



BFS Small Companies Dividend Trust PLC

Annual Report and Accounts
for the period ended
30 April 2000



Investment Objective and Policy

The investment objective of the Group 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 and the Preference shares on the Zero Repayment Date.

The Group's funds will be invested principally in companies with a market capitalisation of less than £100 million. The Group's portfolio will comprise companies listed on the Official List and companies admitted to trading on AIM. The Group may also invest up to 5% of its portfolio in unquoted securities. Whilst the majority of the Group's funds will be invested in ordinary shares of companies, up to 30% may be invested in convertible securities. The Group will not invest in other investment trusts.



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Registered in England

No. 3749536

A member of the Association of Investment Trust Companies



Company Summary

HISTORY

The Company was launched on 12 May 1999, raising £21.28 million before expenses, by a placing of 15,000,000 Ordinary shares and, through its subsidiary BFS 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.

GROUP STRUCTURE

The Company has in issue one class of Ordinary share. In addition, it has a wholly owned subsidiary, BFS Small Companies PLC ('BSC'), through which Preference shares, all of which are held by Geared Income Investment Trust PLC, and Zero Dividend Preference shares have been issued.

TOTAL NET ASSETS AND MARKET CAPITALISATION AT PERIOD END

As at 30 April 2000, the Group had a market capitalisation of £11,655,000 and total net assets amounted to £12,432,000.

BFS INVESTMENTS PLC ('BFS')

BFS and its associates have funds under management and administration of approximately £1.1bn. These funds include several quoted investment trusts, one quoted investment company and portfolios or pensions schemes managed for charities, small corporate clients and private individuals. Under the terms of an Investment Adviser Agreement, BFS has delegated the investment of the Group's assets to Chelverton Asset Management Limited, the Investment Adviser.

MANAGEMENT FEE

The management fee is 0.85% of the combined gross assets of the Group, plus a performance fee of 33% of the amount by which the growth in net asset value exceeds 10% per annum. The Investment Adviser is entitled to receive by way of fees from the Manager 75% of the management fee and an equal share of any performance fee. The management contracts are terminable at one year's written notice to expire at any time after the second anniversary of the contracts.

PEP/ISA STATUS

The Company's Ordinary shares are eligible investments for inclusion in Personal Equity Plans ('PEPs') up to the maximum permitted limit. They are also qualifying investments for Individual Savings Accounts ('ISAs'). The Zero Dividend Preference shares are also eligible for inclusion in PEPs and ISAs.

CAPITAL STRUCTURE

Details of share structure and entitlements and voting rights of each class can be found on page 51.



Directors

Bryan Norman Lenygon - Chairman *

Bryan Lenygon, aged 68, is a chartered accountant and a barrister. He is a former director of Gartmore Investment Ltd and is currently chairman of Aberdeen Latin American Investment Trust PLC and Finsbury Technology Trust PLC, and a director of other investment trust companies.

John Edward Chappell *

John Edward Chappell, aged 50, is a stockbroker. He is a former founder director of Matheson Investment Ltd and is currently a director of Prudential-Bache Ltd where he advises private and institutional clients as well as acting as director in charge of Research. He is also a director of Aberdeen Emerging Economies Investment Trust Ltd and Broadgate Investment Trust Plc.

Nicholas John Randall *

Nicholas John Randall, aged 49, is the chairman of Airtech plc and Air Group Limited. Airtech plc, which was a stock exchange listed company with a market capitalisation of under £50 million, merged with REMEC Inc. (a NASDAQ quoted company) to become an international wireless business with a market capitalisation of over US\$400 million.

David Harris *

David Harris, aged 50, is chief executive of Invatrust Consultancy. He specialises in conference speaking on Investment and Financial Services matters and writes regularly for both National and Trade Press. From 1995 until 1999 he was a director of the Association of Investment Trust Companies with specific responsibility for training and education of Independent Financial Advisors.

Anthony Arthur Reid

Tony Reid, aged 49, is a chartered accountant. He is Investment Director of BFS Investments plc. He has been responsible for the fund management activities of BFS since its inception in 1985 and is regarded as a specialist in split-capital investment trusts. He is also a director of Geared Income Investment Trust PLC, LeggMason Investors International Utilities Trust plc and a number of other quoted companies.

* Independent of the Investment Manager



Manager, Investment Adviser and Secretary

Manager: BFS Investments plc (BFS)

BFS and its associates have funds under management and administration of approximately £1.1bn. These funds are primarily managed for investment trust companies, charities, small corporate clients and private individuals. They include Personal Equity Plans and self-invested personal pension schemes.

Investment Adviser: Chelverton Asset Management Limited

Chelverton Asset Management Limited specialises in small company investment management and is regulated by the Financial Services Authority Limited on behalf of IMRO. The Managing Director, David Horner, is a chartered accountant and has considerable experience of analysing and working with smaller companies, having spent 6 years with 3i Corporate Finance.

Secretary: Sinclair Henderson Limited

Sinclair Henderson Limited provides company secretarial and administrative services for the Company. It provides similar services for a number of investment trust companies. Sinclair Henderson Limited is a subsidiary undertaking of Exeter Investment Group plc.



Financial Highlights

	30 April 2000	12 May 1999†	% change	(Discount)/ premium 30 April 2000
Capital				
Total Net Assets (£'000)	12,432	15,064*	(17.47)	
FTSE All-Share Index	3,001.92	2,947.88	1.83	
Net Asset Value per Ordinary share	77.54p	96.00p	(19.23)	
Mid-Market Price per Ordinary share	74.00p	102.00p	(27.45)	(4.57)%
Net Asset Value per Zero Dividend Preference share	107.72p	100.00p	7.72	
Mid-Market Price per Zero Dividend Preference share	103.75p	101.75p	1.97	(3.69)%
FTSE Small Cap Index	3,172.20	2,581.78	22.87	
FTSE AIM Index	1,764.00	981.90	79.65	
FTSE Fledgling Index	2,138.20	1,415.45	51.06	

* To aid comparison the 1999 net assets have been adjusted to include the proceeds of the share issue in March 2000.

	Period ended 30 April 2000
Revenue	
Return per Ordinary share	11.39p
Net dividend per Ordinary share	9.00p

	Period ended 30 April 2000
Total Return	
Total Return on Company's assets*	(8.26)%
Total Return FTSE All-Share Index**	4.11%
Total Return Ordinary share**	(23.02)%
Total expense ratio	2.21%

* Adding back dividends distributed for the period

** Net dividend reinvested at payment date (source: Lipper/HSBC)

† Date of first dealings in Ordinary and Zero Dividend Preference shares.



Chairman's Report

for the period to 30 April 2000

RESULTS

This is my first report on the progress of your Company in what has been a difficult period. The Company's net asset value per Ordinary share at 30 April 2000 was 77.54p, a fall of 19.23% since the launch of the Company on the 12 May 1999. The reasons for this are explained later on, and more fully, in the Manager's Report. The FTSE All-Share Index rose by 1.83% in the same period.

The Company was established to provide a high income for the Ordinary shares and I am pleased to report that the total dividends for the period amounted to 9p per Ordinary share, an increase of 8.4% over the 8.3p per Ordinary share indicated in the placing document.

BACKGROUND

This first period of eleven and half months has seen two very strong moves in the area of the market in which the Company invests.

Initially, with reducing interest rates, both nationally and internationally, the income yielding shares, in which the Company is exclusively invested, showed significant gains across the portfolio with a number of takeovers and venture capital backed management buy-outs to add some further interest. These shares were slowly returning to, but not achieving the levels of the previous year in 1998 before the "Asian Crisis".

The strength of the economy was such that, by September 1999, in the UK, interest rates were again rising from 5% to their current level of 6%. The strength of sterling, relative to the Euro, has of course put increasing pressure on all manufacturing and exporting companies. The Company invests exclusively in small companies with market capitalisations of less than £100m very many of whom are manufacturers and exporters.

