Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 1993

INVESTMENT OBJECTIVE

"The objective of Aberforth Smaller Companies Trust plc ("ASCoT") is to achieve a net asset value total return (with gross dividends 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 small UK quoted companies."

ABERFORTH SMALLER COMPANIES
TRUST plc

REGISTERED NO. 126524

INVESTMENT RECORD

Reporting Period

1 January 1993—31 December 1993

ASCoT Total Return*	**+58.3%**
Ext HGSC (Ex ITs) Total Return†	**+41.6%**

	01.01.93	31.12.93	% Change
ASCoT Net Asset Value	122.8p	**188.6p**	+53.6%
Ext HGSC (Ex ITs) Capital Only	1,129.27	1,547.69	+37.1%
ASCoT Ordinary Share Price	122.0p	**185.0p**	+51.6%
ASCoT Warrant Price	48.0p	**89.0p**	+85.4%

Historic Record

	Total Returns	
	ASCoT NAV*	Ext HGSC (Ex ITs)†
SINCE INCEPTION:		
'0 December 1990–31 December 1993	**+122.0%**	**+76.7%**
SIX MONTH PERIODS:		
1 July 1993–31 December 1993	+16.1%	+13.7%
1 January 1993–30 June 1993	+36.3%	+24.6%
1 July 1992–31 December 1992	−4.7%	+1.0%
1 January 1992–30 June 1992	+7.3%	+5.3%
1 July 1991–31 December 1991	+13.7%	+3.8%
1 January 1991–30 June 1991	+20.3%	+14.0%

* Represents net asset value with gross dividends reinvested
† Represents capital appreciation with gross dividends reinvested

CHAIRMAN'S STATEMENT

I am pleased to report that Aberforth Smaller Companies Trust plc ("ASCoT") performed well in 1993. The net asset value per ordinary share rose from 122.8p to 188.6p, an increase of 53.6%. This compares with a rise in the Extended Hoare Govett Smaller Companies Index (excluding investment trusts) of 37.1%. In total return terms the respective figures are 58.3% for ASCoT and 41.6% for the Index.

ASCoT has benefited in 1993 in capital terms from the gearing which has been utilised throughout the year. I mentioned in my last statement that 1993 would be the year in which the cost of ASCoT's borrowings would impinge most upon the Company's revenue. This has proved to be the case. However, I am pleased to propose a maintained dividend of 4.6p for the year with a final dividend of 2.5p per share payable on 4 March 1994.

The stockmarket returns for 1993 are worthy of note not only because of their high absolute level, particularly for small companies, but also for the relatively consistent manner in which these returns were achieved. The Extended Hoare Govett Smaller Companies Index (excluding investment trusts) rose for ten out of the twelve months of 1993 and for each individual month until September. This can be compared with 1991 which also saw a substantial aggregate return but contained individual months of sharp decline in the market. A contributory factor to the steady upward momentum in 1993 was that the economic background improved throughout the year. Interest rates were little changed and inflation remained low, declining as the year went on. As the course of recovery in the domestic economy gained momentum and became more visible, the greater domestic exposure of small companies, when compared with their larger counterparts, encouraged their outperformance.

ASCoT was formed in December 1990 and ever since then the general expectation has been that economic growth in the UK would resume—at some point. Recovery has been discounted by the stockmarket at various times and there have also been numerous false dawns. Throughout this period your Managers' value discipline has led the portfolio to increase not only its cyclical bias but also the proportion invested in "smaller" small companies. The portfolio has had a cyclical bias as it was considered that this area of the stockmarket presented the most attractive relative value. Value can be apparent in different guises at various times. Therefore the aggregate characteristics and nature of the portfolio will alter over time as the value in the stockmarket migrates from cyclical companies to alternative opportunities.

A pertinent example of this is the performance of the small company market in 1993. The emphasis on cyclical companies has led many companies which could be characterised as having defensive qualities to underperform to the extent that they are now beginning to represent attractive value.

Furthermore given that short term interest rates in the UK are relatively low and may well be approaching their trough for this cycle, the attractions of what were higher yielding equities may have already been fully discounted. At this stage of the cycle there can be greater value in investing in companies which are capable of generating superior dividend growth rather than those whose dividends may remain stagnant but are priced by the stockmarket to give a high dividend yield.

The portfolio is however likely to retain its bias to the smaller companies within the small company opportunity base for some time yet. I am confident that your Managers will continue to find value and alter the portfolio structure to reflect their views as to where the best potential is to be found. After a period of such high absolute returns it is only to be expected that there are opportunities to realise profits in those companies which are fully valued and reinvest in companies where greater potential stockmarket returns are possible.

CHAIRMAN'S STATEMENT

History suggests that the stockmarket is unlikely to maintain the relatively smooth progression seen last year. Undoubtedly there will be less rewarding and more volatile years ahead than the one which we have just enjoyed. However I remain confident that your Managers have the processes in place and the skills necessary to deal with the variety of stockmarket conditions that are likely to occur.

