
SMALL COMPANIES DIVIDEND TRUST PLC

Half-yearly Report

for the six months ended 31 October 2012

Investment objective and policy

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

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

Capital structure

Small Companies Dividend Trust PLC ('the Company')

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

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

Dividends

Holders of Ordinary shares are entitled to dividends.

Capital

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

Voting

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

Small Companies ZDP PLC

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

The ordinary shares are wholly owned by the Company. References to Ordinary shares within this half-yearly report are to the Ordinary shares of Small Companies Dividend Trust PLC.

Capital

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

Voting

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

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

Dividends

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

Capital

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

Voting

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

Financial highlights

	31 October	30 April	
	2012	2012	% change
Capital			
Total net assets (£'000)	18,907	17,180	10.05
Net asset value per Ordinary share*	116.35p	105.72p	10.05
Mid-market price per Ordinary share	100.25p	98.00p	2.30
Discount	13.84%	7.30%	
Net asset value per Zero Dividend Preference share*	101.04p	–	n/a
Mid-market price per Zero Dividend Preference share	107.00p	–	n/a
Premium	5.90%	–	
	Six months to	Six months to	
	31 October	31 October	
Revenue	2012	2011	% change
Return per Ordinary share	3.68p	3.19p	15.36
Dividend per Ordinary share**	2.80p	2.70p	3.70
Total return			
Total return on Group's net assets***	13.60%	(9.01)%	

* Net asset values per share have been calculated in accordance with entitlements as at the period end and in accordance with the Company's Articles of Association.

** Dividend per Ordinary share includes the first interim paid and second interim declared for the period to 31 October 2012 and 2011 and will differ from the amounts disclosed within the statement of changes in net equity.

*** Adding back dividends distributed in the period.

Interim management report

As shareholders will know, at the end of August we raised £8.5 million through the issue of Zero Dividend Preference shares and repaid bank debt of £4 million. The additional monies raised were invested into a combination of both new and existing holdings. Over the period, we acquired holdings in eight new investments. In accordance with our investment process, all of the new holdings provide dividend yields over 4%. The new investments are Albermarle & Bond, Centaur Media, Close Brothers Group, Kier Group, Numis, Printing.com, Acal and NWF Group. Interestingly, the Company has held the latter two companies before, but recent falls in their share prices have brought them back into our investible universe.

In adding new stocks we have further diversified the source of our income across additional industries and sectors. At the same time we have also added to a wide range of existing holdings. It is reassuring that even after a period of good performance for small and mid caps generally, so many are still trading at such attractive levels of valuation. The most significant additional investments were in Brown (N) Group, Novae Group, Dairy Crest Group, TUI Travel, Greencore Group, Photo-Me International and Nationwide Accident Repairs. We have continued to reduce our exposure to a number of illiquid larger weightings, including S&U, Sanderson Group and Arbuthnot Banking in the last six months.

Outlook

The upward trend in the performance of UK small and mid caps over the past six months was driven in the first instance by a rerating of domestic earnings. Investors perceived negative news in the UK to be largely incorporated into valuations. We benefitted from holding stocks which in general tended to be more geared to the domestic economy than the market as a whole. Although we expect macro news will continue to be volatile for the foreseeable future, investors do appear to be considering the relative merits of equities against other asset classes.

The message that our investee companies relay to us has remained largely consistent for the past two years i.e. life is not easy but we continue to generate cash and, in aggregate, increase dividends. Despite this, market expectations with respect to earnings growth appear to be somewhat optimistic and there have recently been a number of earnings downgrades. For earnings to grow on a sustained basis, companies need the confidence to increase investment spending and that still appears to be some way off.

Chelverton Asset Management Limited

11 December 2012

Principal risks

The principal risks facing the Group are substantially unchanged since the date of the annual report for the year ended 30 April 2012 and continue to be as set out in that report. Risks faced by the Group include, but are not limited to, market risk, discount volatility, regulatory risk, financial risk, risks associated with banking and the risk of non-compliance with Section 1158 of the Corporation Tax Act 2010.

Responsibility statement of the Directors in respect of the half-yearly report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in compliance with IAS 34 'Interim Financial Reporting' and gives a true and fair view of the assets, liabilities and financial position of the Group; and
- the interim management report and notes to the half-yearly report include a fair view of the information required by:
 - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the last annual report that could do so.

This half-yearly report was approved by the Board of Directors on 11 December 2012 and the above responsibility statement was signed on its behalf by Lord Lamont, Chairman.

