Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 2000

Company Number: 126524

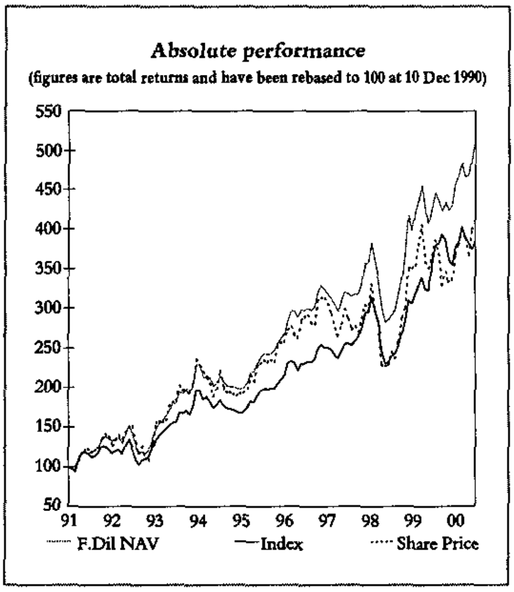
■ INVESTMENT OBJECTIVE

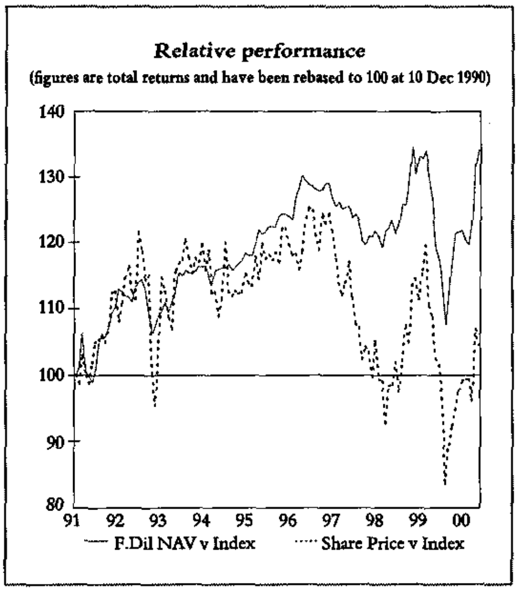
"The objective of Aberforth Smaller Companies Trust plc ("ASCoT") is to achieve a net asset value total return (with dividends reinvested) greater than on the Hoare Govett Smaller Companies Index (excluding investment trusts) over the long term by investing in a diversified portfolio of smaller UK quoted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

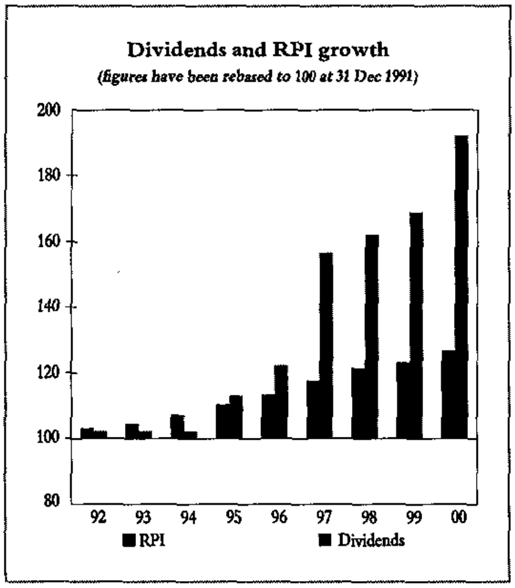
■ CONTENTS

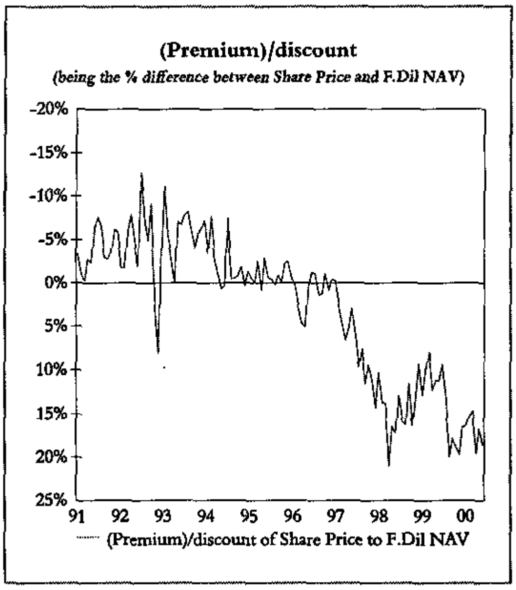
■ INVESTMENT RECORD

The following charts indicate how an investment in the Company's Ordinary Shares has performed relative to the Benchmark Index, the underlying Fully Diluted Net Asset Value and the Retail Price Index over the period from 10 December 1990 (the Company's date of inception) to 31 December 2000.