W Y Hughes
Chairman
18 January 1994

MANAGERS' REPORT

The year under review has proved to be a rewarding one for investors in the UK equity market but particularly for those invested in small companies which have outperformed their larger counterparts for the first time on a calendar year basis since 1988, thus ending four years of consecutive share price underperformance. This is the longest period of underperformance in the history of the Hoare Govett Smaller Companies Index for which data is available from 1955.

Over the twelve months to 31 December 1993 the FT-A All-Share Index rose by 23.3% but of greater significance to your Company, given its investment objective, has been the superior performance of small companies with the Extended Hoare Govett Smaller Companies Index (excluding investment trusts), the investment benchmark for ASCoT, rising by 37.1%. Both indices being expressed in capital only terms.

One of the many influences on the direction of the equity market has been Sterling's exit from the ERM on 16 September 1992, which was followed by a major shift in the conduct of UK monetary policy. Since that date to the end of 1993 the FT-A All-Share Index has risen by 50.8% and the Ext HGSC (Ex ITs) by 68.4%.

The outperformance by the shares of small companies in 1993 reflected the growing realisation by equity investors that the domestic operating environment was more hospitable than that of the preceding year with an economy expanding at some 2% per annum accompanied by a lower level of interest rates. Exposure to the domestic economy, perceived as a negative consideration in 1992 as a consequence of recession, has more recently been seen in a favourable light as the majority of international economies, particularly those of Continental Europe, have demonstrated levels of growth lower than that prevailing in the UK. Consistent with this background, small companies with their greater domestic exposure have performed rather better in share price terms than their larger counterparts.

The macroeconomic background has improved and at the individual company level there has been a general, but not comprehensive, improvement in reported trading performance. In a number of cases the benefits of operational gearing have been seen as sales increased. Recovery has not been uniform and there have been areas of continued trading weakness. In general terms, those companies supplying customers in Continental Europe have found volume growth elusive. In addition, in an environment of low inflation companies with little pricing power have been unable to recover the adverse impact of higher import prices caused by sterling devaluation. The ability to expand profits, while selling prices remain static or are even falling, through volume gains and/or cost reductions is a scarce commodity and therefore a highly valued corporate attribute.

Looking back, 1992 represented the nadir of the current economic cycle and earnings for small companies in aggregate have demonstrated a modest recovery over the last year. This cannot be said for small company dividends which are estimated to have fallen by some 6% in 1993.

This pattern of overall dividend performance is consistent with those companies which have benefited from improved trading conditions seeking to rebuild dividend cover previously eroded by the ravages of recession. Others, where trading recovery has not been apparent, have been obliged at best to maintain dividends or, in some cases, to reduce them further.

INVESTMENT PERFORMANCE

As explained in last year's report to Shareholders, the Managers' chosen value discipline has been applied consistently with effort and enthusiasm since the creation of ASCoT in December 1990. Within the Company's three year life there have been periods of both outperformance and underperformance when compared with the investment benchmark. As indicated by the Chairman, the last twelve months have represented a successful period. There are a number of reasons for this outperformance, which to a significant degree represent a reversal of the unfavourable influences which restrained performance in the previous year.

- The implementation of the Managers value discipline led in 1992 to the construction of a portfolio with a significant weight of monies invested in shares of cyclical companies where the Managers believed that the potential benefits of operational gearing combined with low market capitalisation to sales and shareholders' funds represented an attractive combination. This portfolio bias proved to be successful in 1993 as the attention of the stockmarket switched away from shares of companies with the ability to withstand recession towards those which may benefit to a greater extent as sales volumes recover, consistent with the evidence of economic recovery.
- In 1992 the Managers gradually increased the portfolio exposure to "smaller"small companies believing that better value was present in this area of the equity market. Initially, this change in portfolio structure was not remunerative as concerns remained regarding the specific risk of such smaller companies given their generally narrower business base. However, the improved economic environment has ameliorated these concerns and relative illiquidity has driven share prices upwards.
- The gearing put in place in early 1992 has enhanced the asset value by approximately 8 percentage points compared with an ungeared position. The Managers are of the view that a degree of gearing is appropriate over the long term to enhance overall returns to Shareholders and to help mitigate the impact of the warrant dilution.

As the table below illustrates, the greater part of the absolute returns achieved by both small companies and ASCoT took place in the first half of the year consistent with the growing realisation of domestic recovery and its favourable relative impact on the more cyclical and smaller capitalisation stocks. Indeed, in the second six months larger companies have performed relatively better and retraced a degree of their previous underperformance. In the view of the Managers this primarily reflects a natural reversal of the material underperformance by large companies in the opening six months of the year. Further, the domestic equity market has been more influenced, of late, by the prospect for additional interest rate reductions. This has increased the attractiveness of equities in general, with the more easily traded larger companies being the initial targets for investors.

