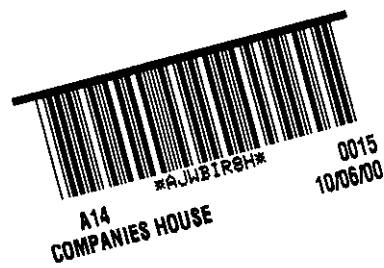


BFS SMALL COMPANIES DIVIDEND TRUST PLC

Initial Financial Statements for the period

6 April 1999 to 30 April 2000

REGISTRATION NUMBER: 3749536



**Statement of Directors' responsibilities in respect of the accounts
of BFS Small Companies Dividend Trust plc**

Company law requires the Directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing those accounts, the Directors are required to:

- * select suitable accounting policies and apply them consistently;
- * make judgements 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 accounts;
- * prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the relevant provisions of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' report to the Directors of BFS Small Companies Dividend Trust plc under section 273(4) of the Companies Act 1985

We have audited the initial accounts of BFS Small Companies Dividend Trust plc on pages 3 to 14 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on page 6.

Respective responsibilities of Directors and auditors

As described on page 1 you are responsible for the preparation of the initial accounts. It is our responsibility to form an independent opinion, based on our audit, of those initial accounts and to report our opinion to you.

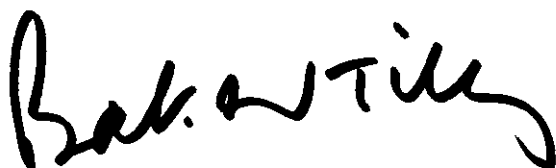
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the initial accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the initial accounts, 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 initial accounts are free from material misstatement, whether caused by fraud or by other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the initial accounts.

Opinion

In our opinion the initial accounts for the period 6 April 1999 to 30 April 2000 have been properly prepared within the meaning of section 273 of the Companies Act 1985.



Baker Tilly
Registered Auditors
Chartered Accountants

30 May 2000

BFS SMALL COMPANIES DIVIDEND TRUST PLC

**Statement of total return (incorporating the revenue account*)
for the period ended 30 April 2000**

	Note	6 April 1999 to 30 April 2000		
		Revenue	Capital	Total
		£	£	£
Gains/(losses) on investments	10	-	(2,175,063)	(2,175,063)
Commitment to subscribe for shares	17	-	(485,207)	(485,207)
Income	2	2,056,537	-	2,056,537
Investment management fee	3	(99,567)	(149,352)	(248,919)
Other expenses	4	(156,949)	(6,250)	(163,199)
Net return before finance costs and taxation		1,800,021	(2,815,872)	(1,015,851)
Interest payable and similar charges	6	(79,053)	(149,276)	(228,330)
Return on ordinary activities before taxation		1,720,968	(2,965,148)	(1,244,181)
Taxation on ordinary activities	7	-	-	-
Return on ordinary activities after taxation for the financial period		1,720,968	(2,965,148)	(1,244,181)
Dividends in respect of equity shares	8	(1,387,500)	-	(1,387,500)
Transfer to/(from) reserves after aggregate dividends paid and proposed of £ 1,387,500 (1998 : 0)		333,468	(2,965,148)	(2,631,681)
		Revenue pence	Capital pence	Total pence
Return per Ordinary share	9	11.38	(19.60)	(8.22)

The notes on pages 6 to 14 form part of these Financial Statements

* The revenue column of this statement is the revenue account of the company.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the period.

BFS SMALL COMPANIES DIVIDEND TRUST PLC

Balance sheet
As at 30 April 2000

	Note	30 April 2000 £
Fixed assets		
Listed investments	10	24,333,919
Investment in subsidiary undertaking	12	<u>2</u>
		24,333,921
Current assets		
Debtors	13	414,449
Cash at bank		-
		<u>414,449</u>
Creditors - Amounts falling due within one year		
Creditors	14	5,319,748
Dividends		472,500
		<u>5,792,248</u>
Net current liabilities		<u>(5,377,799)</u>
Total assets less current liabilities		18,956,122
Creditors - Amounts falling due after more than one year		
Loan Note: 30 April 2007 - BSC	16	6,038,845
Provision for liabilities and charges		
Commitment to subscribe for shares	17	485,207
Net assets		<u>12,432,070</u>
Share capital and reserves		
Called up share capital	15	3,937,500
Share premium account	18	11,126,250
Capital reserve	18	(2,965,148)
Revenue reserve	18	333,468
Shareholders' funds	19	<u>12,432,070</u>
		pence
Net Asset Value per ordinary share	20	76.82

The notes on pages 6 to 14 form part of these Financial Statements

These Financial Statements were approved by the Board on 30 May 2000.

