
SMALL COMPANIES PLC

Annual Report

for the year ended 30 April 2005

Investment objective

Small Companies Dividend Trust PLC ('SCDT') owns the whole of the issued Ordinary share capital of Small Companies PLC ('SC') which was especially formed for the issuing of Zero Dividend Preference shares. Substantially all the proceeds raised by SC have been made available to SCDT 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 SC, at any time prior to that date.

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

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If you are in any doubt about the contents of this document or the action you should take, you are recommended to seek immediately your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser who is authorised under the Financial Services and Markets Act 2000.

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 Small Companies Dividend Trust PLC.

Total net assets and market capitalisation at year end

At 30 April 2005, the Company had a market capitalisation of £10,203,000 (2004: £9,656,000) and total net assets amounted to £6,236,000 (2004: £6,244,000).

Management fee

The management fee for the Group is charged to and paid in full by 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*), aged 73, is a chartered accountant and a barrister. He is a former director of Gartmore Investment Limited and is a director of other investment trust companies.

John Edward Chappell*, aged 55, has been a stockbroker since 1969. He is currently a director of private clients funds at Charles Stanley.

David Harris*, aged 55, is Chief Executive of InvaTrust Consultancy. The company specialises in marketing issues relating to the Investment and Financial Services Industry. He writes regular articles for the national and trade press on investment matters. From 1995 to 1999 he was a director of the AITC with specific responsibility for training and education of independent financial advisers. He is a non-executive director of two other investment trust companies and the Character Group plc.

* 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 £590 million. 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.

The Board issued twelve months notice to the Investment Manager, BFS, with effect from 1 December 2004.

Investment Adviser: Chelverton Asset Management Limited ('Chelverton')

Chelverton specialises in small company investment management. 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.

Twelve months notice has also been served on Chelverton by BFS in accordance with the terms of the Investment Adviser Agreement.

BFS and Chelverton are both authorised and regulated by the Financial Services Authority.

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 iimia Investment Group Plc.

Chairman's report

My report on the Group's activity during the year to 30 April 2005 is contained in the Annual Report of Small Companies Dividend Trust PLC which accompanies this document and which I would ask shareholders to read.

Bryan Lenygon

Chairman

7 October 2005

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 2005 shareholders should refer to the Annual Report of Small Companies Dividend Trust PLC which accompanies this document.

BFS Investments plc

7 October 2005

Report of the Directors

The Directors present their Report and financial statements of the Company for the year ended 30 April 2005. 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, 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 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 10 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 2005.

Directors

Directors who served during the year ended 30 April 2005 were as follows:

B N Lenygon
A A Reid
D Harris
J E Chappell

W van Heesewijk acted as Alternate Director to A A Reid from 1 May to 31 December 2004.

A A Reid resigned from the Board on 24 February 2005.

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

Report of the Directors (continued)

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.

There have been no loans or guarantees between the Company and any Director, during the year or thereafter.

Directors' beneficial and family interests

| | 30 April 2005 | 30 April 2004 |
|--------------|---------------|---------------|
| | Zero Dividend | Zero Dividend |
| | Preference | Preference |
| | shares | shares |
| B N Lenygon | – | – |
| J E Chappell | – | 2,500 |
| D Harris | – | – |
| A A Reid | 4,817 | 4,817 |

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

A A Reid resigned from the Board on 24 February 2005.

Ordinary shares/Preference shares

The Ordinary shares in the Company are held by Small Companies Dividend Trust PLC. The Preference shares in the Company are held by BFS UK Dual Return Trust PLC.

Investment policy

It is proposed that certain revisions be made to the Investment policy, as set out in the Notice of the Annual General Meeting on pages 33 and 34. The Board believes that the revisions to the investment policy are in the best interests of shareholders as a whole and therefore recommends that the shareholders vote in favour of this resolution.

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 has been calculated at an annual rate of 0.85% of the value of the gross assets under management of the Group for the year ended 30 April 2005. A performance fee of 33% of the amount by which the annual growth in net asset values plus dividends paid during the year exceeds 10% (compounded since inception) is also payable annually to the Investment Manager. A performance fee of £1,698,000, including VAT, is payable for the year ended 30 April 2005. These fees are met entirely by the parent company. Due to specific concerns of the Board and some of its shareholders, on 1 December 2004 the Board served twelve months notice on the Investment Manager. This notice expires on 30 November 2005.