■ COMPANY SUMMARY

■ BENCHMARK INDEX

The Company's performance is measured against the total return on the Hoare Govett Smaller Companies Index (excluding investment trusts). This comprises the bottom 10% of all UK quoted companies by market value which at 1.1.01 included some 1,024 companies, the largest market capitalisation of which was £795m and the aggregate market capitalisation of which was £137bn.

■ RISK

The Board believes that the Company has a relatively low risk profile in the context of the investment trust industry. This belief arises from the fact that the Company has a relatively simple capital structure; invests only in small UK quoted companies; has never been exposed to derivatives and does not intend any such exposure; and outsources all the main operational activities to recognised, well-established firms. Investment in small companies is generally perceived to carry more risk than investment in large companies. While this is correct when comparing individual companies, it is much less so when comparing the volatility of returns from diversified portfolios of small and large companies. The Board believes the Company's portfolio is diversified. In addition, since the correlation of returns from small and large companies is low, there is an opportunity for investors to reduce risk by holding portfolios of both small and large companies together.

■ MANAGEMENT FIRM

Aberforth Partners is contracted as the investment managers and secretaries to the Company. Both of these contracts can be terminated by either party at any time by giving six months' notice of termination. Further information on Aberforth Partners is set out on page 20.

■ MANAGEMENT AND SECRETARIAL FEES

The Company pays a quarterly management fee, in advance, equal to 0.2% of the total net assets of the Company at the end of each calendar quarter. No management fee is charged on any short or long term borrowings used for investment purposes. This equates to an annual fee of approximately 0.8%, however, the total fee paid each year may be slightly higher or lower than 0.8% depending on movements in the value of the Company's assets during the year. The total fee paid for the year to 31 December 2000 was £2,145,000, equal to 0.805% of the Company's total net assets at 31 December 1999. The Company also pays a quarterly secretarial fee, in advance, of £12,823, equal to an annual fee of £51,292. This fee is adjusted annually in line with the Retail Prices Index. Both these fees are subject to Value Added Tax which is irrecoverable by the Company.

■ SHAREHOLDERS' FUNDS AND MARKET CAPITALISATION

At 31 December 2000	Total	Ordinary Shares	Warrants
Shareholders' Funds	£300.9m	£300.9m	N/A
Market Capitalisation	£244.4m	£239.0m	£5.4m

■ CAPITAL STRUCTURE

At 31 December 2000, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 83,260,325 were issued and fully paid. In addition, the Company had 2,878,897 Warrants in issue. Each Warrant confers the right to subscribe for one Ordinary Share of 1p at 100p on 31 March in any of the years 2001 to 2003 inclusive.

■ COMPANY SUMMARY

On 31 March 2000, a total of 502,966 Ordinary Shares of 1p were issued as a result of certain holders exercising the subscription rights of their Warrants.

During the year to 31 December 2000, the Company bought in 50,000 Warrants for cancellation at a total cost of £76,000.

At 31 December 2000, the Company was not geared and had no long-term debt outstanding. The Company does, however, have short-term bank debt facilities totalling £80m which the Managers can use as gearing at any time.

■ WIND-UP DATE

The Company has no fixed duration, however, in accordance with the Articles of Association, an ordinary resolution will be proposed at the 2002 Annual General Meeting (and at every third subsequent Annual General Meeting) that the Company continues to manage its affairs as an investment trust. Further details are set out on page 22.

■ ISA STATUS

The Company's Ordinary Shares are eligible for inclusion in the "Stocks and Shares" component of an Individual Savings Account.

■ PEP STATUS

The Company's Ordinary Shares qualify for investment in a General Personal Equity Plan and the Company intends to maintain this qualification.

