



# BFS Small Companies PLC

Annual Report and Accounts  
for the year ended  
30 April 2002



## Investment objective and policy

BFS Small Companies Dividend Trust PLC (“BSCDT”) owns the whole of the issued Ordinary share capital of BFS Small Companies PLC (“BSC”) which was especially formed for the issuing of Zero Dividend Preference shares. Substantially all the proceeds raised by BSC have been made available to BSCDT by way of a Loan Note dated 25 May 1999. 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.

This Report and Accounts should be read in conjunction with the Report and Accounts of BFS Small Companies Dividend Trust PLC.



## Index

Investment objective and policy	Inside front cover
Company summary	2
Directors	3
Manager, Investment Adviser and Secretary	4
Chairman's report	5
Investment Manager's report	5
Report of the Directors	6
Statement of Directors' responsibilities	13
Independent Auditors' report	14
Statement of total return (incorporating the revenue account)	16
Balance sheet	17
Statement of cashflows	18
Notes to the financial statements	19
Shareholder information	29
Notice of Annual General Meeting	30
Proxy form	33
Directors and Advisers	35



## Company summary

### **HISTORY**

The Company was launched on 12 May 1999, raising £6,282,000 before expenses by a placing of 6,250,000 Zero Dividend Preference shares and through the issue of 31,260 Preference shares and 2 Ordinary shares.

### **GROUP STRUCTURE**

The Company is a wholly owned subsidiary of BFS Small Companies Dividend Trust PLC.

### **TOTAL NET ASSETS AND MARKET CAPITALISATION AT YEAR END**

At 30 April 2002, the Company had a market capitalisation of £8,547,000 (2001: £7,719,000) and total net assets amounted to £6,270,000 (2001: £6,277,000).

### **MANAGEMENT FEE**

The Management Fee for the Group is charged to and paid in full by BFS Small Companies Dividend Trust PLC.

### **PEP/ISA STATUS**

The Zero Dividend Preference shares are eligible for inclusion in PEPs and ISAs.



## Directors

### Bryan Norman Lenygon - Chairman \*

Bryan Lenygon, aged 70, 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 52, is a stockbroker. He is a former founder director of Matheson Investment Ltd, which is now a part of Prudential-Bache Ltd where he is Deputy Managing Director. He is also a director of Aberdeen Emerging Economies Investment Trust Ltd and Broadgate Investment Trust Plc.

### Nicholas John Randall \*

Nicholas John Randall, aged 51, 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 52 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 Advisers.

### Anthony Arthur Reid

Tony Reid, aged 51, is the Founder and Chief Executive of BFS Investments plc ('BFS'). He is a chartered accountant and has 25 years investment management experience. He is a non-executive director of Apollo Global Fund Limited and LeggMason Investors International Utilities Trust plc and several other quoted investment companies. He was previously Investment Director of BFS and is regarded as a specialist in split capital trusts.

### William van Heesewijk - Alternate to A A Reid

William van Heesewijk, aged 42, is Head of Investment Trust Services at BFS Investments plc and is involved in business and product development. He has worked in the investment trust industry since 1987 in various capacities with Lloyds Investment Managers, Fidelity and Gartmore Investment Limited. He holds a number of investment trust alternate directorships.

\* Independent of the Investment Manager



### Manager: BFS Investments plc (BFS)

BFS and its associates have funds under management and administration of approximately £1.1 billion. 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. 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.

### Investment Adviser: Chelverton Asset Management Limited

Chelverton Asset Management Limited specialises in small company investment management and is regulated by the Financial Services Authority. 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.



**Chairman's report and Investment Manager's report**

for the year to 30 April 2002

**CHAIRMAN'S REPORT**

My report on the Group's activity during the year to 30 April 2002 is contained in the Annual Report of BFS Small Companies Dividend Trust PLC which accompanies this document and which I would ask shareholders to read.