	NAV Basic	Ext HGSC (Ex ITs)	FT-A All-Share Index
1st Half 1993	+34.4	+22.3	+5.0
2nd Half 1993	+14.3	+12.1	+17.4
Calendar Year 1993	+53.6	+37.1	+23.3

All capital only terms expressed as percentages.

The expansion in levels of valuation for small companies has prompted a revival of the new issue market. In excess of 70 new companies, excluding investment trusts, have been listed in 1993. The concerns recently voiced, that a public listing was not seen as an attractive route forward for private companies, coupled with concerns on trading liquidity, have therefore proved to be issues of a cyclical rather than of a structural nature.

MANAGERS' REPORT

The majority of companies which have gone public in 1993 have been of a high business quality illustrated by their ability to trade successfully through recession with, in some cases, the additional burden of high levels of buy out debt. With business quality high, the major issue for consideration by the Managers has been the valuation placed on the company at the time of listing.

In that regard, as value investors, the Managers are more naturally attracted to shares in companies where expectations are low and consequently the likelihood of future positive surprises more likely. These are not characteristics normally associated with public listings, where new issues are often priced on the basis of favourable trading momentum being maintained. Participation by ASCoT has been on a selective basis where the Managers believed that value was apparent at the listing price. Thereafter, adding to the number of shares allotted where the valuation remains attractive and disposing of those where either the premium at listing was not justified, or where further research led to the conclusion that the funds would be better employed elsewhere. At the year end 4% of the Company's assets were invested in companies which gained a stockmarket listing in 1993.

In contrast, a greater weight of funds has been committed to rights issues from existing portfolio investments to fund acquisitions or finance new business o portunities. In such situations while the company is an existing portfolio constituent the level of the Managers' knowledge is rather higher than that which may be gleaned following a normally brief pre-floatation meeting with an expected new listing.

The rise of 37.1% in the Ext HGSC (Ex ITs) over the last year has not been uniform across the sectors of the market and constituent securities. Significant shifts in relative values have taken place and your Managers have attempted to ensure that the value characteristics of the portfolio have been maintained against this rapidly moving background. The Managers have no predefined expectation as to the appropriate level of portfolio turnover but in periods where relative values shift significantly turnover is likely to be higher. In 1993 turnover has been 38%, calculated on the basis of the lower of purchases or sales for the twelve months divided by the average of the month end total investments.

The aggregate characteristics of the portfolio are detailed below:

Portfolio Characteristics as at 31 December 1993

Number of Companies in the portfolio	116
Average Market Capitalisation	£66.6m
Return on Equity	11.2%
Debt to Shareholders' Funds	27.0%
Market Capitalisation to Shareholders' Funds	2.1×
Price Earnings Ratio (Historic)	18.7×
Gross Dividend Yield (Historic)	3.8%
Dividend Cover (Historic)	1.75×

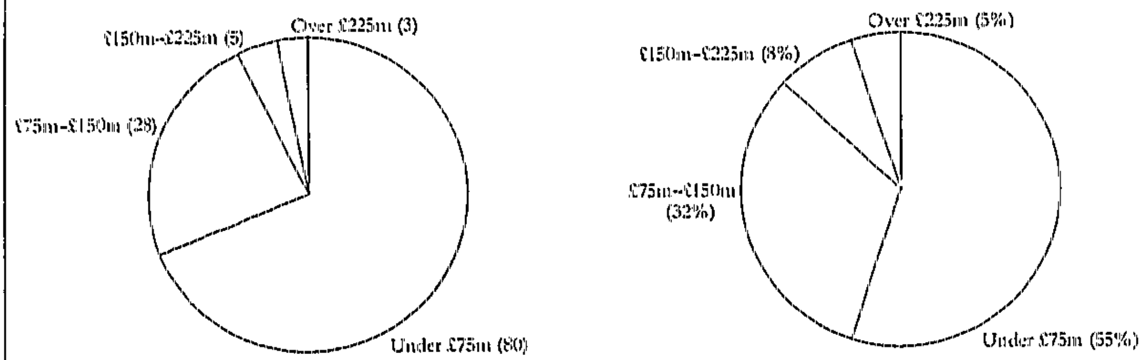
It is inappropriate to give an exhaustive account of individual portfolio transactions but two general points are worthy of mention. First, in a number of cases shares in relatively cyclical companies have been disposed of where the prospective valuations, in the view of the Managers, more than reflect the anticipated strength of expected trading recovery. The proceeds have been invested in shares of more defensive companies overlooked as the euphoria regarding economic recovery has overtaken the stockmarket. Secondly, strong share price performance from a number of the larger companies in the portfolio has

MANAGERS' REPORT

resulted in market capitalisations which have placed them outwith the Ext HGSC (Ex ITs) following its rebalancing in January 1994. In anticipation of this they were sold as suitable market opportunities arose in the second half of 1993. As Shareholders will be aware failure to do so would result in the portfolio becoming increasingly inconsistent with the investment objective of ASCoT over time.

The pie charts below detail the structure of the portfolio both by the number of companies owned and by the percentage of total value, represented by a range of capitalisation bands.

