Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 1991

INVESTMENT OBJECTIVE

"The objective of Aberforth Smaller Companies Trust plc ("ASCoT") is to achieve a net asset value total return (on the assumption that gross income is reinvested) greater than on the Extended Hoare Govett Smaller Companies Index (excluding investment trusts) ("Ext HGSC (Ex ITs)") over the long term by investing in a diversified portfolio of UK smaller quoted companies."

INVESTMENT RECORD

1 January 1991—31 December 1991

ASCoT Total Return	**+36.6%**
Ext HGSC (Ex ITs) Total Return	**+18.3%**

	01.01.91	**31.12.91**	% Change
ASCoT Net Asset Value	97.0p	**126.2p**	+30.1%
Ext HGSC (Ex ITs) Capital Only	980.97	**1,108.75**	+13.0%
ASCoT Ordinary Share Price	98.0p	**124.0p**	+26.5%
ASCoT Warrant Price	28.0p	**54.0p**	+92.9%
ASCoT Ordinary Dividend	—	**4.5p**	N/A

10 December 1990 (Inception)—31 December 1991

ASCoT Total Return	**+37.0%**
Ext HGSC (Ex ITs) Total Return	**+17.3%**

	10.12.90	**31.12.91**	% Change
ASCoT Net Asset Value	96.7p	**126.2p**	+30.5%
Ext HGSC (Ex ITs) Capital Only	993.11	**1,108.75**	+11.6%
ASCoT Ordinary Share Price	100.0p	**124.0p**	+24.0%
ASCoT Warrant Price	—	**54.0p**	N/A

CHAIRMAN'S STATEMENT

This is the first Annual Report of Aberforth Smaller Companies Trust plc (ASCoT), and covers the period to 31 December 1991. This period has been an eventful one for ASCoT. It commenced with the listing of its Ordinary Shares and Warrants in December 1990, with a fully invested portfolio of selected small UK quoted companies being in place by March 1991. In November 1991 a placing and open offer of "C" Shares was announced and 55 million of these shares were placed raising approximately £53m after expenses.

I am pleased to be able to report that the performance of ASCoT has been satisfactory in this inaugural period. The Net Asset Value per Ordinary Share has risen from 96.7p on 10 December 1990 to 126.2p on 31 December 1991—an increase of 30.5%. The comparable increase in the Ext HGSC (Ex ITs) was 11.6%. In the Managers' Report you will find a detailed description of the Ext HGSC (Ex ITs) and why it is a suitable benchmark for ASCoT.

The absolute level of these returns does much to highlight the discounting mechanism of stockmarkets. In a year in which the evidence and effects of recession became ever more apparent, the UK stockmarket was stimulated by a substantial reduction in the level of short term interest rates. ASCoT has an investment universe of some 1,400 companies to select from and the diversity of opportunity within this universe has allowed investment to be made in many attractive situations during the year.

DIVIDENDS AND DIVIDEND POLICY

It is proposed that a final dividend of 2.5p per Ordinary Share be paid on 6 March 1992 to shareholders on the Register on 6 February 1992. When added to the 2.0p per share paid in August this makes a total dividend for the year of 4.5p per Ordinary Share. This is the level of dividend payment forecast in the listing particulars issued in November 1990.

Over the long term ASCoT's investment universe has generated real growth in dividends. Although many of the factors that produced real growth in dividends in the past are in temporary abeyance they may be expected to recur in the future.

ASCoT will consistently be fully invested in a diversified portfolio of small UK quoted companies. The dividend income earned by ASCoT will reflect the dividend payments of the companies in which it chooses to invest and can therefore be expected to rise over the long term. It is the Directors' intention to increase the dividends paid by ASCoT over the longer term thus contributing to the achievement of the total return objective.

GEARING POLICY

The Directors and Managers believe that over the long term some form of borrowing should be employed by ASCoT with the intention of enhancing returns to shareholders. This belief is based on two factors. First, investment in a diversified portfolio of equities should over the long term produce a return superior to the cost of borrowing to fund such investment. The real rate of dividend growth which equities have generated is, I believe, one of the main reasons why their total return has been superior to funding costs in the past. Second, investment trust companies can borrow money in a tax efficient manner. The Directors and Managers believe that full use should be made of the Investment Trust structure to the benefit of shareholders.

At present the difference between equity yields and the cost of borrowing is at an historically low level. The narrowness of this gap has been the subject of much comment recently and reflects the expectation that

CHAIRMAN'S STATEMENT

the United Kingdom's membership of the ERM will place strictures on the economy. The transition towards an environment of low and stable inflation may be achieved at the expense of economic growth. This background would be consistent with a lower rate of nominal profit and dividend growth from the UK corporate sector than has been seen in the recent past. However, the opportunity which the relatively narrow gap between equity yields and borrowing costs creates is such that your Directors believe this is a propitious time to consider borrowing money. In the period under review ASCoT made use of some borrowings and as a result enhanced returns to shareholders compared with an ungeared position. The Directors intend that an appropriate but not excessive level of medium term gearing is introduced into ASCoT during the current year.