Whilst much has been written, and even more will be written in the future about the phenomenon that is becoming known as the "TMT frenzy" or the "dotcom Bubble", it is important to point out to shareholders that during this period the Company's investments have been hit by persistent private investor selling, particularly in the final quarter of the year. Since the period-end there has been a heartening improvement across the portfolio, as companies making profits, generating cash and paying dividends have been more in demand.

PROSPECTS

The Board believes that the prospects for the shares of the Company are very encouraging.



Chairman's Report
for the period to 30 April 2000

There are several reasons for this optimism, but it is principally because interest rates in the United Kingdom appear to be very close to a peak and could well commence a downward path in the second half of the calendar year. This in turn will help in establishing a more reasonable rate for sterling against the Euro and will take pressure off the hard-pressed manufacturing companies which make up so many of the Company's investments.

It is also clear that corporate activity is increasing after a very quiet period of some nine months. There are possibilities that foreign competitors may acquire UK businesses, valued by the stock market at well below their intrinsic value and others will be taken private by their management teams. Indeed, as I write, two of your Company's largest holdings, Allied Textile and Ring, are subject to recommended offers, the first from its management team and the second from an American buyer.

Bryan Lenygon (Chairman)

18 July 2000



Investment Manager's Report

for the period ended 30 April 2000

The second half of the maiden financial period of the Company has covered a most extraordinary period in the UK and World Markets which has been likened to the railway speculation of the mid-nineteenth century and the mining speculation of the 1970s. The "TMT" sectors (telecoms, media and technology) started rising in October and appeared to be taking over the market by mid-March. Since the year-end, reality has returned and investors are beginning to apply more conventional investment analysis to these businesses, which will show them to be relatively less attractive.

In the meantime, shares in companies that were part of the "old economy", a better description might be "real economy", languished as investors, both institutional and individuals sold shares to raise funds for investment in the TMT sectors. Despite the directors of these companies consistently buying shares personally and setting up programmes for their companies to buy shares to cancel, the prices have continued to fall.

Simultaneously, the Bank of England, concerned with the rise in house prices and reported wage settlements, continued with its policy of raising interest rates. Whilst this has undoubtedly squeezed inflation out of the system it has caused sterling to rise against the Euro to a level, which in the short term is extremely painful and in the long-term is unsustainable. High-yielding shares, in which the company is exclusively invested, are highly interest rate sensitive and the rises in interest rates began to take their toll on this sector of the market.

Given the extreme volatility and recent severe decline in the "TMT" sectors it would be pleasing to report that the flow of money that went from real economy to new economy shares had reversed itself. Whilst this has not happened yet there are a few encouraging signs, not least a general view that interest rates are probably close to their cyclical peak and a slight weakening in the Sterling/Euro exchange rate. Both of these factors will, in time, lead to a rise in the level of corporate activity, which of course will create capital profits and provide the funds for re-investment at a higher yield.

PORTFOLIO REVIEW

When the Company was launched on 12 May 1999 it was at a time of a very strong recovery in the share prices of the traditional high yield companies from the low points of the Autumn of 1998. This trend was reinforced by a number of takeovers including Hicking Pentecost, Banner Chemicals, Adscene, Epwin and Wardle Storeys, which have produced significant gains.

Unfortunately, in this period we have also had one significant loss in Transtec, which went into receivership in December 1999. Whilst this company was exposed to the automotive industry it is evident that its problems had been covered up for a number of years and is now subject to investigation. By the nature of the investment approach, the Company is investing in high yielding ordinary shares in small quoted companies, which at times can prove to be illiquid.

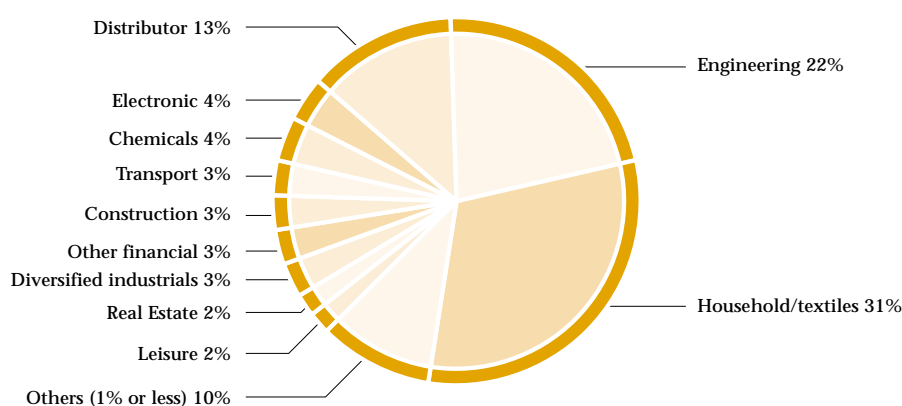


Investment Manager's Report

for the period ended 30 April 2000

At the period-end the Company was invested in 62 companies. At any one time a number of investments are in the process of being disposed of as dividends are received and more interesting opportunities become available. The recent decline in the shares of "real/old economy" companies has presented numerous very attractive opportunities.

Breakdown of Portfolio by Industry



% of portfolio
by value

Ten Largest Holdings

Sirdar	Manufacturer of specialist textile products, including floor coverings (such as carpet tiles), hand knitting yarns and curtains. Also owns a 131 room hotel in Bradford.	5.51
Carlco	Diversified engineer with interests in precision engineering, technical plastics, and specialist wire. The business is split 60% in the UK and 40% Overseas.	4.63
Allied Textiles	A diversified textile group which has undergone a reconstruction by selling and closing poor performers, e.g. US natural fibres and carpets. Since the period-end the company has received an offer from its management.	4.61
Allumasc Group	An engineering company focused on the design and manufacture of premium engineering and building products.	3.82
Pittards	Supplies technically advanced leather for gloves used in golf, baseball, specialist safety and cycling, also footwear, soccer boots, American footballs and saddlery.	3.66
Reylon	Manufacturer of divans and mattresses, sofa beds, nursery products, polyurethane foam and also designs, supplies and installs security surveillance equipment.	3.47
Renold	Manufacturer of transmission and conveyor chains, gearboxes, variable speed drives, clutches, couplings and spindles, machine tools and compressor rotors.	3.44

**Investment Manager's Report**

for the period ended 30 April 2000

		% of portfolio by value
Ten Largest Holdings (continued)		
Ennstone	After much corporate activity and sale of assets and businesses where prospects were poor, the company is now focused on aggregates and stone products in the UK and US.	3.00
Ring	Distributors of domestic lighting products, with other smaller divisions involved in automotive lighting and plumbing consumables.	2.98
Chapelthorpe	Formerly called Readicut, has sold many of the peripheral activities and retains interests in vinyl wall coverings, polypropylene fibres, filament yarns, and sporting umbrella frames.	2.95

OUTLOOK

It appears that interest rates may reach a peak in the coming months, and then decline gradually thereafter. After the considerable amount of re-layering and re-organising that both consumer and capital goods industries have carried out in recent years, profit margins should widen, although sales growth may be muted.

After the Company's period-end, Allied Textiles has recommended a venture capital backed cash offer from its management at a 51% premium to the price recorded at the period-end. This is the first "Public to Private" transaction for some time and is evidence of a return of the venture capital industry after very little activity for almost a year.

Again after the Company's period-end the Board of Ring has recommended a cash offer from an American Group at a premium of 37% to the price recorded at the period-end. The object of this being to establish a European presence using the UK as a logical starting point. Whilst UK companies continue to be significantly undervalued this type of approach will become more common.

Directors, and on their instruction, companies will, in the absence of interest from anyone else, continue to buy shares at these historically low levels. The effect of the buy-back is to shrink the capital base, improve earnings per share and consequently increase dividend cover and the possibility of increased dividends at the expense of a marginally weakened balance sheet. Given the relatively much higher value of unquoted companies and the lack of funding available generally, this process is much encouraged.

It is factors such as these that make us strongly positive on the medium term future for high yielding small companies such as those represented in the portfolio of your Company.

David Horner
Chelverton Asset Management Limited

Keith Bunyan
BFS Investments plc



Report of the Directors

The Directors present their Report and Financial Statements of the Company for the period ended 30 April 2000. The Company's registered number is 3749536.