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 ('Chelverton'). Chelverton 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 Chelverton. Such notice has been served as a consequence of notice having been served on BFS.

Report of the Directors (continued)

A resolution as set out in the Notice of the Annual General Meeting on pages 33 and 34 proposes that Chelverton be appointed Investment Manager of the Group. The Board believe that the appointment of Chelverton is in the interest of shareholders as a whole, and therefore recommends that shareholders vote in favour of the resolution.

The management fees contained in the proposed investment management agreement with Chelverton are as follows:-

- a) a periodic fee of 1%, (increased from 0.85%), of the value of the gross assets under management of the Group. This fee was stated in last year's Annual Report as being effective from 1 May 2004 but its implementation was deferred pending the change of Investment Manager and revision of the performance fee.
- b) a performance fee equal to 10%, (decreased from 33%) of the amount by which the net asset value plus dividends paid during the year exceed 10% compounded, subject to certain conditions. Had this arrangement been in force for the year ended 30 April 2005 the performance fee would have been approximately £343,000 and not £1,698,000.

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.

Payment of suppliers

It is the Company's 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 2005 all suppliers' invoices received had been settled.

Statement on Corporate Governance

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

Statement of Compliance with the Revised Combined Code on Corporate Governance

In July 2003, a revised Combined Code on Corporate Governance ('the revised Code') was published by the Financial Reporting Council, which came into effect for accounting periods commencing on or after 1 November 2003. The Directors have reviewed the detailed principles and recommendations outlined in the revised Code and confirm that, to the extent that they are relevant to the Company's business, they have complied with the provisions of the revised Code throughout the year ended 30 April 2005 except in respect of those procedures described in this section as having been implemented during the year, and that the Company's current practice is in all material respects consistent with the principles of the revised Code.

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

Report of the Directors (continued)

Board membership

The Board consists of three Directors, all of whom are non-executive and meet at regular Board Meetings throughout the year. There are no full time employees of the Company. The Board seeks to ensure that it has the appropriate balance of skills, experience, ages and length of service amongst its members. The Directors possess a wide range of business and financial expertise relevant to the direction of the Company and consider that they commit sufficient time to the Company's affairs. None of the Directors had a service agreement with the Company as at 30 April 2005. Brief biographical details of the Directors can be found on page 2.

The Directors of the Company meet at regular Board Meetings, held at least once a quarter, and additional meetings and telephone meetings are arranged as necessary. During the year to 30 April 2005 the Board met four times, Mr Lenygon and Mr Harris attended all four, Mr Chappell and Mr Reid were present at three of the Board Meetings.

Chairman and Senior Independent Director

The Chairman, Mr Lenygon, is deemed by his fellow independent Board members to be independent. Mr Lenygon is also Chairman of BFS Equity Income & Bond Trust PLC and whilst the Investment Manager is the same on both companies Mr Lenygon has been granted a variation of Listing Rule 15.2.8 by the UK Listing Authority, on the basis that the Investment Manager has received notification of termination of its investment management agreement. He has no other significant commitments and considers himself to have sufficient time to commit to the Company's affairs. Given the size and nature of the Board it is not considered appropriate to appoint a senior independent Director and thus is non-compliant with Code Provision A.3.3.

The Company does not have a chief executive officer, as it has no executive directors. In appointing a management company the roles of Chairman and Chief Executive Officer are effectively separated.

Directors' independence

In accordance with the new Listing Rules for Investment Trust Entities the Board has reviewed the status of its individual Directors and the Board as a whole.

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

In accordance with the revised Code, the Board's policy with regard to tenure of office is that any Director having served for nine years since his first election will be required to seek annual re-election thereafter. Notwithstanding that the Company's Articles of Association do not preclude a Director from continuing in office having attained the age of 70, the Directors have agreed that any Director over the age of 70 wishing to continue in office will submit himself for re-election annually. Henceforth Mr Lenygon will stand for re-election annually.