PLACING AND OPEN OFFER OF "C" SHARES

In November 1991 ASCoT announced a placing and open offer of 55 million "C" Shares. The net proceeds of this issue were approximately £53 million which substantially increased ASCoT's asset base. When considering the appropriate method to raise further equity, the Directors were aware that a conventional issue would have incurred two material risks. These risks relate to pricing and liquidity. The Directors believed that in terms of the pricing risk the use of the "C" Share mechanism would protect both existing and new shareholders from the effects of any sharp movement in the stockmarket between the date of the pricing of the issue and the receipt of the proceeds—a period of some four weeks. In the event the Ext HGSC (Ex ITs) fell by 2% in the relevant period thereby vindicating the use of this novel structure.

The second risk which the "C" Share mechanism counteracted is the liquidity risk. ASCoT was fully invested, and indeed slightly geared prior to the placing and open offer. The proceeds of a traditional issue would have rendered ASCoT substantially less than fully invested. The additional capital raised by the issue is accounted for as a distinct pool of assets within ASCoT. The effect of the structure is that the net asset value of the existing portfolio is unaffected by the additional capital and the "C" Shares have an attributable net asset value based solely on the net additional capital raised by their issue. When the net assets attributable to the "C" Shares are 90% invested in small UK quoted companies the "C" Shares will be converted into ordinary shares with warrants attached on the basis of the respective underlying net asset values per share at that time.

The support received from existing shareholders, some 50% of the total raised, was most encouraging. Also it is very satisfactory to welcome new shareholders.

The year end Balance Sheet requires some explanation. ASCoT had a measure of short term borrowings prior to the issue. The "C" Share proceeds were invested in short dated Government Stocks until such time as cash was required to settle the purchase of equities, the first such date being 6 January 1992. The Ordinary Shares of ASCoT remain geared while the "C" Share proceeds become invested. The table below illustrates the position at 31 December 1991 at which date the net asset value per "C" Share was 96.3p.

	"C" Shares	Ordinary Shares	Pro Forma Combined
Equity Investments as a percentage of respective Shareholders' Funds	62.5%	109.8%	74.9%
Largest Equity Investment as a percentage of respective Total Net Assets	1.61%	2.34%	1.38%
Total Number of Equity Investments	111	110	146

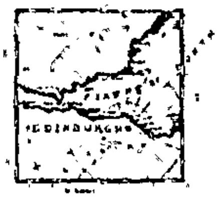
CHAIRMAN'S STATEMENT

OUTLOOK

1991 was a challenging year for ASCoT. I am pleased that it came through its first year strongly and generated a good return for its shareholders. Looking to 1992 it would appear likely that the economy will begin to recover. With this view in mind the portfolio of ASCoT is currently invested in a manner that will benefit from any increase in the level of UK economic activity.

The portfolio is well diversified and is managed with a sound and consistent investment philosophy. ASCoT is a specialist investment trust with a clear objective and dedicated, specialist investment managers. This combination I believe maximises the probability of achieving long term returns in excess of the opportunity base. It is with this belief that I look forward with confidence to 1992 and beyond.

W Y Hughes
Chairman
16 January 1992



MANAGERS' REPORT

THE COMPANY

Aberforth Smaller Companies Trust ("ASCoT") was designed with the objective of providing a suitable investment vehicle for predominantly institutional and wholesale investors and therefore includes the following features:

- exposure to small UK quoted companies through a well diversified portfolio, thus providing a natural complement to an existing large company exposure as well as reducing the risk associated with the ownership of a small number of individual small company investments;
- the expectation, although naturally a function of market conditions, that the liquidity in the shares of ASCoT will be greater on average than the securities which comprise the investment portfolio;
- exposure to the Managers, Aberforth Partners, who apply their total investment management resources to small UK quoted companies;
- the opportunity for shareholders to review on a regular basis the continuation of ASCoT and for the Board to assess the performance of the Managers.

THE INVESTMENT OBJECTIVE AND PERFORMANCE BENCHMARK

The investment objective of ASCoT is to achieve a net asset value total return greater than that on the Extended Hoare Govett Smaller Companies Index excluding investment trusts on the assumption that gross dividends are reinvested. This benchmark is derived from the Hoare Govett Small Companies Index which comprises the lowest ten per cent by capitalisation of the main UK equity market. The extension of that index through the inclusion of the shares of relevant companies quoted on the Unlisted Securities Market combined with the exclusion of shares of listed investment trusts provides the investment benchmark for ASCoT. The Index has been created by the London Business School and is distributed through Hoare Govett Investment Research Ltd.

THE INVESTMENT POLICY

The investment policy of ASCoT is clearly defined:

- Investments are only made in the constituents of the investment benchmark. No investments are made in unquoted or larger companies or those listed overseas. Outperformance is not sought through a process of mismatching outwith the investment universe.
- Where the market capitalisation of a company owned rises above the lower decile, as a consequence of share price performance or the raising of additional funds, its shares are sold as and when suitable market opportunities arise. Failure to dispose of such holdings would result in the investment portfolio becoming increasingly inconsistent with the investment objective over time.
- In normal circumstances the portfolio will be invested in between 80 and 120 individual companies. However, the investment of the funds from the recent "C" Share issue has led to a temporary increase in that number. The portfolio structure is intended to ensure adequate risk diversification whilst at the same time being sufficiently selective to ensure that the ability to add real value through stock selection remains.

MANAGERS' REPORT

- Portfolio risk is evaluated from the perspective of the proportion of ASCoT's assets represented by an individual holding rather than the percentage of the respective company which ASCoT's holding represents. However, the Managers do not seek to make "strategic investments" which would allow them to influence the management strategy of those companies. The Managers' responsibility is to the shareholders of ASCoT.

