share. In addition, it has a wholly owned subsidiary, SCZ, through which Zero Dividend Preference shares have been issued. The new subsidiary was incorporated on 13 July 2012 and has a capital structure comprising unlisted ordinary shares and Zero Dividend Preference shares listed on the Official List and traded on the London Stock Exchange. SCZ was incorporated specifically for the issue of Zero Dividend Preference shares. On 28 August 2012, SCZ issued 8,500,000 Zero Dividend Preference shares at 100p per share and with net proceeds of £8.3 million. The expenses of the placing were borne by the Company. Pursuant to a loan agreement between SCZ and the Company, SCZ has lent the proceeds of the placing to the Company. The loan is non-interest bearing and is repayable three business days before the Zero Dividend Preference share redemption date of 8 January 2018 or, if required by SCZ, at any time prior to that date in order to repay the Zero Dividend Preference share entitlement. The funds are to be managed in accordance with the investment policy of the Company.

A contribution agreement between the Company and SCZ has also been made whereby the Company will undertake to contribute such funds as will ensure that SCZ will have in aggregate sufficient assets on 8 January 2018 to satisfy the final capital entitlement of the Zero Dividend Preference shares.

### Total net assets and market capitalisation at year end

As at 30 April 2014, the Company had a market capitalisation of £31,114,000 (2013: £20,881,000) and total net assets amounted to £31,706,000 (2013: £22,579,000).

### Management fee

The fee payable to the Investment Manager is 1% of the combined gross assets of the Group.

### Capital structure

Details of share structure and entitlements and voting rights of each class can be found on page 62.

### ISA status

The Company's Ordinary shares are qualifying investments for Individual Savings Accounts ('ISAs') as are the Zero Dividend Preference shares of SCZ.

Registered in England

No. 3749536

A member of the Association of Investment Companies

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## Capital Structure

### **Small Companies Dividend Trust PLC ('the Company')**

The Company has in issue one class of Ordinary share. In addition, it has a wholly owned subsidiary, Small Companies ZDP PLC, through which Zero Dividend Preference shares have been issued.

### **Ordinary shares of 25p each ('Ordinary shares') – 16,550,000 in issue**

#### *Dividends*

Holders of Ordinary shares are entitled to dividends.

#### *Capital*

On a winding-up of the Company, Ordinary shareholders will be entitled to all surplus assets of the Company available after payment of the Company's liabilities, including the capital entitlement of the Zero Dividend Preference shares.

#### *Voting*

Each holder on a show of hands will have one vote and on a poll will have one vote for each Ordinary share held.

### **Small Companies ZDP PLC ('SCZ')**

### **Ordinary shares of 100p each ('ordinary shares') – 50,000 in issue (partly paid up as to 25p each)**

The ordinary shares are owned by the Company. References to Ordinary shares within this Annual Report are to the Ordinary shares of Small Companies Dividend Trust PLC.

#### *Capital*

Following payment of any liabilities and the capital entitlement to the Zero Dividend Preference shareholders, ordinary shareholders are entitled to any surplus assets of SCZ.

#### *Voting*

Each holder on a show of hands will have one vote and on a poll will have one vote for each ordinary share held.

### **Zero Dividend Preference shares of 100p each – 8,500,000 in issue**

#### *Dividends*

Holders of Zero Dividend Preference shares are not entitled to dividends.

#### *Capital*

On a winding up of SCZ, after the satisfaction of prior ranking creditors and subject to sufficient assets being available, Zero Dividend Preference shareholders are entitled to an amount equal to 100p share increased daily from 28 August 2012 at such compound rate as will give an entitlement to 136.7p per share at 8 January 2018.

#### *Voting*

Each holder of Zero Dividend Preference shares on a show of hands will have one vote at meetings where Zero Dividend Preference shareholders are entitled to vote and on a poll will have one vote for every Zero Dividend Preference share held.

Holders of Zero Dividend Preference shares are not entitled to attend, speak or vote at general meetings unless the business of the meeting includes a resolution to vary, modify or abrogate the rights attached to the Zero Dividend Preference shares.

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## Glossary of Terms

### **Net asset value ('NAV')**

The NAV is shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of all the Company's assets, at current market value, having deducted all prior charges at their par value (or at their asset value).

### **Discount**

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, the shares are said to be trading at a premium.

### **Gearing**

Gearing is the process whereby changes in the total assets of a company have an exaggerated effect on the net assets of that company's ordinary shares due to the presence of borrowing or share classes with a prior ranking entitlement to capital.