The Group Financial Statements consolidate the audited Financial Statements of the Company and of its subsidiary undertaking drawn up for the period ended 30 April 2000.

The Company's subsidiary, BFS Small Companies PLC, has issued Zero Dividend Preference shares which are listed on the London Stock Exchange.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is to carry on business as an investment trust. BFS Small Companies PLC is a subsidiary undertaking of the Company. Its principal activity is to carry on business as an investment company. The Directors do not envisage any change in these activities in the foreseeable future. A description of the activities of the Company and its subsidiary, in the period under review is given in the Chairman's Report on pages 6 and 7 and in the Investment Manager's Report on pages 8 to 10.

The Company was incorporated on 6 April 1999 and commenced its activities on 12 May 1999.

On 3 March 2000, the Company issued 750,000 Ordinary 25p shares for cash. Further details of this issue are set out in note 18 to the Financial Statements.

STATUS

The Company has directed its affairs so as to enable it to seek approval from the Inland Revenue as an authorised investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the period ended 30 April 2000. The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. The Company is not a close company.

The current Portfolio of the Company is such that its shares are eligible investments for inclusion in Personal Equity Plans and it is the intention of the Directors to manage the affairs of the Company so that this eligibility will be maintained. The Company's shares are also qualifying investments for Individual Savings Accounts.



Report of the Directors

DIVIDENDS

	Payment date	Ordinary Pence (net per share)
First interim	30 September 1999	2.00
Second interim	31 December 1999	2.00
Third interim	31 March 2000	2.00
Fourth interim	30 June 2000	3.00
		9.00

The Directors do not recommend a final dividend in respect of the period ended 30 April 2000.

DIRECTORS

Directors serving at the period end of 30 April 2000 were as follows:

B N Lenygon	J E Chappell
M W Latham	N J Randall
A A Reid	

Mr D Harris was appointed a Director on 30 May 2000.

Mr M W Latham resigned as a Director on 30 May 2000.

All the Directors in office, as shown on page 3, will retire at the Annual General Meeting and, being eligible, will offer themselves for election.

A A Reid is Investment Director of BFS Investment PLC ('BFS') and is therefore interested in the Management Agreement described on page 14.

None of the other Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements during the period. None of the Directors, save as mentioned above, 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 period.

At the date of this Report, there are no outstanding loans or guarantees between the Company or its subsidiary undertaking granted to any Director.



Report of the Directors

DIRECTORS' BENEFICIAL AND FAMILY INTERESTS

	30 April 2000	
	Ordinary shares	Zero Dividend Preference shares
B N Lenygon	1,000	–
J E Chappell	2,500	–
N Randall	100,000	2,500
A A Reid	14,182	–
M W Latham (resigned 30 May 2000)	2,500	2,500

D Harris has acquired a beneficial ownership in 5,802 Ordinary shares following his appointment as a Director.

There have been no other changes in the above holdings up to the date of this Report.

SUBSTANTIAL SHAREHOLDINGS

The Directors have been notified of the following substantial interests at the date of this Report:

	Number of shares	% of share capital
Ordinary shares		
Aberdeen Asset Management Limited	3,150,000	20.00
<i>including</i>		
<i>Leveraged Income Fund Ltd</i>	2,956,000	18.77
<i>Danae Investment Trust PLC</i>	97,000	0.62
<i>Jove Investment Trust PLC</i>	97,000	0.62
Exeter Asset Management Limited	3,000,000	19.05
<i>including</i>		
<i>Dartmoor Investment Trust PLC</i>	1,750,000	11.11
<i>Exeter Enhanced Income Fund Limited</i>	600,000	3.81
<i>Exeter High Income Unit Trust</i>	650,000	4.13
Jupiter Extra Income Trust PLC	1,000,000	6.35
HL Income & Growth Trust PLC	900,000	5.71
Govett Enhanced Income Investment Trust PLC	850,000	5.40
Govett High Income Investment Trust PLC	750,000	4.76
BFS Investments plc clients		
– BFS Income & Growth Trust PLC	1,033,000	6.56
– Geared Income Investment Trust PLC	883,500	5.61
– discretionary managed clients	705,718	4.48
– self select clients	38,157	0.24
Securities Trust of Scotland PLC	560,000	3.56
INVESCO City & Commercial Trust PLC	500,000	3.17



Report of the Directors

DIRECTORS' AUTHORITY TO ISSUE SHARES

At an Extraordinary General Meeting held on 6 May 1999, a resolution was passed giving, inter alia, the Directors a general authority to allot relevant securities of the Company having a nominal value not exceeding 5% of its issued share capital so as to expire on the first Annual General Meeting. A total of 750,000 Ordinary shares with a nominal value of £187,500 have been issued under this authority.

It is proposed at the Annual General Meeting of the Company, to be held on 25 August 2000 to increase the Authorised Share Capital of the Company to 33,000,000 Ordinary shares of 25p each.

It is also proposed that at the Annual General Meeting, the Directors be given the power to issue equity shares for cash, notwithstanding the pre-emption provisions of Section 89 of the Companies Act 1985, up to an aggregate of 10% of the issued share capital. This proposal is included in the resolution set out in the Notice of Annual General Meeting on pages 44 and 45.

MANAGEMENT AGREEMENTS

The Group's investments are managed by BFS under an agreement ('the Investment Management Agreement') dated 7 May 1999. The management fee, payable quarterly in arrears, is calculated at an annual rate of 0.85% of the value of the gross assets under management of the Group and a performance fee (payable annually) of 33% of the amount by which the growth in net asset value exceeds 10% (compounded) per annum. The Investment Agreement may be terminated by not less than twelve months' notice to expire at any time after the second anniversary of the agreement.

Under the terms of an Investment Adviser Agreement dated 7 May 1999, BFS have delegated the investment management of the Group's assets to Chelverton Asset Management Limited (CAM). CAM is entitled to receive by way of fees 75% of the management fee payable to BFS together with an equal share of any performance fee. If BFS receives notification of termination it shall forthwith serve notice of termination on CAM.

Under another agreement ('the Administration Agreement') dated 7 May 1999, company secretarial services and the general administration of the Group are undertaken by 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 twelve months' written notice, expiring on or after the second anniversary of the agreement, subject to earlier termination as provided therein.

PAYMENT OF SUPPLIERS

It is the Group's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Group agrees with its suppliers the terms on which business will be transacted, and it is the Group's policy to abide by those terms. At 30 April 2000 all suppliers' invoices received had been settled.



Report of the Directors

CORPORATE GOVERNANCE

Statement of compliance with the Combined Code ('Code')

The Directors have reviewed the principles outlined in the Code and believe that, insofar as they are relevant to the Company's business, they have complied with the provisions of the Code during the period ended 30 April 2000, subject to the exceptions explained below. The Company is committed to maintaining the highest standards of corporate governance and the Board is accountable to the Company's shareholders for the governance of the Company's affairs.

The Board has noted the guidance for Directors on the wider aspects of internal control, as produced by the Turnbull Committee, and will report on all aspects of internal controls, including operational and compliance controls and risk management, on its review following the effective date of 23 December 2000.

The Board has taken advantage of the implementation arrangements and, until that time, will continue to review and report on the Company's system of internal financial controls.

Board of Directors

The Board consists entirely of non-executive Directors who are responsible for the implementation of the Company's investment policy. The Directors review at each Board meeting the Company's investments and all other important issues to ensure that control is maintained over the Company's affairs. The Company does not have a Chief Executive Officer, but in appointing a management company the roles of Chairman and Chief Executive Officer are effectively separated. Brief biographical details of the Directors can be found on page 3.

With the exception of A A Reid, all the Directors are fully independent of the Investment Manager. Given the size and nature of the Board, it is not considered appropriate to appoint a senior independent Director.

A formal schedule of matters specifically reserved to the Board for decision was adopted on 31 August 1999. Although this schedule was not formally in force during the full period, the Directors consider that the spirit of the Code had been applied in principle.

None of the Directors has a service agreement with the Company. Under the Articles of Association, all Directors are subject to retirement and election by shareholders.