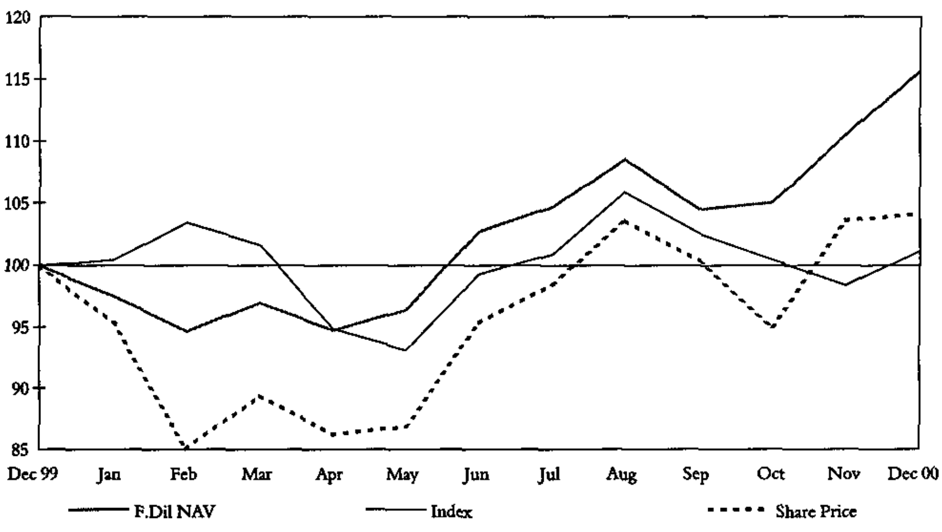
■ AITC

The Company is a member of the Association of Investment Trust Companies. The Company does not contribute to the AITC's "**its**" marketing campaign.

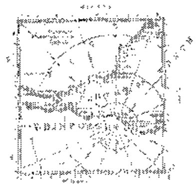
■ YEAR'S SUMMARY

Year to 31 December 2000 Total Returns

ASCoT Fully Diluted Net Asset Value	**15.6%**
Benchmark Index	**1.2%**
ASCoT Ordinary Share Price	**4.2%**



(figures are total returns and have been rebased to 100 at 31 December 1999)

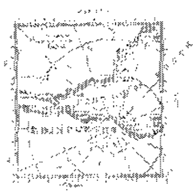


■ YEAR'S SUMMARY

	As at 31 December 2000	As at 31 December 1999	**% Change**
Total assets (before deduction of borrowings)	**£300.9m**	£280.6m	N/A
Loans and other borrowings	**-**	£14.2m	N/A
Shareholders' funds	**£300.9m**	£266.4m	13.0
Ordinary Share basic net asset value	**361.4p**	321.9p	12.3
Ordinary Share fully diluted net asset value	**352.7p**	313.0p	12.7
Benchmark Index (capital only)	**2,818.88**	2,882.23	-2.2
Ordinary Share price	**287.0p**	283.5p	1.2
Warrant price	**187.0p**	183.0p	2.2
Dividends per Ordinary Share	**8.65p**	7.60p	13.8
Earnings per Ordinary Share	**10.48p**	9.72p	7.8
Expense ratio	**1.00%**	1.00%	N/A
Portfolio turnover	**45.1%**	63.5%	N/A
Ordinary Share discount	**18.6%**	9.4%	N/A

	Year to 31 December 2000		Year to 31 December 1999	
Year's high and low (on month end values)	**High**	**Low**	High	Low
Ordinary Share price	**287.0p**	**237.5p**	298.0p	180.5p
Warrant price	**187.0p**	**138.5p**	195.5p	92.3p
Ordinary Share basic net asset value	**361.4p**	**303.9p**	333.2p	221.2p
Ordinary Share fully diluted net asset value	**352.7p**	**296.7p**	323.9p	214.4p
Ordinary Share discount	**9.4%**	**19.9%**	7.0%	16.1%

	Year to 31 December 2000	Year to 31 December 1999
Total return per Ordinary Share		
Revenue	**10.48p**	9.72p
Capital	**39.17p**	99.81p
Total	**49.65p**	109.53p



■ DIRECTORS AND ADVISERS

■ DIRECTORS

W Y Hughes, CBE (60) (Chairman) (Appointed November 1990)

William Hughes was Chairman from 1985 and Chief Executive from 1976 of Grampian Holdings plc, a holding company engaged in retail, transport and the sale of sporting goods until his retiral in July 1998. He is also a past Chairman of CBI Scotland and is currently Chairman of The Prince's Scottish Youth Business Trust and President of Right Track.