**Bryan Lenygon** (Chairman)

*8 July 2002*

**INVESTMENT MANAGER'S REPORT**

The investments of the Company are managed as part of an overall policy for the Group. For details of the Group's activities and performance during the year to 30 April 2002 shareholders should refer to the Annual Report of BFS Small Companies Dividend Trust PLC which accompanies this document.

**BFS Investments plc**

*8 July 2002*



## Report of the Directors

The Directors present their Report and financial statements of the Company for the year ended 30 April 2002. The Company's registered number is 3762370.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is to carry on business as an investment company. The Directors do not envisage any change in these activities in the foreseeable future.

### BUSINESS REVIEW AND FUTURE DEVELOPMENTS

In May 1999 the Company raised £6,282,000 through the issue of Zero Dividend Preference shares and Preference shares. Substantially all of the proceeds of these issues have been made available to the Company's parent, BFS Small Companies Dividend Trust PLC, in return for a non-interest bearing Loan note. This Loan note will be redeemed at par on 30 April 2007, or earlier if required by the Company.

The Company has also entered into a subscription agreement with BFS Small Companies Dividend Trust PLC whereby the parent company will subscribe for one Ordinary share in the Company at a premium that will result in the assets of the Company being sufficient to satisfy the capital entitlements on redemption of the Zero Dividend Preference shareholders and the Preference shareholders. Details of these entitlements are given in note 9 to the Financial Statements.

### STATUS

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.

### DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year ended 30 April 2002.





## Report of the Directors

### DIRECTORS

Directors who served during the year ended 30 April 2002 were as follows:

B N Lenygon	J E Chappell
D Harris	N J Randall
A A Reid	

W van Heesewijk acted as Alternate Director to A A Reid during the year.

D Harris and A A Reid, will retire at the Annual General Meeting and, being eligible, will offer themselves for re-election.

A A Reid is Chief Executive of BFS Investments plc and is therefore interested in the Management Agreement described on page 8.

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 year. 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 year.

At the date of this Report, there are no outstanding loans or guarantees between the Company and any Director.

### DIRECTORS' BENEFICIAL AND FAMILY INTERESTS

	30 April 2002 Zero Dividend Preference shares	30 April 2001 Zero Dividend Preference shares
B N Lenygon	–	–
J E Chappell	2,500	2,500
N Randall	–	–
A A Reid	–	–
D Harris	–	–
W van Heesewijk	–	–

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

The Directors' interests in the shares of the parent company are given in the Annual Report and Accounts of BFS Small Companies Dividend Trust PLC.



### ORDINARY SHARES/PREFERENCE SHARES

The Ordinary shares in the Company are held by BFS Small Companies Dividend Trust PLC. The Preference shares in the Company are held by Geared Income Investment Trust PLC.

### 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 (plus dividends paid in the current year) exceeds 10% (compounded) per annum. A performance fee of £756,000 plus VAT is payable in respect of the year ended 30 April 2002. The Investment Management 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 Company's payment policy to obtain the best possible terms for all business and therefore the Company does not follow any code or standard on payment practice. The Company agrees with its suppliers the terms on which business will be transacted, and it is the Company's policy to abide by those terms. At 30 April 2002 all suppliers' invoices received had been settled.

### CORPORATE GOVERNANCE

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

The Directors have reviewed the principles outlined in the Code and believe that, to the extent that the Company is required to apply such principles, they have complied with the provisions of the Code during the year ended 30 April 2002, 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.



### 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 has been adopted and has been in force throughout the year.

None of the Directors has a service agreement with the Company. Under the Articles of Association, all Directors are subject to retirement and re-election by shareholders. In order to ensure compliance with the Code, the Directors have adopted a policy providing for all Directors to submit themselves for re-election at least every three years. The Directors consider that this meets the requirement of the Code that Directors are appointed for specific periods and that their re-appointment should not be automatic.

### Committees

An Audit Committee has been in operation throughout the year. 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.

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 4 to the financial statements. At 30 April 2002 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 Group'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 the inside back cover. 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.

### Internal control review

The Directors acknowledge that they are responsible for the Company's systems of internal control and for reviewing their effectiveness.