- Investors in ASCoT are seeking exposure to smaller companies therefore the Managers will not raise liquidity believing that the asset allocation decision remains that of the shareholder.

It is this policy when combined with the performance benchmark which provides a structure within which the Managers may operate effectively and the result of their efforts be judged by the Directors and shareholders.

INVESTMENT STYLE

The objective of active investment management is to create long term returns in excess of a benchmark. This is distinct from passive investment management which seeks to replicate a benchmark return. To achieve ASCoT's objectives the Managers do not invest in people, products or businesses but purchase shares in companies which are perceived to be inexpensive and sell them when value is recognised. This "value" discipline requires the assessment of a broad range of financial characteristics which leads to the creation of a portfolio of shares of companies whose combined characteristics include: below average market capitalisation to shareholders' funds, below average price to earnings ratios, and above average dividend yield.

The existence of value may reflect a fundamental change in the business which is not recognised by the stockmarket or low expectations reflecting adverse trading conditions. These companies may only benefit in share price terms from an improved trading environment or operating performance. Conversely, the shares of companies where above average expectations for profits growth exist and return on invested capital is very high may only disappoint investors if trading momentum deteriorates or competition attracted by the high potential returns enters their market.

The Managers also believe that the market in small company shares is relatively inefficient. Value will exist in companies with attractive financial characteristics where as a consequence of their geographic location, business type or low management profile, remain relatively undiscovered by investing institutions and underfollowed by the stockbroking community. Such situations present attractive opportunities for investment as institutional ownership may only increase over time and may be accompanied by a re-rating of the shares. The Managers seek no comfort in the ownership of shares in companies where existing institutional ownership is high as the marginal buyer becomes more difficult to find and the potential for share price performance accordingly reduced.

The Managers' investment style will lead to a degree of contrary thinking with the purchase of shares where short term pessimism or absence of interest obscures long term value and with the sale of shares in companies where existing valuations may only be supported by the extrapolation of high growth rates. It is the Managers' belief that the implementation of this rational value discipline combined with effort, enthusiasm and a degree of good fortune will deliver superior long term returns despite the shorter term periods of underperformance which are a natural consequence of the adherence to a clearly defined investment discipline.

MANAGERS' REPORT

MARKET BACKGROUND AND PERFORMANCE

The period since the inception of ASCoT has proved to be a rewarding one for UK stockmarkets and the share prices of small companies have participated in this general trend. Between 10 December 1990 and the end of 1991, the Ext HGSC (Ex ITs) rose by 11.6% in capital only terms. By comparison, the FTA All-Share Index, representative of larger companies, rose by 13.0% over the same period. Although smaller companies have underperformed, the margin of underperformance has declined sharply when compared with the previous two years as detailed below.

	Capital Only Returns (Calendar Years)	
	Ext HGSC (Ex ITs)	**FTA All-Share**
1988	+11.2	+6.5
1989	+2.3	+30.0
1990	−29.1	−14.3
1991	+13.0	+15.1

Despite this modest small company underperformance ASCoT shareholders have not suffered as a consequence, illustrated by the 30.1% rise in the net asset value during calendar year 1991.

The improvement in the share price performance of small companies has been driven by two factors: relative value and the expectation of corporate recovery against a background of falling interest rates and inflation.

At the beginning of 1988 the shares of small companies were selling at a near 30% price to earnings premium to all UK quoted companies. However, the environment post the 1987 crash proved to be an inhospitable one as relatively expensive valuations were eroded by an ample supply of shares reflecting the expansion in the number of new issues in the mid-1980s, combined with falling demand as institutional investors sought shares with greater liquidity.

By the beginning of 1991 value was apparent with small companies selling at their lowest price to earnings multiple since the beginning of 1981 and a relative price to earnings multiple to all UK quoted companies of 0.86 times, a level not seen at the beginning of any year throughout the last decade. Historically, small companies have demonstrated the ability to achieve superior earnings and dividend growth when compared with larger companies and consideration of this fact combined with relative value has proved an attractive combination.

The progressive reduction of interest rates in the face of a weakening economy and falling inflation has been supportive of equity valuations in general as the return from cash and fixed interest alternatives has fallen. The recession has placed downward pressure on corporate profits providing a degree of counter pressure to the impact of falling interest rates. Smaller companies as a generic group are more exposed to the UK economy given their lower level of overseas earnings and greater exposure to the manufacturing base and as such in the current environment their corporate performance has been relatively poor. However the expectational nature of the financial markets has provided support for share prices as investors have looked forward to UK economic recovery.

MANAGERS' REPORT

Against this more favourable background ASCoT's shareholders have enjoyed a real rate of return and a significant degree of added value against the benchmark. Given the diversified nature of the investment portfolio, returns have not been driven by a high return from a small number of significant holdings, but from the majority of holdings achieving above market returns with losses on individual investments being minimised reflecting both a careful implementation of the value discipline and a degree of good fortune.

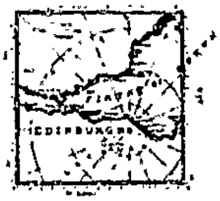
The construction of the portfolio has been driven by a search for relative value through an assessment of individual companies rather than a particular sectoral view. Despite the difficult economic environment cyclical companies have not been overlooked particularly those with a high degree of asset backing and ungeared balance sheets which provide some support if trading recovery is deferred. In addition companies with recessio[illegible] [illegible] flow and a return on assets greater than the cost of borrowing money benefit shareholder[illegible] [illegible]ing. In the current environment shares in such companies offer value given the general aver[illegible] which exists in the financial markets.