In accordance with the terms of the Articles of Association, one-third of Directors will retire by rotation at the forthcoming Annual General Meeting and no Director shall serve a term of more than three years before re-election. Accordingly Mr Harris will retire, and, being eligible, will offer himself for re-election. Resolutions to re-elect Messrs Harris and Lenygon are contained within the Notice of the Annual General Meeting on page 33. The Nomination Committee has reviewed the appointment of those Directors retiring at the forthcoming Annual General Meeting prior to submission for their re-election. Following a performance evaluation, the Nomination Committee members recommend that shareholders vote for the re-election of Messrs Harris and Lenygon as it believes that their

Report of the Directors (continued)

performance continues to be effective, that they demonstrate commitment to their roles as non-executive directors of the Company and have actively contributed during meetings throughout the year. Following Mr Reid's resignation from the Board in February 2005, the Nomination Committee is reviewing the Board composition and structure.

The Directors have a range of business, finance and asset management skills and experience relevant to the direction and control of the company. Brief biographical details of the Directors are shown on page 2.

Board responsibilities and relationship with Investment Manager

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

The Board is responsible for the investment policy and strategic and operational decisions of the Company and for ensuring that the Company is run in accordance with all regulatory and statutory requirements. These procedures have been formalised in a schedule of matters reserved for decision by the full Board, which was revised on 24 February 2005, and has been adopted for all meetings. These matters include:

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

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

The Company has arranged a Directors' and Officers' Liability insurance policy which provides cover for legal expenses.

Committees of the Board

The Board has appointed a number of Committees as set out below to which certain Board functions have been delegated. Each of these Committees has formal written terms of reference, which clearly define their responsibilities, all of which were updated in February 2005 to incorporate the best practice recommendations and requirements of the revised Code. The terms of reference can be inspected at the Registered Office of the Company.

Report of the Directors (continued)

Audit Committee

The Audit Committee comprises the entire Board with Mr Lenygon as Chairman.

The Committee met once during the year ended 30 April 2005. Each Committee member was present. It is intended that the Committee will meet at least twice a year, to review the Interim Report and to approve the Company's Annual Report and Accounts.

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

The Audit Committee has direct access to the Company's Auditors, Baker Tilly, and representatives of Baker Tilly attend the year-end Audit Committee meeting. On the basis of these meetings the Audit Committee has been able to assess the effectiveness of the external audit.

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

Management Engagement Committee

The Management Engagement Committee comprises the entire Board, which is now wholly independent, and is chaired by Mr Lenygon. The Committee will meet at least once a year going forward to review the performance of the Investment Manager's obligations under the Investment Management Agreement and to consider any variation to the terms of the Agreement. The Management Engagement Committee also reviews the performance of the Company Secretary, the Custodian and the Registrar and any matters concerning their respective agreements with the Company. The Management Engagement Committee met on one occasion during the year under review for which meeting all Committee members were present. The Committee agreed that the performance of each of the service providers was satisfactory.

Nomination Committee

The Nomination Committee comprises the entire Board, is chaired by Mr Lenygon, and has been formally constituted to assist the Board in making recommendations on all new Board appointments.

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

On appointment to the Board, Directors are fully briefed as to their responsibilities by the Chairman and the Investment Manager.

Report of the Directors (continued)

Remuneration Committee

The Remuneration Committee comprises the entire Board, and is chaired by Mr Lenygon. The Committee will meet at least once a year to determine and approve Directors' fees, following proper consideration of the role that individual Directors fulfil in respect of Board and Committee responsibilities, the time committed to the Company's affairs and remuneration levels generally within the Investment Trust sector.

Under the Listing Rule 15.4.15, where an investment trust company has no executive directors, the Code principles relating to Directors' remuneration do not apply. Detailed information on the remuneration arrangements for the Directors of the Company can be found in the Annual Report of Small Companies Dividend Trust PLC.

As the Directors are remunerated by the parent Company no Remuneration Report has been prepared in respect of the Company.

Independent professional advice

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

Institutional investors – use of voting rights

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

Going concern

After due consideration, the Directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control review

The Board is responsible for establishing and maintaining 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, issued in September 1999, is in place for identifying, evaluating and managing risks faced by the Company. This process, together with key procedures established with a view to providing effective financial control, has been in place for the full financial year and up to the date the financial statements were approved.

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. It should be recognised that such systems can only provide reasonable, rather than absolute, assurance against material misstatement or loss.

Internal control assessment process

Risk assessment and the review of internal controls is 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:

Report of the Directors (continued)

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

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

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

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

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

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

- investment management is provided by BFS. The Board is responsible for the implementation of the overall investment policy and monitors the action of the Manager at regular Board meetings.
- the provision of administration, accounting and company secretarial duties is the responsibility of Sinclair Henderson Limited.
- custody of assets is undertaken by HSBC Bank plc.
- the duties of investment management, accounting and custody of assets are segregated. The procedures of the individual parties are designed to complement one another.