Distribution of Portfolio by Market Capitalisation



By number of companies — By percentage of total value

INVESTMENT OUTLOOK

The last year has been one of significant returns for UK equities in general, and small companies in particular, primarily reflecting a major upward shift in valuation consistent with falling inflation and interest rates at a time of modest economic growth. However, the Managers remain optimistic regarding the future for a number of reasons.

- It is unlikely that the favourable macroeconomic trends prevailing will reverse in the short term, although the phased impact of tax increases in 1994 may reduce the levels of economic expansion from that previously anticipated.
- The direction of economic policy is supportive of the small company sector with its higher manufacturing exposure, as tax increases restrain consumption and therefore encouraged domestic producers to recapture export market share, a process assisted by a competitive exchange rate.
- Small companies have been prepared to cut dividends to mitigate the unfavourable impact on dividend cover caused by falling earnings. They now possess a higher level of dividend cover than their larger counterparts. This consideration combined with a greater sensitivity to an expanding UK economy provides a supportive backdrop to future dividend growth. In the past, as the UK economy has emerged from recession, small companies have produced superior levels of dividend growth when compared with large companies. The Managers expect this to take place, with the customary lag, in this cyclical upswing but levels of nominal dividend growth will be lower than in the past given the modest level of current inflation.

However, the Managers are aware of the consideration that in market conditions where expectations are high and the overall outlook optimistic, the downside risk of individual companies failing to achieve expectations are significant. Accordingly, the Managers investment discipline, which leads to the construction of a portfolio of shares in companies where the market valuation of the business is supported by current financial performance rather than being dependent on an optimistic extrapolation of current trading, should prove rewarding in the current environment.

Aberforth Partners

Aberforth Partners
Managers
18 January 1994

PORTFOLIO INFORMATION
FIFTY LARGEST INVESTMENTS

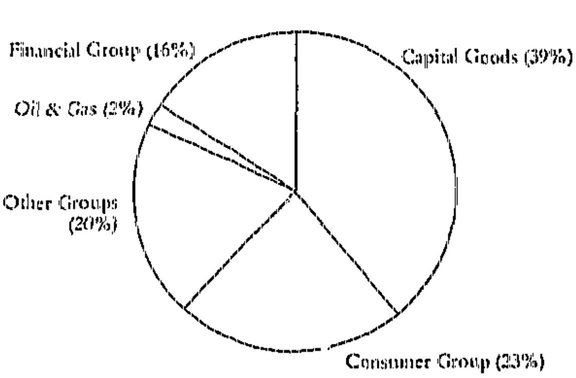
No.	Company	Valuation £'000	% of Total	Business Activity
1.	Manders	3,890	3.7	Ink manufacture and shopping centre owner
2.	Cattle's (Holdings)	3,205	3.0	Instalment credit and hire purchase
3.	Adwest Group	2,712	2.6	Automotive, power systems and property
4.	Mayflower Corporation	2,577	2.4	Manufacture of vehicle bodies
5.	Hall Engineering (Holdings)	2,293	2.2	Engineering
6.	Nichols (J.N.) (Vimto)	2,283	2.2	Soft drinks manufacturer
7.	Hunting	2,253	2.1	Defence, aviation and oil & technology
8.	CALA	2,214	2.1	Housebuilder
9.	Ferguson International Holdings	2,026	1.9	Labels, hangers and communications
10.	Davis Service Group	2,000	1.9	Laundry and linen hire
11.	Gerrard & National Holdings	1,975	1.9	Financial services
12.	Helical Bar Helical Bar 5.25% CCRP	1,103 850	1.8	Property
13.	Greggs	1,919	1.8	Bakery chain
14.	Ricardo Group	1,741	1.6	Engineering design
15.	Goode Durrant	1,740	1.6	Transport
16.	Birkby	1,712	1.6	Vehicle, equipment and property rental
17.	Headlam Group	1,696	1.6	Carpet and fabric distributor
18.	Henlys Group	1,650	1.6	Motor distributor and coachbuilder
19.	British Data Management	1,619	1.5	Document storage
20.	PSIT	1,604	1.5	Property
21.	Dobson Park Industries	1,599	1.5	Conglomerate
22.	Aberdeen Trust	1,578	1.5	Investment management
23.	Electron House	1,566	1.5	Electronic component distributor
24.	Jones Stroud (Holdings)	1,558	1.5	Manufacture of electrical and textile products
25.	Watson & Philip	1,548	1.5	Convenience store operator and catering supplier
26.	Independent Insurance	1,537	1.4	Insurance composite
27.	Hampson Industries Hampson Industries 6.5% CCRP	1,245 254	1.4	Conglomerate
28.	Hill & Smith Holdings	1,478	1.4	Engineering
29.	Scholes Group	1,475	1.4	Manufacture of electrical products
30.	Canning (W.)	1,446	1.4	Chemicals and electronic component distribution
31.	Plysu	1,406	1.3	Manufacture of containers and housewares
32.	Whessoe	1,396	1.3	Engineering
33.	Maunders (John) Group	1,382	1.3	Housebuilder
34	BSS Group	1,321	1.2	Distributor of heating and plumbing equipment
35.	Howden Group	1,280	1.2	Engineering
36.	Radio Clyde Holdings	1,276	1.2	Independent radio contractor
37.	National Express Group	1,274	1.2	Long distance coach services
38.	More O'Ferrall	1,229	1.1	Outdoor poster advertising
39.	Sirdar	1,189	1.1	Hand knitting wools and flooring products
40.	British Polythene Industries 7.5% CCRP	1,175	1.1	Polythene film producer