Condensed consolidated statement of comprehensive income (unaudited)

for the six months ended 31 October 2012

	Six months to 31 October 2012			Year to 30 April 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	–	2,155	2,155	–	(699)	(699)
Investment income	739	–	739	1,167	–	1,167
Expenses (see note 4)	(126)	(99)	(225)	(190)	(166)	(356)
Net return before finance costs and taxation	613	2,056	2,669	977	(865)	112
Finance costs						
Bank interest payable on overdraft and loan	(18)	(54)	(72)	(91)	(273)	(364)
Movement in fair value of ineffective element of interest rate swap	3	10	13	13	38	51
Appropriations in respect of Zero Dividend Preference shares	–	(88)	(88)	–	–	–
	(15)	(132)	(147)	(78)	(235)	(313)
Net return before taxation	598	1,924	2,522	899	(1,100)	(201)
Taxation (see note 5)	–	–	–	–	–	–
Net return after taxation	598	1,924	2,522	899	(1,100)	(201)
Other comprehensive income						
Movement in fair value of cash flow hedge			52			205
Total comprehensive income for the period			2,574			4
Return per:	Revenue pence	Capital pence	Total pence	Revenue pence	Capital pence	Total pence
Ordinary share (see note 2)	3.68	11.84	15.52	5.53	(6.77)	(1.24)
Zero Dividend Preference share (see note 2)	–	1.04	1.04	–	–	–

The total column of this statement is the statement of comprehensive income of the Group prepared in accordance with IFRS as adopted by the EU. All revenue and capital items in the above statement derive from continuing operations. All of the net return for the period and the total comprehensive income for the period is attributable to the shareholders of the Group. The supplementary revenue and capital return columns are presented for information purposes as recommended by the Statement of Recommended Practice issued by the Association of Investment Companies ('AIC').

Six months to 31 October 2011

Revenue £'000	Capital £'000	Total £'000	
–	(2,063)	(2,063)	Gains/(losses) on investments
677	–	677	Investment income
(120)	(83)	(203)	Expenses (see note 4)
557	(2,146)	(1,589)	Net return before finance costs and taxation
			Finance costs
(44)	(134)	(178)	Bank interest payable on overdraft and loan
6	19	25	Movement in fair value of ineffective element of interest rate swap
–	–	–	Appropriations in respect of Zero Dividend Preference shares
(38)	(115)	(153)	
519	(2,261)	(1,742)	Net return before taxation
–	–	–	Taxation (see note 5)
519	(2,261)	(1,742)	Net return after taxation
		100	Other comprehensive income
			Movement in fair value of cash flow hedge
		(1,642)	Total comprehensive income for the period
Revenue pence	Capital pence	Total pence	Return per:
3.19	(13.91)	(10.72)	Ordinary share (see note 2)
–	–	–	Zero Dividend Preference share (see note 2)

Condensed consolidated statement of changes in net equity (unaudited)

for the six months ended 31 October 2012

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Hedge reserve £'000	Revenue reserve £'000	Total £'000
Six months ended 31 October 2012						
30 April 2012	4,063	11,917	2	(52)	1,250	17,180
Total comprehensive income for the period	–	–	1,924	52	598	2,574
Expenses of Zero Dividend						
Preference share issue	–	–	(237)	–	–	(237)
Dividends paid	–	–	–	–	(610)	(610)
31 October 2012	<u>4,063</u>	<u>11,917</u>	<u>1,689</u>	<u>–</u>	<u>1,238</u>	<u>18,907</u>
Year ended 30 April 2012 (audited)						
30 April 2011	4,063	11,917	1,102	(257)	1,383	18,208
Total comprehensive income for the year	–	–	(1,100)	205	899	4
Dividends paid	–	–	–	–	(1,032)	(1,032)
30 April 2012	<u>4,063</u>	<u>11,917</u>	<u>2</u>	<u>(52)</u>	<u>1,250</u>	<u>17,180</u>
Six months ended 31 October 2011						
30 April 2011	4,063	11,917	1,102	(257)	1,383	18,208
Total comprehensive income for the period	–	–	(2,261)	100	519	(1,642)
Dividends paid	–	–	–	–	(593)	(593)
31 October 2011	<u>4,063</u>	<u>11,917</u>	<u>(1,159)</u>	<u>(157)</u>	<u>1,309</u>	<u>15,973</u>