Report of the Directors (continued)

- the non-executive Directors of the Company clearly define the duties and responsibilities of their agents and advisors in the terms of their contracts. The appointment of agents and advisors 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 detailed financial information produced by the Manager and the Secretary on a regular basis.

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

Company Secretary

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

Dialogue with shareholders

Communication with shareholders is given a high priority by both the Board and the Manager and all Directors are available to enter into dialogue with shareholders. Major shareholders of the Company are offered the opportunity to meet with the independent non-executive Directors of the Board in an attempt to ensure that their views are understood. All shareholders are encouraged to attend and, where entitled, vote at the Annual General Meeting, during which the Board and the Investment Manager are available to discuss issues affecting the Company and shareholders have the opportunity to address questions to the Investment Manager, the Board and the Chairmen of the Board's standing committees.

Any shareholder who would like to lodge questions in advance of the Annual General Meeting is invited to do so either on the reverse of the proxy card or in writing to the Company Secretary at the address detailed inside the back cover. The Company always responds to letters from individual shareholders.

The Annual and Interim Reports of the Company are prepared by the Board and its advisers to present a full and readily understandable review of the Company's performance. Copies are dispatched to shareholders by mail and are also available for downloading from both the Investment Manager's and Company Secretary's websites.

Auditors

The Auditors, Baker Tilly, have indicated their willingness to continue in office, and resolution 4 proposing their re-appointment and authorising the Directors to fix their remuneration for the ensuing year will be submitted at the Annual General Meeting.

By order of the Board

Sinclair Henderson Limited

Secretary

7 October 2005

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 Directors are responsible for ensuring that the report of the Directors and other information included in the annual report is prepared in accordance with applicable company law. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

The financial statements are published www.sinclairhenderson.co.uk, which is a website maintained by the Company Secretary. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of the website and accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent Auditors' report

to the members of Small Companies PLC

We have audited the financial statements of Small Companies PLC for the year ended 30 April 2005 which comprise the Statement of total return (incorporating the revenue account), the Balance sheet, the Statement of cash flows and the related notes 1 to 17.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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, and United Kingdom Auditing Standards.

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 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 nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, 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 Company'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 Investment 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 (continued)

to the members of 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 2005 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
7 October 2005

Statement of total return

(incorporating the revenue account*)

for the year ended 30 April 2005

| | | 2005 | | | 2004 | | |
|--|------|------------|--------------|--------------|------------|--------------|--------------|
| | Note | Revenue* | Capital | Total | Revenue* | Capital | Total |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Losses on investments | 7 | - | - | - | - | (2) | (2) |
| Income | 2 | 2 | - | 2 | 2 | - | 2 |
| Other expenses | 3 | (10) | - | (10) | (11) | - | (11) |
| | | <u>(8)</u> | <u>-</u> | <u>(8)</u> | <u>(9)</u> | <u>(2)</u> | <u>(11)</u> |
| Return on ordinary activities before and after taxation | | (8) | - | (8) | (9) | (2) | (11) |
| Appropriations in respect of: | | | | | | | |
| Zero Dividend Preference shares | 11 | - | (733) | (733) | - | (680) | (680) |
| Preference shares | 11 | - | (4) | (4) | - | (4) | (4) |
| | | <u>(8)</u> | <u>(737)</u> | <u>(745)</u> | <u>(9)</u> | <u>(686)</u> | <u>(695)</u> |
| Transfer from reserves | | (8) | (737) | (745) | (9) | (686) | (695) |

| | | 2005 | | | 2004 | | |
|---|------|----------|-----------|-----------|----------|-----------|-----------|
| | Note | Revenue* | Capital | Total | Revenue* | Capital | Total |
| | | £ | £ | £ | £ | £ | £ |
| Return per Ordinary share | 6 | (4,000) | (368,500) | (372,500) | (4,500) | (343,000) | (347,500) |
| Return per Preference share | 6 | - | 0.12 | 0.12 | - | 0.11 | 0.11 |
| Return per Zero Dividend Preference share | 6 | - | 0.12 | 0.12 | - | 0.11 | 0.11 |

* 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.