PORTFOLIO INFORMATION

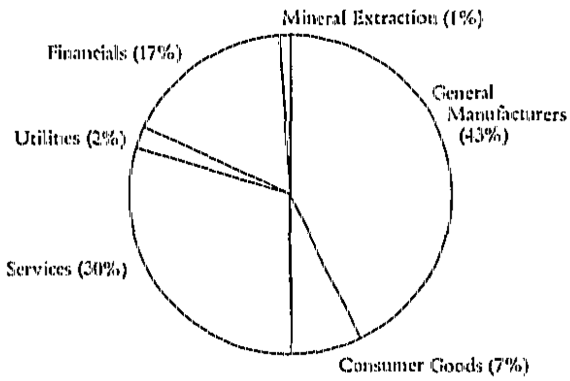
FIFTY LARGEST INVESTMENTS

No.	Company	Valuation £'000	% of Total	Business Activity
41.	Sidlaw Group	1,160	1.1	Packaging, oil services and textiles
42.	Mayborn Group	1,129	1.1	Baby products and dyes
43.	Bradstock Group	1,126	1.1	Insurance broking
44.	Chemring Group	1,113	1.0	Missile countermeasures and pyrotechnics
45.	Avonside Group	1,105	1.0	Housebuilder and building supplies
46.	BWD Securities	1,061	1.0	Stockbroker and private client management
47.	Ash & Lacy	1,059	1.0	Metal galvanising
48.	Stirling Group	1,031	1.0	Clothing manufacturer and importer
49.	Faber Prest	1,027	1.0	International steel services and distribution
50.	International Business Communications	1,024	1.0	Publishing and conference organisation
	Top Fifty Investments	**82,118**	**77.4**	
	Other Investments (66)	37,478	35.3	
	Net Current Liabilities	(3,456)	(3.3)	
	Bank Loan	(10,000)	(9.4)	
	Total Assets less Liabilities	**106,140**	**100.0%**	

Distribution of Portfolio by Industry



Old FT-SE Actuaries Classification



Revised FT-SE Actuaries Classification

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required by law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the net revenue for that period.

The Directors are responsible for keeping 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 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.

The accounts have been prepared on a going concern basis and appropriate accounting policies have been used and consistently applied. Reasonable and prudent judgements and estimates have been used in the preparation of the accounts and applicable UK accounting standards have been followed.

REPORT OF THE AUDITORS

TO THE MEMBERS OF ABERFORTH SMALLER COMPANIES TRUST PLC

We have audited the accounts on pages 16 to 23 which have been prepared under the historical cost convention modified to include the revaluation of fixed asset investments and on the basis of the accounting policies set out on page 20.

Respective responsibilities of Directors and Auditors

As described above the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 1993 and of its net revenue for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Ernst & Young
Chartered Accountants
Registered Auditor

Edinburgh
18 January 1994

CORPORATE INFORMATION

DIRECTORS

W Y Hughes, CBE (53) (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 a past Chairman of CBI Scotland.

Dr F Mackenzie, CBE, CEng, FIEE (59)*
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 in 1991. He is also a Director of Edinburgh Assured Properties PLC and a Director of Lothian and Edinburgh Enterprise Limited.

K M Miller, BSc(Hons) (44)*
Keith Miller has been a Group Board Director of The Miller Group Limited, one of Scotland's largest private companies, for seventeen 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 (44)
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 (30)
Alistair Whyte is a partner of Aberforth Partners who are investment managers and secretaries to the Company.

*Member of Audit Committee and Management Engagement Committee.

INVESTMENT MANAGERS AND SECRETARIES
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BANKERS
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AUDITORS
Ernst & Young
Chartered Accountants
Ten George Street
Edinburgh EH2 2DZ

STOCKBROKERS
James Capel & Co Limited
Thames Exchange
10 Queen Street Place
London EC4R 1BL

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting the Third Annual Report and Accounts of the Company for the year to 31 December 1993.

PRINCIPAL ACTIVITY AND STATUS

The Company, which is not a "Close Company" is an investment company as defined in Section 266 of the Companies Act 1985 and has been approved by the Inland Revenue as an Investment Trust, within the meaning of the Income and Corporation Taxes Act 1988, up to 31 December 1992. Since that date the Company's affairs have been conducted in such a manner as to enable it to continue 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.