The opp[illegible] base, although containing a number of emerging growth companies, is predominantly made up of relatively mature and well established businesses. Therefore, the initial yield and the expected growth of dividends is a major consideration in portfolio construction. Consistent with the value discipline the portfolio has been constructed with an above average dividend yield. Emphasis is placed on relative dividend cover and cash flow to evaluate the expected trends in future dividend growth. As a result, the net yield of 4.5% forecast at the time of the issue has been achieved and the virtual absence of dividend cuts within the portfolio, combined with the existence of some pleasant surprises, has generated sufficient additional income to finance a degree of gearing to the benefit of shareholders.

The investment performance of ASCoT is determined by the aggregation of decisions made by your Managers regarding the shares of individual companies. Additional information on a small sample of investments in the context of a diverse portfolio may be misleading. A more realistic approach is to highlight a number of informative financial characteristics for the total portfolio as detailed below.

Portfolio Characteristics as at 31 December 1991

Number of Companies in the Portfolio	146
Average Market Capitalisation	£58.1m
Return on Equity	12%
Debt to Shareholders' Funds	30%
Market Capitalisation to Book Value	1.4×
Price Earnings Ratio (Historic)	10.9×
Gross Dividend Yield (Historic)	6.0%
Dividend Cover	2.0×



MANAGERS' REPORT

INVESTMENT OUTLOOK

The Managers believe they can add little to what others have already said with regard to the UK economy save that undoubtedly the ingredients for a classical cyclical upturn are in place. However, the precedents of recent times are of limited value given the new constraints imposed by membership of the ERM and the uncertainty of a recovery in consumer spending. This uncertainty is present despite a high personal savings ratio and is caused by the erosion of personal wealth due to the decline in property values.

Against this background emphasis will continue to be placed on the shares of companies which will benefit from economic recovery but where its deferral or anaemic complexion will leave earnings depressed but dividends and balance sheets intact. The size of the opportunity base and its diversity by number of companies should ensure that a value orientated portfolio may be constructed with the prospect of providing attractive returns to shareholders.

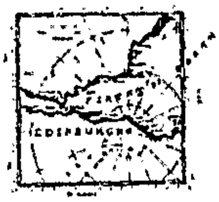
Aberforth Partners
Managers
16 January 1992

PORTFOLIO INFORMATION
FIFTY LARGEST INVESTMENTS

No.	Company			% of Company Owned	Valuation £'000	% of Total	Cost £'000	Income Received £'000
1.	Stanley Leisure Organisation			1.5	991	1.4	957	2
	Business: Betting Shops & Casino Operation							
		1991	*1990*					
	Pre-Tax Profit	£7.1m	£8.4m					
	Earnings per Share	14.40p	15.90p					
	Dividend per Share	4.85p	4.50p					
2.	British Polythene Industries Ordinary			0.7	590	1.3	583	—
	British Polythene Industries 7.5% CCRP			1.3	328		218	15
	Business: Polythene Film Producer							
		1990	1989					
	Pre-Tax Profit	£8.8m	£7.8m					
	Earnings per Share	24.58p	22.50p					
	Dividend per Share	8.25p	7.50p					
3.	FR Group			0.6	881	1.2	831	13
	Business: Aerospace/Defence							
		1990	1989					
	Pre-Tax Profit	£21.3m	£22.6m					
	Earnings per Share	20.07p	20.75p					
	Dividend per Share	6.37p	6.37p					
4.	Frost Group			1.5	826	1.1	815	—
	Business: Petrol Retailing							
		1990	*1989*					
	Pre-Tax Profit	£4.7m	£4.6m					
	Earnings per Share	24.2p	23.2p					
	Dividend per Share	0.0p	13.0p					
5.	Halstead (James) Group			1.5	803	1.1	675	11
	Business: Flooring Manufacturer							
		1991	1990					
	Pre-Tax Profit	£7.6m	£7.4m					
	Earnings per Share	36.12p	33.29p					
	Dividend per Share	11.25p	10.50p					
6.	Walker Greenbank			1.5	787	1.1	804	12
	Business: Wallpaper Manufacture & Distribution							
		1991	1990					
	Pre-Tax Profit	£8.0m	£7.1m					
	Earnings per Share	5.55p	5.10p					
	Dividend per Share	3.10p	2.75p					
7.	*Fenner*			1.7	776	1.1	822	—
	Business: Engineering							
		1991	1990					
	Pre-Tax Profit	£7.4m	£16.1m					
	Earnings per Share	5.47p	22.32p					
	Dividend per Share	8.55p	8.55p					
8.	British-Borneo Petroleum Syndicate			0.9	772	1.1	846	2
	Business: Oil and Gas Exploration and Production							
		1990*	1990					
	Pre-Tax Profit	£3.1m	£1.9m					
	Earnings per Share	18.1p	10.3p					
	Dividend per Share	5.3p	8.0p					
	* Nine month period to 31.12.90							
9.	Cornwell Parker "A" Non Voting			1.1	756	1.1	616	12
	Business: Furniture Manufacturer							
		1991	1990					
	Pre-Tax Profit	£8.0m	£8.7m					
	Earnings per Share	13.2p	15.1p					
	Dividend per Share	5.5p	5.5p					
10.	*Lilley*			1.3	755	1.1	860	7
	Business: Construction and Housebuilder							
		1990	1989					
	Pre-Tax Profit	£14.1m	£19.1m					
	Earnings per Share	7.99p	9.55p					
	Dividend per Share	2.50p	2.50p					
	Top Ten Investments (c/fwd)				**8,265**	**11.6**		