The notes on pages 21 to 31 form part of these financial statements.

Balance sheet

as at 30 April 2005

| | Note | 2005 £'000 | 2004 £'000 |
|--|------|---------------|---------------|
| Fixed assets | | | |
| Investments | 7 | <u>6,285</u> | <u>6,285</u> |
| Current assets | | | |
| Debtors | 8 | 1 | 1 |
| Cash at bank | | <u>2</u> | <u>1</u> |
| | | <u>3</u> | <u>2</u> |
| Creditors – amounts falling due within one year | | | |
| Loan from parent undertaking | | 45 | 35 |
| Creditors | 9 | <u>7</u> | <u>8</u> |
| | | <u>52</u> | <u>43</u> |
| Net current liabilities | | | |
| | | <u>(49)</u> | <u>(41)</u> |
| Net assets | | | |
| | | <u>6,236</u> | <u>6,244</u> |
| Share capital and reserves | | | |
| Called up share capital | 10 | 62 | 62 |
| Share premium account | 11 | 6,220 | 6,220 |
| Capital reserve | 11 | (3,667) | (2,930) |
| Redemption reserve | 11 | 3,663 | 2,926 |
| Revenue reserve | 11 | <u>(42)</u> | <u>(34)</u> |
| Shareholders' funds | | | |
| | 13 | <u>6,236</u> | <u>6,244</u> |
| Equity interest | | (3,708) | (2,963) |
| Non-equity interest | 11 | <u>9,944</u> | <u>9,207</u> |
| | 13 | <u>6,236</u> | <u>6,244</u> |
| | | £ | £ |
| Net asset value per Ordinary share | 12 | (1,854,000) | (1,481,500) |
| Net asset value per Preference share | 12 | 1.58 | 1.47 |
| Net asset value per Zero Dividend Preference share | 12 | <u>1.58</u> | <u>1.47</u> |

The notes on pages 21 to 31 form part of these financial statements.

These financial statements were approved by the Board on 7 October 2005.

B N Lenygon

Chairman

Statement of cash flows

for the year ended 30 April 2005

| | Note | 2005 £'000 | 2004 £'000 |
|--|------|---------------|---------------|
| Operating activities | | | |
| Investment income received | | 2 | 2 |
| Other cash payments | | <u>(1)</u> | <u>(3)</u> |
| Net cash inflow/(outflow) from operating activities | | | |
| | 14 | <u>1</u> | <u>(1)</u> |
| Increase/(decrease) in cash | | | |
| | | <u>1</u> | <u>(1)</u> |

The notes on pages 21 to 31 form part of these financial statements.

Notes to the financial statements

as at 30 April 2005

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 2003 Statement of Recommended Practice ('SORP') 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; and
- 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 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 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 (continued)

as at 30 April 2005

1 ACCOUNTING POLICIES (continued)

Taxation

The charge for taxation is based on the net revenue for the year. Full provision for deferred taxation is made under the liability method on all timing differences that have arisen but not reversed by the balance sheet date in accordance with Financial Reporting Standard No. 19: Deferred Taxation. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the accounts. Provision is made at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

| 2 INCOME | 2005 | 2004 |
|--|--------------|----------|
| | £'000 | £'000 |
| Income from listed investments | | |
| Interest and other dividends from listed investments | <u>2</u> | <u>2</u> |
| Other income | | |
| Bank interest receivable | <u>–</u> | <u>–</u> |
| Total income | <u>2</u> | <u>2</u> |
| Total income comprises: | | |
| Interest | <u>2</u> | <u>2</u> |
| | <u>2</u> | <u>2</u> |

3 OTHER EXPENSES

| | 2005 | | | 2004 | | |
|-------------------------|------------------|------------------|----------------|------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Auditors' remuneration: | | | | | | |
| audit services | 3 | – | 3 | 2 | – | 2 |
| non audit services | – | – | – | – | – | – |
| Other expenses | <u>7</u> | <u>–</u> | <u>7</u> | <u>9</u> | <u>–</u> | <u>9</u> |
| | <u>10</u> | <u>–</u> | <u>10</u> | <u>11</u> | <u>–</u> | <u>11</u> |