CONTINUATION OF THE COMPANY

The Company has no fixed duration however in accordance with the Articles of Association an ordinary resolution will be proposed at the Annual General Meeting to be held in 1996 (and at every third subsequent Annual General Meeting) that the Company continues as an investment company.

If such resolution is not passed, the Directors will prepare and submit to Shareholders (for approval by special resolution) proposals for the unitisation or other reconstruction of the Company. In putting forward such proposals the Directors will seek, *inter alia*, to provide Shareholders with a means whereby they can defer any liability to capital gains tax on their investment at that time. If these proposals are not approved, Shareholders will, within 180 days of the relevant Annual General Meeting, have the opportunity of passing an ordinary resolution requiring the Company to be wound up.

RESULTS AND DIVIDENDS

	£'000	£'000
Revenue available for dividends		2,456
Interim dividend of 2.1p per Ordinary Share paid 3 September 1993	(1,182)	
Proposed final dividend of 2.5p per Ordinary Share, payable 4 March 1994 to shareholders on the Register at close of business on 11 February 1994	(1,406)	
		(2,588)
Transferred from revenue reserve		(132)

DIRECTORS

The Directors who held office during the year and their interests in the Shares and Warrants of the Company, as at 31 December 1993, were:

		Ordinary Shares		Warrants	
		1993	1992	**1993**	1992
W Y Hughes	Beneficial	**3,000**	3,000	**3,000**	3,000
Dr F Mackenzie	Beneficial	**14,093**	14,253	**22,850**	22,850
K M Miller	Beneficial	**10,000**	10,000	**2,000**	2,000
D T M Ross	Beneficial	**100,000**	88,800	**100,000**	100,000
A J Whyte	Beneficial	**68,417**	11,250	**69,917**	9,250

There has been no change in the holdings of the Directors between 31 December 1993 and 18 January 1994. 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.

REPORT OF THE DIRECTORS

Mr W Y Hughes 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.

MANAGEMENT

Aberforth Partners are Managers and Secretaries of 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 assets less current liabilities of the Company, and a quarterly secretarial fee, payable in advance, currently amounting to £10,746 (excluding VAT). The secretarial fee is adjusted annually in line with the Retail Prices Index.

CORPORATE GOVERNANCE

The Directors consider that since 1 July 1993 the Company has been in compliance with the Cadbury Committee's Code of Best Practice ("the Code"), where the necessary guidance has been duly developed, with the following exceptions.

The Directors, collectively, have always understood which matters are reserved for the Board as a whole and that they have the right to obtain external professional advice at the Company's expense. These understandings have now been formalised and were approved by the Board on 18 January 1994. The Code recommends that non-executive directors should be appointed for specified terms and reappointments should not be automatic. In light of the Company's particular structure the Board do not consider it appropriate that Directors be appointed for a specified term. However, the Articles of Association do require that one third of the Directors in office retire at each Annual General Meeting.

SUBSTANTIAL INTERESTS IN SHARE CAPITAL

The Board has been advised or are aware that the following persons were interested in three per cent or more of the issued share capital of the Company at 18 January 1994.

Shareholder	Percentage Held
Robert Fleming Holdings Limited	10.27
Irish Life Assurance Plc	5.37
Scottish Widows Fund & Life Assurance Society	5.16
City of Bradford Metropolitan Council	4.35
Scottish Amicable Investment Managers Limited	3.64
Confederation Life Group	3.50
Britannia Life Limited	3.26

OTHER SHAREHOLDER INFORMATION

The investment policy of the Company has been conducted in such a way that the ordinary shares of the Company are eligible as "qualifying investments" under the current 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.

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 (Secretaries)
14 Melville Street, Edinburgh EH3 7NS
18 January 1994

Aberforth Partners

REVENUE ACCOUNT
FOR THE YEAR TO 31 DECEMBER 1993

INCOME		Note	1993 £'000	1992 £'000
Franked investment income				
Securities Listed on the London Stock Exchange			3,934	3,931
Securities Quoted on the Unlisted Securities Market			436	688
Unfranked investment income				
UK Government Securities			—	530
Securities Listed on the London Stock Exchange			1	3
Other income				
Deposit interest			18	256
Underwriting commission			104	64
Scrip dividends			225	101
TOTAL INCOME			4,718	5,573
INTEREST AND EXPENSES (including VAT where applicable)				
Bank overdraft and loan interest			1,184	822
Management fee	£'000			
Total	901 (1992—723)			
Less allocated to Capital—62.5%	563 (1992—452)			
Allocated to Revenue—37.5%			338	271
Secretarial fee			51	49
Administrative expenses			62	89
Directors' fees		2	18	17
Audit fee			5	4
TOTAL INTEREST AND EXPENSES			(1,658)	(1,252)
REVENUE BEFORE TAXATION			3,060	4,321
Taxation		3	(604)	(1,055)
REVENUE AFTER TAXATION			2,456	3,266
Interim dividend (2.1p per Ordinary Share, 1992—2.1p)			(1,182)	(1,182)
Proposed final dividend (2.5p per Ordinary Share, 1992—2.5p)			(1,406)	(1,406)
TRANSFERRED (FROM)/TO REVENUE RESERVE		9	(132)	678
EARNINGS PER ORDINARY SHARE		4	4.36p	5.80p
DIVIDENDS PER ORDINARY SHARE			4.60p	4.60p

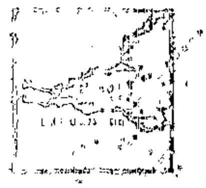
The Notes on pages 20 to 23 form part of these accounts.