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control has been established for identifying, evaluating and managing risks faced by the Company. This process has been in place throughout the year and up to the date the financial statements were approved. Key procedures established with a view to providing effective financial control have 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, not absolute assurance against material misstatement or loss.



### Internal Control Assessment Process

Risk assessment and the review of internal controls are undertaken by the Board in the context of the Company'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; and
- The cost to the Company and benefits related to the Company and third parties operating the relevant controls.

Against this background, the review of risk and associated controls the Board has split the review into four sections reflecting the nature of the risks being addressed. These sections are as follows:

- Corporate strategy
- Published information, compliance with laws and regulations
- Relationship with service providers
- 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. To enable the Board to make an appropriate risk and control assessment the information and assurances sought from third party suppliers include the following:

- Details of the control environment operated by the third party suppliers.
- Identification and evaluation of risks and control objectives by third party suppliers.
- Assessment of the communication procedures with third party suppliers.
- Assessment of the control procedures operated by third party suppliers.



## Report of the Directors

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

- Investment management is provided by BFS Investments plc advised by 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 is undertaken by HSBC Bank plc.
- 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 system of internal control as it has operated over the year.

### 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  
8 July 2002



## Statement of Directors' responsibilities

in respect of the financial statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the net revenue and total return of the Company for that year. 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 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 for preventing and detecting fraud and other irregularities.

The maintenance and integrity of this PDF file is the responsibility of the Directors of BFS Small Companies PLC. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The definitive version of the Company's Annual Accounts is as filed at Companies House, a copy of which is obtainable from Sinclair Henderson Limited.



## Independent Auditors' report

to the members of BFS Small Companies PLC

We have audited the financial statements which comprise the statement of total return (incorporating the revenue account), the balance sheet, the statement of cash flows, and the related notes.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority ("the Listing Rules").

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 1985. 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 and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's report, the Manager's report, the Report of the Directors, and the Shareholder information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom 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 Company's circumstances, consistently applied and adequately disclosed.





**Independent Auditors' report**

to the members of BFS Small Companies PLC

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.

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 30 April 2002 and of the net revenue and total return of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Baker Tilly**, London  
Registered Auditors  
Chartered Accountants  
*8 July 2002*



## Statement of total return

(incorporating the revenue account\*) for the year ended 30 April 2002

	Note	Revenue* £'000	30 April 2002 Capital £'000	Total £'000	Revenue* £'000	30 April 2001 Capital £'000	Total £'000
Gains/(losses) on investments	6	–	–	–	–	–	–
Income	2	2	–	2	2	–	2
Other expenses	3	(9)	–	(9)	(7)	–	(7)
<b>Return on ordinary activities before and after taxation</b>		(7)	–	(7)	(5)	–	(5)
Appropriations in respect of:							
Zero Dividend Preference shares	10	–	(582)	(582)	–	(538)	(538)
Preference shares	10	–	(3)	(3)	–	(3)	(3)
<b>Transfer from reserves</b>		(7)	(585)	(592)	(5)	(541)	(546)

	Note	Revenue* £	30 April 2002 Capital £	Total £	Revenue* £	30 April 2001 Capital £	Total £
Return per Ordinary share	5	(3,500)	(292,500)	(296,000)	(2,500)	(270,500)	(273,000)
Return per Preference share	5	–	0.09	0.09	–	0.09	0.09
Return per Zero Dividend Preference share	5	–	0.09	0.09	–	0.09	0.09

The notes on pages 19 to 28 form part of these financial statements.

\* The revenue column of this statement is the revenue account of the Company.

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

No operations were acquired or discontinued in the year.