Notes to the financial statements (continued)

as at 30 April 2005

4 DIRECTORS REMUNERATION

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

5 TAXATION

| | 2005 £'000 | 2004 £'000 |
|---|-------------------|-------------------|
| Based on the revenue return for the year | | |
| Current tax | — | — |
| Deferred tax | — | — |
| | <u> </u> | <u> </u> |

The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 19% (2004: 19%). The differences are explained below:

| | 2005 £'000 | 2004 £'000 |
|---|-------------------|-------------------|
| Revenue on ordinary activities before taxation | (8) | (9) |
| | <u> </u> | <u> </u> |
| Theoretical tax at UK corporation rate of 19% (2004: 19%) | (2) | (2) |
| Effects of: | | |
| Excess expenses in the year | 2 | 2 |
| | <u> </u> | <u> </u> |
| Actual current tax charged to the revenue account | — | — |
| | <u> </u> | <u> </u> |

The Company has unrelieved excess expenses of £44,000 (2004: £36,000). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

6 RETURN PER SHARE

Ordinary shares

Revenue return per Ordinary share is based on the net loss on ordinary activities before and after taxation of £8,000 (2004: £9,000) and on 2 Ordinary shares (2004: 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 £737,000 (2004: £686,000) and on 2 Ordinary shares, (2004: 2) being the weighted average number of Ordinary shares in issue during the year.

Preference shares

Capital return per Preference share is based on appropriations of £4,000 (2004: £4,000) and on 31,260 Preference shares (2004: 31,260), being the weighted average number of Preference shares in issue during the year.

Notes to the financial statements (continued)

as at 30 April 2005

6 RETURN PER SHARE (continued)

Zero Dividend Preference shares

Capital return per Zero Dividend Preference share is based on appropriations of £733,000 (2004: £680,000) and on 6,250,000 Zero Dividend Preference shares (2004: 6,250,000), being the weighted average number of Zero Dividend Preference shares in issue during the year.

| 7 INVESTMENTS | 2005 | 2004 |
|-------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Opening book cost | 31 | 31 |
| Opening unrealised depreciation | (4) | (2) |
| Opening valuation | <u>27</u> | <u>29</u> |
| Listed investments | <u>27</u> | <u>29</u> |
| Movements in the year: | | |
| Purchases at cost | – | – |
| Increase in unrealised depreciation | – | (2) |
| Closing valuation | <u>27</u> | <u>27</u> |
| Closing book cost | 31 | 31 |
| Closing unrealised depreciation | (4) | (4) |
| | <u>27</u> | <u>27</u> |
| Increase in unrealised depreciation | – | (2) |
| Losses on investments | – | (2) |

The Company also holds non-interest bearing Cumulative Subordinated Unsecured Loan notes in 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.

| | 2005 | 2004 |
|--------------------|--------------|--------------|
| | £'000 | £'000 |
| Listed investments | 27 | 27 |
| Loan notes | <u>6,258</u> | <u>6,258</u> |
| Total investments | <u>6,285</u> | <u>6,285</u> |

Notes to the financial statements (continued)

as at 30 April 2005

8 DEBTORS – amounts falling due within one year

| | 2005 £'000 | 2004 £'000 |
|--------------------------------|---------------|---------------|
| Prepayments and accrued income | <u>1</u> | <u>1</u> |
| | <u>1</u> | <u>1</u> |

9 CREDITORS – amounts falling due within one year

| | 2005 £'000 | 2004 £'000 |
|-----------------|---------------|---------------|
| Other creditors | <u>7</u> | <u>8</u> |
| | <u>7</u> | <u>8</u> |

10 SHARE CAPITAL

| | 2005 £ | 2004 £ |
|--|---------------|---------------|
| Authorised | | |
| 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 | <u>31,250</u> | <u>31,250</u> |
| | <u>62,513</u> | <u>62,513</u> |
| Issued, allotted and fully paid | | |
| 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 | <u>31,250</u> | <u>31,250</u> |
| | <u>62,512</u> | <u>62,512</u> |

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.

Notes to the financial statements (continued)

as at 30 April 2005

10 SHARE CAPITAL (continued)

Commitment to subscribe for shares

The Company has entered into an agreement with its parent company, Small Companies Dividend Trust PLC ('SCDT'), pursuant to which SCDT 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 2005 the Group had total assets available for repayment of the Zero Dividend Preference shares and the Preference shares of £37,535,000 (2004: £33,082,000). The value of the Group's assets would have to fall at a rate of 44.42% per annum for it to be unable to meet the full capital repayment entitlements of the Zero Dividend Preference shares and Preference shares on the scheduled repayment date of 30 April 2007.