Committees

An Audit Committee has been in operation since 22 April 1999. This Committee comprises all the independent Directors, with B N Lenygon acting as Chairman, and operates within clearly defined terms of reference. It provides a forum through which the Group's external Auditors report to the Board.



Report of the Directors

A Management Engagement Committee with written terms of reference and comprising all independent Directors, with B N Lenygon as Chairman, keeps under review the appointment and remuneration of the Investment Manager.

A Nomination Committee comprising the whole Board, with B N Lenygon acting as Chairman, considers the new appointments of additional Directors.

Directors' remuneration

A Remuneration Committee comprising the whole Board, with B N Lenygon as Chairman, considers and approves Directors' remuneration. Full details of Directors' remuneration are given in note 5 to the Financial Statements. At 30 April 2000 there were no Directors' service agreements and no Director had been granted any options to acquire shares in the Company.

The Company Secretary

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

Individual Directors may seek independent professional advice on any matter concerning them in the furtherance of their duties at the expense of the Company.

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.

Relations with shareholders

Communication with shareholders is given a high priority by both the Board and Investment Manager, and all Directors are available to enter into dialogue with shareholders. All shareholders are encouraged to attend and vote at the Annual General Meeting, during which the Board and Investment Manager are available to discuss issues affecting the Company.

Any shareholders who would like to lodge questions in advance of the AGM are invited to do so either on the reverse of the proxy card or in writing to the Company Secretary at the address detailed on page 56. The Company always responds to letters from individual shareholders.

Going concern

The Directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly have continued to adopt the going concern basis in preparing the Financial Statements.



Report of the Directors

Internal controls

The Board is responsible for establishing and maintaining the Group's system of internal financial control. Internal controls are designed to meet the particular needs of the Group and the risks to which it is exposed, and by their very nature provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures which have been established to provide internal financial control are as follows:

- Investment management is provided by BFS Investments plc and Chelverton Asset Management Limited. The Board is responsible for setting the overall investment policy and monitors the action of the Investment Manager and the Investment Adviser at regular Board meetings.
- Administration and company secretarial duties for the Group, are performed by Sinclair Henderson Limited.
- Custody of assets was transferred from Lloyds TSB Bank plc to HSBC Bank plc during the course of the period following Lloyds's decision to withdraw from the custodian services market.
- The duties of investment management, accounting and the custody of assets are segregated. The procedures of the individual parties are designed to complement one another.
- The non-executive Directors of the Company clearly define the duties and responsibilities of their agents and advisers. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved; the Board monitors their ongoing performance and contractual arrangements.
- Mandates for authorisation of investment transactions and expense payments are set by the Board.
- The Board reviews financial information produced by the Investment Manager and the Administrator in detail on a regular basis.

In accordance with guidance issued to directors of listed companies, the Directors have carried out a review of the effectiveness of the systems of internal financial control as it has operated over the period.

YEAR 2000 COMPLIANCE

Prior to the end of 1999 the Directors took steps to address the Year 2000 problem by seeking assurances from advisers and significant suppliers regarding their strategies to deal with the problem. The Directors are not aware of any problems having arisen from Year 2000 issues or any costs to be incurred directly by the Group.



Report of the Directors

AUDITORS

Baker Tilly have expressed their willingness to continue in office as Auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

By order of the Board
Sinclair Henderson Limited
Secretary
18 July 2000



Statement of Directors' Responsibilities in Respect of the Financial Statements

Company law requires the Directors to prepare Financial Statements for each financial period which give a true and fair view of the state of affairs of the Company and its subsidiaries as at the end of the financial period and of the profit or loss of the Company and its subsidiaries for that period. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies which are consistently applied and supported by reasonable and prudent judgements and estimates;
- state whether the Financial Statements have been prepared in accordance with applicable accounting standards and disclose particulars of any material departure from those standards and the reasons for it; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Company is required to keep accounting records which are sufficient to disclose with reasonable accuracy, at any time, the financial position of the Company and its subsidiaries and which enable the Directors to ensure that the Financial Statements comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the Company and its subsidiaries and for preventing and detecting fraud and other irregularities.



Report of the Auditors to the members of BFS Small Companies Dividend Trust PLC

We have audited the Financial Statements on pages 22 to 42 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on pages 26 and 27.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report including, as described on page 19, the Financial Statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Report of the Directors is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statements on pages 15 to 17 reflect the Company's compliance with those provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to form an opinion on the effectiveness of either the Company's corporate governance procedures or the Group's internal controls.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.



Report of the Auditors to the members of BFS Small Companies Dividend Trust PLC

OPINION

In our opinion the Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 April 2000 and of the net revenue and total return of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly, London
Registered Auditors
Chartered Accountants
18 July 2000

**Consolidated Statement of Total Return**

(incorporating the revenue account*) for the period ended 30 April 2000

	Note	Revenue* £'000	30 April 2000 Capital £'000	Total £'000
Losses on investments	10	–	(2,177)	(2,177)
Income	2	2,067	–	2,067
Investment management fee	3	(100)	(149)	(249)
Other expenses	4	(165)	(6)	(171)
Net return before finance costs and taxation		1,802	(2,332)	(530)
Interest payable and similar charges	6	(79)	(119)	(198)
Appropriations in respect of:				
Zero Dividend Preference shares		–	(483)	(483)
Preference shares		–	(2)	(2)
Issue costs of Zero Dividend Preference shares		–	(31)	(31)
Return on ordinary activities before and after taxation		1,723	(2,967)	(1,244)
Dividends in respect of equity shares	8	(1,388)	–	(1,388)
Transfer to/(from) reserves after aggregate dividends paid and declared		335	(2,967)	(2,632)
	Note	Revenue pence	Capital pence	Total pence
Return per Ordinary share	9	11.39	(19.62)	(8.23)

The notes on pages 26 to 42 form part of these Financial Statements.

* The revenue column of this statement is the Consolidated Revenue Account of the Group.

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the period.

**Consolidated Balance Sheet**

at 30 April 2000

	Note	30 April 2000 £'000
Fixed assets		
Investments	10	24,363
Current assets		
Debtors	13	412
Cash at bank		225
		637
Creditors - amounts falling due within one year		
Creditors	14	5,548
Dividends		473
		6,021
Net current liabilities		(5,384)
Total assets less current liabilities		18,979
Creditors - amounts falling due after more than one year		
Zero Dividend Preference shares	15	6,514
Preference shares	15	33
Net assets		12,432
Share capital and reserves		
Called up share capital	18	3,938
Share premium account	19	11,126
Capital Reserve	19	(2,967)
Revenue reserve	19	335
Shareholders' funds		12,432
		pence
Net asset value per Ordinary share		78.94

The notes on pages 26 to 42 form part of these Financial Statements.

These Financial Statements were approved by the Board on 18 July 2000

B N Lenygon, Chairman

**Balance Sheet**

at 30 April 2000

	Note	30 April 2000 £'000
Fixed assets		
Investments	10	24,334
Current assets		
Loan to subsidiary undertaking		4
Debtors	13	410
Cash at bank		225
		639
Creditors - amounts falling due within one year		
Creditors	14	5,544
Dividends		473
		6,017
Net current liabilities		(5,378)
Total assets less current liabilities		18,956
Creditors - amounts falling due after more than one year		
Loan note	16	6,039
Provision for liabilities and charges		
Commitment to subscribe for shares	17	485
Net assets		12,432
Share capital and reserves		
Called up share capital	18	3,938
Share premium account	19	11,126
Capital Reserve	19	(2,965)
Revenue reserve	19	333
Shareholders' funds		20 12,432

The notes on pages 26 to 42 form part of these Financial Statements.