**Balance sheet**

at 30 April 2002

	Note	30 April 2002 £'000	30 April 2001 £'000
<b>Fixed assets</b>			
Investments	6	6,287	6,287
<b>Current assets</b>			
Debtors	7	1	1
Cash at bank		1	1
		2	2
<b>Creditors - amounts falling due within one year</b>			
Loan from parent undertaking		14	8
Creditors	8	5	4
		19	12
<b>Net current liabilities</b>		(17)	(10)
<b>Net assets</b>		6,270	6,277
<b>Share capital and reserves</b>			
Called up share capital	9	62	62
Share premium account	10	6,220	6,220
Capital reserve	10	(1,613)	(1,028)
Redemption reserve	10	1,611	1,026
Revenue reserve	10	(10)	(3)
<b>Shareholders' funds</b>		6,270	6,277
Equity interest		(1,622)	(1,030)
Non-equity interest		7,892	7,307
		6,270	6,277
		£	£
Net asset value per Ordinary share	11	(811,000)	(515,000)
Net asset value per Preference share	11	1.26	1.16
Net asset value per Zero Dividend Preference share	11	1.26	1.16

The notes on pages 19 to 28 form part of these financial statements.

These financial statements were approved by the Board on 8 July 2002

**B N Lenygon**, Chairman



**Statement of cashflows**

for the year ended 30 April 2002

	Note	30 April 2002 £'000	30 April 2001 £'000
<b>Operating activities</b>			
Investment income received		2	2
Other cash payments		(2)	(1)
<b>Net cash inflow from operating activities</b>	13	–	1
<hr/>			
Increase in cash		–	1
<hr/>			
		–	1

The notes on pages 19 to 28 form part of these financial statements.



## Notes to the financial statements

at 30 April 2002

### 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 for Financial Statements of Investment Trust companies.

#### 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.

#### 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;
- expenses are charged to capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated.

#### Investments

Listed investments are included in the balance sheet at middle-market value at the close of business at the year 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 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 into 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

The appropriations in respect of the Preference shares and Zero Dividend Preference shares necessary to increase the Company's liabilities to the redemption values are charged to the capital reserve in the 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.



## Notes to the financial statements

at 30 April 2002

**2 INCOME**

	30 April 2002 £'000	30 April 2001 £'000
<b>Income from listed investments</b>		
Interest and other dividends from listed investments	2	2
<b>Other income</b>		
Bank interest receivable	–	–
<b>Total income</b>	<b>2</b>	<b>2</b>
<b>Total income comprises:</b>		
Interest	2	2
	2	2

**3 OTHER EXPENSES**

	Revenue £'000	30 April 2002 Capital £'000	Total £'000	Revenue* £'000	30 April 2001 Capital £'000	Total £'000
Auditors' remuneration						
audit services	2	–	2	2	–	2
Other expenses	7	–	7	5	–	5
<b>Total Other Expenses</b>	<b>9</b>	<b>–</b>	<b>9</b>	<b>7</b>	<b>–</b>	<b>7</b>

**4 DIRECTORS' REMUNERATION**

The Directors are remunerated by the parent company and the amounts in respect of their services as Directors of BFS Small Companies PLC are not separately identifiable.

**5 RETURN PER SHARE****Ordinary shares**

Revenue return per Ordinary share is based on the net loss on ordinary activities before and after taxation of £7,000 (2001: £5,000) and on 2 Ordinary shares (2001: 2), being the weighted average number of Ordinary shares in issue during the year.

Capital return per Ordinary share is based on capital losses of £585,000 (2001: £541,000) and on 2 Ordinary shares, (2001: 2) being the weighted average number of Ordinary shares in issue during the year.



## Notes to the financial statements

at 30 April 2002

**5 RETURN PER SHARE (CONTINUED)**

## Preference shares

Capital return per Preference share is based on appropriations of £3,000 (2001: £3,000) and on 31,260 Preference shares (2001: 31,260), being the weighted average number of Preference shares in issue during the year.

## Zero Dividend Preference shares

Capital return per Zero Dividend Preference share is based on appropriations of £582,000 (2001: £538,000) and on 6,250,000 Zero Dividend Preference shares (2001: 6,250,000), being the weighted average number of Zero Dividend Preference shares in issue during the year.