 B N Lenygon, Chairman

BFS SMALL COMPANIES DIVIDEND TRUST PLC

**Statement of cash flows
for the period ended 30 April 2000**

	NOTE	6 April 1999 to 30 April 2000
		£
Operating activities		
Investment income received		1,619,858
Deposit interest received		31,176
Underwriting commission received		-
Investment management fees paid		(187,058)
Secretarial fees paid		(39,133)
Other cash payments		(108,902)
Net cash inflow from operating activities	21	<u>1,315,941</u>
Servicing of finance		
Non-equity dividends paid		-
Interest paid		(176,062)
Net cash outflow from servicing of finance		<u>(176,062)</u>
Taxation		
Income tax recovered		-
Total taxation recovered		<u>-</u>
Capital expenditure and financial investment		
Purchases of investments		(34,288,111)
Sales of investments		7,947,701
Investment in subsidiary		(3,647)
Net cash (outflow)/inflow from capital expenditure and financial investment		<u>(26,344,057)</u>
Equity Dividends Paid		<u>(915,000)</u>
Net cash (outflow)/inflow before financing		<u>(26,119,178)</u>
Financing		
Proceeds of share issue		(15,663,750)
Issue expenses		850,000
Issue of loan note from subsidiary		(6,258,150)
Net cash inflow from financing		<u>(21,071,900)</u>
(Decrease)/increase in cash	22	<u>(5,047,278)</u>
		<u>(26,119,178)</u>

The notes on pages 6 to 14 form part of these Financial Statements

BFS SMALL COMPANIES DIVIDEND TRUST PLC

Notes to the Financial Statements - at 30 April 2000

1 ACCOUNTING POLICIES

Accounting convention

The financial statements are the Company's initial accounts, as defined under section 270 of The Companies Act 1985. The financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed asset investments and are prepared in accordance with applicable accounting standards in the United Kingdom and in accordance with the statement of recommended practice for financial statements of Investment Trust Companies.

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

The financial statements are not consolidated financial statements and present information in relation to the Company not the Group.

Income recognition

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. As prescribed in Financial Reporting Standard No. 16: Current tax, UK dividends are disclosed excluding the associated tax credit.

Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established.

Underwriting commission is recognised as income in so far as it relates to shares the Company is not required to take up. Where the Company is required to take up shares underwritten the commission received is treated as a deduction from the cost of shares.

Where fixed interest stocks are purchased cum interest the revenue account is credited with interest accruing from the date of purchase.

Similarly, where fixed interest stocks are sold cum interest the revenue account is credited with interest accrued up to the date of sale.

Other income is accounted for on an accruals basis.

Expenditure

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

expenses which are incidental to the acquisition of an investment are included within the cost of the investment;

expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investments;

expenses are charged to capital reserve (realised) where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In respect of the investment management fee and debit interest, 60% has been allocated to capital reserve (realised) and 40% to revenue reserve in the statement of total return, being in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company. The investment management performance fee is charged, in total, to the capital reserve (realised). All of the bank overdraft arrangement fee has also been charged to capital reserve (realised).

Investments

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

Any unrealised profits and losses are taken directly to the capital reserve. Any realised profits and losses arising on the disposal of investments are also taken directly to the capital reserve.

Taxation

The charge for taxation is based on the profit for the period. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Timing differences arise from the inclusion of items of income or expenditure in tax computations in periods different from those in which they are included in the financial statements. Provision is made at a rate which is expected to be applied when the liability or asset is expected to crystallise.

The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Company's effective rate of tax for the accounting period.

Loan note issue costs

During the period the Company issued 15 million ordinary shares of 25p each for cash at £1 per share and its subsidiary company, BFS Small Companies PLC, issued 6,250,000 zero dividend preference shares of 0.05p each for cash at £1 per share. The proceeds of the issue of the zero dividend preference shares have been used to subscribe for a loan note, issued by the parent company, as detailed in note 16 to these financial statements. The placing document provides that the costs of these issues are all borne by BFS Small Companies Dividend Trust PLC. A proportion of the total issue costs, calculated by reference to the respective placing proceeds of the ordinary and zero dividend preference shares is regarded as a cost of the issue of the loan note. This proportion of the issue costs has been deducted from the loan note proceeds and is amortised, through the capital reserve, at a constant rate over the period from issue of the loan note until maturity on 30 April 2007.