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 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.

As to voting

Holders of Ordinary shares and Preference shares are entitled to receive notice of, attend and vote at Annual General Meetings.

Holders of Zero Dividend Preference shares do not generally have the right to attend and vote at any general meeting.

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 an 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.

Notes to the financial statements (continued)

as at 30 April 2005

11 RESERVES

| | Share premium account £'000 | Capital reserve realised £'000 | Capital reserve unrealised £'000 | Redemption reserve £'000 | Revenue reserve £'000 |
|-----------------------------------|--------------------------------------|---|---|--------------------------------|-----------------------------|
| At 1 May 2004 | 6,220 | (2,926) | (4) | 2,926 | (34) |
| Appropriation in respect of: | | | | | |
| Zero Dividend Preference shares | – | (733) | – | 733 | – |
| Preference shares | – | (4) | – | 4 | – |
| Retained net revenue for the year | – | – | – | – | (8) |
| At 30 April 2005 | 6,220 | (3,663) | (4) | 3,663 | (42) |

12 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 2005 £ | Total assets attributable 2005 £'000 | Net asset value per share 2004 £ | Total assets attributable 2004 £'000 |
|---------------------------------|---|---|---|---|
| Ordinary shares | (1,854,000) | (3,708) | (1,481,500) | (2,963) |
| Preference shares | 1.58 | 50 | 1.47 | 46 |
| Zero Dividend Preference shares | 1.58 | 9,894 | 1.47 | 9,161 |

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| Loss available to Ordinary shareholders | (8) | (11) |
| Net decrease in shareholders' funds | (8) | (11) |
| Opening shareholders' funds | 6,244 | 6,255 |
| Closing shareholders' funds | 6,236 | 6,244 |

Notes to the financial statements (continued)

as at 30 April 2005

14 RECONCILIATION OF NET REVENUE TO NET CASH INFLOW/(OUTFLOW)

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| Income before interest payable and taxation | (8) | (9) |
| Increase in creditors | 9 | 8 |
| | <u>1</u> | <u>(1)</u> |

15 ULTIMATE PARENT UNDERTAKING

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

16 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 No. 8.

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

Notes to the financial statements (continued)

as at 30 April 2005

17 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 Small Companies Dividend Trust PLC ('SCDT') 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 risks arising from the Company's financial instruments are interest rate risk 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 normal conditions to meet funding commitments if necessary. They may be difficult to realise in adverse market conditions.

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 on pages 30 and 31.

Notes to the financial statements (continued)

as at 30 April 2005

17 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets

The Company holds investments, these are treasury stock and a Loan note issued to SCDT.

The interest rate profile of the Group's financial assets is as follows:

| | Financial assets on which no interest is paid | | Floating rate financial assets | Fixed rate financial assets | Interest rate % | Maturity date |
|----------------------|--|--------------|--------------------------------------|-----------------------------------|-----------------------|------------------|
| | Total £'000 | £'000 | £'000 | £'000 | | |
| 30 April 2005 | | | | | | |
| Treasury stock | 27 | – | – | 27 | 8.5* | 2007 |
| Loan note | 6,258 | 6,258 | – | – | – | – |
| Cash and debtors | 3 | 1 | 2 | – | – | – |
| | 6,288 | 6,259 | 2 | 27 | | |
| 30 April 2004 | | | | | | |
| Treasury stock | 27 | – | – | 27 | 8.5* | 2007 |
| Loan note | 6,258 | 6,258 | – | – | – | – |
| Cash and debtors | 2 | 1 | 1 | – | – | – |
| | 6,287 | 6,259 | 1 | 27 | | |

* The interest rates shown in the above two tables are the coupon rates of the treasury stock and not the yields.

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 2005 is as follows:

| | 2005 £'000 | 2004 £'000 |
|--|---------------|---------------|
| In one year or less | 52 | 43 |
| In more than one but less than two years | 9,944 | 9,207 |
| | 9,996 | 9,250 |

Notes to the financial statements (continued)

as at 30 April 2005

17 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and financial liabilities

| | 2005 | 2005 | 2004 | 2004 |
|-------------------|------------|------------|------------|------------|
| | Book value | Fair value | Book value | Fair value |
| | £'000 | £'000 | £'000 | £'000 |
| Non-equity shares | 9,894 | 10,203 | 9,161 | 9,656 |

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 | November |
| 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 London Stock Exchange and published monthly via the Association of Investment Trust Companies.