BALANCE SHEET
AS AT 31 DECEMBER 1993

	Note	1993 £'000	1992 £'000
FIXED ASSETS: INVESTMENTS			
Securities Listed on the London Stock Exchange:			
UK Ordinary Shares		109,179	73,029
UK Convertible Securities		2,279	1,749
Securities Quoted on the Unlisted Securities Market:			
UK Ordinary Shares		7,550	4,697
UK Convertible Securities		588	—
Total Investments	5	119,596	79,475
Current assets			
Debtors			
Due from brokers		2,717	545
Taxation recoverable		502	214
Other debtors		38	307
Cash at bank		—	1,266
Creditors (amounts falling due within one year)			
Bank overdraft		(3,935)	—
Due to brokers		(1,354)	(2,047)
Other creditors		(18)	(278)
Proposed final dividend		(1,406)	(1,406)
Net Current Liabilities		(3,456)	(1,399)
TOTAL ASSETS LESS CURRENT LIABILITIES		116,140	78,076
Creditors (amounts falling due after more than one year)			
Bank loan (ultimately repayable 16 March 1997)		(10,000)	(9,000)
		106,140	69,076
CAPITAL AND RESERVES			
Called up share capital:			
Ordinary Shares of 25p	6	14,067	14,067
Reserves:			
Share premium account	7	8,937	8,935
Capital redemption reserve	8	44,684	44,684
Realised capital reserve	9	7,960	984
Unrealised capital reserve	9	29,831	(387)
Revenue reserve	9	661	793
		106,140	69,076
NET ASSET VALUES PER SHARE—BASIC		188.6p	122.8p
—FULLY DILUTED		173.9p	119.0p

Approved by the Board of Directors on 18 January 1994 and signed on its behalf by W Y Hughes, *Chairman*

The Notes on pages 20 to 23 form part of these accounts.



CASH FLOW STATEMENT
FOR THE YEAR TO 31 DECEMBER 1993

	Note	1993 £'000	1992 £'000
Operating activities			
Cash received from investments (net of tax)		3,718	3,713
Deposit interest received		23	265
Underwriting commission received		104	74
Management fee allocated to revenue		(338)	(271)
Cash paid to and on behalf of the Directors		(18)	(17)
Other cash payments		(116)	(155)
Net cash inflow from operating activities	10	3,373	3,609
Returns on investments and servicing of finance			
Interest paid		(1,446)	(560)
Dividends paid		(2,588)	(1,557)
		(4,034)	(2,117)
Taxation			
UK corporation tax paid		—	(7)
UK tax recovered		145	5
		145	(2)
Investing activities			
Payments to acquire investments		(41,561)	(80,785)
Receipts from sale of UK Government Securities		—	53,396
Receipts from sale of other investments		36,437	23,230
Management fee allocated to capital		(563)	(452)
		(5,687)	(4,611)
Net cash outflow before financing		(6,203)	(3,121)
Financing			
Bank loan drawn down		1,000	9,000
Issue of Ordinary Shares of 25p		2	3
Net cash inflow from financing		1,002	9,003
(Decrease)/increase in cash and cash equivalents	10	(5,201)	5,882

The Notes on pages 20 to 23 form part of these accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR TO 31 DECEMBER 1993

	Note	1993 £'000	1992 £'000
Capital profit on investments:			
Realised gains and losses (see note below)		6,976	(310)
Unrealised gains and losses		30,218	(3,196)
Capital surplus/(deficit) for the year		37,194	(3,506)
Revenue profit available for distribution		2,456	3,266
Total recognised gains and losses for the year		39,650	(240)
Distributable profits			
Revenue profit available for distribution		2,456	3,266
Dividends		(2,588)	(2,588)
Transfer (from)/to distributable reserves	11	(132)	678
Non-distributable profits			
Transfer to/(from) non-distributable reserves	11	37,194	(3,506)
		37,062	(2,828)

Note: Realised gains and losses includes the element of the management fee allocated to capital.

The Notes on pages 20 to 23 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. When the Company elects to receive an enhanced scrip dividend, an amount equal to the gross cash dividend 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) 62.5% of the management fee payable during the year. The balance of 37.5% is charged to revenue (see Note 9).

(iv) Corporation tax relief, if applicable, on (iii) above.