Condensed consolidated balance sheet (unaudited)

as at 31 October 2012

	31 October 2012 £'000	30 April 2012 £'000 (audited)	31 October 2011 £'000
Non-current assets			
Investments at fair value through profit or loss	27,103	22,120	20,664
Current assets			
Trade and other receivables	215	205	216
Cash and cash equivalents	287	–	–
	<u>502</u>	<u>205</u>	<u>216</u>
Current liabilities			
Bank overdraft	–	(950)	(610)
Trade and other payables	(110)	(130)	(101)
Derivative financial instruments	–	(65)	–
	<u>(110)</u>	<u>(1,145)</u>	<u>(711)</u>
Total assets less current liabilities	27,495	21,180	20,169
Non-current liabilities			
Bank loan	–	(4,000)	(4,000)
Derivative financial instruments	–	–	(196)
Zero Dividend Preference shares	(8,588)	–	–
	<u>(8,588)</u>	<u>(4,000)</u>	<u>(4,196)</u>
Net assets	18,907	17,180	15,973
Represented by:			
Share capital	4,063	4,063	4,063
Share premium account	11,917	11,917	11,917
Capital reserve	1,689	2	(1,159)
Hedge reserve	–	(52)	(157)
Revenue reserve	1,238	1,250	1,309
	<u>18,907</u>	<u>17,180</u>	<u>15,973</u>
Equity shareholders' funds	18,907	17,180	15,973
Net asset value per: (see note 3)	pence	pence	pence
Ordinary share	116.35	105.72	98.30
Zero Dividend Preference share	101.04	–	–

Condensed consolidated statement of cash flows (unaudited)

for the six months ended 31 October 2012

	Six months to 31 October 2012 £'000	Year to 30 April 2012 £'000 (audited)	Six months to 31 October 2011 £'000
Operating activities			
Investment income received	767	1,162	739
Interest income received	–	6	–
Investment management fee paid (see note 7)	(180)	(222)	(116)
Administration and secretarial fees paid	(30)	(58)	(29)
Refund of VAT paid on administration and secretarial fees	–	45	–
Other cash payments	(86)	(119)	(82)
Cash generated from operations	471	814	512
Loan interest paid	(101)	(352)	(176)
Net cash inflow from operating activities (see note 6)	370	462	336
Investing activities			
Purchases of investments	(4,073)	(5,703)	(3,339)
Sales of investments	1,293	5,570	3,233
Net cash outflow from investing activities	(2,780)	(133)	(106)
Financing activities			
Issue of Zero Dividend Preference shares	8,500	–	–
Expenses of Zero Dividend Preference share issue	(243)	–	–
Repayment of bank loan	(4,000)	–	–
Dividends paid	(610)	(1,032)	(593)
Net cash inflow/(outflow) from financing activities	3,647	(1,032)	(593)
Increase/(decrease) in cash and cash equivalents for period	1,237	(703)	(363)
Cash and cash equivalents at start of period	(950)	(247)	(247)
Cash and cash equivalents at end of period	287	(950)	(610)

Notes to the condensed half-yearly report

for the six months ended 31 October 2012

1 General information

The financial information contained in this half-yearly report does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. The statutory financial statements for the year ended 30 April 2012, which contained an unqualified auditors' report, have been lodged with the Registrar of Companies and did not contain a statement required under the Companies Act 2006. These statutory financial statements were prepared under International Financial Reporting Standards ('IFRS') and in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies, and Venture Capital Trusts issued by the AIC in January 2009.

The Group has considerable financial resources and therefore the Directors believe that the Group is well placed to manage its business risks and also believe that the Group will have sufficient resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing this half-yearly report.

This half-yearly report has not been reviewed by the Group's Auditors.

New subsidiary

Small Companies ZDP PLC was incorporated on 13 July 2012 and has a capital structure comprising unlisted ordinary shares and Zero Dividend Preference shares listed on the Official List and traded on the London Stock Exchange. Small Companies ZDP PLC is a wholly owned subsidiary of Small Companies Dividend Trust PLC (the 'Company') together referred to as the 'Group'. Small Companies ZDP PLC was specifically incorporated for the issue of Zero Dividend Preference shares. On 28 August 2012, Small Companies ZDP PLC issued 8,500,000 Zero Dividend Preference shares at 100p per share and with net proceeds of £8.3 million. The expenses of the placing were borne by the Company. Pursuant to a loan agreement between Small Companies ZDP PLC and the Company, Small Companies ZDP PLC has lent the proceeds of the placing to the Company. The loan is non-interest bearing and is repayable three business days before the Zero Dividend Preference share redemption date of 8 January 2018 or, if required by Small Companies ZDP PLC, at any time prior to that date. The funds are to be managed in accordance with the investment policy of the Company.