**6 INVESTMENTS**

	30 April 2002 £'000	30 April 2001 £'000
Opening book cost	31	31
Opening unrealised depreciation	(2)	(2)
Opening valuation	29	29
Listed investments	29	29
Movements in the year:		
Purchases at cost	–	–
Increase in unrealised depreciation	–	–
Closing valuation	29	29
Closing book cost	31	31
Closing unrealised depreciation	(2)	(2)
	29	29
Increase in unrealised depreciation	–	–
Gains/(losses) on investments	–	–



## Notes to the financial statements

at 30 April 2002

### 6 INVESTMENTS (CONTINUED)

The Company also holds Non-interest Bearing Cumulative Subordinated Unsecured Loan Notes in BFS Small Companies Dividend Trust PLC. These Loan Notes will be repaid or redeemed at par on 30 April 2007 or, if required by the Company at any time prior to that date. The Loan Notes have a book value of £6,258,000.

	30 April 2002 Total £'000	30 April 2001 Total £'000
Listed investments	29	29
Loan notes	6,258	6,258
Total investments	6,287	6,287

### 7 DEBTORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 April 2002 Total £'000	30 April 2001 Total £'000
Prepayments and accrued income	1	1
	1	1

### 8 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 April 2002 Total £'000	30 April 2001 Total £'000
Other creditors	5	4
	5	4





## Notes to the financial statements

at 30 April 2002

**9 SHARE CAPITAL**

	30 April 2002	30 April 2001
<b>Authorised</b>		
3 Ordinary shares of 100p each	3	3
31,260 Preference shares of 100p each	31,260	31,260
6,250,000 Zero Dividend Preference shares of 0.5p each	31,250	31,250
	<b>62,513</b>	<b>62,513</b>
<b>Issued, allotted and fully paid</b>		
2 Ordinary shares of 100p each	2	2
31,260 Preference shares of 100p each	31,260	31,260
6,250,000 Zero Dividend Preference shares of 0.5p each	31,250	31,250
	<b>62,512</b>	<b>62,512</b>

**As to dividends each year**

Ordinary shares and Preference shares are entitled to any revenue profits which the Company may determine to distribute as dividends in respect of any financial period to be distributed in aggregate, one half amongst the Ordinary shareholders and one half amongst the Preference shareholders. It is not expected that any such dividends will be declared.

The holders of the Zero Dividend Preference shares are not entitled to any dividends.

**Commitment to subscribe for shares**

The Company has entered into an agreement with its parent company, BFS Small Companies Dividend Trust PLC ('BSCDT'), pursuant to which BSCDT will subscribe on 30 April 2007 for one Ordinary share in the Company. The subscription would be at such a premium as would result in the assets of the Company being sufficient to satisfy the capital entitlement on 30 April 2007 of 184.63p per share £11,597,000 in total, of the Zero Dividend Preference shares and the Preference shares in issue on that date. This assumes that the Group has sufficient assets as of the 30 April 2007 to repay the Zero Dividend Preference shares and the Preference shares. As at 30 April 2002 the Group has total assets of £27,335,000 (2001: £23,401,000). The hurdle rate required to achieve repayment of Zero Dividend Preference shares and Preference shares on 30 April 2007 is (15.75)%.



## Notes to the financial statements

at 30 April 2002

**9 SHARE CAPITAL (CONTINUED)****As to capital on winding up**

On a winding up, holders of Zero Dividend Preference shares and Preference shares 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. If any dividends have been paid in respect of the Preference shares the entitlement of the holders of the Preference shares to any return of capital shall be reduced so that the internal rate of return received in respect of the Preference shares shall be equal to the internal rate of return received in respect of the Zero Dividend Preference shares.

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 and settlement of the full entitlements of the Zero and Preference shareholders 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 a special resolution shall be proposed, pursuant to Section 84 of the Insolvency Act 1986 requiring the Company to be wound up voluntarily unless the Directors shall have previously been released from their obligations to do so by a special resolution passed not earlier than 30 April 2006. If the Directors have been released from this obligation to convene such as Extraordinary General Meeting they shall convene an Extraordinary General Meeting every fifth year thereafter for as long as the Company remains in existence, at which a Winding up Resolution shall be proposed, unless they have previously been relieved from such obligation to do so by a special resolution passed at the Annual General Meeting held in the previous year.