BFS SMALL COMPANIES DIVIDEND TRUST PLC

Notes to the Financial Statements - at 30 April 2000

2 INCOME	6 April 1999 to 30 April 2000 £
Income from listed investments	
Dividends from UK companies	1,973,737
Interest and other dividends from listed investments	50,905
	<hr/> 2,024,642
Other income	
Bank interest receivable	31,895
Underwriting commission	-
Other	-
	<hr/> 31,895
Total income	<hr/> <hr/> 2,056,537
Total income comprises :	
Dividends	1,973,737
Interest	82,800
Other	-
	<hr/> <hr/> 2,056,537

3 INVESTMENT MANAGEMENT FEE	6 April 1999 to 30 April 2000		
	Revenue £	Capital £	Total £
Investment management fee	84,738	127,108	211,846
Irrecoverable VAT thereon	14,829	22,244	37,073
	<hr/> 99,567	<hr/> 149,352	<hr/> 248,919
Investment management performance fee	-	-	-
Irrecoverable VAT thereon	-	-	-
	<hr/> -	<hr/> -	<hr/> -
Total investment management fee	<hr/> <hr/> 99,567	<hr/> <hr/> 149,352	<hr/> <hr/> 248,919

The investment management performance fee is calculated on the assumption that the Company's performance for the accounting period ending 30 April 2000 will be the same as for the period to 30 April 2000.

4 OTHER EXPENSES	6 April 1999 to 30 April 2000		
	Revenue £	Capital £	Total £
Administrative & secretarial fee	42,805	-	42,805
Directors' remuneration	55,000	-	55,000
Auditors' remuneration:			
audit services	18,800	-	18,800
non audit services	-	-	-
Overdraft arrangement fee	-	6,250	6,250
Other expenses	40,344	-	40,344
	<hr/> 156,949	<hr/> 6,250	<hr/> 163,199

BFS SMALL COMPANIES DIVIDEND TRUST PLC

Notes to the Financial Statements - at 30 April 2000

5 DIRECTORS' REMUNERATION

	30 April 2000
	£
Total fees	55,000
Remuneration to Directors	£
B N Lenygon (Chairman)	15,000
J E Chappell	10,000
M W Latham	10,000
A A Reid	10,000
N J Randall	10,000

6 INTEREST PAYABLE

	6 April 1999 to 30 April 2000		
	Revenue	Capital	Total
	£	£	£
On bank overdraft	79,053	118,581	197,634
Amortisation of loan note issue costs	-	30,695	30,695
	<u>79,053</u>	<u>149,276</u>	<u>228,330</u>

7 TAXATION

	6 April 1999 to 30 April 2000		
	Revenue	Capital	Total
	£	£	£
Based on the profits for the period:			
Tax attributable to UK dividends	-	-	-
Tax attributable to costs charged to capital	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

8 DIVIDENDS PAID AND PROPOSED

	6 April 1999 to 30 April 2000
	£
Per Ordinary share :	
First interim dividend paid of 2.00p	300,000
Second interim dividend paid of 2.00p	300,000
Third interim dividend paid of 2.00p	300,000
Fourth interim dividend declared 3.00p	487,500
	<u>1,387,500</u>

9 RETURN PER SHARE

Ordinary shares

Basic revenue return per Ordinary share is based on the net revenue on ordinary activities after taxation of £ 1,720,968 (1999:£ 0) and on 15,124,648 (1999: nil) Ordinary shares, being the weighted average number of Ordinary shares in issue during the period.

BFS SMALL COMPANIES DIVIDEND TRUST PLC

Notes to the Financial Statements - at 30 April 2000

10 INVESTMENTS	30 April 2000
	£
Investments listed on a recognised investment exchange	24,333,919
	<hr/>
	30 April 2000
	£
Opening book cost	-
Opening unrealised depreciation	-
	<hr/>
Opening valuation	-
Movements in the period:	
Purchases at cost	34,456,683
Sales:	
Proceeds	(7,947,701)
Realised gains/(losses) on sales	1,959,172
Increase in unrealised appreciation/(depreciation)	(4,134,235)
	<hr/>
Closing valuation	24,333,919
	<hr/>
Closing book cost	28,468,154
Closing unrealised appreciation/(depreciation)	(4,134,235)
	<hr/>
	24,333,919
	<hr/>
	30 April 2000
	£
Realised gains on sales	1,959,172
Increase in unrealised appreciation	(4,134,235)
	<hr/>
Gains/(losses) on investments	(2,175,063)
	<hr/>

11 SIGNIFICANT INTERESTS

The Company had holdings of 3% or more in the following investments:

Name of undertaking	Class of share	Percentage held:
		30 April 2000
Pittards	Ordinary	9.180
Ring	Ordinary	5.019
Holdings Technology	Ordinary	4.957
Sirdar	Ordinary	4.712
Europower	Ordinary	3.861
UCM Group	Ordinary	3.853
Stat-Plus Group	Ordinary	3.385
Stoves	Ordinary	3.132

12 INVESTMENT IN SUBSIDIARY COMPANY

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

BFS SMALL COMPANIES DIVIDEND TRUST PLC

Notes to the Financial Statements - at 30 April 2000

13 DEBTORS - amounts falling due within one year	30 April 2000
	£
Sales for future settlement	-
Dividends receivable	383,891
Amounts due from subsidiary company	3,645
Prepayments and accrued income	19,410
Taxation recoverable	7,503
	<u>414,449</u>
14 CREDITORS - amounts falling due within one year	30 April 2000
	£
Purchases for future settlement	168,572
Corporation tax	-
Other creditors	103,898
Costs of share issue	-
Bank overdraft	5,047,278
	<u>5,319,748</u>

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

15 SHARE CAPITAL	30 April 2000
	£
Authorised:	
16,500,000 Ordinary shares of 25p each	<u>4,125,000</u>
	<u>4,125,000</u>
Issued, allotted and fully paid:	
15,750,000 (1999 : nil) Ordinary shares of 25p each	<u>3,937,500</u>
	<u>3,937,500</u>

DURATION AND RIGHTS ON WINDING UP

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

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

Pursuant to special resolutions passed on 6 May 1999:

(i) Each Ordinary share of £1 each was subdivided into four Ordinary shares of 25p each.

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

(iii) On 12 May 1999, 15,000,000 ordinary shares were allotted pursuant to a placing.

The Company's subsidiary BFS Small Companies PLC ('BSC') issued 6,250,000 Zero Dividend Preference Shares on 12 May 1999. 'BSC' also allotted 31,260 Preference Shares on 29 April 1999.

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

Ordinary: 102 p Zero Dividend Preference: 101.75 p

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

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

Duration

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

BFS SMALL COMPANIES DIVIDEND TRUST PLC

Notes to the Financial Statements - at 30 April 2000

16 UNSECURED LOAN NOTES

On 25 May 1999 the Company issued a loan note to its subsidiary BFS Small Companies PLC "BSC" with a value of £6,258,150. The loan note is non interest bearing and will be repaid or redeemed at par on 30 April 2007 or, if required by BSC, at any time prior to that date. These costs are being amortised through the capital reserve.

	30 April 2000 £
Issue of loan note	6,258,150
Costs of raising loan note	(250,000)
Amortisation of costs	<u>30,695</u>
	<u>6,038,845</u>

17 COMMITMENT TO SUBSCRIBE FOR SHARES

The Company has entered into an agreement with its subsidiary, BFS Small Companies PLC "BSC", pursuant to which the Company will subscribe on 30 April 2007 for one ordinary share in BSC. The subscription would be at such a premium as would result in the assets of BSC being sufficient to satisfy the capital entitlement on 30 April 2007 of £1.8463 per share of the zero dividend preference shares and the preference shares in issue on that date. Details of the zero dividend preference shares and the preference shares issued by BSC at 30 April 2000 are given in note 15 and the maximum commitment under the subscription agreement at 30 April 2000 is £ 11,597,080.

As stated in note 15, the capital entitlement of the zero dividend preference shares and the preference shares increases daily at a compound rate over the period to redemption on 30 April 2007. A provision is made in the financial statements for the company's commitment to subscribe for the BSC share, equal to the increase in the capital entitlement of the zero dividend preference shares and the preference shares. This provision is taken to the capital reserve.

	30 April 2000 £
Increase in capital entitlement of zero dividend preference shareholders	30,695
Increase in capital entitlement of preference shareholders	<u>482,792</u>
	<u>513,487</u>

18 RESERVES

	Share premium account £	Capital reserve realised £	Capital reserve unrealised £	Revenue reserve £
At 6 April 1999	-	-	-	-
Net gains on realisation of investments	-	1,959,172	-	-
Transfer on disposal of investments	-	-	-	-
Movement in unrealised appreciation	-	-	(4,134,235)	-
Costs charged to capital	-	(274,183)	-	-
Tax relief on costs charged to capital	-	-	-	-
Issue of share capital	11,726,250	-	-	-
Costs of issue	(600,000)	-	-	-
Increase in provision for commitment to subscribe for shares	-	(485,207)	-	-
Amortisation of loan note issue costs	-	(30,695)	-	-
Retained net revenue for the period	-	-	-	333,468
At 30 April 2000	<u>11,126,250</u>	<u>1,169,087</u>	<u>(4,134,235)</u>	<u>333,468</u>