PORTFOLIO INFORMATION
FIFTY LARGEST INVESTMENTS

No.	Company	Valuation £'000	% of Total	Business Activity
	Top Ten Investments (b/fwd)	8,265	11.6	
11.	Senior Engineering Group	718	1.0	Engineering
12.	Hunting	712	1.0	Diversified engineering group
13.	Howden Group	703	1.0	Engineering
14.	Jupiter Tyndall Group	702	1.0	Investment management
15.	Dobson Park Industries	690	1.0	Conglomerate
16.	Whessoe	680	0.9	Engineering
17.	Watson & Philip	678	0.9	Food retailing and distribution
18.	Rathbone Brothers	670	0.9	Investment management
19.	Acal	658	0.9	Electronic component distribution
20.	Peek	630	0.9	Manufacture of traffic and field data systems
21.	Ricardo International	630	0.9	Engineering design
22.	Blacks Leisure Group	604	0.8	Sportswear retailing and distribution
23.	Wembley	603	0.8	International leisure
24.	Mayflower Corporation	564	0.8	Manufacture of vehicle bodies
25.	Appleyard Group	562	0.8	Motor distributor
26.	Scottish Television	555	0.8	ITV contractor
27.	Chemring Group	547	0.8	Missile countermeasures and pyrotechnics
28.	Wardle Storeys	546	0.8	PVC sheeting and safety equipment
29.	CALA	542	0.8	Housebuilder
30.	Nichols (J.N.) (Vimto)	541	0.8	Soft drinks manufacturer
31.	Burford Holdings	535	0.7	Property investment
32.	Maunders (John) Group	532	0.7	Housebuilder
33.	Fairway (London)	527	0.7	Distributor of business and computer stationery
34.	Allied Leisure	525	0.7	Bowling alley operator
35.	Prospect Industries	523	0.7	Engineering
36.	PWS Holdings	520	0.7	Insurance broker
37.	Clarkson (Horace)	519	0.7	Shipping/insurance broker
38.	Brent Chemicals International	512	0.7	Speciality chemicals
39.	Hill & Smith Holdings	503	0.7	Engineering
40.	Readicut International	503	0.7	Diversified textile products
41.	Sirdar	501	0.7	Hand knitting wools and flooring products
42.	Manders (Holdings)	501	0.7	Paint distribution and retail property owner
43.	Resort Hotels	498	0.7	Management of hotels and restaurants
44.	Boot (Henry) & Sons	496	0.7	Construction and housebuilder
45.	Gerrard & National Holdings	493	0.7	Discount house
46.	Trimoco	490	0.7	Motor distributor
47.	Bellway	486	0.7	Housebuilder
48.	Cattle's (Holdings)	482	0.7	Instalment credit and hire purchase
49.	Mucklow (A. & J.) Group	470	0.6	Property investment
50.	Goode Durrant	467	0.6	Conglomerate
	Top Fifty Investments	30,883	43.0	
	Other Investments (96)	22,961	31.9	
	UK Government Securities	53,787	74.8	
	Net Current Liabilities	(35,730)	(49.7)	
	Total Assets less Liabilities	**71,901**	**100.0%**	



REPORT OF THE AUDITORS

TO THE MEMBERS OF ABERFORTH SMALLER COMPANIES TRUST PUBLIC LIMITED COMPANY

16 January 1992

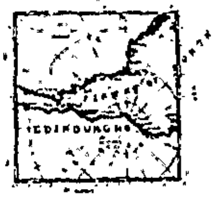
We have audited the accounts of Aberforth Smaller Companies Trust Public Limited Company on pages 16 to 21 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company at 31 December 1991 and of its net revenue and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst + Young.

Ernst & Young
Chartered Accountants
Registered Auditor

Edinburgh



CORPORATE INFORMATION

DIRECTORS

W Y Hughes, CBE (51) (Chairman)
William Hughes has been Chairman since 1985 and Chief Executive since 1976 of Grampian Holdings plc, a holding company engaged in transport, tourist retail, the sale of sporting goods and veterinary medicines. He is also Deputy Chairman of the Scottish Conservative Party and is a past Chairman of CBI Scotland.

Dr F Mackenzie, CBE, CEng, FIEE (57)
Finlay Mackenzie joined Hewlett Packard in 1965 and was General Manager of the Queensferry Telecommunications Division of Hewlett Packard (UK) Limited from January 1982 until his retiral last year. He is also a Director of Edinburgh Assured Properties PLC and recently joined the Board of Lothian and Edinburgh Enterprise Limited.

K M Miller, BSc(Hons) (42)
Keith Miller has been a Group Board Director of The Miller Group Limited, one of Scotland's largest private companies, for fifteen years. During this period he has been responsible for the opencast coal mining division which is now one of the major opencast mining contractors in the UK. In addition, he assumed responsibility in 1986 for all the Group's commercial property development and investment activities throughout the UK.

D T M Ross, FCCA (42)
David Ross is a partner of Aberforth Partners who are investment managers and secretaries to the Company. He is also a Director of Aberforth Split Level Trust plc and US Smaller Companies Investment Trust plc.