**10 RESERVES**

	Share premium account £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Redemption reserve £'000	Revenue reserve £'000
At 1 May 2001	6,220	(1,026)	(2)	1,026	(3)
Appropriation in respect of:					
Zero Dividend Preference shares	–	(582)	–	582	–
Preference shares	–	(3)	–	3	–
Retained net revenue for the year	–	–	–	–	(7)
At 30 April 2002	6,220	(1,611)	(2)	1,611	(10)

**Notes to the financial statements**

at 30 April 2002

**11 NET ASSET VALUE PER SHARE**

The net asset value per share and the net assets attributable at the year end are as follows:

	Net asset value per share 30 April 2002 £	Total assets attributable 30 April 2002 £'000	Net asset value per share 30 April 2001 £	Total assets attributable 30 April 2001 £'000
Ordinary shares	(811,000)	(1,622)	(515,000)	(1,030)
Preference shares	1.26	39	1.16	36
Zero Dividend Preference shares	1.26	7,853	1.16	7,271

**12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	30 April 2002 £'000	30 April 2001 £'000
Loss available to Ordinary shareholders	(7)	(5)
Net decrease in shareholders' funds	(7)	(5)
Opening shareholders' funds	6,277	6,282
Closing shareholders' funds	6,270	6,277

**13 RECONCILIATION OF NET REVENUE TO NET CASH INFLOW**

	30 April 2002 £'000	30 April 2001 £'000
Income before interest payable and taxation	(7)	(5)
Increase in creditors	7	6
	-	1



## Notes to the financial statements

at 30 April 2002

### 14 ULTIMATE PARENT UNDERTAKING

The Company is a wholly owned subsidiary of BFS Small Companies Dividend Trust PLC, which is registered in England and Wales.

### 15 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemptions from disclosure of transactions with Group companies available to subsidiary undertakings under Financial Reporting Standard number 8.

The Company's investments are managed by BFS Investments plc a company in which A A Reid, a Director of the Company, has an interest. The Management Fee for the Group is charged to and paid by BFS Small Companies Dividend Trust PLC, the Company's parent undertaking. Details of the fee can be found in that company's annual report.

### 16 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

The Company was formed especially for the issue of Zero Dividend Preference shares. Substantially all of the proceeds raised by the Company have been made available to BFS Small Companies Dividend Trust PLC ('BSCDT') by way of a Loan Note. The Company's only other investment is in treasury stock which is intended to provide enough income over the life of the Company to cover expenses charged to the revenue account.

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

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

The main risk arising from the Company's financial instruments is interest rate and liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below.

#### Interest rate risk

The Company has small amounts of cash which will be subject to fluctuations in current and future interest rates.

#### Liquidity risk

The Company's assets include a non interest bearing Loan Note which, if required, can be repaid or redeemed at any time.

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



## Notes to the financial statements

at 30 April 2002

**16 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

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 Company of holding such items, is given below.

**Financial assets**

The Company holds investments, these are treasury stock and a Loan Note issued to 'BSCDT'.

The interest rate profile of the Company's financial assets 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
<b>30 April 2002</b>						
Treasury stock	29	–	–	29	8.5	2007
Loan note	6,258	6,258	–	–	–	–
Cash and debtors	2	1	1	–	–	–
	6,289	6,259	1	29		

	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
<b>30 April 2001</b>						
Treasury stock	29	–	–	29	8.5	2007
Loan note	6,258	6,258	–	–	–	–
Cash and debtors	2	1	1	–	–	–
	6,289	6,259	1	29		



## Notes to the financial statements

at 30 April 2002

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

The Company finances its operations through equity and retained reserves. The only financial liabilities of the Company are loans from the parent undertaking, creditors and non-equity shareholders. None of these liabilities are interest bearing.