Information about the Company can be obtained via the Chelverton internet site at www.chelverton.com. Any enquiries can also be e-mailed to cam@chelverton.com.

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 11.45 a.m. on Friday, 25 November 2005 at the Maclay, Murray & Spens, 5 Old Bailey, London EC4M 7JX for the following purposes:

Ordinary Resolutions

- 1 To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2005.
- 2 To re-elect Mr D Harris as a Director.
- 3 To re-elect Mr B N Lenygon as a Director.
- 4 To reappoint Baker Tilly as Auditors and to authorise the Directors to determine their remuneration.

Special Business

To consider and, if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions.

- 5 THAT the investment policy of Small Companies Dividend Trust PLC and Small Companies PLC (“the Group”) be and is hereby revised and restated with immediate effect as follows:
 - (a) The Group’s funds will be invested principally in companies with a market capitalisation of up to £500 million at the point of investment.
 - (b) A maximum of 20 per cent. of the Group’s portfolio may be invested in companies without reference to their market capitalisation at the discretion of the Investment Manager.
 - (c) The Group will invest in the ordinary shares of companies either listed on the Official List of the UK Listing Authority and traded on the London Stock Exchange's Main Market or traded upon the London Stock Exchange's AIM Market.
 - (d) No investment will be made in preference shares, loan stock or notes, convertible securities or fixed interest securities or any similar securities convertible into shares.
 - (e) The Group will not invest in the securities of other investment trusts or in unquoted companies.
6. THAT the appointment of Chelverton Asset Management Limited (“Chelverton”) as investment manager to the Group (as defined in resolution 5) upon the terms and subject to the restrictions set out in the investment management agreement to be entered into between the Group and Chelverton as described in the Report of Directors or upon such other terms and subject to such other restrictions as the directors shall deem appropriate, be and it is hereby approved.

By order of the Board
Sinclair Henderson Limited
Secretary
7 October 2005

Registered office:
23 Cathedral Yard
Exeter EX1 1HB

Notice of Annual General Meeting (continued)

Notes

1. *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.*
2. *Zero Dividend Preference shareholders do not have the right to attend or vote at the Annual General Meeting.*
3. *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 11.45 a.m. on 23 November 2005 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 11.45 a.m. on 23 November 2005 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.*
4. *Shareholders (and any proxies or representatives they appoint) agree, by attending the meeting, that they are expressly requesting, and that they are willing to receive, any communications (including communications relating to the Company's securities) made at the meeting.*
5. *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.*

Proxy form

I/We (Block Capitals please)

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

as my/our proxy to vote for me/us on my behalf at the Annual General Meeting of the Company to be held at 11.45 a.m. at the Maclay, Murray & Spens, 5 Old Bailey, London EC4M 7JX on 25 November 2005 and at any adjournment thereof.

Signature

Date 2005

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

ORDINARY RESOLUTIONS

- RESOLUTION 1** To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2005.
- RESOLUTION 2** To re-elect Mr D Harris as a Director.
- RESOLUTION 3** To re-elect Mr B N Lenygon as a Director.
- RESOLUTION 4** To reappoint Baker Tilly as Auditors and to authorise the Directors to determine their remuneration.
- RESOLUTION 5** Investment policy revision
- RESOLUTION 6** Appointment of Chelverton Asset Management Ltd as Investment Manager.

| FOR | AGAINST |
|-----|---------|
| | |
| | |
| | |
| | |
| | |
| | |

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. Only those shareholders registered in the register of members 48 hours prior to the meeting shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to the register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the Meeting.



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

Second fold

Directors and Advisers

| | |
|--|--|
| Directors | Bryan Norman Lenygon (Chairman) John Edward Chappell David Harris |
| Investment Manager | BFS Investments plc White Lodge Farm Goose Rye Road Worplesdon Guildford Surrey GU3 3RQ |
| Investment Adviser | Chelverton Asset Management Limited 11 George Street Bath BA1 2EH Tel: 01225 483030 |
| 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 |
| Solicitors | Maclay, Murray & Spens 5 Old Bailey London EC4M 7JX |