2 DIRECTORS' FEES

The emoluments of the Chairman who was the highest paid Director were £6,490 (1992—£6,300). The two Directors who are partners in the management firm, Aberforth Partners, have waived all their fees totalling £10,820 (1992—£10,500) and have agreed to waive their fees for the year to 31 December 1994. The other two Directors who served during the year each received emoluments of £5,410 (1992—£5,250).

3 TAXATION

	1993 £'000	1992 £'000
Tax on franked investment income	917	1,155
Recoverable tax credits—s.242 claim	(313)	(100)
	604	1,055

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 EARNINGS PER SHARE

The calculation of earnings per Ordinary Share is based on earnings of £2,456,000 (1992—£3,266,000) and on the weighted average number of Ordinary Shares of 25p in issue during the period being 56,268,229 (1992—56,266,069).

5 INVESTMENTS

	1993	1992
	£'000	£'000
Opening valuation of investments	79,475	107,631
Opening unrealised depreciation/(appreciation)	387	(2,809)
Opening cost of investments	79,862	104,822
Purchases at cost during period	41,093	51,918
Sales at cost during period	(31,190)	(76,878)
Closing cost of investments	89,765	79,862
Closing unrealised appreciation/(depreciation)	29,831	(387)
Closing valuation of investments	119,596	79,475

6 SHARE CAPITAL

	1993		1992	
	No. of Shares	£'000	No. of Shares	£'000
Authorised:				
Ordinary Shares of 25p	67,516,424	16,879	67,516,424	16,879
		16,879		16,879
Allotted, issued and fully paid:				
Ordinary Shares of 25p	56,268,697	14,067	56,266,798	14,067
		14,067		14,067

On 31 March 1993 as a result of certain holders exercising the subscription rights of their Warrants, 1,899 Ordinary Shares of 25p were issued at 100p per share.

At 31 December 1993, there were 11,247,727 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 1994 to 2003.

7 SHARE PREMIUM ACCOUNT

	£'000
At 1 January 1993	8,935
Arising on issue of 1,899 Ordinary Shares	2
At 31 December 1993	8,937

NOTES ON THE ACCOUNTS

8 CAPITAL REDEMPTION RESERVE

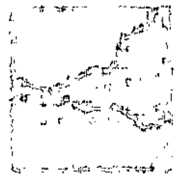
	£'000
At 1 January 1993 and 31 December 1993	**44,684**

9 OTHER RESERVES

	£'000
Realised Capital Reserve	
At 1 January 1993	984
Gain on sale of listed investments	7,944
Loss on sale of investments quoted on the USM	(525)
Management fee, net of notional tax relief of £120,000, allocated to capital	(443)
At 31 December 1993	**7,960**
Unrealised Capital Reserve	
At 1 January 1993	(387)
Movement during year—listed investments	26,707
—investments quoted on the USM	3,511
At 31 December 1993	**29,831**
Revenue Reserve	
At 1 January 1993	793
Transferred to Revenue Account	(132)
At 31 December 1993	**661**

10 NOTES TO THE CASH FLOW STATEMENT

	1993 £'000	1992 £'000
Reconciliation of revenue before interest payable and taxation to net cash inflow from operating activities		
Revenue before interest payable and taxation	4,244	5,143
Scrip dividends	(225)	(101)
Taxation withheld from income on investments	(917)	(1,156)
Decrease/(increase) in debtors	269	(271)
Increase/(decrease) in creditors	2	(6)
Net cash inflow from operating activities	**3,373**	3,609
Analysis of changes in cash and cash equivalents during the year		
Cash at bank/(bank overdraft) at 1 January	1,266	(4,616)
Net cash (outflow)/inflow	(5,201)	5,882
(Bank overdraft)/cash at bank as at 31 December	**(3,935)**	1,266



NOTES ON THE ACCOUNTS

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1993	1992
	£'000	£'000
Revenue available for distribution	2,456	3,266
Dividends	(2,588)	(2,588)
	(132)	678
Other recognised gains and losses relating to the year (net)	37,194	(3,506)
New share capital subscribed	2	3
Net addition to/(reduction of) shareholders' funds	37,064	(2,825)
Opening shareholders' funds	69,076	71,901
Closing shareholders' funds	**106,140**	69,076

12 NON-AUDIT SERVICES

The Company's auditors were paid £2,350 (1992—£6,600) in respect of non-audit services.

13 COMMITMENTS

As at 31 December 1993 the Company had sub-underwriting commitments of £117,000 (1992—£Nil).

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Fourth Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on Tuesday, 15 February 1994 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 year to 31 December 1993 be adopted and that the payment of the final dividend of 2.5p per Ordinary Share be approved.
2. That Mr W Y Hughes 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)*
14 Melville Street
Edinburgh EH3 7NS

Aberforth Partners

18 January 1994

The final dividend, if approved, will be paid on 4 March 1994 to shareholders on the Register at 11 February 1994.

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 enclosed. 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.

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