These Financial Statements were approved by the Board on 18 July 2000

B N Lenygon, Chairman

**Consolidated Statement of Cash Flows**

for the period ended 30 April 2000

	Note	30 April 2000 £'000
Operating activities		
Investment income received		1,622
Deposit interest received		39
Investment management fees paid		(187)
Secretarial fees paid		(39)
Other cash payments		(115)
Net cash inflow from operating activities	22	1,320
Servicing of finance		
Interest paid		(176)
Net cash outflow from servicing of finance		(176)
Capital expenditure and financial investment		
Purchases of investments		(34,319)
Sales of investments		7,948
Net cash outflow from capital expenditure and financial investment		(26,371)
Equity dividends paid		(915)
Net cash outflow before financing		(26,142)
Financing		
Issue of share capital		(15,664)
Issue expenses		850
		(14,814)
Issue of Zero Dividend Preference shares		(6,250)
Issue of Preference shares		(31)
		(6,281)
Net cash inflow from financing		(21,095)
Decrease in cash	23	(5,047)
		(26,142)

The notes on pages 26 to 42 form part of these Financial Statements.



Notes to the Financial Statements

at 30 April 2000

1 ACCOUNTING POLICIES

Accounting convention

The Financial Statements have been prepared under the historical cost convention as modified by the revaluation of fixed asset investments and are prepared in accordance with applicable accounting standards in the United Kingdom and in accordance with the Statement of Recommended Practice (SORP) for Financial Statements of Investment Trust companies.

As this is the first period since incorporation there are no comparative figures.

Basis of consolidation

The Group Financial Statements comprise the audited Financial Statements of the Company and its subsidiary undertaking drawn up to the same accounting date. No Revenue Account, as incorporated in the Statement of Total Return under the provisions of the SORP, is presented for BFS Small Companies Dividend Trust PLC as provided by Section 230 of the Companies Act 1985.

Income recognition

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. As prescribed in Financial Reporting Standard No.16: Current Taxation, UK dividends are disclosed net of the associated tax credit. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Interest receivable is included on an accruals basis.

Underwriting commission is recognised as income in so far as it relates to shares the Company is not required to take up.

Where the Company is required to take up shares underwritten the commission received is treated as a deduction from the cost of shares. Where fixed interest stocks are purchased cum interest the Revenue Account is credited with interest accruing from the date of purchase. Similarly, where fixed interest stocks are sold cum interest the Revenue Account is credited with interest accrued up to the date of sale. Other income is accounted for on an accruals basis.

Expenditure

All expenses are accounted for on an accruals basis. All expenses are charged through the Revenue Account in the Statement of Total Return except as follows:

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investments;



Notes to the Financial Statements

at 30 April 2000

- expenses are charged to Capital Reserve (realised) where a connection with the maintenance or enhancement of the value of the investments can be demonstrated.

In respect of the investment management fee and debit interest, 60% has been allocated to Capital Reserve (realised) and 40% to Revenue Reserve in the Statement of Total Return, being in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company. The investment management performance fee is charged, in total, to the Capital Reserve (realised).

Investments

Listed investments are included in the Balance Sheet at middle-market value at the close of business at the period end, whilst unlisted investments are included at the Directors' valuation. Interest accrued on fixed interest rate securities at the date of purchase or sale is accounted for separately as accrued income or as an income receipt, so that the value or purchase price or sale proceeds is shown net of such items.

Any unrealised profits and losses are taken directly to the Capital Reserve. Any realised profits and losses arising from the disposal of investments are also taken directly to the Capital Reserve.

Preference and Zero Dividend Preference shares

In accordance with the provisions of Financial Reporting Standard No. 4, shares issued by the Company's subsidiary, BFS Small Companies PLC ('BSC') are treated as a liability of the Group and are shown in the Balance Sheet at their redemption value at the Balance Sheet date. Full details of the Preference shares and Zero Dividend Preference shares issued by BSC and the basis of calculation of their redemption value are given in note 15 to the Financial Statements.

The appropriations in respect of the Preference shares and Zero Dividend Preference shares necessary to increase the Group's liabilities to the redemption values are charged to the Capital Reserve in the Consolidated Statement of Total Return. This treatment reflects the Board's long term expectations that the entitlements of the Preference and Zero Dividend Preference shareholders will be satisfied out of gains arising on investments held primarily for capital growth.

Share issue costs

Costs incurred by the Company in relation to the issue of its own Ordinary shares and the issue by BSC of Zero Dividend Preference shares are apportioned between the two issues based on the relative proceeds of issue. Costs regarded as relating to the issue of the Company's own Ordinary shares are deducted from the Share Premium account.

Costs regarded as relating to the issue of Zero Dividend Preference shares have been deducted from the proceeds of issue of those shares and are being amortised through the Capital Reserve, at a constant rate over the period from issue of the shares until maturity on 30 April 2007.

**Notes to the Financial Statements**

at 30 April 2000

2 INCOME30 April 2000
£'000**Income from listed investments**

UK net dividend income	1,974
Interest and other dividends from listed investments	53
	2,027

Other income

Bank interest receivable	40
	40

Total income**2,067****Total income comprises:**

Dividends	1,974
Interest	93
	2,067

3 INVESTMENT MANAGEMENT FEE

	Revenue £'000	30 April 2000 Capital £'000	Total £'000
Investment management fee	85	127	212
Irrecoverable VAT thereon	15	22	37
	100	149	249

At 30 April 2000 there were amounts outstanding of £62,000 (including VAT).

**Notes to the Financial Statements**

at 30 April 2000

4 OTHER EXPENSES

	Revenue £'000	30 April 2000 Capital £'000	Total £'000
Administrative & secretarial fee	43	–	43
Directors' remuneration	55	–	55
Auditors' remuneration			
audit services	21	–	21
Overdraft arrangement fee	–	6	6
Other expenses	46	–	46
Total other expenses	165	6	171

Share issue expenses totalling £600,000 have been charged against the Share Premium account. This includes an amount of £60,000 paid to the Auditors for their services.

5 DIRECTORS' REMUNERATION

	30 April 2000 £'000
Total Fees	55

Remuneration to Directors

B N Lenygon (Chairman)	15,000
J E Chappell	10,000
M W Latham	10,000
N J Randall	10,000
A A Reid	10,000

6 INTEREST PAYABLE

	Revenue £'000	30 April 2000 Capital £'000	Total £'000
On bank overdraft	79	119	198

7 NET REVENUE FOR THE YEAR

The net revenue for the period dealt with in the accounts of the parent company was £1,721,000.

**Notes to the Financial Statements**

at 30 April 2000

8 DIVIDENDS PAID AND PROPOSED30 April 2000
£'000**Per Ordinary share**

First interim dividend paid of 2.00p	300
Second interim dividend paid of 2.00p	300
Third interim dividend paid of 2.00p	315
Fourth interim dividend declared of 3.00p	473
	1,388

9 RETURN PER SHARE**Ordinary shares**

Revenue return per Ordinary share is based on the net revenue on ordinary activities before and after taxation of £1,723,000 and on 15,124,648 Ordinary shares, being the weighted average number of Ordinary shares in issue during the period.

Capital return per Ordinary share is based on capital losses of £2,967,000 and on 15,124,648 Ordinary shares, being the weighted average number of Ordinary shares in issue during the period.

**Notes to the Financial Statements**

at 30 April 2000

10 INVESTMENTS

	Listed £'000	30 April 2000		Total £'000
		AIM £'000	Unlisted £'000	
Group				
Investments	24,080	33	250	24,363
Movements in the period:				
Purchases at cost	34,193	45	250	34,488
Sales:				
Proceeds	(7,948)	-	-	(7,948)
Realised gains on sales	1,080	-	-	1,080
Increase in unrealised depreciation	(3,245)	(12)	-	(3,257)
Closing valuation	24,080	33	250	24,363
Closing book cost	27,325	45	250	27,620
Closing unrealised depreciation	(3,245)	(12)	-	(3,257)
	24,080	33	250	24,363
Realised gains on sales	1,080	-	-	1,080
Increase in unrealised depreciation	(3,245)	(12)	-	(3,257)
Losses on investments	(2,165)	(12)	-	(2,177)