The maturity profile of the Company's financial liabilities as at 30 April 2002 is as follows:

	2002 £'000	2001 £'000
In one year or less	19	12
In more than two but less than five years	7,735	–
In more than five years	–	7,119
	7,754	7,131

**Fair value of financial assets and financial liabilities**

	2002 Book value £'000	2002 Fair value £'000	2001 Book value £'000	2001 Fair value £'000
Non-equity shares	7,696	8,547	7,083	7,719

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



## Shareholder information

### Financial calendar

Company's year end	30 April
Annual results announced	June
Annual General Meeting	August
Company's half-year	31 October
Interim results announced	December

### SHARE PRICES AND PERFORMANCE INFORMATION

The Company's Zero Dividend Preference shares are listed on the London Stock Exchange. The mid-market prices are quoted daily in the *Financial Times* under 'Investment Companies' and the *Daily Telegraph* under 'Investment Trusts'.

The net asset value is announced weekly to the Stock Exchange and published monthly via the Association of Investment Trust Companies (AITC).

Information about the Company can be obtained via the BFS internet site at [www.bfsinvest.co.uk](http://www.bfsinvest.co.uk). Any enquiries can also be e-mailed to [info@bfsinvest.co.uk](mailto: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 0800 7319222.

### SHARE REGISTER ENQUIRIES

The register for the Zero Dividend Preference shares is 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.



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 4.15 p.m. on 29 August 2002 at the offices of The City Law Partnership, 99 Charterhouse Street, London EC1M 6NQ for the following purposes:

- 1 To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2002
- 2 To re-elect Mr D Harris as a Director
- 3 To re-elect Mr A A Reid as a Director
- 4 To reappoint Baker Tilly as Auditors and to authorise the Directors to determine their remuneration

By order of the Board  
**Sinclair Henderson Limited**  
Secretary  
8 July 2002

Registered office:  
23 Cathedral Yard  
Exeter EX1 1HB





## Notice of Annual General Meeting

### Notes

Ordinary and Preference shareholders are entitled to attend and vote at the Meeting and are entitled to appoint one or more proxies to attend and vote instead of them. 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.

Zero Dividend Preference shareholders do not have the right to attend or vote at the Annual General Meeting.

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6.00 p.m. on 27 August 2002 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 27 August 2002 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, being an Ordinary or Preference shareholder, may appoint a proxy of their 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.



Proxy form

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 4.15 p.m. at the offices of The City Law Partnership, 99 Charterhouse Street, London EC1M 6NQ on 29 August 2002 and at any adjournment thereof.

Signature \_\_\_\_\_

Dated \_\_\_\_\_ 2002

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

		For	Against
Resolution 1	To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2002	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	To re-elect Mr D Harris as a Director	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	To re-elect Mr A A Reid as a Director	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	To reappoint Baker Tilly as Auditors and to authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>

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Registrars for BFS Small Companies PLC  
The Causeway  
Worthing  
West Sussex BN99 6ZL

Second fold



## Directors and Advisers

<b>Directors</b>	Bryan Norman Lenygon (Chairman) John Edward Chappell David Harris Nicholas John Randall Anthony Arthur Reid
<b>Investment Manager</b>	BFS Investments plc White Lodge Farm Goose Rye Road Worplesdon Guildford Surrey GU3 3RQ Tel: 01483 237773
<b>Investment Adviser</b>	Chelverton Asset Management Limited 40 Catherine Place London SW1E 6HL Tel: 020 7630 0036
<b>Secretary and Registered Office</b>	Sinclair Henderson Limited 23 Cathedral Yard Exeter EX1 1HB Tel: 01392 412122
<b>Registrar and Transfer Office</b>	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA Tel: 01903 502541
<b>Bankers</b>	Lloyds TSB Bank Plc 234 High Street Exeter EX4 3NL
<b>Auditors</b>	Baker Tilly 2 Bloomsbury Street London WC1B 3ST
<b>Solicitors</b>	The City Law Partnership 99 Charterhouse Street London EC1M 6NQ







**BFS** 

Investments plc

[www.bfsinvest.co.uk](http://www.bfsinvest.co.uk)