### **Ongoing charges**

The total expenses incurred by a company, including those charged to capital (excluding performance fee and finance costs and exceptional costs) as a percentage of average quarterly net assets.

### **Total return**

The combined effect of any dividends paid, together with the rise or fall in the share price or NAV. Total return statistics enable the investor to make performance comparisons between trusts with different dividend policies. Any dividends (after tax) received by a shareholder are assumed to have been reinvested in either additional shares of the trust at the time the shares go ex-dividend (the share price total return) or in the assets of the trust at its NAV per share (the NAV total return).

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## Directors and Advisers

<b>Directors</b>	Lord Lamont of Lerwick (Chairman) David Harris William van Heesewijk Howard Myles
<b>Investment Manager</b>	Chelverton Asset Management Limited 12b George Street Bath BA1 2EH Tel: 01225 483030
<b>Secretary and Registered Office</b>	Capita Sinclair Henderson Limited Beaufort House 51 New North Road Exeter EX4 4EP Tel: 01392 412122
<b>Registrar and Transfer Office</b>	Share Registrars Limited Suite E First Floor 9 Lion and Lamb Yard Farnham Surrey GU9 7LL Tel: 01252 821 390 <a href="http://www.shareregistrars.uk.com">www.shareregistrars.uk.com</a>
<b>Auditors</b>	Hazlewoods LLP Windsor House Bayshill Road Cheltenham GL50 3AT
<b>Custodian</b>	Jarvis Investment Management Limited 78 Mount Ephraim Tunbridge Wells Kent TN4 8BS

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## Small Companies Dividend Trust PLC

### Notice of Annual General Meeting

**This document is important and requires your immediate attention.** If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your shares in Small Companies Dividend Trust PLC, please forward this document as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 11.00 am on Wednesday, 17 September 2014 at the offices of the Association of Investment Companies, 9<sup>th</sup> Floor, 24 Chiswell Street, London EC1Y 4YY for the following purposes:

#### **Ordinary Business – Resolutions 1-7 will be proposed as ordinary resolutions**

- 1 To receive the Strategic Report, Directors' Report and the audited financial statements for the year ended 30 April 2014.
- 2 To receive and approve the Directors' Remuneration Report for the year ended 30 April 2014.
- 3 To receive and approve the Directors' Remuneration Policy.
- 4 To re-elect Mr Myles as a Director.
- 5 To re-elect Mr Harris as a Director.
- 6 To re-elect Mr van Heesewijk as a Director.
- 7 To re-appoint Hazlewoods LLP as Auditor and to authorise the Directors to determine its remuneration.

#### **Special Business**

To consider and, if thought fit, to pass the following Resolutions of which Resolution 8 will be proposed as an Ordinary Resolution and Resolutions 9 to 11 will be proposed as Special Resolutions.

- 8 THAT the Directors be and are hereby generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 ('the Act') (in substitution for any existing allotment authorities, provided that such substitution shall not have retrospective effect) to exercise all the powers of the Company to allot shares and to grant rights to subscribe for, or to convert any security into, shares in the Company ('the Rights') up to an aggregate nominal value equal to £1,379,167, being one-third of the issued Ordinary share capital as at 30 April 2014, during the period commencing on the date of the passing of this resolution and expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the Annual General Meeting of the Company to be held in 2015, or fifteen months from the passing of this resolution, whichever is earlier (the 'Period of Authority'), but so that the Directors may, at any time prior to the expiry of the Period of Authority, make offers or agreements which would or might require shares to be allotted and/or Rights to be granted after the expiry of the Period of Authority and the Directors may allot shares or grant Rights in pursuance of such offers or agreements as if the authority had not expired.
- 9 THAT, subject to the passing of Resolution 8 above, the Directors of the Company be and they are hereby empowered pursuant to Section 570 and Section 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) or sell shares held in Treasury (within the meaning of Section 560(3) of the Act) for cash pursuant to the authority conferred by Resolution 8 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

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## Notice of Annual General Meeting (continued)

- a) the allotment of equity securities in connection with a rights issue, open offer or any other offer in favour of Ordinary shareholders where the equity securities respectively attributable to the interests of all Ordinary shareholders are proportionate (as nearly as may be) to the respective number of Ordinary shares held by them subject to such exclusions or other arrangements as the Directors may deem fit to deal with fractional entitlements, record dates, legal, regulatory or practical problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange; and
- b) to the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal amount of £413,750, being 10% of the issued Ordinary share capital as at 30 April 2014

and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2015, or fifteen months from the passing of this resolution, whichever is earlier, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