**Notes to the Financial Statements**

at 30 April 2000

10 INVESTMENTS (CONTINUED)

Company	Listed £'000	30 April 2000		Total £'000
		AIM £'000	Unlisted £'000	
Investments	24,051	33	250	24,334
Movements in the period:				
Purchases at cost	34,162	45	250	34,457
Sales:				
Proceeds	(7,948)	-	-	(7,948)
Realised gains on sales	1,080	-	-	1,080
Increase in unrealised depreciation	(3,243)	(12)	-	(3,255)
Closing valuation	24,051	33	250	24,334
Closing book cost	27,294	45	250	27,589
Closing unrealised depreciation	(3,243)	(12)	-	(3,255)
	24,051	33	250	24,334
Realised gains on sales	1,080	-	-	1,080
Increase in unrealised depreciation	(3,243)	(12)	-	(3,255)
Losses on investments	(2,163)	(12)	-	(2,175)

11 SIGNIFICANT INTERESTS

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

Name of undertaking	Class of share	Percentage held: 30 April 2000
Pittards	Ordinary	9.18
Ring	Ordinary	5.02
Holdings Technology	Ordinary	4.96
Sirdar	Ordinary	4.71
Europower	Ordinary	3.86
UCM Group	Ordinary	3.85
Stat-Plus Group	Ordinary	3.39
Stoves	Ordinary	3.13

**Notes to the Financial Statements**

at 30 April 2000

12 INVESTMENT IN SUBSIDIARY COMPANY

The Company owns the whole of the issued ordinary share capital of BFS Small Companies PLC, especially formed for the issuing of Zero Dividend Preference shares, which is incorporated and registered in England and Wales.

13 DEBTORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 30 April 2000 £'000	Company 30 April 2000 £'000
Dividends receivable	384	384
Prepayments and accrued income	21	19
Taxation recoverable	7	7
	412	410

14 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 30 April 2000 £'000	Company 30 April 2000 £'000
Purchases for future settlement	169	169
Other creditors	107	103
Bank overdraft	5,272	5,272
	5,548	5,544

The Company has bank loan and overdraft facilities which are secured by a legal mortgage over the Company's investment portfolio. This ranks after all charges.

15 PREFERENCE AND ZERO DIVIDEND PREFERENCE SHARES

There are 31,260 Preference and 6,250,000 Zero Dividend Preference shares in issue. They each have an initial capital entitlement of 100p per share, growing to 184.63p on 30 April 2007. The accrued entitlement as at 30 April 2000 was 107.72p per share and the total amount accrued of £485,000 has been charged to capital.

**Notes to the Financial Statements**

at 30 April 2000

15 PREFERENCE AND ZERO DIVIDEND PREFERENCE SHARES (CONTINUED)

	Zero Dividend Preference shares £'000	30 April 2000 Preference shares £'000
Issue of shares	6,250	31
Costs of issue	(250)	–
Amortisation of issue costs	31	–
Appropriation for the period	483	2
	6,514	33

16 UNSECURED LOAN NOTE

On 25 May 1999 the Company issued a Loan note to its subsidiary BFS Small Companies PLC ('BSC') with a value of £6,258,000. The Loan note is non interest bearing and will be repaid or redeemed at par on 30 April 2007 or, if required by BSC, at any time prior to that date. The costs of issuing this Loan note being amortised through the Capital Reserve.

	30 April 2000 £'000
Issue of Loan note	6,258
Costs of raising Loan note	(250)
Amortisation of costs	31
	6,039

17 COMMITMENT TO SUBSCRIBE FOR SHARES

The Company has entered into an agreement with its subsidiary, BFS Small Companies PLC ('BSC'), pursuant to which the Company will subscribe on 30 April 2007 for one Ordinary share in BSC. The subscription would be at such a premium as would result in the assets of BSC being sufficient to satisfy the capital entitlement on 30 April 2007 of 184.63p per share of the Zero Dividend Preference shares and the Preference shares in issue on that date. Details of these shares are given in note 15 and the maximum commitment under the subscription agreement at 30 April 2000 is £11,597,000.

As stated in note 15, the capital entitlement of the Zero Dividend Preference shares and the Preference shares increases daily at a compound rate over the period to redemption on 30 April 2007. A provision is made in the Financial Statements for the Company's commitment to subscribe for the BSC share, equal to the increase in the capital entitlement of the Zero Dividend Preference shares and the Preference shares. This provision is taken to the Capital Reserve.

**Notes to the Financial Statements**

at 30 April 2000

17 COMMITMENT TO SUBSCRIBE FOR SHARES (CONTINUED)

	30 April 2000 £'000
Increase in capital entitlement of Zero Dividend Preference shareholders	483
Increase in capital entitlement of Preference shareholders	2
	485

18 SHARE CAPITAL

	30 April 2000 £'000
Authorised	
16,500,000 Ordinary shares of 25p each	4,125
	4,125
Issued, allotted and fully paid	
15,750,000 Ordinary shares of 25p each	3,938
	3,938

The Company was incorporated with an authorised share capital of £50,000 divided into 50,000 Ordinary shares of £1 each. Two of the Ordinary shares of £1 each were issued, nil paid, to the subscribers to the Memorandum of Association.

On 7 April 1999, 49,998 Ordinary shares of £1 each were allotted to CO Nominees Limited. These Ordinary shares and the subscriber shares were not retained by the allottees but were included in the placing.

Pursuant to special resolutions passed on 6 May 1999:

- (i) Each Ordinary share of £1 each was subdivided into four Ordinary shares of 25p each.
- (ii) The authorised share capital of the Company was increased from £50,000 to £4,125,000 by the creation of 16,300,000 Ordinary shares of 25p each.

On 12 May 1999, 15,000,000 Ordinary shares were allotted pursuant to a placing for cash at £1 per share.

On 3 March 2000 a further 750,000 Ordinary shares were issued as a result of a placing for cash at 88.5p per share.

**Notes to the Financial Statements**

at 30 April 2000

18 SHARE CAPITAL (CONTINUED)

The Company's subsidiary BFS Small Companies PLC ('BSC') issued 6,250,000 Zero Dividend Preference shares on 12 May 1999. 'BSC' also allotted 31,260 Preference shares on 29 April 1999. These shares were issued for cash at £1 per share.

The market values of the shares on the first day of dealing on the London Stock Exchange were:

Ordinary	102.00p
Zero Dividend Preference	101.75p

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 and Preference shares issued by 'BSC' are entitled to a payment of an amount equal to 100p per share increased daily from 13 May 1999 at such a compound rate as will give an entitlement to 184.63p for each Zero Dividend Preference share and Preference share at 30 April 2007.

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.

Duration

The Articles of Association provide that the Directors shall convene an Extraordinary General Meeting of the Company to be held on 30 April 2007, or if that day is not a business day, on the immediate preceding business day, at which an ordinary resolution shall be proposed, to the effect that BFS Small Companies Dividend Trust PLC continues in existence. In the event that such a resolution is not passed, the Directors shall convene a second Extraordinary General Meeting to be convened not more than four months after the first, at which an ordinary resolution shall be proposed pursuant to Section 84 of the Insolvency Act 1986 requiring the Company to be wound up voluntarily. For so long as the Company continues in existence, this procedure shall apply again at five-yearly intervals thereafter, taking references therein to 2007 as to the year in question.



Notes to the Financial Statements

at 30 April 2000

19 RESERVES

	Share premium account £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000
Group				
Net gains on realisation of investments	-	1,080	-	-
Movement in unrealised depreciation	-	-	(3,257)	-
Costs charged to capital	-	(274)	-	-
Issue of share capital	11,726	-	-	-
Costs of issue	(600)	-	-	-
Appropriation in respect of:				
Zero Dividend Preference shares	-	(483)	-	-
Preference shares	-	(2)	-	-
Amortisation of issue costs	-	(31)	-	-
Retained net revenue for the period	-	-	-	335
At 30 April 2000	11,126	290	(3,257)	335
	Share premium account £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000
Company				
Net gains on realisation of investments	-	1,080	-	-
Movement in unrealised depreciation	-	-	(3,255)	-
Costs charged to capital	-	(274)	-	-
Issue of share capital	11,726	-	-	-
Costs of issue	(600)	-	-	-
Appropriation in respect of:				
Zero Dividend Preference shares	-	(483)	-	-
Preference shares	-	(2)	-	-
Amortisation of issue costs	-	(31)	-	-
Retained net revenue for the period	-	-	-	333
At 30 April 2000	11,126	290	(3,255)	333



Notes to the Financial Statements

at 30 April 2000

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 30 April 2000 £'000	Company 30 April 2000 £'000
Profit available to Ordinary shareholders	1,723	1,721
Dividends paid and proposed	(1,388)	(1,388)
	335	333
Recognised capital losses for the period	(2,967)	(2,965)
Issue of share capital	15,664	15,664
Issue expenses	(600)	(600)
Closing shareholders' funds	12,432	12,432

21 NET ASSET VALUE PER SHARE

The net asset value per share and the net assets attributable to the Ordinary shareholders at the period end are calculated in accordance with the Articles of Association and are as follows:

	Net asset value per share 30 April 2000 pence	Net assets attributable to shareholders 30 April 2000 £'000
Ordinary shares	77.54	12,213

The funds attributable to Ordinary shareholders shown on the Balance Sheet have been calculated under the provisions of FRS 4 which takes into account the allocation of share issue expenses to the Zero Dividend Preference shareholders. The provisions of FRS 4 do not reflect the rights under the Articles of Association of the respective classes of share on a return of assets.

A reconciliation of the two figures for each class of share is as follows:

	Ordinary shares £'000	Zero Dividend Preference shares £'000	Preference shares £'000
Shareholders' funds attributable (see notes 15 and 20)	12,432	6,514	33
Expenses of share issue	(250)	250	-
Amortisation of issue costs	31	(31)	-
	12,213	6,733	33

**Notes to the Financial Statements**

at 30 April 2000

22 RECONCILIATION OF NET REVENUE TO NET CASH INFLOW

	30 April 2000 £'000
Income before interest payable and taxation	1,802
Increase in debtors	(405)
Increase in creditors	85
Tax on investment income	(7)
Expenses charged to the Capital Reserve	(155)
	1,320

23 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	30 April 2000 £'000
Decrease in cash in period	(5,047)
Proceeds from issue of:	
Zero Dividend Preference shares	(6,250)
Preference shares	(31)
Apportionment of issue costs to Zero Dividend Preference shares	250
Appropriations in respect of:	
Zero Dividend Preference shares	(483)
Preference shares	(2)
Issue costs of Zero Dividend Preference shares	(31)
Net debt at 30 April 2000	(11,594)

24 ANALYSIS OF CHANGES IN NET DEBT

	Cash flows £'000	Other changes £'000	At 30 April 2000 £'000
Cash at bank	225	–	225
Overdrafts	(5,272)	–	(5,272)
	(5,047)	–	(5,047)
Debts due after more than one year	(6,281)	(266)	(6,547)
	(11,328)	(266)	(11,594)



Notes to the Financial Statements

at 30 April 2000

25 RELATED PARTY TRANSACTIONS

The Group's investments are managed by BFS Investments plc a company in which A A Reid, a Director of the Company, has an interest. The amounts paid to the Manager are disclosed in note 3. The Manager has also been paid £150,000 of the costs of issue.

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

Objectives, policies and strategies

The Group primarily invests in companies with a market capitalisation of less than £100 million. The majority of investments comprise ordinary shares in companies listed on the Official List whilst a small proportion is invested in convertible securities.

The Group borrows money by way of short-term bank overdrafts. These facilities are to aid settlement and to finance placings until other investments have been reduced.

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 period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Group's financial instruments is market price risk incorporating foreign currency risk and interest rate risk. The Board will review and agree policies for managing each of these risks and they are summarised below.

The Company finances its operations through bank borrowings, equity and retained profits. The Company borrows sterling at 1% above base rate.

Foreign currency risk

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

Interest rate risk

The Group has cash and floating interest rate securities, and also has a bank overdraft. These assets and liabilities will be subject to fluctuations in current and future interest rates.

Liquidity risk

The Group's assets comprise securities, which can be sold to meet funding commitments if necessary.

**Notes to the Financial Statements**

at 30 April 2000

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**Market price risk**

Market price 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. These risks are monitored by the Investment Manager on a regular basis and the Board at quarterly meetings with the Investment Manager, and Investment Adviser.

As required by Financial Reporting Standard No.13: Derivatives and other financial instruments, an analysis of financial assets and liabilities, which identifies the risk to the Group of holding such items, is given below.

Financial assets

The Group holds fixed asset investments which are listed on the London Stock Exchange and the Alternative Investment Market.

The interest rate profile of the Group's financial assets at 30 April 2000 is:

	Total £'000	Financial assets on which no interest is paid £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Interest rate %	Maturity date
Equity shares	23,694	23,694	-	-	-	-
Convertible stock						
Unite Group Cnv Un Ln Stk	419	-	-	419	8	2004
Wineworld London Floating Rate Cnv Ln Stk	250	-	250	-	-	2004
Cash and debtors	637	412	225	-	-	-
	25,000	24,106	475	419		

**Notes to the Financial Statements**

at 30 April 2000

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**Financial liabilities**

As discussed earlier in this note, the Group finances its operations through equity and bank borrowings.

The interest rate risk profile of the Group's financial liabilities as at 30 April 2000 is as follows:

	Total £'000	Non-interest bearing £'000	Floating rate £'000
Bank overdraft	5,272	–	5,272
Zero Dividend Preference shares	6,514	6,514	–
Preference shares	33	33	–
Creditors	749	749	–
	12,568	7,296	5,272

The maturity profile of the Group's financial liabilities at 30 April 2000 is as follows:

	30 April 2000 £'000
In one year or less	6,021
In more than five years	6,547
	12,568

The Group has an overdraft facility of £5.25 million. This facility is renewable on 1 May 2001. Bank borrowings under this facility incur interest at a rate of 1% above base rate.

Fair value of financial assets and financial liabilities

	30 April 2000 Book value £'000	Fair value £'000
Zero Dividend Preference shares	6,513	6,484

All other financial assets and financial liabilities are held at fair value.



Notes



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 12 noon on Friday, 25 August 2000 at the offices of Brough Skerrett, 99 Charterhouse Street, London EC1B 1PF for the following purposes:

Ordinary Resolutions

- 1 To receive the Report of the Directors and the audited Financial Statements for the period ended 30 April 2000.
- 2 To elect Mr B N Lenygon as a Director.
- 3 To elect Mr J E Chappell as a Director.
- 4 To elect Mr N J Randall as a Director.
- 5 To elect Mr A A Reid as a Director.
- 6 To elect Mr D Harris as a Director.
- 7 To reappoint Baker Tilly as Auditors and to authorise the Directors to determine their remuneration.
- 8 THAT, the authorised share capital of the Company be increased from £4,125,000 to £8,250,000 by the creation of 16,500,000 Ordinary shares of 25 pence each.

Special Business - Special Resolutions

- 9 THAT, subject to the passing of Resolution 8 above, the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("the Act") to exercise all or any powers of the Company to allot relevant securities (as defined in section 80 (2) of the Act up to an aggregate nominal amount of £4,312,500 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) on the date of the next Annual General Meeting of the Company ("the section 80 period"), whichever is the earlier, but so that the Directors may, at any time prior to the expiry of the section 80 period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of the section 80 period and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority had not expired.



Notice of Annual General Meeting

- 10 THAT, subject to the passing of Resolution 8 above, the Directors be and are hereby empowered, pursuant to section 95 of the Act, to allot and make offers or agreements to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority referred to in Resolution 9 above as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities: (i) during the period of the said authority but so that such power enables the Directors, at any time prior to the expiry of the said authority, to make offers or agreements which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired; (ii) up to an aggregate nominal amount not exceeding £393,750, being 10% of the issued share capital of the Company.

By order of the Board
Sinclair Henderson Limited
Secretary
18 July 2000

Registered office:
23 Cathedral Yard
Exeter EX1 1HB

NOTES

A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote instead of him or her. A proxy need not also be a member of the Company. Lodgement of the form of proxy will not preclude a shareholder from attending the Meeting and voting in person.

