
SMALL COMPANIES DIVIDEND TRUST PLC

Annual Report

for the year ended 30 April 2008

Investment objective and policy

The investment objective of the Company is to provide Ordinary shareholders with a high income and opportunity for capital growth.

The Company's funds will be invested principally in companies with a market capitalisation of up to £500 million. The Company's portfolio will comprise companies listed on the Official List and companies admitted to trading on AIM. The Company will not invest in other investment trusts or in unquoted companies. No investment will be made in preference shares, loan stock or notes, convertible securities or fixed interest securities.

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

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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 authorised under the Financial Services and Markets Act 2000.

Company summary

History

The Company was launched on 12 May 1999, raising £21.28 million before expenses, by a placing of 15,000,000 Ordinary shares and, through its former subsidiary company, Small Companies PLC, 6,250,000 Zero Dividend Preference shares and 31,260 Preference shares. A further 750,000 Ordinary shares were issued as a result of a placing for cash on 3 March 2000 and on 26 October 2005 a further 500,000 shares were issued. The subsidiary, Small Companies PLC, was placed in liquidation on 30 April 2007, following which the capital entitlement of the Zero Dividend Preference and Preference shares were repaid.

Total net assets and market capitalisation at year end

As at 30 April 2008, the Company had a market capitalisation of £20,231,000 (2007: £38,797,000) and total net assets amounted to £24,265,000 (2007: £43,276,000).

Management fee

The fee payable to the Investment Manager is 1% of the combined gross assets of the Company, plus a performance fee of 10% of the lower amount by which the net asset value plus dividends paid in the year exceeds 10% compounded per annum and beats the FTSE SmallCap Index by 2%.

Capital structure

Ordinary shares of 25p each – 16,250,000 in issue

Holders of Ordinary shares are entitled to dividends. On a winding-up of the Company, Ordinary shareholders will be entitled to all the surplus assets of the Company available after payment of all liabilities. Each holder on a show of hands will have one vote and on a poll will have one vote for each Ordinary share held.

Bank borrowings

The Company has an overdraft facility of £6.5 million which at 30 April 2008 was not utilised. Since the year end the facility has been renewed until 31 March 2009 for £3.0 million.

The previous £5.0 million term bank loan was repaid on 30 March 2007 and a new bank loan of £10.0 million was taken out in May 2007 which falls due for repayment on 30 April 2014.

ISA status

The Company's Ordinary shares are qualifying investments for Individual Savings Accounts ('ISAs').

Registered in England
No. 3749536

A member of the Association of Investment Companies

Directors

The Directors are:

The Rt Hon. Lord Lamont of Lerwick* (Chairman), aged 66, acted as Chancellor of the Exchequer between 1990-1993. Prior to his appointment, Lord Lamont acted as Chief Secretary to the Treasury between 1989-1990. Following his retirement from acting as a Member of Parliament in 1997, he has held numerous positions as a director of various organisations and funds including NM Rothschild and Sons Ltd, the Indonesia Fund, the Asia Specialist Growth Fund and Taiwan Investment Fund of Jupiter Asset Management Limited. His current directorships include Balli Group plc and Jupiter Second Split Trust plc, and he is chairman of Jupiter Adria Plc managed by Jupiter Asset Management Limited.

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

David Harris*, aged 58, 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 AIC with specific responsibility for training and education of independent financial advisers. He is a non-executive director of two other investment trust companies, the Character Group plc, Aseana Properties Limited and COBRA Holdings plc.

Mr Harris was appointed to the Board on 30 May 2000.

Bryan Lenygon*, aged 76, 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.

Mr Lenygon was appointed to the Board on 6 April 1999.

William van Heesewijk, aged 48, began his career with Lloyds Bank International in 1981 working for both the merchant banking and investment management arms. He has been involved in the investment trust industry since 1987 in various capacities ranging from sales and marketing to corporate product development, having worked for Fidelity Investments International, Gartmore Investment Management plc and BFS Investments plc and is currently Business Development Director with Chelverton Asset Management Limited.

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

* Independent of the Investment Manager

Investment Manager and Secretary

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

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

Chelverton is a boutique fund manager focussed on UK small companies and has a successful track record. At 30 April 2008, total funds under management were £70 million including three investment companies and an OEIC. The fund management team comprises of David Horner and David Taylor.

Chelverton is authorised and regulated by the Financial Services Authority.

Secretary: Capita Sinclair Henderson Limited

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

Financial highlights

	30 April	30 April		Discount
Capital	2008	2007	% change	30 April
				2008
Total Net Assets (£'000)	24,265	43,276	(43.93)	
Net Asset Value per Ordinary share††	149.32p	266.32p	(43.93)	
Mid-Market Price per Ordinary share	124.50p	238.75p	(47.85)	16.62%
FTSE All-Share Index	3,099.94	3,355.60	(7.62)	
FTSE SmallCap Index	3,154.39	4,098.99	(23.04)	
		Year ended	Year ended	
		30 April	30 April	
Revenue		2008	2007	% change
Return per Ordinary share		13.45p	14.14p	(4.88)
Dividends declared per Ordinary share		13.65p	13.00p	5.00
Total Return				
Total Assets less current liabilities (excluding bank borrowings) total return*†		(33.84)%	0.02%	
Total Net Assets total return*		(41.62)%	8.94%	
Total Return FTSE All-Share Index		(4.31)%	12.68%	
Total expense ratio (including investment management fee and other expenses but excluding performance fee and exceptional items)		1.93%	1.72%	

* Adding back dividends paid in the year

† Adjusted for movement in bank borrowings during the year

†† Net asset values calculated in accordance with the Articles of Association

Negative returns are shown in brackets.

Chairman's report

Results

The Company's net asset value per Ordinary share at 30 April 2008 was 149.32p (2007: 266.32p), a decline over the year of 43.9%. During this period the FTSE All-Share Index decreased by 7.6% and the FTSE Small-Cap Index decreased by 23.0%.

Since Listing of the Company's shares on 12 May 1999, the FTSE All-Share Index has risen by 4.6% and the net asset value per Ordinary share has risen by 53.5%. Over the same period the share price has increased by 32.5%. Since the year end, the net asset value per Ordinary share has fallen to 104.30p as at 11 July 2008.

The Company is currently invested in 59 companies across 23 sectors; this spread provides a good diversification base and will assist the Company in providing a stable platform from which to grow in both capital and revenue terms.

The last year has been a particularly difficult one for the Company as both small companies as an asset class and "value" as a style have underperformed at the same time. Almost since the last year end the macro environment has been deteriorating, but the Company felt the effect most dramatically in the last six months when the liquidity crisis, driven largely by problems in the banking sector, led to a flight to large companies. This "size effect" is, historically, a normal reaction to a slowing domestic economy, but the magnitude has been compounded this time by the banks need to re-build their balance sheets and monetary easing being undermined by domestic inflationary pressures.

Whilst the capital value of the Company's holdings have been adversely affected by increased macro concerns and rising risk premiums, the ability of the underlying investee companies to generate strong cash flows and to pay good dividends has held up well, as can be seen from the Income statement. The portfolio yield has risen from just over 4% at the end of last year to some 7% now. The last time it was this high was in the last economic downturn five years ago and, reassuringly, the Company performed very well in the subsequent few years as the economy recovered.

We believe that history should repeat itself as a recovery takes place in the future and we believe the Company's investments to be attractively valued on medium term cash flow parameters. The large unknown, however, is obviously the timing of the recovery and the fear that the economy and corporate earnings could still deteriorate from here.

In the shorter term we can draw some comfort from the fact that in over half of the Company's investments, directors have been actively buying stock in their own companies since the recent sell off began. At the same time there has been a pick up in corporate activity by both companies and venture capitalists. This does not mean that there will not be further earnings downgrades across the market, but it does suggest that in a number of cases these are already being discounted in valuations.

VAT reclaim

In 2004 the Association of Investment Companies ('AIC') and JP Morgan Claverhouse ('Claverhouse') brought a case against HM Revenue & Customs to challenge the VAT charge on management fees paid by investment trust. The case was referred to the European Court of Justice and in a ruling in June 2007 it upheld the AIC/Claverhouse claim. The immediate effect is that invoices from the Investment Manager will no longer include VAT.

The Board is awaiting further clarification from HM Revenue & Customs on the timetable and procedure for reclaiming VAT paid on investment management fees since 1 January 2001. There may also be scope for recovering certain VAT paid in relation to earlier periods. At the current time the Board is not recognising the potential back claim in its results nor its published net asset value.

Chairman's report (continued)

Bank facility

The Company has borrowing facilities represented by a £10 million fixed loan and a £3 million overdraft facility. Currently the overdraft facility is not being used.

The Board intends to continue to restrict the borrowing arrangements with the Bank, so as to limit the total amount of borrowings to below 30% of total assets at the time of draw down.

Dividend

The Board has declared a fourth interim dividend of 4.05p per Ordinary share (2007: 4.00p) which, when added to the three quarterly interim dividends of 3.20p, equates to a total dividend for the year of 13.65p per Ordinary share (2007: 13.00p), an increase of 5.0% over the previous year. As can be seen from the Income statement the net return is slightly reduced, resulting in £33,000 of the dividends paid being drawn from revenue reserves.

Outlook

Although the macro outlook remains uncertain and short term sentiment towards small companies remains volatile, the performance of the Company over the medium to long term remains a function of the underlying cash flows of the companies that the Company is invested in, and despite all of the economic gloom, by and large they still represent good value.

Lord Lamont of Lerwick

Chairman

16 July 2008

Investment Manager's report

As an asset class UK small companies has been in relative decline for the past year as a direct response to increasing macro economic concerns. The dramatic sell off from November through the first months of 2008 was a liquidity driven reaction to problems in the banking sector which ultimately served to accentuate the performance disparity between "large liquids" and "small illiquids". Unusually against such a backdrop, yield provided little short term support to the underlying share prices.

In terms of the Company's own relative performance, our investment process only allows us to invest in those companies that yield at least 150% of our benchmark index. This has meant that in the past year we have been unable to hold any oil and gas or mining stocks, two sectors that have performed exceptionally well. At the same time performance was hindered by being relatively overweight in the smaller financials as the market fell, although we avoided the worst of the falls in the retail, property and building sectors by being underweight. Short term net asset value performance was also adversely affected by the gearing within the Company, although of course this had been reduced by some £6 million since the last year end.

Whilst the last two months has seen a general reduction in share prices around the world, and our portfolio has obviously been affected, it is pleasing to be able to report that in this period the gross assets have done relatively well against the benchmark index, the FTSE SmallCap and also, for information, the FTSE 100 Index.

Portfolio review

During the last year a number of stocks were sold in their entirety. Of the larger companies, Alliance and Leicester was sold before the problems in the banking sector and Rentokil before the recent profit warning. United Utilities, Waterman and Personal Group were also sold, the latter two after long periods of very strong relative performance. On the other hand, CML and Johnson Service were sold after disappointing trading performances. The final part of the holdings in Foseco, Clinton Cards and Fenner were also disposed of. Funds were also realised from small sales of a wide range of the holdings after periods of particularly strong performance including ATH, Low & Bonar and Wogen. The shareholdings in two logistics companies were sold: Salvesen was acquired by Norbert Dentresslange and TDG was sold after approaches from a financial buyer and a trade buyer.

Funds raised were used for a combination of paying down the overdraft and investing in new holdings. These were: Hilton Food, a processor of meat aligned to the leading food retailers in the UK, Ireland, Holland and Sweden, which was acquired on flotation, Office 2 Office, the third largest UK office products distributor, and Avesco, an international media company with strong businesses in the exhibition and broadcast rental markets which was purchased on a 6.2% yield. Throughout the period we added to a number of our existing holdings, including Marshalls, Macfarlane and Jarvis Securities.

A focus on medium term cash flow rather than more volatile short term earnings forecasts has always been a feature of our investment process. As a result of this we believe the sell off last year has led to a substantial gap between the short term market value of a number of our stocks and their underlying medium term value. We would normally expect at this stage of the cycle to see this gap starting to close as a result of corporate activity. Interestingly, Jarvis Securities, Titan Europe, Acal, TDG and Gaming VC have all recently announced that they have received bid approaches.

Investment Manager's report (continued)

Outlook

Against a backdrop of a deteriorating macro environment we expect continued short-term volatility. One effect of this slowdown is that the universe in which the Company can invest has increased substantially and we will be taking this opportunity to slightly increase the market value of our holdings to partly offset this volatility.

The timing of a sustained upturn remains uncertain but the recent pick up in director purchases and corporate activity is a tentative step in the right direction in terms of underpinning valuations. For this to translate into a full blown recovery in share prices we need to see an improvement in the liquidity environment.

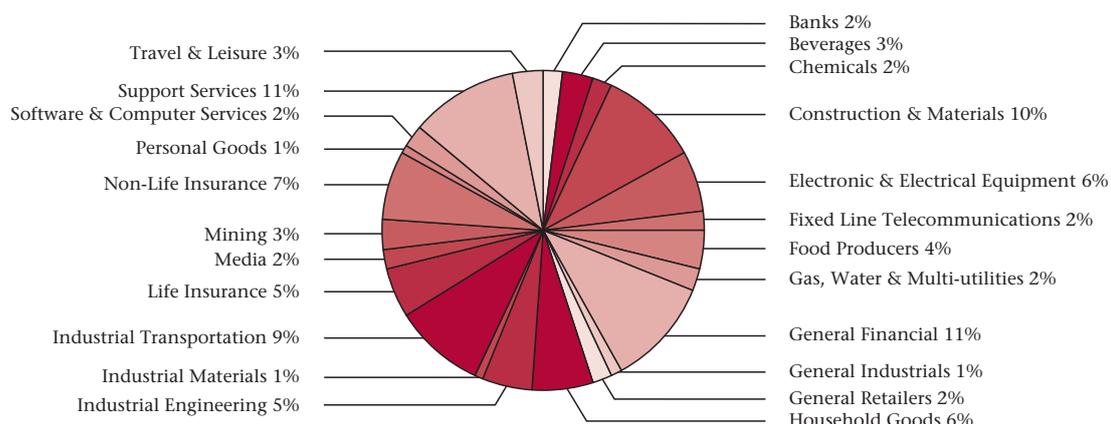
We believe that on the basis of medium-term cash flow prospects, current valuations are attractive and we continue to focus on the ability of our portfolio to deliver income as a key component of our investment process. It is worth reflecting that this process has delivered excellent long-term returns and that we believe that this will continue to be the case going forward.

As we look forward to the next year, there is greater uncertainty than we are all normally used to. The inexorable rise in the price of oil has to stop somewhere, and if the price rise has been created by a speculative bubble it will come down as fast as it has gone up. The growth of the Chinese economy will itself slow as demand from the USA and Europe reduces, leading to a general reduction in the prices of raw materials. With the reduction in international inflationary pressure there will be an opportunity for further rate cuts in the UK at some point in the future.

As we have said before, excellent buying opportunities become available for this Company when short, sharp corrections take place as solid, cash generative companies are marked down with the market but tend to recover rather more quickly. When buyers start to take advantage of the value opportunities available we believe the Company will show some real progress.

Breakdown of Portfolio by Industry

at 30 April 2008



Source: Capita Sinclair Henderson Limited

Investment Manager's report (continued)

Twenty Largest Holdings

at 30 April 2008

		% of portfolio
Braemar Shipping Services	A leading integrated provider of broking and consulting services to the global shipping industry. Its business is operated in four business segments: shipbroking, logistics, technical services and environmental services	4.75
Chesnara	Life assurance	3.68
ATH Resources	Coal mining	3.32
Nichols	Soft drinks and dispense systems	3.06
Macfarlane Group	Packaging distribution	2.77
Clarke (T)	An electrical contractor with a family of distinctive regional business covering the UK	2.72
TDG	Provides European businesses with supply chain solutions which optimise efficiency and increase competitive advantage	2.70
Alumasc Group	An engineering company focused on the design and manufacture of premium engineering and building products	2.64
Highway Insurance Group	Insurance company, insurance brokers, Lloyd's underwriting agencies and corporate members of Lloyd's	2.64
Dawson Holdings	Media supply chain integrator for newspapers and magazines, academic books, new media and marketing point of sale materials	2.63
Hilton Food Group	A leading specialist meat-packing business supplying major international food retailers	2.59
Arbuthnot Banking	Banking and financial services	2.58
THB Group	A wholesaler for other intermediaries and provides risk management and insurance broking services	2.52
TT Electronics	Electronic and electrical products and components	2.40
Dee Valley Group	Provision of water services	2.39
Victoria	Manufacturer of carpets	2.35
Portmeirion Group	Markets and manufactures an extensive range of high quality tableware, cookware and giftware	2.34

Investment Manager's report (continued)

Twenty Largest Holdings (continued)

at 30 April 2008

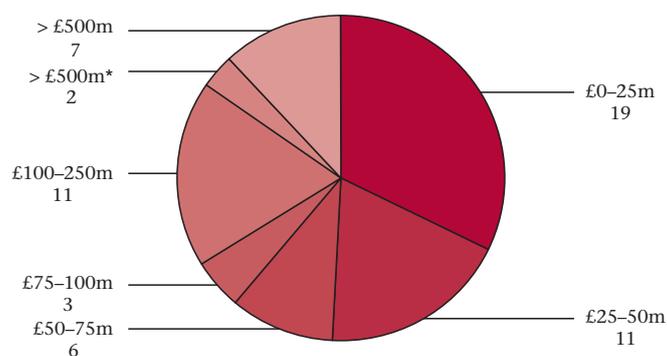
		% of portfolio
Marshalls Group	Supply the domestic, public sector and commercial markets with ranges of hard landscaping products	2.24
Brit Insurance Holdings	General insurance and reinsurance group	2.16
Cattles	Financial services group specialising in providing consumer credit to non-standard customers in the UK, and provides debt recovery services to external clients and working capital finance for small and medium-sized businesses	2.11
Top twenty companies		54.59
Balance held in 39 holdings		45.41
Total portfolio		100.00

Investment Manager's report (continued)

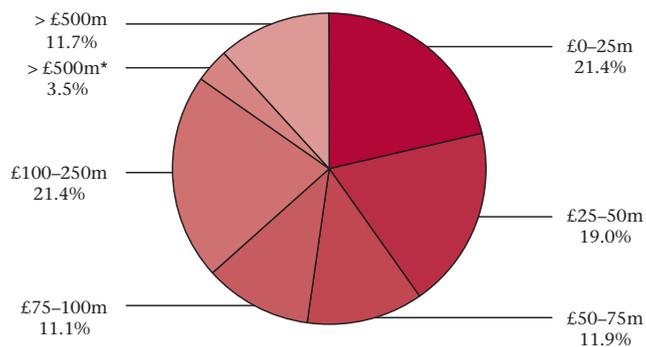
Breakdown of Portfolio by Market Capitalisation

at 30 April 2008

Number of Companies



% of Portfolio



Source: Capita Sinclair Henderson Limited

* Less than £100m market capitalisation at point of investment.

David Horner and David Taylor

Chelverton Asset Management Limited

16 July 2008

Report of the Directors

(which incorporates the Statement on corporate governance on pages 19 to 24)

The Directors present their Report and the financial statements of the Company for the year ended 30 April 2008. The Company's registered number is 3749536.

The Company was incorporated on 6 April 1999 and commenced trading on 12 May 1999. Its capital structure comprises Ordinary shares.

Business Review

Company status, objective and review

The principal activity of the Company is to carry on business as an investment trust. The Company has been granted approval from HM Revenue & Customs as an authorised investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the year ended 30 April 2007. The Directors are of the opinion that the Company has conducted its affairs for the year ended 30 April 2008 so as to be able to continue to be approved as an authorised investment trust. The Company is an investment company as defined in section 833 of the Companies Act 2006.

The investment objective of the Company is to provide Ordinary shareholders with a high income and opportunity for capital growth.

Investment policies and restrictions

The Company's investment policy, as approved by shareholders, is that:

- funds will be invested principally in UK companies with a market capitalisation of up to £500 million at the point of investment;
- a maximum of 20% of the Company's portfolio may be invested in companies without reference to their market capitalisation at the discretion of the Investment Manager;
- the Company will invest in the ordinary shares of companies either listed on the Official List and traded on the London Stock Exchange's Main Market or traded on the London Stock Exchange's Alternative Investment Market;
- 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; and
- the Company will not invest in the securities of other investment trusts or in unquoted companies.

The Chairman's report on pages 5 and 6 and the Investment Manager's report on pages 7 to 11 give details of the Company's activities during the financial year under review.

Performance analysis using key performance indicators

At each quarterly Board meeting the Directors consider a number of key performance indicators ('KPIs') to assess the Company's success in achieving its objectives, for example, the net asset value ('NAV'), the movement in the Company's share price, the discount of the share price in relation to the NAV, the dividend per share and the total expense ratio.

- The Company's Income statement is set out on page 30.
- A total dividend for the year to 30 April 2008 of 13.65p (2007: 13.00p) per Ordinary share has been paid to shareholders by way of three quarterly payments of 3.20p per Ordinary share and a fourth dividend payment of 4.05p per Ordinary share.
- The NAV per Ordinary share at 30 April 2008 was 149.32p (2007: 266.32p).

Report of the Directors (continued)

- The total expense ratio (including investment management fee and other expenses but excluding performance fee and exceptional items) for the year ended 30 April 2008 was 1.93% (2007: 1.72%).

Principal risks

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

Market risk

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

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

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

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

Discount volatility

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

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

Regulatory risks

A breach of Companies Act regulations and FSA rules may result in the Company being liable to fines or the suspension of the Company from the London Stock Exchange. The Board, with its advisers, monitors the Company's regulatory obligations both on an ongoing basis and at quarterly Board meetings.

Financial risk

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

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

Report of the Directors (continued)

Banking

A breach of the loan covenants may lead to funding being reduced or withdrawn. The Board monitors compliance with the loan covenants at each Board meeting and regularly reviews the loan and overdraft facilities, and the requirement for them, with the Investment Manager.

A more detailed explanation of the risks facing the Company are given in note 26 to the financial statements on pages 48 to 52.

Current and future developments

A review of the main features of the year is contained in the Chairman's report on pages 5 and 6 and the Investment Manager's report on pages 7 to 11.

The marketing and promotion of the Company will continue to involve the Board, led by the Investment Manager, with a proactive communications programme either directly or through its website, with existing and potential new shareholders and other external parties.

The Directors are seeking to renew the appropriate powers at the next Annual General Meeting to enable the issue and buy back of shares, when it is in shareholders' interests as a whole.

Dividends paid

		30 April 2008	30 April 2007
	Payment date	pence	pence
First interim	28 September 2007	3.20	3.00
Second interim	31 December 2007	3.20	3.00
Third interim	28 March 2008	3.20	3.00
Fourth interim	30 June 2008	4.05	4.00
		13.65	13.00

The Directors have not recommended a final dividend in respect of the year ended 30 April 2008.

Report of the Directors (continued)

Directors

The Directors who served during the year ended 30 April 2008 were as follows:

Lord Lamont
J E Chappell (retired 27 September 2007)
D Harris
B N Lenygon
W van Heesewijk

None of the Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements during the year. None of the Directors has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company, and which was effected by the Company during the current financial year.

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

Directors' beneficial and family interests

	30 April 2008	30 April 2007
	Ordinary shares	Ordinary shares
Lord Lamont	5,261	1,684
B N Lenygon	1,000	1,000
D Harris	5,802	5,802
W van Heesewijk	59,182	18,877

Lord Lamont has purchased an additional 922 Ordinary shares since 30 April 2008 as a result of regular purchases through a monthly savings plan.

Report of the Directors (continued)

Substantial shareholdings

The Directors have been notified of the following substantial interests in the voting shares of the Company at 15 July 2008:

Ordinary shares	Number of shares	% of voting shares
Charles Stanley Group PLC	1,840,101	11.32
Jupiter Asset Management Ltd	1,403,000	8.63
<i>Jupiter Monthly Income Fund Ltd</i>	<i>1,403,000</i>	<i>8.63</i>
Dartmoor Investment Trust PLC	1,250,000	7.69
New Star Asset Management	1,240,353	7.63
<i>New Star Equity Income Unit Trust</i>	<i>740,353</i>	<i>4.55</i>
<i>New Star Maximum Income Portfolio</i>	<i>500,000</i>	<i>3.08</i>
Philip J Milton & Company	1,205,020	7.42
Consistent Practical Investment Fund Limited	875,000	5.38
London & St Lawrence Investment Company PLC	875,000	5.38
Midas Capital	792,008	4.87
<i>iimia Income Fund</i>	<i>400,000</i>	<i>2.46</i>
<i>Midas Balanced Income Fund</i>	<i>330,000</i>	<i>2.03</i>
<i>iimia Private Clients</i>	<i>62,008</i>	<i>0.38</i>

Report of the Directors (continued)

Annual General Meeting

The Notice of the Annual General Meeting is set out on pages 54 and 55. In addition to the Ordinary business of the Meeting, resolutions 5, 6, 7 and 8, will be proposed as Special Business. The Directors are seeking to renew the authority to allot new shares up to an aggregate nominal amount of £1,354,166 as set out in Resolution 5. They are also seeking renewed authority to allot a proportion of any shares under the above authority free from statutory pre-emption rights, for up to 10% of the issued shares as set out in Resolution 6. Furthermore the Directors are also seeking to renew the authority to purchase the Company's own shares in the market for cancellation, for up to 14.99% of the issued share capital. These authorities will only be used if to do so is in the interest of all shareholders.

Resolution 8 as set out in the Notice of Meeting, if passed, will adopt new Articles of Association. Company law and best practice have undergone a number of changes since the current Articles of Association of the Company were adopted, particularly since January 2007 when the staged implementation of the Companies Act 2006 commenced. The Board considers that it is prudent to replace the Company's existing Articles with new Articles that take account of those developments (the "New Articles"). A summary of the material changes brought about by the proposed adoption of the New Articles is set out in the Appendix on pages 58 to 60. Other changes, which are of a minor, technical or clarifying nature, have not been noted in the Appendix.

The Board believes that the proposals set out in resolutions 5 to 8 as contained within the Notice of the Annual General Meeting are in the best interests of shareholders as a whole and therefore recommends that shareholders vote in favour of these resolutions.

Management agreements

The Company's investments are managed by Chelverton under an agreement ('the Investment Management Agreement') dated 1 December 2005. The management fees are as follows:

- a) a periodic fee payable quarterly in arrears at an annual rate of 1% of the value of the gross assets under management of the Company; and
- b) a performance fee equal to 10% of the amount by which the net asset value plus dividends paid during the year exceed 10% compounded, subject to certain conditions and capped at 1% of shareholders' funds.

The Investment Management Agreement may be terminated by twelve months written notice.

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

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

Report of the Directors (continued)

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 2008 all suppliers' invoices received had been settled.

Section 992 Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006.

- The Company's capital structure and voting rights are summarised on page 1.
- Details of the substantial shareholders in the Company are listed on page 16.
- The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and are discussed on page 21.
- Amendment of the Company's Articles of Association and the giving of powers to issue or buy back the Company's shares require a special resolution to be passed by shareholders. The Board's current powers to issue or buy back shares and proposals for their renewal are detailed on page 17.
- There are: no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

ISAs

The current portfolio of the Company is such that its shares are eligible investments for inclusion in Individual Savings Accounts.

Financial instruments

As part of its normal operations, the Company holds financial assets and financial liabilities. Full details of the role of financial instruments in the Company's operations are set out in note 26 to the financial statements.

Auditors

The Auditors, Hazlewoods LLP, 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.

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

By order of the Board

Capita Sinclair Henderson Limited

Secretary

16 July 2008

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 Combined Code on Corporate Governance ('the Combined Code')

The Directors have reviewed the detailed principles outlined in the Combined Code and confirm that, to the extent that they are relevant to the Company's business, they have complied with the provisions of the Combined Code throughout the year ended 30 April 2008 except in respect of those procedures described in this section as being non-compliant and that the Company's current practice is in all material respects consistent with the principles of the Combined Code.

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

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

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

- Due to the size of the Board formal performance evaluations of the Chairman, the Board, its committees and individual Directors are not undertaken. Instead it is felt more appropriate to address matters as and when they arise. (Code provisions A.6, A.7.2).
- Due to the size of the Board, it is also felt inappropriate to appoint a senior independent non-executive director (A.3.3).
- The Directors do not have service contracts, but all are required to retire and seek re-election at least every three years. The recommendation of the Code is for fixed term renewable contracts (B.1.6).
- As the Company has had no staff, other than Directors, there are no procedures in place in relation to whistle – blowing (C.3.4).

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 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 Investment Manager, Administrator or Secretary.

Statement on corporate governance (continued)

The management of the Company's assets is delegated to Chelverton. At each Board meeting, representatives of Chelverton are in attendance to present verbal and written reports covering its activity, portfolio composition and investment performance over the preceding period. Ongoing communication with the Board is maintained between formal meetings. The Investment Manager ensures that Directors have timely access to all relevant management and financial information to enable informed decisions to be made and contact the Board as required for specific guidance. The Company Secretary and Investment Manager prepare briefing notes for Board consideration on matters of relevance, for example changes to the 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 includes 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 and incorporate the best practice recommendations and requirements of the Combined Code. The terms of reference can be inspected at the Registered Office.

Board membership

At the year end the Board consisted of four Directors, all of whom are non-executive. 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 2008. 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 2008 the Board met four times and all Directors were present at all Board Meetings.

Chairman and Senior Independent Director

The Chairman, Lord Lamont, is independent. He 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. The Company does not have a chief executive officer, as it has no executive directors.

Directors' independence

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

The Combined 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.

Mr Lenygon is a director of another company managed by Chelverton; however his fellow Directors consider that he clearly and effectively demonstrates his independence of the Manager and they consider him to be independent.

Statement on corporate governance (continued)

Lord Lamont, Mr Harris and Mr Lenygon are deemed to be independent of the Investment Manager. Mr van Heesewijk is not independent by virtue of his employment with the Investment Manager. The majority of the Board, being three of the four Directors, is therefore independent. In accordance with the requirements of the Listing Rules Mr van Heesewijk is subject to annual re-election due to his connection with the Investment Manager.

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. The Board has reviewed the appointment of those Directors retiring at the forthcoming Annual General Meeting prior to submission for their re-election. Furthermore the Board recommends that shareholders vote for Mr van Heesewijk as it believes his performance to be effective, that he demonstrates commitment to his role as a non-executive Director of the Company and has actively contributed throughout the year.

Audit Committee

The Audit Committee comprises the independent Directors, with Mr Lenygon as Chairman. The Committee met once during the year ended 30 April 2008. Each Committee member was present. It is intended that the Committee will meet at least once a year, 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 Auditors' independence and objectivity and the effectiveness of the audit process and to 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, Hazlewoods LLP, and representatives of Hazlewoods LLP attend the year end Audit Committee meeting. On the basis of this meeting the Audit Committee has been able to assess the effectiveness of the external audit. A formal statement of independence is received from the external Auditors each year.

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 independent Directors, with Mr Lenygon as Chairman. The Committee will meet as necessary to review the performance of the Investment Manager's obligations under the Investment Management Agreement and to consider any variation to the terms of the Agreement. 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.

Nominations Committee

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

Statement on corporate governance (continued)

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 and ensuring that the present incumbents have sufficient time to undertake them.

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

Remuneration Committee

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

Under Listing Rule 15.6.6, the Code principles relating to directors' remuneration do not apply to an investment trust company other than to the extent that they relate specifically to non-executive directors. Detailed information on the remuneration arrangements can be found in the Directors' remuneration report on pages 25 and 26 and in note 6 to the financial statements.

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.

Statement on corporate governance (continued)

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:

- 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 Chelverton. The Board is responsible for the implementation of the overall investment policy and monitors the actions of the Investment Manager at regular Board meetings;
- the provision of administration, accounting and company secretarial duties is the responsibility of Capita Sinclair Henderson Limited;

Statement on corporate governance (continued)

- 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;
- the non-executive Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved; the Board monitors their ongoing performance and contractual arrangements;
- mandates for authorisation of investment transactions and expense payments are set by the Board; and
- the Board reviews detailed financial information provided by the Administrator on a regular basis.

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

Dialogue with shareholders

Communication with shareholders is given a high priority by both the Board and the Investment Manager and all Directors are available to enter into dialogue with shareholders. Major shareholders of the 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 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 Chairman 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 given on page 62. The Company always responds to letters from individual shareholders.

The Annual and Half Yearly 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 available for downloading from the Investment Manager's website www.chelvertonam.com and on request from the Company Secretary on 01392 412122. Copies of the Annual Report are mailed to shareholders.

Directors' remuneration report

The Board has prepared this report, in accordance with Schedule 7A to the Companies Act 1985. An ordinary resolution will be put to the members to approve the Report at the forthcoming Annual General Meeting.

The law requires your Company's Auditors to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 28 and 29.

Remuneration Committee

The Company has a Remuneration Committee comprising the whole Board, with Mr Lenygon as Chairman, which considers and approves Directors' remuneration.

Policy on Directors' fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, and is determined with reference to comparable organisations and appointments. It is intended that this policy will continue for the year ending 30 April 2009.

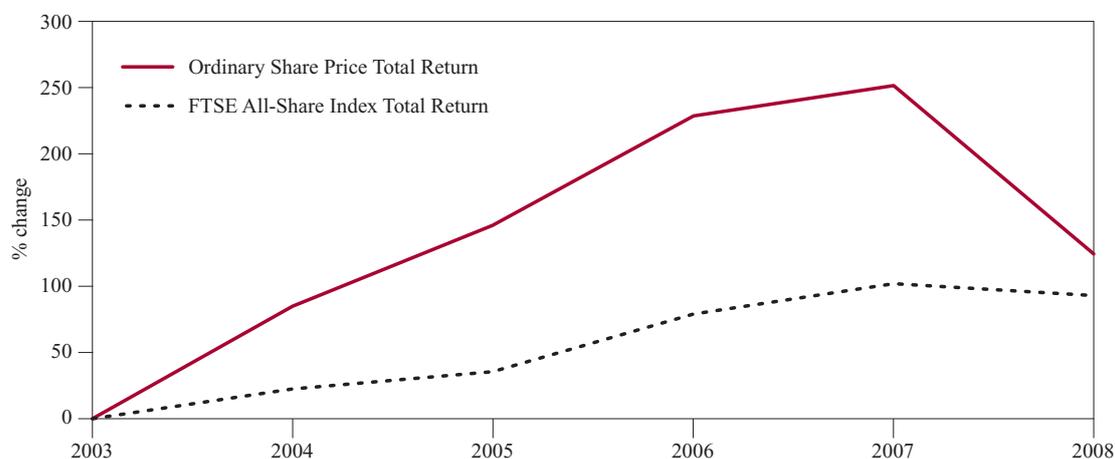
The fees of the non-executive Directors are determined within the limits set out in the Company's Articles of Association. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Director's service contracts

None of the Directors has a contract of service with the Company, nor has there been any contract or arrangement between the Company and any Director at any time during the year. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first annual general meeting after their appointment, and at least every three years after that.

Your Company's performance

The graph below compares the total return (assuming all dividends are reinvested) to Ordinary shareholders, compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. The FTSE All-Share Index has been selected as it is considered to represent a broad equity market index against which the performance of the Company's assets may be adequately assessed.



Directors' remuneration report (continued)

Directors' emoluments for the year (audited)

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

	2008	2007
	£	£
Lord Lamont (Chairman)	20,000	20,000
J E Chappell (retired 27 September 2007)	6,125	15,000
D Harris	15,000	15,000
B N Lenygon	20,000	20,000
W van Heesewijk*	—	—

* Mr van Heesewijk has waived his entitlement to fees.

Approval

The Directors' remuneration report on pages 25 and 26 was approved by the Board on 16 July 2008.

Lord Lamont of Lerwick

Chairman

Statement of Directors' responsibilities

in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations for each financial period, and that to the best of the Directors' knowledge the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company for the period then ended. The Directors have elected to prepare the financial statements for the year ended 30 April 2008 in accordance with International Financial Reporting Standards as adopted by the EU. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for:

- the financial statements contained on pages 30 to 52 of this document, and that the financial statements contain a true and fair review of the development and performance of the Company's business and the position of the Company;
- the description of the principal risks to the Company which are detailed in full on page 13 of this document;
- ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Company thus enabling them to ensure that its financial statements comply with the Companies Act 1985;
- safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities;
- maintaining the integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions; and
- preparing a Report of the Directors, Statement of corporate governance and Directors' remuneration report that comply with applicable law and regulations.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The responsibilities of the Auditors in relation to the financial statements are set out in the Independent Auditor's report on pages 28 and 29.

On behalf of the Board of Directors

Lord Lamont of Lerwick

Chairman

16 July 2008

Independent Auditors' report

to the members of Small Companies Dividend Trust PLC

We have audited the financial statements of Small Companies Dividend Trust PLC for the year ended 30 April 2008 which comprise the Income statement, the Statement of changes in net equity, the Balance sheet, the Statement of cash flows and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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, the Directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Statement on corporate governance reflects the Company's compliance with the nine provisions of the 2006 Combined 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors, the unaudited part of the Directors' remuneration report, the Chairman's report, the Investment Manager's report, the Company summary, the Financial highlights, details of the Directors, Investment Manager and Secretary, and the Statement on corporate governance. 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.

Independent Auditors' report (continued)

to the members of Small Companies Dividend Trust PLC

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments 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.

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 and the part of the Directors' remuneration report to be audited 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 and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 30 April 2008 and of its net revenue and total return for the year then ended;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Hazlewoods LLP, Gloucester

Chartered Accountants & Registered Auditors

16 July 2008

Income statement

for the year ended 30 April 2008

	Note	2008			2007		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investments							
(Losses)/gains on investments	11	–	(17,645)	(17,645)	–	5,306	5,306
Investment income							
	2	2,757	–	2,757	2,846	–	2,846
Expenses							
Investment management fee	3	(116)	(350)	(466)	(177)	(531)	(708)
Other expenses	4	(200)	–	(200)	(233)	–	(233)
Exceptional item	5	–	73	73	–	(269)	(269)
		(316)	(277)	(593)	(410)	(800)	(1,210)
Net return before finance costs and taxation							
		2,441	(17,922)	(15,481)	2,436	4,506	6,942
Finance costs							
	7	(249)	(773)	(1,022)	(127)	(1,283)	(1,410)
Net return before taxation							
		2,192	(18,695)	(16,503)	2,309	3,223	5,532
Taxation							
	8	(7)	–	(7)	(11)	–	(11)
Net return after taxation							
		2,185	(18,695)	(16,510)	2,298	3,223	5,521
		Revenue pence	Capital pence	Total pence	Revenue pence	Capital pence	Total pence
Return per:							
Ordinary share	10	13.45	(115.05)	(101.60)	14.14	19.84	33.98

The total column of this statement is the Income statement of the Company, prepared in accordance with International Financial Reporting Standards ('IFRS').

All items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

These financial statements have been prepared under IFRS.

The notes on pages 34 to 52 form part of these financial statements.

Statement of changes in net equity

for the year ended 30 April 2008

	Note	Share capital £'000	Share premium account £'000	Capital reserve £'000	Hedge reserve £'000	Revenue reserve £'000	Total £'000
Year ended 30 April 2008							
30 April 2007		4,063	11,917	25,435	–	1,861	43,276
Net return after taxation for the year		–	–	(18,695)	–	2,185	(16,510)
Dividends paid	9	–	–	–	–	(2,210)	(2,210)
Movement in cashflow hedges taken to equity		–	–	–	(291)	–	(291)
30 April 2008		<u>4,063</u>	<u>11,917</u>	<u>6,740</u>	<u>(291)</u>	<u>1,836</u>	<u>24,265</u>
Year ended 30 April 2007							
30 April 2006		4,063	11,917	22,212	–	1,635	39,827
Net return after taxation for the year		–	–	3,223	–	2,298	5,521
Dividends paid	9	–	–	–	–	(2,072)	(2,072)
30 April 2007		<u>4,063</u>	<u>11,917</u>	<u>25,435</u>	<u>–</u>	<u>1,861</u>	<u>43,276</u>

These financial statements have been prepared under IFRS.

The notes on pages 34 to 52 form part of these financial statements.

Balance sheet

as at 30 April 2008

	Note	2008 £'000	2007 £'000
Non-current assets			
Fair value through profit or loss investments	11	<u>34,077</u>	<u>59,001</u>
Current assets			
Trade and other receivables	13	573	877
Cash and cash equivalents		<u>79</u>	<u>247</u>
		<u>652</u>	<u>1,124</u>
Total assets		<u>34,729</u>	<u>60,125</u>
Current liabilities			
Trade and other payables	14	(173)	(363)
Bank overdraft		–	(4,912)
Loan Note	16	–	(6,258)
Commitment to subscribe for shares	18	–	(5,316)
		<u>(173)</u>	<u>(16,849)</u>
Total assets less current liabilities		<u>34,556</u>	<u>43,276</u>
Non-current liabilities			
Bank loan	15	(10,000)	–
Derivative financial instruments	17	(291)	–
		<u>(10,291)</u>	<u>–</u>
Total liabilities		<u>(10,464)</u>	<u>(16,849)</u>
Net assets		<u>24,265</u>	<u>43,276</u>
Represented by:			
Share capital	19	4,063	4,063
Share premium account	20	11,917	11,917
Capital reserve	20	6,740	25,435
Hedge reserve	20	(291)	–
Revenue reserve	20	<u>1,836</u>	<u>1,861</u>
Issued capital and reserves		<u>24,265</u>	<u>43,276</u>

These financial statements have been prepared under IFRS.

The notes on pages 34 to 52 form part of these financial statements.

These financial statements were approved by the Board and authorised for issue on 16 July 2008.

Lord Lamont of Lerwick, Chairman

Statement of cash flows

for the year ended 30 April 2008

	Note	2008 £'000	2007 £'000
Operating activities			
Investment income received		2,809	2,858
Bank deposit interest received		11	8
Investment management fee paid		(556)	(709)
Investment management performance fee paid		–	(243)
Administration and secretarial fees paid		(55)	(57)
Exceptional expenses paid		–	(195)
Other cash payments		(172)	(169)
Cash generated from operations		2,037	1,493
Loan interest paid		(995)	(532)
Other costs in respect of former subsidiary company		(26)	–
Net cash inflow from operating activities	22	1,016	961
Investing activities			
Purchases of investments		(6,213)	(14,502)
Sales of investments		13,725	20,110
Net cash inflow from investing activities		7,512	5,608
Financing activities			
Advance/(repayment) of loan		10,000	(5,000)
Dividends paid		(2,210)	(2,072)
Repayment of Loan Note		(6,258)	–
Repayment of commitment to subscribe for shares		(5,316)	–
Net cash outflow from financing activities		(3,784)	(7,072)
Increase/(decrease) in cash and cash equivalents for year	23	4,744	(503)
Cash and cash equivalents at start of year	24	(4,665)	(4,162)
Cash and cash equivalents at end of year	24	79	(4,665)

These financial statements have been prepared under IFRS.

The notes on pages 34 to 52 form part of these financial statements.

Notes to the financial statements

as at 30 April 2008

1 ACCOUNTING POLICIES

Small Companies Dividend Trust PLC is a company domiciled in the United Kingdom.

Basis of preparation

The financial statements of the Company have been prepared in conformity with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board (as adopted by the European Union) and Interpretations issued by the International Financial Reporting Interpretations Committee, and applicable requirements of United Kingdom company law, and reflect the following policies which have been adopted and applied consistently.

At the date of authorisation of these financial statements the following Standards and Interpretations which are relevant to the annual financial statements and have not been applied in these financial statements were in issue but not yet effective:

- IAS 1: (revised) Presentation of Financial Statements (effective 1 January 2009).
- IAS 23: (revised March 2007) Borrowing costs (effective 1 January 2009).
- IAS 27: (revised January 2008) Consolidated and separate financial statements (effective 1 July 2009).
- Amendment to IAS 32: Financial Instruments (effective 1 January 2009).
- Amendment to IFRS 2: (January 2008) Share based payment (effective 1 January 2009).
- IFRS 3: (revised January 2008) Business Combinations (effective 1 July 2009).
- IFRS 8: Operating segments (effective 1 January 2009).
- IFRS 13: Customer Loyalty Programmes (effective 1 July 2008).
- IFRIC14: IAS 19 – The Limit on a Defined Benefit Asset, minimum funding requirements and their interaction (effective 1 January 2009).
- A further 15 standards were amended on 22 May 2008 as part of the IASB's annual improvements project (effective 1 January 2009).

The Directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the Company when the relevant standards come into effect.

Notes to the financial statements (continued)

as at 30 April 2008

1 ACCOUNTING POLICIES (continued)

Convention

The financial statements are presented in Sterling rounded to the nearest thousand. The financial statements have been prepared on a going concern basis under the historical cost convention, except for the measurement at fair value of investments classified as fair value through profit or loss and interest rate swaps taken out as cash flow hedges. Where presentational guidance set out in the Statement of Recommended Practice regarding the Financial Statements of Investment Trust Companies ('SORP'), issued in 2003 and revised in December 2005, is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

Segmental reporting

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

Investments

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

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

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

Derivative financial instruments and hedge accounting

It is the Company's policy not to trade in derivative financial instruments. However, the Company does have two interest rate swaps taken out as cash flow hedges to mitigate its exposure to interest rate changes on its £10 million loan which is subject to a variable rate of interest.

All derivatives are recognised at their fair value. The method of recognising movements in the fair value of derivatives depends on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Derivatives are only designated as hedges provided certain strict criteria are met. At the inception of a hedge its terms must be clearly documented and there must be an expectation that the derivative will be highly effective in offsetting changes in the cash flow of the hedged risk. The effectiveness of the hedging relationship is tested throughout its life and if at any point it is concluded that it is no longer highly effective in achieving the hedge relationship is terminated.

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges (being the interest rate swaps) is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income statement.

Notes to the financial statements (continued)

as at 30 April 2008

1 ACCOUNTING POLICIES (continued)

Trade date accounting

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

Income

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

Expenses

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

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

The Company’s investment management fees, bank interest and all other expenses are allocated to revenue with the exception of 75% (2007: 75%) of the investment manager’s fee, 75% (2007: 75%) of bank and loan interest and 100% of the provision for the Investment Manager’s performance fee, all of which are allocated to capital. In respect of the investment management fee, bank and loan interest allocation to revenue and capital this is in line with the Board’s expected long term split of returns, in the form of income and capital gains respectively, from the investment portfolio of the Company. This expectation was revised in the previous financial year based on a review of historical performance which the Board believe is the best current indication of future returns.

Cash and cash equivalents

Cash in hand and in banks and short-term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts that are repayable on demand which form an integral part of the Company’s cash management are included as a component of cash and cash equivalents for the purpose of the Statement of cash flows.

Bank loans and borrowings

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

Notes to the financial statements (continued)

as at 30 April 2008

1 ACCOUNTING POLICIES (continued)

Taxation

There is no charge to income tax as the Company's allowable expenses exceed its taxable income. Deferred tax assets in respect of unrelieved excess expenses are not recognised as it is unlikely that the Company will generate sufficient taxable income in the future to utilise these expenses.

Dividends payable to shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid or approved in general meetings and are charged to the Statement of changes in net equity. Dividends declared and approved by the Company after the Balance sheet date have not been recognised as a liability of the Company at the Balance sheet date.

2 INCOME	2008	2007
	£'000	£'000
Income from listed investments		
UK net dividend income	2,722	2,766
Unfranked foreign dividend income	24	72
	<u>2,746</u>	<u>2,838</u>
Other income		
Bank interest receivable	11	8
	<u>2,757</u>	<u>2,846</u>
Total income comprises:		
Dividends	2,746	2,838
Interest	11	8
	<u>2,757</u>	<u>2,846</u>

3 INVESTMENT MANAGEMENT FEE

	2008			2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	110	332	442	151	452	603
Irrecoverable VAT thereon	6	18	24	26	79	105
	<u>116</u>	<u>350</u>	<u>466</u>	<u>177</u>	<u>531</u>	<u>708</u>

At 30 April 2008 there were amounts outstanding of £87,000 (2007: £177,000, including VAT).

A performance fee was not payable for the year ended 30 April 2007 or for the year ended 30 April 2008.

Notes to the financial statements (continued)

as at 30 April 2008

3 INVESTMENT MANAGEMENT FEE (continued)

In 2004 the Association of Investment Companies ('AIC') and J.P.Morgan Claverhouse ('Claverhouse') brought a case against HM Revenue & Customs to challenge the VAT charge on management fees paid by investment trusts. The case was referred to the European Court of Justice and in a ruling in June 2007 it upheld the AIC/Claverhouse claim. The immediate effect is that invoices from the Investment Manager will no longer include VAT.

The Board is awaiting further clarification from HM Revenue & Customs on the timetable and procedure for reclaiming VAT paid on investment management fees since 1 January 2001. There may also be scope for recovering certain VAT paid in relation to earlier periods. At the current time the Board is not recognising the potential back claim in its results nor its published NAV.

The irrecoverable VAT charged during the year has been affected as a consequence of the above ruling. The Company was charged VAT on fees for the quarters to 31 July and 31 October 2007, but no VAT was charged for the quarters to 31 January and 30 April 2008.

4 OTHER EXPENSES	2008	2007
	£'000	£'000
Administrative and secretarial fee*	55	56
Directors' remuneration	61	70
Auditors' remuneration:		
audit services*	19	18
non audit services*	–	–
Insurance	14	16
Other expenses*	51	73
	<hr/>	<hr/>
	200	233
	<hr/>	<hr/>

*The above amounts include irrecoverable VAT where applicable.

5 EXCEPTIONAL ITEM

The exceptional item in the year ended 30 April 2008 of £73,000 relates to the release of a provision for professional fees incurred in respect of advice and general meetings called to propose a deferral of the redemption date of the Zero Dividend Preference shares of the former subsidiary company no longer considered likely to be paid. In the year ended 30 April 2007 a charge of £269,000 was recognised in respect of such costs.

Notes to the financial statements (continued)

as at 30 April 2008

6 DIRECTORS' REMUNERATION

	2008	2007
	£	£
Total fees	61,125	70,000
Remuneration to Directors		
Lord Lamont (Chairman)	20,000	20,000
J E Chappell (retired 27 September 2007)	6,125	15,000
D Harris	15,000	15,000
B N Lenygon	20,000	20,000
W van Heesewijk*	–	–

* Mr van Heesewijk has waived his entitlement to fees.

7 FINANCE COSTS

	2008			2007		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Bank interest payable on bank overdraft and bank loan	249	747	996	127	383	510
Finance costs in respect of former subsidiary company						
Appropriations in respect of:						
Zero Dividend Preference shares	–	–	–	–	855	855
Preference shares	–	–	–	–	4	4
Amortisation of Zero Dividend Preference share issue costs	–	–	–	–	32	32
Provision for loss in former subsidiary company	–	26	26	–	9	9
	249	773	1,022	127	1,283	1,410

8 TAXATION

	2008	2007
	£'000	£'000
Based on the revenue return for the year		
Current tax	7	11

Notes to the financial statements (continued)

as at 30 April 2008

8 TAXATION (continued)

The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 30% (2007: 30%).

The differences are explained below:

	2008 £'000	2007 £'000
Revenue on ordinary activities before taxation	2,192	2,309
Theoretical tax at UK corporation rate of 30% (2007: 30%)	658	693
Effects of:		
UK dividends which are not taxable	(817)	(830)
Excess expenses in the year	159	137
Withholding tax suffered on foreign dividend income	7	11
Actual current tax charged to the revenue account	7	11

The Company has unrelieved excess expenses of £14,732,000 (2007: £12,194,000). 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.

9 DIVIDENDS

	2008 £'000	2007 £'000
Declared and paid per Ordinary share		
Fourth interim dividend for the year ended		
30 April 2007 of 4.00p (2006: 3.75p)	650	609
First interim dividend paid of 3.20p (2007: 3.00p)	520	487
Second interim dividend paid of 3.20p (2007: 3.00p)	520	488
Third interim dividend paid of 3.20p (2007: 3.00p)	520	488
	2,210	2,072
Proposed per Ordinary share		
Proposed fourth interim dividend for the year ended		
30 April 2008 of 4.05p (2007: 4.00p)	658	650

Notes to the financial statements (continued)

as at 30 April 2008

10 RETURN PER SHARE

Ordinary shares

Revenue return per Ordinary share is based on the net revenue on ordinary activities after taxation of £2,185,000 (2007: £2,298,000) and on 16,250,000 (2007: 16,250,000) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

Capital return per Ordinary share is based on capital losses of £18,695,000 (2007: capital gains £3,223,000) and on 16,250,000 (2007: 16,250,000) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

11 INVESTMENTS

	Listed £'000	AIM £'000	Unlisted £'000	2008 Total £'000
Year ended 30 April 2008				
Opening bookcost	35,495	9,770	101	45,366
Opening unrealised appreciation/(depreciation)	11,557	2,153	(75)	13,635
Opening valuation	47,052	11,923	26	59,001
Movements in the year:				
Purchases at cost	4,745	1,468	–	6,213
Disposals:				
Proceeds	(11,762)	(1,730)	–	(13,492)
Net realised gains on disposals	1,511	233	–	1,744
Reclassification of investment	(2,565)	2,565	–	–
Decrease in unrealised appreciation	(15,110)	(4,279)	–	(19,389)
Closing valuation	23,871	10,180	26	34,077
Closing book cost	27,424	12,306	101	39,831
Closing unrealised depreciation	(3,553)	(2,126)	(75)	(5,754)
	23,871	10,180	26	34,077
Realised gains on disposals	1,511	233	–	1,744
Decrease in unrealised appreciation	(15,110)	(4,279)	–	(19,389)
Losses on investments	(13,599)	(4,046)	–	(17,645)

Notes to the financial statements (continued)

as at 30 April 2008

11 INVESTMENTS (continued)

	Listed	AIM	Unlisted	2007
Year ended 30 April 2007	£'000	£'000	£'000	Total
				£'000
Opening bookcost	34,087	9,839	101	44,027
Opening unrealised appreciation/(depreciation)	14,167	1,620	(75)	15,712
Opening valuation	48,254	11,459	26	59,739
Movements in the year:				
Purchases at cost	12,093	2,191	–	14,284
Disposals:				
Proceeds	(17,914)	(2,414)	–	(20,328)
Realised gains on disposals	7,229	154	–	7,383
(Decrease)/increase in unrealised appreciation	(2,610)	533	–	(2,077)
Closing valuation	47,052	11,923	26	59,001
Closing book cost	35,495	9,770	101	45,366
Closing unrealised appreciation/(depreciation)	11,557	2,153	(75)	13,635
	47,052	11,923	26	59,001
Realised gains on disposals	7,229	154	–	7,383
Increase in unrealised appreciation	(2,610)	533	–	(2,077)
Gains on investments	4,619	687	–	5,306

Transaction costs

During the year the Company incurred transaction costs of £50,000 (2007: £53,000) and £39,000 (2007: £71,000) on purchases and sales of investments respectively. These amounts are included in gains on investments, as disclosed in the Income statement.

Notes to the financial statements (continued)

as at 30 April 2008

12 SIGNIFICANT INTERESTS

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

Name of undertaking	Class of share	30 April 2008	
			% held
ATA Group	Ordinary		5.209
Sanderson Group	Ordinary		4.610
Victoria	Ordinary		4.321
Sinclair (Williams) Holdings	Ordinary		4.078
THB Group	Ordinary		3.860
Stadium Group	Ordinary		3.298
Portmeirion Group	Ordinary		3.282
Avesco Group	Ordinary		3.197
Chamberlin	Ordinary		3.160
Macfarlane Group	Ordinary		3.043

13 TRADE AND OTHER RECEIVABLES – amounts falling due within one year

	2008	2007
	£'000	£'000
Sales for future settlement	5	238
Dividends receivable	564	632
Prepayments and accrued income	4	7
	<u>573</u>	<u>877</u>

14 TRADE AND OTHER PAYABLES – amounts falling due within one year

	2008	2007
	£'000	£'000
Other payables	<u>173</u>	<u>363</u>

The Company has an undrawn bank overdraft facility of £6.5 million which is secured by a first legal charge over the Company's investment portfolio.

Since the year end this facility has been renewed at £3.0 million.

15 BANK LOAN

	2008	2007
	£'000	£'000
Bank loan	<u>10,000</u>	<u>–</u>

The bank loan is secured by a first legal charge over the Company's investment portfolio.

The loan is repayable on 1 May 2014.

Notes to the financial statements (continued)

as at 30 April 2008

16 UNSECURED LOAN NOTE

On 25 May 1999 the Company issued a Loan Note to its then Subsidiary with a value of £6,258,000. The Loan Note was non-interest bearing and was redeemable at par on 30 April 2007 on the winding up of the Subsidiary. The costs of issuing this Loan Note were amortised through the capital reserve.

	2008 £'000	2007 £'000
Value at 1 May 2007	6,258	6,226
Amortisation of costs	–	32
Repayment of Loan Note	<u>(6,258)</u>	<u>–</u>
Value at 30 April 2008	<u>–</u>	<u>6,258</u>

The Loan Note was settled on 3 May 2007.

17 DERIVATIVE FINANCIAL INSTRUMENTS

An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments based upon interest rates defined in the contract without the exchange of the underlying principal amounts. In each case noted below the Company has swapped its obligation to pay variable rates of interest for a fixed rate. The swaps are 100% effective cashflow hedges and the fair value has been deferred in equity. The fair value at the end of the financial year of interest rate swaps designated as cashflow hedges was estimated as follows:

	2008 £'000	2007 £'000
£5,000,000 fixed at 6.3175% for floating interest rate swap expiring 12 July 2010	117	–
£5,000,000 fixed at 6.2475% for floating interest rate swap expiring 10 July 2012	<u>174</u>	<u>–</u>
	<u>291</u>	<u>–</u>

18 COMMITMENT TO REPAY CAPITAL ENTITLEMENT OF ZERO DIVIDEND PREFERENCE SHARES AND PREFERENCE SHARES

The Company entered into an agreement with its then Subsidiary, pursuant to which the Company subscribed on 30 April 2007 for one Ordinary share in the Subsidiary. The subscription would be at such a premium as would result in the assets of the Subsidiary being sufficient to satisfy the capital entitlement on 30 April 2007 of 184.63p per share of the Zero Dividend Preference shares and the Preference shares in issue on that date.

The proceeds from this issue were used by the Subsidiary to subscribe for a Loan Note in the Company. The premium hence in substance reflects a finance cost attributable to the Loan Note.

The capital entitlement of the Zero Dividend Preference shares and the Preference shares increased daily at a compound rate over the period to redemption on 30 April 2007. A provision was made in the financial statements for the Company's commitment to subscribe for the Subsidiary share, equal to the increase in the capital entitlement of the Zero Dividend Preference shares and the Preference shares. This provision was taken to the capital reserve. The commitment was crystallised as a liability on 30 April 2007 on which date the Subsidiary was wound-up.

Notes to the financial statements (continued)

as at 30 April 2008

18 COMMITMENT TO REPAY CAPITAL ENTITLEMENT OF ZERO DIVIDEND PREFERENCE SHARES AND PREFERENCE SHARES (continued)

	2008 £'000	2007 £'000
Value at 1 May 2007	5,316	4,515
Increase in capital entitlement of Zero Dividend Preference shareholders	–	855
Increase in capital entitlement of Preference shareholders	–	4
Revenue reserve profits in Subsidiary	–	(58)
Repayment of commitment to subscribe for shares	(5,316)	–
	<hr/>	<hr/>
Value at 30 April 2008	–	5,316

The liability on 30 April 2007 arising under the commitment to subscribe for shares was repaid on 3 May 2007.

19 SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised		
33,000,000 (2007: 33,000,000) Ordinary shares of 25p each	8,250	8,250
	<hr/>	<hr/>
	8,250	8,250
	<hr/>	<hr/>
Issued, allotted and fully paid		
16,250,000 (2007: 16,250,000) Ordinary shares of 25p each	4,063	4,063
	<hr/>	<hr/>
	4,063	4,063
	<hr/>	<hr/>

As to dividends each year

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

As to capital on winding up

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

Duration

The Directors shall convene an extraordinary general meeting of the Company to be held on 30 April 2014, or if that is not a business day, on the immediately preceding business day ('the First EGM'), at which an ordinary resolution will be proposed to the effect that the Company continues in existence ('the Continuation Resolution'). In the event that such resolution is not passed the Directors shall, subject to the Statutes, put forward further proposals to shareholders regarding the future of the Company (which may include the voluntary liquidation, unitisation or other reorganisation of the Company) ('Restructuring Resolution') at an extraordinary general meeting of the Company to be convened not more than four months after the date of the First EGM (or such adjournment).

Notes to the financial statements (continued)

as at 30 April 2008

19 SHARE CAPITAL (continued)

Duration (continued)

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

20 RESERVES

	Share premium account £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Hedge reserve £'000	Revenue reserve £'000
At 1 May 2007	11,917	11,800	13,635	–	1,861
Net losses on realisation of investments	–	(1,415)	–	–	–
Transfer of gains on disposal of investments	–	3,159	(3,159)	–	–
Movement in unrealised appreciation/(depreciation)	–	–	(16,230)	–	–
Costs charged to capital	–	(1,050)	–	–	–
Net deficit after dividends for the year retained	–	–	–	–	(25)
Movement in fair value of cashflow hedges	–	–	–	(291)	–
At 30 April 2008	11,917	12,494	(5,754)	(291)	1,836
At 1 May 2006	11,917	6,500	15,712	–	1,635
Net gains on realisation of investments	–	1,587	–	–	–
Transfer of gains on disposal of investments	–	5,796	(5,796)	–	–
Movement in unrealised appreciation	–	–	3,719	–	–
Costs charged to capital	–	(2,083)	–	–	–
Retained net revenue for the year	–	–	–	–	226
At 30 April 2007	11,917	11,800	13,635	–	1,861

Notes to the financial statements (continued)

as at 30 April 2008

21 NET ASSET VALUE PER SHARE

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

	Net asset value per share 2008 pence	Net assets attributable to shareholders 2008 £'000	Net asset value per share 2007 pence	Net assets attributable to shareholders 2007 £'000
Ordinary shares	149.32	24,265	266.32	43,276

22 RECONCILIATION OF NET RETURN BEFORE AND AFTER TAXATION TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2008 £'000	2007 £'000
Net return before taxation	(16,503)	5,532
Taxation	(7)	(11)
Net return after taxation	(16,510)	5,521
Net capital return	18,695	(3,223)
Decrease in debtors	71	34
Decrease in creditors	(190)	(188)
Interest and expenses charged to the capital reserve	(1,050)	(1,183)
Net cash inflow from operating activities	1,016	961

23 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2008 £'000	2007 £'000
Increase/(decrease) in cash in year	4,744	(503)
Repayment of loan note	6,258	–
Repayment of commitment to subscribe for shares	5,316	–
Finance costs in respect of former Subsidiary company	–	(833)
(Advance)/repayment of loan	(10,000)	5,000
Change in net debt	6,318	3,664
Net debt at 1 May 2007	(16,239)	(19,903)
Net debt at 30 April 2008	(9,921)	(16,239)

Notes to the financial statements (continued)

as at 30 April 2008

24 ANALYSIS OF CHANGES IN NET DEBT

	At 1 May 2007 £'000	Cash flows £'000	At 30 April 2008 £'000
Cash at bank	247	(168)	79
Overdrafts	(4,912)	4,912	–
	(4,665)	4,744	79
Debts due within one year	(11,574)	11,574	–
Debts due after more than one year	–	(10,000)	(10,000)
	(16,239)	6,318	(9,921)

25 RELATED PARTY TRANSACTIONS

The investments are managed by Chelverton a company in which Mr van Heesewijk, as an employee of the Investment Manager, has an interest. The amounts paid to the Investment Manager are disclosed in note 3.

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

Objectives, policies and strategies

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

The Company borrowed money by way of a short-term £6.5 million bank overdraft facility and bank loan. The £5.0 million bank loan was repaid on 30 March 2007 and a further £10.0 million bank loan taken out in May 2007. These facilities are used for investment purposes and to aid settlement and finance placings until other investments have been reduced.

The Company finances its operations through bank borrowings, equity and retained profits.

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.

Details of the Company's interest rate swaps taken out during the year can be found in note 17. The purpose of these swaps is to fix the interest level over a certain period and reduce interest volatility on the £10 million bank loan.

Notes to the financial statements (continued)

as at 30 April 2008

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

Objectives, policies and strategies (continued)

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

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

Market risk

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

Market price risk

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

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

The Company's exposure to other changes in market prices at 30 April on its investments is as follows;

	2008	2007
	£'000	£'000
Fair value through profit or loss investments	<u>34,077</u>	<u>59,001</u>

Sensitivity analysis

A 10% increase in the market value of investments at 30 April 2008 would have increased net assets attributable to shareholders by £3,408,000 (2007: £5,900,000). An equal change in the opposite direction would have decreased the net assets available to shareholders by an equal but opposite amount.

Foreign currency risk

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

Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the Company's variable rate borrowings.

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

Notes to the financial statements (continued)

as at 30 April 2008

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

Interest rate risk (continued)

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

The Company is exposed to interest rate risk on its variable rate loan and overdraft. The Company has mitigated its exposure to cashflow variations arising from changes in interest rates by taking out two £5 million interest rate swaps as described in note 17. The Company settles the difference between fixed and variable rate on a quarterly basis. Changes in interest rates will however affect the fair value of these derivative instruments. The fair value is determined by obtaining a quotation from the Company's banker of the cost or benefit of closing the contracts.

The Company has cash, a bank overdraft and a loan. These assets and liabilities will be subject to fluctuations in current and future interest rates.

The exposure at 30 April of financial assets and financial liabilities to interest rate risk is as follows:

	Within one year £'000	More than one year £'000	Total £'000
30 April 2008			
Cash and cash equivalents	79	–	79
Bank loan	–	(10,000)	(10,000)
Total exposure to interest rates	<u>79</u>	<u>(10,000)</u>	<u>(9,921)</u>
30 April 2007			
Cash and cash equivalents	247	–	247
Bank overdraft	(4,912)	–	(4,912)
Total exposure to interest rates	<u>(4,665)</u>	<u>–</u>	<u>(4,665)</u>

The Company had an undrawn overdraft facility of £6.5 million. Since the year end this has been renewed at £3.0 million until 31 March 2009. Bank borrowings under this facility incur interest at a rate of 1% above base rate.

A loan of £10.0 million was taken out in May 2007, repayable on 1 May 2014. Bank borrowings under this facility incur interest at a rate of 1% above LIBOR.

Sensitivity analysis

The Directors believe that at 30 April 2008 the interest rate swaps completely mitigate any cashflow risk through increases in interest rates. Though the fair value of the interest rate swap instruments will vary with changes in interest rates.

Notes to the financial statements (continued)

as at 30 April 2008

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

Liquidity risk

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

Under the terms of the bank facilities the Company must comply with the following financial covenants that: (a) the borrowing (including both loan and overdraft) does not at any time exceed 30% of the value of the investment portfolio after deducting (i) the amount by which the value of any single investment exceeds 5% of the value of the investment portfolio; and (ii) the amount by which the aggregate value of all investments in a single industry sector exceeds 20% of the value of the investment portfolio; and (b) the borrowing does not at any time exceed 80% of the value of the investment portfolio after deducting the value of any investment with a market capitalisation that (i) exceeds £500,000,000, by 10% of the value of such investment; (ii) equals or exceeds £75,000,000 but does not exceed £500,000,000, by 40% of the value of such investment; or, (iii) is less than £75,000,000, by 70% of the value of such investment; and (c) profit before interest and taxation is not at any time less than 200% of the aggregate amount of interest paid and payable.

At 30 April 2008, the level of borrowing was 29.3% of the value of the investment portfolio; a further marginal reduction in the market value of investments is likely to require disposal of investments to ensure ongoing compliance with the lending covenant.

The covenant is reviewed frequently and monitored in conjunction with the Bank on a monthly basis.

Financial instruments by category

The financial instruments of the Company fall into the following categories

30 April 2008	At amortised cost £'000	Loans and receivables £'000	Assets at fair value through profit or loss £'000	Derivatives used for hedging £'000	Total £'000
Assets as per Balance sheet					
Investments	–	–	34,077	–	34,077
Trade and other receivables	–	573	–	–	573
Cash and cash equivalents	–	79	–	–	79
Total	–	652	34,077	–	34,729
Liabilities as per Balance sheet					
Trade and other payables	173	–	–	–	173
Bank loan	10,000	–	–	–	10,000
Derivative financial instruments	–	–	–	291	291
Total	10,173	–	–	291	10,464

Notes to the financial statements (continued)

as at 30 April 2008

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

Financial instruments by category (continued)

30 April 2007	At amortised cost £'000	Loans and receivables £'000	Assets at fair value through profit or loss £'000	Derivatives used for hedging £'000	Total £'000
Assets as per Balance sheet					
Investments	–	–	59,001	–	59,001
Trade and other receivables	–	877	–	–	877
Cash and cash equivalents	–	247	–	–	247
Total	–	1,124	59,001	–	60,125
Liabilities as per Balance sheet					
Trade and other payables	363	–	–	–	363
Bank overdraft	–	4,912	–	–	4,912
Loan note	6,258	–	–	–	6,258
Commitment to subscribe for shares	5,316	–	–	–	5,316
Total	11,937	4,912	–	–	16,849

27 POST BALANCE SHEET EVENTS

Since 30 April 2008 there has been a further period of stock market volatility resulting in a reduction in the value of the investment portfolio. The value of the investment portfolio has also been reduced by realisation of investments.

On 11 July 2008 the Company repaid £3 million of its loan facility to avoid a breach of one of its borrowing covenants. The Company currently has £7 million drawn down under the loan facility. The Company has renewed its overdraft facility for £3 million until 30 March 2009, which is currently undrawn.

As at the close of trading on 11 July 2008 the value of the investment portfolio stood at approximately £24 million following the net disposal of investments since 30 April 2008 which realised £3.075 million.

Shareholder information

Financial calendar

Company's year end	30 April
Interim dividends paid	March, June, September and December
Annual results announced	July
Annual General Meeting	September
Company's half year	31 October
Half year results announced	December

Share prices and performance information

The Company's Ordinary shares are listed on the London Stock Exchange. The mid-market prices are quoted daily in the Financial Times under 'Investment Companies'.

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

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

Share register enquiries

The register for the Ordinary shares is maintained by Equiniti Limited. 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.

Interim management statements

Under the New Disclosure and Transparency Rules DTR 4.3.2R the Company is required to publish interim management statements. These statements are released to the London Stock Exchange and are also available on the Company's website www.chelvertonam.com.

Small Companies Dividend Trust PLC

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 11.30 a.m. on Wednesday, 24 September 2008 at St Stephen's Club, 34 Queen Anne's Gate, London SW1H 9AB for the following purposes:

Ordinary Business

- 1 To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2008.
- 2 To receive and approve the Directors' remuneration report.
- 3 To re-elect Mr W van Heesewijk as a Director.
- 4 To reappoint Hazlewoods LLP as Auditors and to authorise the Directors to determine their remuneration.