- 10 THAT the Company is hereby generally and unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of Ordinary shares of 25p each in the capital of the Company ('Ordinary shares') for cancellation or for placing into Treasury provided that:
- a) the maximum aggregate number of Ordinary shares authorised to be acquired is 2,480,845, or if less, 14.99% of the Ordinary shares in issue and in circulation immediately following the passing of this resolution;
  - b) the minimum price which may be paid for each Ordinary share is 25p (exclusive of expenses);
  - c) the maximum price which may be paid for each Ordinary share is, in respect of a share contracted to be purchased on any day, an amount which shall not be more than the higher of (i) 5% above the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) of the Ordinary shares for the five business days immediately preceding the date on which the Ordinary share is purchased, and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange;
  - d) this authority will (unless renewed) expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, eighteen months from the date on which this resolution is passed; and
  - e) the Company may make a contract to purchase Ordinary shares under this authority before this authority expires which will or may be executed wholly or partly after its expiration and may make a purchase of Ordinary shares pursuant to any such contract.

- 11 THAT a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.

By order of the Board  
**Capita Sinclair Henderson Limited**  
Secretary  
3 July 2014

Registered office:  
Beaufort House  
51 New North Road  
Exeter EX4 4EP

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## Notice of Annual General Meeting (continued)

### Explanatory notes to the notice of meeting

Ordinary shareholders have the right to attend, speak and vote at the forthcoming Annual General Meeting or at any adjournment(s) thereof. In order to exercise all or any of these rights you should read the following explanatory notes to the business of the Annual General Meeting.

### Notes

1. *A member entitled to attend, vote and speak at this meeting may appoint one or more persons as his/her proxy to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If multiple proxies are appointed they must not be appointed in respect of the same shares. To be effective, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, should be lodged at the office of the Company's Registrar, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL not later than 48 hours before the time of the meeting. The appointment of a proxy will not prevent a member from attending the meeting and voting and speaking in person if he/she so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll shall have one vote for every Ordinary share of which he/she is the holder.*

*In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote or votes of the other joint holder or holders, and seniority shall be determined by the order in which the names of the holders stand in the register.*

*Any question relevant to the business of the Annual General Meeting may be asked at the meeting by anyone permitted to speak at the meeting. You may alternatively submit your question in advance by letter addressed to the Company Secretary at the registered office.*

2. *A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.*
3. *The statements of the rights of members in relation to the appointment of proxies in Note 1 above do not apply to a Nominated Person. The rights described in that Note can only be exercised by registered members of the Company.*
4. *As at 2 July 2014 (being the last business day prior to the publication of this notice) the Company's issued share capital amounted to 16,550,000 Ordinary shares carrying one vote each.*
5. *The Company specifies that only those Ordinary shareholders registered on the Register of Members of the Company as at 11.00 am on 15 September 2014 (or in the event that the meeting is adjourned, only those Ordinary shareholders registered on the Register of Members of the Company as at 11.00 am on the day which is 48 hours prior to the adjourned meeting) shall be entitled to attend in person or by proxy and vote at the Annual General Meeting in respect of the number of Ordinary shares registered in their name at that time. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.*
6. *In accordance with Section 319A of the Companies Act 2006, the Company must cause any question relating to the business being dealt with at the meeting put by a member attending the meeting to be answered. No such answer need be given if:*
  - a) *to do so would:*
    - i) *interfere unduly with the preparation for the meeting, or*
    - ii) *involve the disclosure of confidential information;*
  - b) *the answer has already been given on a website in the form of an answer to a question; or*
  - c) *it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.*
7. *A person authorised by a corporation is entitled to exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company (provided, in the case of multiple corporate representatives of the same corporate shareholder, they are appointed in respect of different shares owned by the corporate shareholder or, if they are appointed in respect of those same shares, they vote those shares in the same way). To be able to attend and vote at the meeting, corporate representatives will be required to produce prior to their entry to the meeting evidence satisfactory to the Company of their appointment. Corporate shareholders can also appoint one or more proxies in accordance with Note 1. On a vote on a resolution on a show of hands, each authorised person has the same voting rights to which the corporation would be entitled.*

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## Notice of Annual General Meeting (continued)

On a vote on a resolution on a poll, if more than one authorised person purports to exercise a power in respect of the same shares:

- a) if they purport to exercise the power in the same way as each other, the power is treated as exercised in that way;
- b) if they do not purport to exercise the power in the same way as each other, the power is treated as not exercised.

8. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

*In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, in order to be valid, must be transmitted so as to be received by the Company's agent (ID 7RA36) by the latest time for receipt of proxy appointments specified in Note 1 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.*

*CREST members and, where applicable, their CREST sponsors or voting service providers, should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.*

*The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.*

9. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.
10. Members satisfying the thresholds in Section 338 of the Companies Act 2006 may require the Company to give, to members of the Company entitled to receive notice of the Annual General Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Annual General Meeting. A resolution may properly be moved at the Annual General Meeting unless (i) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (ii) it is defamatory of any person; or (iii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given, must be authenticated by the person(s) making it and must be received by the Company not later than six weeks before the date of the Annual General Meeting.
11. Members satisfying the thresholds in Section 338A of the Companies Act 2006 may request the Company to include in the business to be dealt with at the Annual General Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Annual General Meeting. A matter may properly be included in the business at the Annual General Meeting unless (i) it is defamatory of any person or (ii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than six weeks before the date of the Annual General Meeting.
12. The Annual Report incorporating this notice of Annual General Meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website [www.chelvertonam.com](http://www.chelvertonam.com).
13. None of the Directors has a contract of service with the Company.

# Small Companies Dividend Trust PLC

## Proxy form

I/We (Block Capitals please) .....

.....  
 being a member/members of the above-named Company, hereby appoint the Chairman of the Meeting

.....  
 as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 11.00 am at the Association of Investment Companies, 9<sup>th</sup> Floor, 24 Chiswell Street, London EC1Y 4YY on Wednesday, 17 September 2014 and at any adjournment thereof.

Signature .....

Date ..... 2014

Please indicate with an X in the spaces below how you wish your votes to be cast.

Please tick here to indicate that this proxy appointment is one of multiple appointments being made.

### ORDINARY RESOLUTIONS

		FOR	AGAINST	VOTE WITHHELD
<b>RESOLUTION 1</b>	To receive the Strategic Report, Directors' Report, Auditors Report and the audited financial statements for the year ended 30 April 2014.			
<b>RESOLUTION 2</b>	To receive and approve the Directors' Remuneration Report for the year ended 30 April 2014.			
<b>RESOLUTION 3</b>	To receive and approve the Directors' Remuneration Policy			
<b>RESOLUTION 4</b>	To re-elect Mr Myles as a Director.			
<b>RESOLUTION 5</b>	To re-elect Mr Harris as a Director.			
<b>RESOLUTION 6</b>	To re-elect Mr van Heesewijk as a Director.			
<b>RESOLUTION 7</b>	To re-appoint Hazlewoods LLP as Auditor and to authorise the Directors to determine their remuneration.			
<b>RESOLUTION 8</b>	To authorise the allotment of shares.			

### SPECIAL RESOLUTIONS

<b>RESOLUTION 9</b>	To authorise the Directors to issue shares having disapplied pre-emption rights.			
<b>RESOLUTION 10</b>	Authority to buy back shares.			
<b>RESOLUTION 11</b>	Authority to hold general meetings on 14 clear days' notice.			

### NOTES

1. A member may appoint a proxy of his/her own choice. If such an appointment is made, delete the words 'the Chairman of the Meeting' and insert the name of the person appointed proxy in the space provided.
2. If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
3. In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated.
4. If this form is returned without any indication as to how the person appointed proxy shall vote, the proxy will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.
5. To be valid, this form must be completed and deposited at the office of the Company's Registrars not less than 48 hours before the time fixed for holding the meeting or adjourned meeting. Only those Ordinary shareholders registered in the register of members 48 hours prior to the meeting shall be entitled to attend and vote at the meeting in respect of the number of Ordinary shares registered in their name at that time. Changes to the register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
6. A "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution. The "vote withheld" option is provided to enable you to instruct the registered holder to abstain from voting.
7. You are entitled to appoint more than one proxy provided that each proxy is appointed to exercise rights attached to a different share or shares held by you. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional Proxy Form(s) may be obtained by contacting the Registrars' helpline or you may photocopy this form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
8. The termination of the authority of a person to act as proxy must be notified to the Company's Registrar in writing.
9. Please return this proxy form to Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL