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

This half-yearly report has been prepared using accounting policies adopted in the audited financial statements for the year ended 30 April 2012 and with the new accounting policies detailed below with regards to the new subsidiary and the Zero Dividend Preference share issue. This report has also been prepared in compliance with IAS 34 'Interim Financial Reporting'.

New accounting policies

Basis of consolidation

The Group condensed financial statements consolidate the financial statements of the Company and its wholly owned subsidiary undertaking, Small Companies ZDP PLC, drawn up to the same accounting date.

Notes to the condensed half-yearly report (continued)

for the six months ended 31 October 2012

1 General information (continued)

Expenses of subsidiary

The operating expenses of the subsidiary are borne by Small Companies Dividend Trust PLC and taken 100% to capital.

Zero Dividend Preference shares

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

Share issue costs

Costs incurred directly in relation to the issue of shares in Small Companies ZDP PLC were borne by the Company and taken 100% to capital.

2 Return per share

Ordinary shares

Revenue return per Ordinary share is based on revenue on ordinary activities after taxation of £598,000 (30 April 2012: £899,000, 31 October 2011: £519,000) and on 16,250,000 (30 April 2012: 16,250,000, 31 October 2011: 16,250,000) Ordinary shares, being the weighted average number of Ordinary shares in issue during the period.

Capital return per Ordinary share is based on the capital profit of £1,924,000 (30 April 2012: capital loss of £1,100,000, 31 October 2011: capital loss of £2,261,000) and on 16,250,000 (30 April 2012: 16,250,000, 31 October 2011: 16,250,000) Ordinary shares, being the weighted average number of Ordinary shares in issue during the period.

Zero Dividend Preference shares

Capital return per Zero Dividend Preference share is based on allocations from the parent company of £88,000 and on 8,500,000 Zero Dividend Preference shares.

3 Net asset values

Net asset values per share have been calculated in accordance with entitlements as at the period end and in accordance with the Articles of Association.

Ordinary shares

The net asset value per Ordinary share is based on assets attributable of £18,907,000 (30 April 2012: £17,180,000, 31 October 2011: £15,973,000) and on 16,250,000 (30 April 2012: 16,250,000, 31 October 2011: 16,250,000) Ordinary shares, being the number of shares in issue at the period end.

Zero Dividend Preference shares

The net asset value per Zero Dividend Preference share is based on assets attributable of £8,588,000 and on 8,500,000 Zero Dividend Preference shares, being the number of shares in issue at the period end.

Notes to the condensed half-yearly report (continued)

for the six months ended 31 October 2012

4 Expenses

	31 October 2012 £'000	30 April 2012 £'000	31 October 2011 £'000
Investment management fee	124	221	111
Recovery of VAT on administration and secretarial fees	–	(45)	–
Subsidiary operating costs	6	–	–
Other expenses	95	180	92
	<u>225</u>	<u>356</u>	<u>203</u>
Transfer to capital*	(99)	(166)	(83)
	<u>126</u>	<u>190</u>	<u>120</u>

* 75% of the investment management fees and 100% of the subsidiary operating costs are taken to capital.

5 Taxation

The Company has an effective tax rate of 0%. The estimated effective tax rate is 0% as investment gains are exempt from tax owing to the Company's status as an Investment Trust and there is expected to be an excess of management expenses over taxable income and thus there is no charge for corporation tax.

6 Reconciliation of net return before and after taxation to net cash inflow from operating activities

	31 October 2012 £'000	30 April 2012 £'000	31 October 2011 £'000
Net return before taxation	2,522	(201)	(1,742)
Net capital return	(1,924)	1,100	2,261
Movement in fair value of ineffective element of interest rate swap	(13)	(51)	(25)
Decrease in receivables	21	5	59
(Decrease)/increase in payables	(93)	10	(19)
Interest and expenses charged to the capital reserve	(143)	(401)	(198)
	<u>370</u>	<u>462</u>	<u>336</u>

Net cash inflow from operating activities

Notes to the condensed half-yearly report (continued)

for the six months ended 31 October 2012

7 Related party transactions

The Group's investments are managed by Chelverton Asset Management Limited, a company in which Mr van Heesewijk, a Director of the Company and the subsidiary, has an interest. The amounts paid to the Investment Manager in the period to 31 October 2012 were £124,000 (year ended 30 April 2012: £221,000, period to 31 October 2011: £111,000).

At 31 October 2012 there were amounts outstanding to be paid to the Investment manager of £nil (year ended 30 April 2012: £56,000, period to 31 October 2011: £52,000).

Chelverton Asset Management Limited contributed £100,000 towards the issue costs relating to the Zero Dividend Preference share issue.

8 Dividends

During the period, a fourth interim dividend of 2.35p per Ordinary share for the year ended 30 April 2012, together with a first interim dividend of 1.40p per Ordinary share for the year ending 30 April 2013, have been paid to shareholders.

In addition, the Board has declared a second interim dividend of 1.40p per Ordinary share payable on 7 January 2013 to shareholders on the register at 14 December 2012.

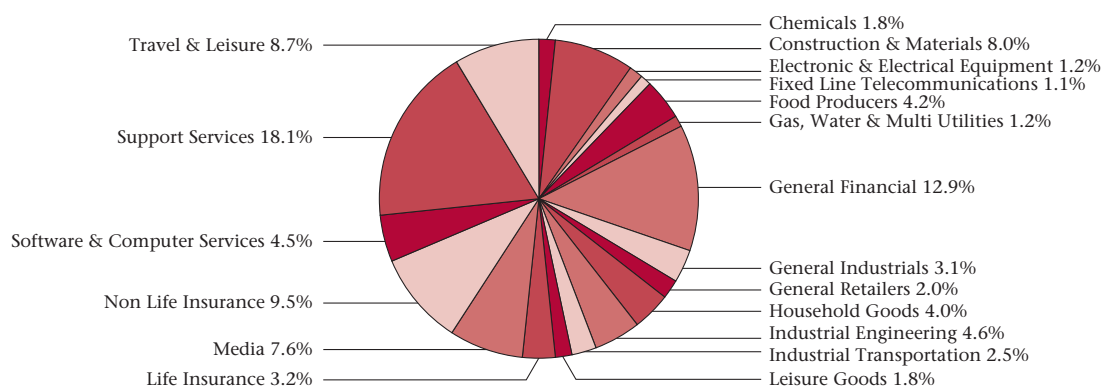
Principal portfolio investments

as at 31 October 2012

Top 20 holdings

	Industrial classification	Market value £'000	% of portfolio
Macfarlane Group	General Industrials	840	3.1
St Ives	Support Services	820	3.0
Smiths News	Support Services	777	2.9
Sanderson Group	Software & Computer Services	697	2.6
GVC Holdings	Travel & Leisure	696	2.6
Wilmington Group	Media	639	2.4
Avesco Group	Media	632	2.3
Abbey Protection	Non-Life Insurance	618	2.3
Personal Group	Non-Life Insurance	592	2.2
Arbuthnot Banking	General Financial	581	2.1
Vp	Support Services	578	2.1
Portmeirion Group	Household Goods	570	2.1
Interior Services	Support Services	568	2.1
Braemar Shipping	Industrial Transportation	568	2.1
Chesnara	Life Insurance	562	2.1
Marshalls	Construction & Materials	539	2.0
Brown (N) Group	General Retailers	538	2.0
Dairy Crest Group	Food Producers	535	2.0
Intermediate Capital Group	General Financial	534	1.9
Morgan Sindall Group	Construction & Materials	529	1.9
Top 20 companies		12,413	45.8
Balance held in 52 companies		14,690	54.2
Total portfolio		27,103	100.0

Breakdown of portfolio by industry



Shareholder information

Financial calendar

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

Share prices and performance information

The Group's Ordinary and Zero Dividend Preference shares are listed on the London Stock Exchange.

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

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

Interim management statements

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

Directors and Advisers

Directors	Lord Lamont of Lerwick (Chairman) David Harris William van Heesewijk Howard Myles
Investment Manager	Chelverton Asset Management Limited 12b 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	Share Registrars Limited Suite E, First Floor 9 Lion and Lamb Yard Farnham Surrey GU9 7LL Tel: 01252 821390 www.shareregistrars.uk.com
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Custodian	HSBC Global Custody Services Level 27 8 Canada Square London E14 5HQ

Registered in England
No. 3749536

A member of the Association of Investment Companies