A J Whyte (28)
Alistair Whyte is a partner of Aberforth Partners who are investment managers and secretaries to the Company. He is also a Director of Grove Holdings Limited, a private company whose principal activities comprise the owning and operating of gas tankers.

INVESTMENT MANAGERS AND SECRETARIES
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BANKERS
Bank of Scotland
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AUDITORS
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Chartered Accountants
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STOCKBROKERS
James Capel & Co Limited
James Capel House
6 Bevis Marks
London EC3A 7JQ

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting the First Annual Report and Accounts of the Company for the period 30 July 1990 (date of incorporation) to 31 December 1991.

PRINCIPAL ACTIVITY AND STATUS

The Company, which is not a "Close Company", was incorporated as a Public Limited Company in terms of the Companies Act 1985 on 30 July 1990 and commenced business on 10 December 1990. It is an investment company as defined in Section 266 of the Companies Act 1985 and qualifies as an Investment Trust within the meaning of the Income and Corporation Taxes Act 1988. Since incorporation, the Company's affairs have been conducted in such a manner as to enable it to seek such approval. A review of the Company's business during the year is contained in the Chairman's Statement and the Managers' Report.

RESULTS AND DIVIDEND

	£'000	£'000
Revenue available for dividends		790
Interim dividend of 2.0p per Ordinary Share paid 23 August 1991	300	
Proposed final dividend of 2.5p per Ordinary Share, payable 6 March 1992 to shareholders on the Register at close of business on 6 February 1992	375	
		(675)
Transferred to revenue reserve		115

DIRECTORS

The Directors who held office at 31 December 1991 and their interests in the Shares and Warrants of the Company were:

		31 December 1991*		
		Ordinary Shares	"C" Shares	Warrants
W Y Hughes	Beneficial	—	—	—
Dr F Mackenzie	Beneficial	3,000	15,000	20,600
K M Miller	Beneficial	10,000	—	2,000
D T M Ross	Beneficial	70,000	12,730	41,500
A J Whyte	Beneficial	9,000	3,000	1,800

* No shares or warrants were held at date of appointment—19 November 1990

There has been no change in the holdings of the Directors between 31 December 1991 and 16 January 1992. Messrs Ross and Whyte are partners of Aberforth Partners, the Managers and Secretaries of the Company and thus have a material interest in the management and secretarial contracts. Mr Whyte is a director of Grove Holdings Limited who hold 15.3% of the issued Ordinary Shares.

B W Minto and R L Bruce, the first Directors of the Company resigned on 19 November 1990.

Mr D T M Ross retires by rotation and, being eligible, offers himself for re-election at the Annual General Meeting.

No Director has a contract of service with the Company.

REPORT OF THE DIRECTORS

MANAGEMENT

Aberforth Partners are Managers and Secretaries to the Company. These services can be terminated by either party at any time by giving six months' notice of termination. Aberforth Partners receive a quarterly management fee, payable in advance, equal to one-fifth of one per cent of the value of the total net assets of the Company and a quarterly secretarial fee, payable in advance, of £10,000. The secretarial fee is adjusted annually in line with the Retail Prices Index.

SUBSTANTIAL INTERESTS IN SHARE CAPITAL

The Board has been advised or are aware that the following shareholders owned three per cent or more of the issued share capital of the Company at 31 December 1991 and 16 January 1992.

Ordinary Shares of 25p	Percentage Held
Grove Holdings Limited	15.3
James Capel & Co. Limited A/C Clients	6.4
Pilkington PLC Pension Funds	6.0
Life Association of Scotland	5.2
Confederation Life Assurance Company	5.0
Rathbone Brothers & Co Limited A/C Clients	4.0
Berkshire County Council Superannuation Fund	3.7
South Yorkshire Pensions Authority Superannuation Fund	3.6
Strand Nominees Limited	3.4
Scottish Amicable Investment Managers Limited	3.3
Scottish Provident Institution	3.3
Sun Life Assurance Company of Canada	3.3
"C" Shares of £1	
Scottish Widows	9.1
Save & Prosper	7.6
Robert Fleming & Co Ltd A/C Private Clients	7.6
Scottish Amicable Investment Managers Limited	5.3
Commercial Union	5.0
Legal & General	4.5
James Capel & Co. Limited A/C Clients	3.4
Irish Life Assurance	3.3
Liverpool Victoria	3.2

OTHER SHAREHOLDER INFORMATION

The affairs of the Company have been conducted in such a way so as to comply with the UK equities rule as defined in the Personal Equity Plan Regulations. It is the current intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

The base cost for capital gains tax purposes of an Ordinary Share and a Warrant as at 10 December 1990, were respectively 94.6p and 5.4p.

AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

By Order of the Board *Aberforth Partners*
ABERFORTH PARTNERS (Secretaries)
16 Chester Street, Edinburgh EH3 7RA
16 January 1992

REVENUE ACCOUNT

FOR THE PERIOD 30 JULY 1990 TO 31 DECEMBER 1991

	Note	£'000	1991 £'000
INCOME			
Franked investment income			
Securities Listed on the London Stock Exchange		835	
Securities Quoted on the Unlisted Securities Market		53	
			888
Unfranked investment income			
UK Government Securities		68	
			68
Other income			
Deposit interest		357	
Underwriting commission		31	
Scrip Dividends		16	
			404
TOTAL INCOME			1,360
INTEREST AND EXPENSES			
Bank overdraft and loan interest		115	
Management fee		67	
Secretarial fee		50	
Administrative expenses		47	
Directors' fees	2	18	
Auditors' remuneration		3	
TOTAL INTEREST AND EXPENSES			(300)
REVENUE BEFORE TAXATION			1,060
Taxation	3		(270)
REVENUE AFTER TAXATION			790
Interim dividend (2.0p per Ordinary Share)		300	
Proposed final dividend (2.5p per Ordinary Share)		375	
			(675)
TRANSFERRED TO REVENUE RESERVE			115
EARNINGS PER ORDINARY SHARE (15,000,000 in issue)			5.27p
DIVIDENDS PER ORDINARY SHARE			4.50p

The Notes on pages 19 to 21 form part of these accounts.

BALANCE SHEET
AS AT 31 DECEMBER 1991

	Note	£'000	1991 £'000
FIXED ASSETS: INVESTMENTS			
Securities Listed on the London Stock Exchange:			
UK Ordinary and Preference Shares		47,520	
UK Convertible Securities		602	
UK Government Securities		53,787	
			101,909
Securities Quoted on the Unlisted Securities Market:			
UK Ordinary and Preference Shares			5,722
TOTAL INVESTMENTS	4		107,631
Current Assets			
Due from brokers		264	
Other debtors		36	
		300	
Current Liabilities			
(Amounts falling due within one year)			
Bank overdraft		4,616	
Due to brokers		31,015	
Taxation		2	
Other creditors		22	
Proposed final dividend		375	
		36,030	
Net Current Liabilities			(35,730)
TOTAL ASSETS LESS LIABILITIES			71,901
CAPITAL AND RESERVES			
Called up share capital:			
Ordinary Shares of 25p		3,750	
"C" Shares of £1		55,000	
	5		58,750
Reserves:			
Share premium account	6	8,933	
Realised capital reserve	7	1,294	
Unrealised capital reserve	7	2,809	
Revenue reserve	7	115	
			13,151
			71,901
NET ASSET VALUES			
PER ORDINARY SHARE OF 25p—BASIC			126.2p
—FULLY DILUTED			121.8p
PER "C" SHARE OF £1			96.3p

Approved by the Board of Directors
W Y Hughes, *Director*
16 January 1992

The Notes on pages 19 to 21 form part of these accounts.

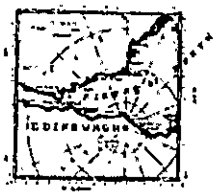
CASH FLOW STATEMENT

FOR THE PERIOD 30 JULY 1990 TO 31 DECEMBER 1991

		1991
	£'000	£'000
Net cash inflow from investments (see below)		**1,046**
Servicing of finance		
Dividends paid		**(300)**
Taxation		
Tax on franked investment income	(222)	
Tax on unfranked income	(9)	
Tax paid		**(231)**
Investing activities		
Payments to acquire UK Government Securities	(58,866)	
Payments to acquire other investments	(24,274)	
Receipts from sale of UK Government Securities	5,379	
Receipts from sale of other investments	5,058	
Management fee	(111)	
Net cash outflow from investing activities		**(72,814)**
Net cash outflow before financing		**(72,299)**
Financing		
Issue of Ordinary Shares of 25p	15,000	
Issue of "C" Shares of £1	55,000	
Expenses paid in connection with share issues	(2,317)	
Net cash inflow from financing		**67,683**
Decrease in cash and cash equivalents		**(4,616)**

Reconciliation of revenue before taxation to net cash inflow from investments	
Revenue before taxation	**1,060**
Increase in debtors	**(36)**
Increase in creditors	**22**
Net cash inflow from investments	**1,046**

The Notes on pages 19 to 21 form part of these accounts.



NOTES ON THE ACCOUNTS

1 ACCOUNTING POLICIES

Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards, and under the historical cost convention, modified to include the revaluation of fixed asset investments.

Income and expenses

(i) Income from investments is credited on the date due and receivable, with the exception of income from fixed interest securities covered by the accrued income scheme in the Income and Corporation Taxes Act 1988, where cash receipts are adjusted as appropriate for accrued income on purchases and sales.

(ii) When the Company elects to receive a scrip dividend in lieu of a cash dividend, an amount equal to the dividends not received is included in income on the date due and receivable.

(iii) Other income and expenses are accounted for on an accruals basis.

Investments

Listed investments and investments quoted on The Unlisted Securities Market are included in the accounts at mid-market valuation.

Capital reserves

These reserves comprise the following:

(i) Gains and losses on realisation of investments.

(ii) Increases and decreases in the valuation of investments held.

(iii) Management fee paid during the period at the rate of 62.5%. The balance of 37.5% is charged to revenue (see Note 7).

(iv) Corporation tax relief on (iii) above.

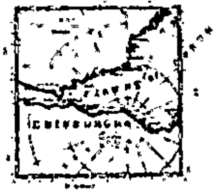
2 DIRECTORS' FEES

The emoluments of the Chairman who was the highest paid Director were £6,686 for the period. The two Directors who are partners in the management firm, Aberforth Partners, have waived all their fees totalling £11,144. Of the other Directors who served during the period, two had emoluments of £5,572 each and two had £Nil.

3 TAXATION

	1991
	£'000
Corporation tax at 33%	48
Tax on franked investment income	222
	270

No provision has been made for Advance Corporation Tax on the final dividend as in the opinion of the Directors such tax will be fully relieved by tax credits.



NOTES ON THE ACCOUNTS

4 INVESTMENTS

	£'000
Cost of investments at date of incorporation	—
Purchases at cost during period	114,155
Sales at cost during period	(9,333)
Cost of investments at 31 December 1991	104,822
Unrealised appreciation at 31 December 1991	2,809
Value of investments at 31 December 1991	**107,631**

5 SHARE CAPITAL

	£'000
Authorised:	
62,000,000 Ordinary Shares of 25p	15,500
55,000,000 "C" Shares of £1	55,000
At 31 December 1991	**70,500**
Allotted, issued and fully paid:	
15,000,000 Ordinary Shares of 25p	3,750
55,000,000 "C" Shares of £1	55,000
At 31 December 1991	**58,750**

At 31 December 1991 there were 3,000,000 Warrants in issue. Each Warrant confers the right to subscribe for one Ordinary Share of 25p at 100p on 31 March in any of the years 1992 to 2003 inclusive.

The authorised share capital of the Company upon incorporation was £50,000 divided into 50,000 Ordinary Shares of £1 each and on 19 November 1990 each of the Ordinary Shares of £1 each of the Company was sub-divided into four Ordinary Shares of 25p.

On 26 November 1990 the authorised share capital of the Company was increased to £4,500,000 by the creation of 17,800,000 additional Ordinary Shares. On 5 December 1990 15,000,000 Ordinary Shares (including the eight Ordinary Shares arising on sub-division of the two Subscriber Shares) were issued at £1 per Share (with one Warrant attached to every 5 Ordinary Shares).

On 29 November 1991 the authorised share capital of the Company was increased to £70,500,000 by the creation of a further 44,000,000 Ordinary Shares of 25p and the creation of 55,000,000 "C" Shares of £1. On 4 December 1991, 55,000,000 "C" Shares of £1 were issued at £1 per Share.

The monies raised from both issues were to enable the Company to pursue its policy of investing in the securities of UK smaller companies.

6 SHARE PREMIUM ACCOUNT

	£'000
Premium arising on issue of Ordinary Shares	11,250
Expenses of issue of 15,000,000 Ordinary Shares	(496)
Expenses of issue of 55,000,000 "C" Shares	(1,821)
At 31 December 1991	**8,933**

NOTES ON THE ACCOUNTS

OTHER RESERVES

	£'000
Realised Capital Reserve	
At date of incorporation	—
Gain on sale of listed investments	1,287
Gain on sale of investments quoted on the USM	81
Management fee, net of notional tax relief of £37,000, allocated to capital	(74)
At 31 December 1991	**1,294**
Unrealised Capital Reserve	
At date of incorporation	—
Appreciation of listed investments	2,220
Appreciation of investments quoted on the USM	589
At 31 December 1991	**2,809**
Revenue Reserve	
At date of incorporation	—
Transferred from Revenue Account	115
At 31 December 1991	**115**

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Second Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 16 Chester Street, Edinburgh on Thursday, 13 February 1992 at 12.15 p.m. for the following purposes:

To consider and, if thought fit, pass the following Ordinary Resolutions:

1. That the Report and Accounts for the period to 31 December 1991 and the payment of the final dividend of 2.5p per Ordinary Share be approved.
2. That Mr D T M Ross who retires by rotation be re-elected as a Director.
3. That Ernst & Young, Chartered Accountants, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

By Order of the Board

Aberforth Partners *(Secretaries)*
16 Chester Street
Edinburgh EH3 7RA

16 January 1992

The final dividend, if approved, will be paid on 6 March 1992 to shareholders on the Register at 6 February 1992.

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on their behalf. Such a proxy need not also be a member of the Company.

A Form of Proxy for use by Shareholders is opposite. Completion of the Form of Proxy will not prevent a Shareholder from attending the meeting and voting in person.

No Director has a contract of service with the Company.

FORM OF PROXY

I/We .... BLOCK CAPITALS PLEASE

of...

being (a) member(s) of Aberforth Smaller Companies Trust plc ("the Company") hereby appoint

.... or, failing him, 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 on Thursday, 13 February 1992 and at any adjournment thereof.

Resolutions	*For*	*Against*
1. That the Report and Accounts for the period to 31 December 1991 and the payment of the final dividend of 2.5p per Ordinary Share be approved		
2. That Mr D T M Ross who retires by rotation be re-elected a Director		
3. That Ernst & Young, Chartered Accountants, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration		

Signed.. Date...

Notes:

1. Proxies must be lodged at the address overleaf not less than 48 hours before the time appointed for holding the Meeting.
2. A corporation should execute under its common seal or the hand of a duly authorised officer.
3. Shareholders are entitled to appoint a proxy of their own choice. If desired the name of such proxy can be inserted above and initialled by the shareholders.
4. Please indicate how you wish your votes to be cast by placing a cross in the appropriate boxes. Unless otherwise instructed the proxy will vote as he thinks fit or will abstain.
5. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.
6. Completion of this Form of Proxy will not prevent members from attending the meeting and voting in person should they so wish.

Second fold

BUSINESS REPLY SERVICE
Licence No. HF106

2

NORTHERN REGISTRARS LIMITED
NORTHERN HOUSE
WOODSOME PARK
FENAY BRIDGE
HUDDERSFIELD HD8 0JQ

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Third fold and tuck in