The Company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 6.00 p.m. on Wednesday, 23 August 2000 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6.00 p.m. on Wednesday, 23 August 2000 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

A statement of all transactions of each Director and of their family interests in the share capital of the Company and the Articles of Association will be available for inspection at the registered office of the Company during usual business hours on any weekday (except Saturdays and Public Holidays) until the date of the Meeting and at the place of the Meeting for a period of fifteen minutes prior to and during the Meeting.

None of the Directors has a contract of service with the Company.

Notes to the Form of Proxy

NOTES

1. A member may appoint a proxy of his or 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 Chairman will exercise his discretion as to how he votes or whether he abstains from voting.
5. To be valid, this form must be completed and deposited at the office of the Company's Registrar not less than 48 hours before the time fixed for holding the Meeting or adjourned Meeting.



Form of Proxy

FOR USE AT THE ANNUAL GENERAL MEETING

BLOCK CAPITALS PLEASE

I/We, the undersigned, _____

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 12 noon at the offices of Brough Skerrett, 99 Charterhouse Street, London EC1B 1PF on Friday, 25 August 2000 and at any adjournment thereof.

Signature _____

Dated _____ 2000

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

		For	Against
Ordinary Resolutions			
Resolution 1	To receive the Report of the Directors and the audited Financial Statements for the period ended 30 April 2000.	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	To elect Mr B N Lenygon as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	To elect Mr J E Chappell as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	To elect Mr N J Randall as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	To elect Mr A A Reid as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	To elect Mr D Harris as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	To reappoint Baker Tilly as Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Increase of authorised share capital.	<input type="checkbox"/>	<input type="checkbox"/>
Special Resolutions			
Resolution 9	Section 80 authority.	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10	Section 95 authority.	<input type="checkbox"/>	<input type="checkbox"/>

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Lloyds TSB Registrars
Registrars for BFS Small Companies
Dividend Trust PLC
The Causeway
Worthing
West Sussex BN99 3UH

Second fold



Shareholder Information

Financial calendar

Company's year end	30 April
Interim dividends paid	September, December, March and June
Annual results announced	May
Annual general meeting	August
Interim results announced	August, November and February
Company's half-year	31 October

SHARE PRICES AND PERFORMANCE INFORMATION

The Company's Ordinary shares and the Zero Dividend Preference shares issued through BFS Small Companies PLC are listed on the London Stock Exchange. The mid-market prices are quoted daily in the *Financial Times* and the *Daily Telegraph* under 'Investment Trusts – split capital'.

The net asset values are announced weekly to the Stock Exchange and published monthly via the Association of Investment Trust Companies.

Information about the Company can be obtained on the TrustNet internet site at www.trustnet.co.uk or directly via the BFS internet site at www.bfsinvest.co.uk. Any enquiries can also be e-mailed to info@bfsinvest.co.uk.

SHARE DEALING

The shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. A share dealing service is also available through BFS on 01483 238405.

Information on the BFS PEP and ISA products can be obtained by contacting BFS on 01483 237773.

SHARE REGISTER ENQUIRIES

The register for the Ordinary and Zero Dividend Preference shares are maintained by Lloyds TSB Registrars. In the event of queries regarding your holding, please contact the Registrar on 01903 502541. Changes of name and/or address must be notified in writing to the Registrar.

BFS INVESTMENTS plc

Other funds managed by BFS are:

BFS Absolute Return Trust Limited

BFS Income & Growth Trust PLC

BFS Overseas Income & Growth Trust Limited

BFS Traded Endowment Fund PLC

Geared Income Investment Trust PLC

The Zero Preference Growth Trust PLC

Further details of these funds can be obtained from BFS on 01483 237773.



Capital Structure

ORDINARY SHARES

Income

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 paying in full the entitlement of the Zero Dividend Preference shares and Preference shares issued by BFS Small Companies PLC.

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 ('ZDP SHARES') AND PREFERENCE SHARES ('P SHARES')

Dividends

No dividends are paid on the ZDP shares or P shares.

Capital

On a winding-up of the Company, ZDP and P shareholders are entitled to an amount equal to 100p per share increased daily from 13 May 1999 at such a compound rate as will give an entitlement to 184.63p per share at 30 April 2007.

Voting

The ZDP and P shareholders will not normally have the right to attend and vote at any general meeting of BFS Small Companies PLC unless a resolution either to wind up BFS Small Companies PLC or vary the rights of ZDP or P shares is proposed.



Glossary of Terms

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

Also known as leverage, particularly in the USA. Gearing is the process whereby capital growth and income to the ordinary shareholders of a trust are boosted by borrowings, which provide scope for additional investment but which carry a fixed liability. The return on this extra investment minus the costs of borrowing the money gives the shareholder an enhanced or geared profit. The capital structure of a split capital investment trust can also create gearing for certain classes of share.

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 Group's assets, at current market value, having deducted all prior charges at their par value (or at their asset value).

SPLIT-CAPITAL INVESTMENT TRUST

An investment trust with two or more classes of share in issue, each class having specified entitlements to income or capital. Typical classes of share include income shares, capital shares, zero dividend preference shares and income and residual capital (or geared ordinary) shares.

TOTAL EXPENSE RATIO

The total expenses incurred by the Company, including those charged to capital (excluding interest costs) as a percentage of total assets less current liabilities. The annualised total expense ratio extrapolates the actual total expenses as if the company had been in existence for a full year.

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).



Extracts from the financial statements of BFS Small Companies PLC

This appendix comprises extracts from the report and financial statements of BFS Small Companies PLC ('BSC' or herein 'the Company') for the period ended 30 April 2000.

These extracts should be read in conjunction with the report and accounts for the period ended 30 April 2000 of BFS Small Companies Dividend Trust PLC ('BSCDT'), the parent company of BSC.

A full copy of the report and financial statements of BSC for the period ended 30 April 2000 is available on request from the Company Secretary.

**Extracts from the financial statements of BFS Small Companies PLC****STATEMENT OF TOTAL RETURN (INCORPORATING THE REVENUE ACCOUNT*)**

(for the period 26 April 1999 to 30 April 2000)

	Revenue £'000	30 April 2000 Capital £'000	Total £'000
Losses on investments	-	(2)	(2)
Income	11	-	11
Appropriations in respect of:			
Zero Dividend Preference shares	-	(483)	(483)
Preference shares	-	(2)	(2)
Other expenses	(9)	-	(9)
Transfer to/(from) reserves	2	(487)	(485)

* The revenue column of this statement is the Revenue Account of the Company.

**Extracts from the financial statements of BFS Small Companies PLC****SUMMARISED BALANCE SHEET**

	30 April 2000 £'000
Investments	6,287
Net current liabilities	(5)
Total net assets	6,282

Notes:

In accordance with the Articles of Association of the Company, the holders of the 6,250,000 Zero Dividend Preference shares and the 31,260 Preference shares are entitled on a winding-up to an amount equal to 100p per share as increased at an annual compound rate of 8.0%, the first such increase occurring on 13 May 1999. At 30 April 2000 the redemption values, calculated in accordance with the above formula were £6,733,000 and £33,000 respectively.

The above calculations represent a redemption value at 30 April 2000 of 107.72p per Zero Dividend Preference share and Preference share.

The above financial information has also been consolidated into the results of BFS Small Companies Dividend Trust PLC for the period ended 30 April 2000.



Directors and Advisers

Directors	Bryan Norman Lenygon (Chairman) John Edward Chappell David Harris Nicholas John Randall Anthony Arthur Reid
Investment Manager	BFS Investments plc White Lodge Farm Goose Rye Road Worplesdon Surrey GU3 3RQ Tel: 01483 237773
Investment Adviser	Chelverton Asset Management Limited 40 Catherine Place London SW1E 6HL Tel: 020 7630 0036
Secretary and Registered Office	Sinclair Henderson Limited 23 Cathedral Yard Exeter EX1 1HB Tel: 01392 412122
Registrar and Transfer Office	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA Tel: 01903 502541
Bankers	Lloyds TSB Bank Plc 234 High Street Exeter EX4 3NL
Auditors	Baker Tilly 2 Bloomsbury Street London WC1B 3ST



Notes



BFS 

Investments plc

www.bfsinvest.co.uk