BFS SMALL COMPANIES DIVIDEND TRUST PLC

Notes to the Financial Statements - at 30 April 2000

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	6 April 1999 to 30 April 2000 £
Profit available to Ordinary shareholders'	1,720,968
Dividends paid and proposed	<u>(1,387,500)</u>
	333,468
Recognised gains/(losses) for the period	(2,965,148)
Issue of share capital	3,937,500
Premium on issue of share capital	11,726,250
Issue expenses	<u>(600,000)</u>
Net addition to shareholders' funds	12,432,070
Opening shareholders' funds	<u>-</u>
Closing shareholders' funds	<u><u>12,432,070</u></u>

20 NET ASSET VALUE PER SHARE

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

	Net Asset value per share attributable 30.04.2000 Pence	Total Asset value per share attributable 30.04.2000 £
Ordinary shares	76.82	12,098,602

The 30 April 2000 net assets exclude current period revenue.

21 RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES	6 April 1999 to 30 April 2000 £
Income before interest payable and taxation	1,800,021
(Increase)/decrease in debtors	(403,301)
(Decrease)/increase in creditors	82,326
Tax on UK dividend income	-
Tax on interest income	(7,503)
Expenses charged to the capital reserve	<u>(155,602)</u>
	<u><u>1,315,941</u></u>

BFS SMALL COMPANIES DIVIDEND TRUST PLC

Notes to the Financial Statements - at 30 April 2000

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	30.04.2000
	£
Decrease in cash in period	(5,047,278)
Proceeds from issue of loan note	(6,258,150)
Loan note issue costs	250,000
Amortisation of loan note issue costs	(30,695)
	<hr/>
Movement in net funds	(11,086,123)
Net funds at 6 April 1999	-
	<hr/>
Net debt at 30 April 2000	<u>(11,086,123)</u>

23 ANALYSIS OF CHANGES IN NET DEBT

	At 6 April 1999	Cash flows	Other changes	At 30 April 2000
	£	£	£	£
Cash at bank	-	(5,047,278)	-	(5,047,278)
Debts due after more than one year	-	(6,038,845)	-	(6,038,845)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	(11,086,123)	-	(11,086,123)
	<hr/>	<hr/>	<hr/>	<hr/>

24 COMMITMENTS

At 30 April 2000 the Company had underwritten share issues to a value of £ nil (30 April 1999 : £nil).

25 RELATED PARTY TRANSACTIONS

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

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES**Objectives, policies and strategies**

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

The Company borrows money by way of a loan note, from its subsidiary company, maturing in 2007 and short-term bank overdrafts. The loan note enables the Company to invest by way of its investment policy and enhance dividends to shareholders. The short-term overdraft facilities are to aid settlement and to finance placings until other investments have been reduced.

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

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

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

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

BFS SMALL COMPANIES DIVIDEND TRUST PLC

Notes to the Financial Statements - at 30 April 2000

26 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

Foreign currency risk

The majority of the Company's assets are in sterling and accordingly there is minimal currency exposure.

Liquidity risk

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

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

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

Financial assets

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

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

	Financial assets on which no		Floating rate financial assets	Fixed rate financial assets	Interest rate %	Maturity date
	Total	interest is paid				
	£	£	£	£		
Equity shares	23,664,556	23,664,556	-	-	-	-
Convertible stock						
Unite Group Cnv Un Ln Stk	419,363	-	-	419,363	8.00	2004
Wineworld London Floating Rate Cnv Ln Stk	250,000	-	250,000	-	10.25	2004
Cash and debtors	414,449	414,449	-	-	-	-
	<u>24,748,368</u>	<u>24,079,005</u>	<u>250,000</u>	<u>419,363</u>		

Financial liabilities

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

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

	Total	Non-interest bearing	
		Floating rate	
	£	£	£
Bank overdraft	5,047,278	-	5,047,278
Loan Note: 30 April 2007 - BSC	6,038,845	6,038,845	-
Commitment to subscribe for shares	485,207	485,207	-
Creditors	744,970	744,970	-
	<u>12,316,300</u>	<u>7,269,022</u>	<u>5,047,278</u>

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

	30 April 2000
In one year or less	5,792,248
In more than five years	<u>6,524,052</u>
	<u>12,316,300</u>

The Company has an overdraft facility of £5.25 million. This facility is renewable on 1 May 2000. Bank borrowings under this facility incur interest at a rate of 1% above base rate.

Fair value of financial assets and financial liabilities

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