Special Business

To consider and, if thought fit, to pass the following Resolutions of which Resolution 5 will be proposed as an Ordinary Resolution and Resolutions 6, 7 and 8 will be proposed as Special Resolutions.

- 5 THAT, the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ('the Act') to exercise all or any powers of the Company to allot relevant securities (as defined in section 80(2) of the Act up to an aggregate nominal amount of £1,354,166 during the period commencing on the date of the passing of this resolution and expiring (unless previously renewed, varied or revoked by the Company in general meeting) on the date of the next Annual General Meeting of the Company ('the section 80 period'), whichever is the earlier, but so that the Directors may, at any time prior to the expiry of the section 80 period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of the section 80 period and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority had not expired.
- 6 THAT, the Directors be and are hereby empowered, pursuant to section 95 of the Act, to allot and make offers or agreements to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority referred to in Resolution 6 above and to sell equity shares (within the meaning of Section 94 of the Act) which are held in treasury as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
 - i) during the period of the said authority but so that such power enables the Directors, at any time prior to the expiry of the said authority, to make offers or agreements which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired;
 - ii) up to an aggregate nominal amount not exceeding £406,250, being 10% of the issued share capital of the Company as at 30 April 2008; and
 - iii) the authority hereby conferred shall expire within 15 months or at the conclusion of the next following Annual General Meeting of the Company, from the passing of this Resolution, unless such authority is renewed prior to such time.

Notice of Annual General Meeting (continued)

- 7 THAT, the Company be and is hereby generally and unconditionally authorised in accordance with section 166 of the Companies Act 1985 ('the Act') to make market purchases (within the meaning of section 163 of the Act) of Ordinary shares of 25p each in the capital of the Company, ('Ordinary shares'), or such terms and in such manner as the Directors may from time to time determine provided that:
- i) the maximum number of Ordinary shares hereby authorised to be purchased shall be 2,435,875 (or, if less, 14.99% of the issued Ordinary share capital immediately following the passing of this Resolution);
 - ii) the minimum price which may be paid for each Ordinary share is 25p;
 - iii) the maximum price which may be paid for each Ordinary share is an amount equal to 105% of the average of the middle market quotations for Ordinary shares taken from the London Stock Exchange Official List for the 5 business days immediately preceding the day on which such Ordinary share is purchased or such other amount as may be specified by the UK Listing Authority from time to time;
 - iv) the authority hereby conferred shall expire within 15 months or at the conclusion of the next following Annual General Meeting of the Company, from the passing of this Resolution, unless such authority is renewed prior to such time; and
 - v) the Company may make a contract to purchase Ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary shares pursuant to any such contract.
8. THAT, the Articles of Association produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By order of the Board
Capita Sinclair Henderson Limited
Secretary
16 July 2008

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

Notice of Annual General Meeting (continued)

Explanatory notes to the notice of meeting

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

Notes

- 1. A member entitled to attend and vote at this meeting may appoint one or more persons as his/her proxy to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If multiple proxies are appointed they must not be appointed in respect of the same shares. To be effective, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, should be lodged at the office of the Company's Registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA not later than 48 hours before the time of the meeting. The appointment of a proxy will not prevent a member from attending the meeting and voting in person if he/she so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll shall have one vote for every ordinary share of which he is the holder.*

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

Any question relevant to the business of the Annual General Meeting may be asked at the meeting by anyone permitted to speak at the meeting. You may alternatively submit your question in advance by letter addressed to the Company Secretary at the registered office.
- 2. A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the Shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.*
- 3. The statements of the rights of members in relation to the appointment of proxies in Note 1 above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.*
- 4. As at 15 July 2008 (being the last business day prior to the publication of this notice) the Company's issued share capital amounted to 16,250,000 Ordinary shares carrying one vote each.*
- 5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Shareholders registered on the Register of Members of the Company as at 11.30 am on 22 September 2008 (or in the event that the meeting is adjourned, only those Shareholders registered on the Register of Members of the Company as at 11.30 am on the day which is 48 hours prior to the adjourned meeting) shall be entitled to attend in person or by proxy and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.*
- 6. In order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the meeting so that: (i) if a corporate Shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that corporate Shareholder present at the meeting then, on a poll, those corporate representatives will give voting directions to the Chairman of the meeting and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate Shareholder attends the meeting but the corporate Shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives in attendance on behalf of the corporate Shareholder who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate Shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in paragraph (i) of this Note 6.*

Notice of Annual General Meeting (continued)

7. *The following documents will be available for inspection at the registered office of the Company, Capita Sinclair Henderson Limited, Beaufort House, 51 New North Road, Exeter, EX4 4EP during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting and on the date of the Annual General Meeting at the St Stephen's Club, 34 Queen Anne's Gate London, SW1H 9AB from 10.30 am until the conclusion of the meeting:*
 - a) *A copy of the Articles of Association of the Company as proposed to be adopted with effect from the passing of resolution 8.*
 - b) *A copy of the current Articles of Association of the Company.*
8. *CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.*

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, in order to be valid, must be transmitted so as to be received by the Company's agent (ID 3RA50) by the latest time for receipt of proxy appointments specified in Note 1 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

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

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

9. *Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.*

Appendix

Resolution 8.

Changes to the Company's Articles of Association

1. Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 ('the 2006 Act') are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution. Examples include provisions as to the form of resolutions, the requirement to keep accounting records, provisions regarding the period of notice required to convene general meetings, the requirement to prepare and lay accounts before the Company's members and the requirement to send accounts to the members.

2. Form of resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being removed as the concept of extraordinary resolutions has not been retained under the 2006 Act. Further, the remainder of the provision is reflected in full in the 2006 Act.

The Current Articles enable members to act by written resolution. Under the 2006 Act public companies can no longer pass written resolutions. These provisions have therefore been removed in the New Articles.

3. Convening General and Annual General Meetings

3.1 The New Articles reflect the fact that the 2006 Act does not contain any references to extraordinary general meetings of shareholders. Under the 2006 Act, any meeting other than an annual general meeting is simply classified as a general meeting.

3.2 The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being removed in the New Articles because the relevant matters are provided for in the Companies Act 2006. In particular a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

4. Votes of members

The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. The new Articles give the Directors discretion, when calculating the time limits, to exclude weekend and bank holidays. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect all of these new provisions.

5. Age of directors on appointment

The Current Articles contain a provision stating that where a general meeting is convened at which, to the knowledge of the board, a director is to be proposed for appointment or reappointment who is at the date of the meeting 70 or more, the board shall give notice of his age in the notice convening the meeting or in a document accompanying the notice. Such a provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

Appendix (continued)

6. Conflicts of interest

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another investment trust (or other company) or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the Articles of Association contain a provision to this effect. The 2006 Act also allows the Articles of Association to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty. The New Articles give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

7. Notice of board meetings

Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad.

8. Records to be kept

The provision in the Current Articles requiring the Board to keep accounting records has been removed as this requirement is contained in the 2006 Act.

9. Distribution of assets otherwise than in cash

The Current Articles contain provisions dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed in the New Articles on the grounds that a provision about the powers of liquidators is a matter for insolvency law rather than the Articles of Association and that the Insolvency Act 1986 confers powers on the liquidator which would enable it to do what is envisaged by the Current Articles.

Appendix (continued)

10. Electronic and web communications

The New Articles continue to allow communications to members in electronic form and, in addition, permit the Company to take advantage of the new provisions in the 2006 Act relating to website communications. The 2006 Act now provides that the Company can communicate with a member by means of website communication; the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

11. It should be noted that the amendments to the New Articles do not of themselves force either the Company or any individual shareholder to send or receive any notices, documents or information electronically. They will however, allow the Company to approach shareholders in the future for their individual agreement to use electronic mail and/or to publish on its website communications of the Company.

12. Directors' indemnities

The 2006 Act further provides that a company which is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. It is therefore proposed that the indemnity provisions in the Current Articles are widened in order to reflect this change.

Glossary of terms

Discount

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

Gearing

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

Net asset value ('NAV')

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

Total expense ratio

The total expenses incurred by a company, including those charged to capital (excluding performance fee and finance costs and exceptional costs) as a percentage of total assets less current liabilities (before deduction of the loan note and commitment to subscribe for shares).

Total return

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

Directors and Advisers

Directors	Lord Lamont of Lerwick (Chairman) Bryan Lenygon David Harris William van Heesewijk
Investment Manager	Chelverton Asset Management Limited 11 George Street Bath BA1 2EH Tel: 01225 483030
Secretary and Registered Office	Capita Sinclair Henderson Limited Beaufort House 51 New North Road Exeter EX4 4EP Tel: 01392 412122
Registrar and Transfer Office	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA Tel: 0870 600 3970
Bankers	Lloyds TSB Bank Plc 25 Gresham Street London EC2V 7HN
Auditors	Hazlewoods LLP Windsor House Barnett Way Barnwood Gloucester GL4 3RT
Solicitors	Maclay, Murray & Spens One London Wall London EC2Y 5AB
Stockbrokers	Fairfax I. S. Limited 46 Berkeley Square London W1J 5AT

Notes

Notes

Small Companies Dividend Trust PLC

Proxy form

I/We (Block Capitals please)

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

.....
 as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 11.30 a.m. at St Stephen's Club, 34 Queen Anne's Gate, London SW1H 9AB on Wednesday, 24 September 2008 and at any adjournment thereof.

Signature

Date 2008

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

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

ORDINARY RESOLUTIONS

RESOLUTION 1 To receive the Report of the Directors and the audited financial statements for the year ended 30 April 2008.

RESOLUTION 2 To receive and approve the Directors' remuneration report.

RESOLUTION 3 To re-elect Mr W van Heeswijk as a Director.

RESOLUTION 4 To reappoint Hazlewoods LLP as Auditors and to authorise the Directors to determine their remuneration.

RESOLUTION 5 Section 80 authority to allot shares.

FOR	AGAINST	VOTE WITHHELD

SPECIAL RESOLUTIONS

RESOLUTION 6 Section 95 authority to allot shares.

RESOLUTION 7 Authority to buyback shares.

RESOLUTION 8 To adopt new Articles of Association.

NOTES

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

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