Dr F MacKenzie, CBE, CEng, FIEE (66) (Appointed November 1990)

Finlay MacKenzie joined Hewlett Packard in 1965 and was General Manager of the Queensferry Telecommunications Division of Hewlett Packard from January 1982 until his retiral in 1991. Recently he has served on the Board of Lothian and Edinburgh Enterprise Limited, on the Court of Heriot-Watt University and on S.E.T.G. (Scottish Electronic Technology Group).

K M Miller, BSc(Hons) (51) (Appointed November 1990)

Keith Miller has been Chief Executive since 1994 and a Director since 1976 of The Miller Group Limited, the UK's largest privately owned property development, housebuilding and construction services company.

D R Shaw, CA (52) (Appointed October 1994)

David Shaw has been Chief Executive of Bridgepoint Capital Limited (formerly known as NatWest Equity Partners) since 1989. During this period he has also sat on the Board of a number of industrial companies in which Bridgepoint Capital Limited was a major investor. His investment banking experience has given him exposure to numerous unlisted small companies.

■ ADVISERS

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Edinburgh EH2 2YR

Clydesdale Bank plc
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Glasgow G1 2HL

AUDITORS
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Edinburgh EH2 2DZ

SOLICITORS AND SPONSORS
Dickson Minto, W.S.
11 Walker Street
Edinburgh EH3 7NE

■ CHAIRMAN'S STATEMENT

■ REVIEW OF 2000 PERFORMANCE

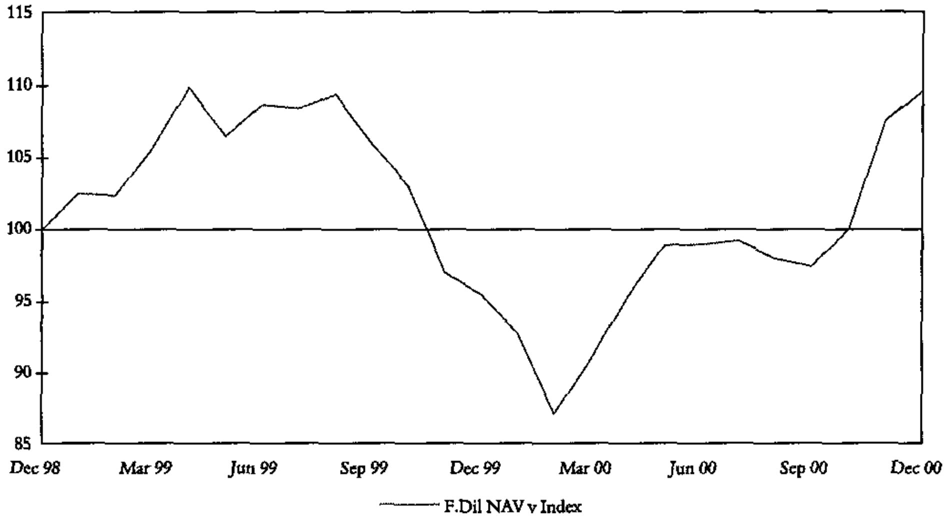
The year to December 2000 has seen the lowest nominal returns from stockmarkets for some years. Within this, small UK quoted companies, as an asset class, have performed relatively well, with ASCoT's benchmark index – the Hoare Govett Smaller Companies Index (excluding investment trusts) – showing a total return of 1.2% compared with the equivalent figure for the FTSE All-Share Index of -5.9%.

ASCoT has performed well against this background with the total return for the year being 15.6% thereby significantly outperforming its benchmark index.

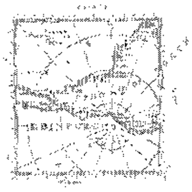
Your Board is pleased to recommend a final dividend of 5.65p, which produces total dividends for the year of 8.65p, an increase of 13.8% on the total dividends paid for the previous year. Subject to Shareholders' approval, the final dividend of 5.65p per share will be paid on 2 March 2001 to Shareholders on the register as at close of business on 9 February 2001. Shareholders should be cautious of extrapolating this rate of dividend growth into the future. Your Board, however, remains optimistic that the level of dividend growth generated by the companies in the portfolio will continue at a real rate, albeit somewhat lower than that recently enjoyed.

The graph below shows the relative performance of ASCoT over the two-year period from 1 January 1999 to 31 December 2000. ASCoT generated a total return in this period of 72.7%, 14.7 percentage points in excess of its benchmark index (geometrically 9.3% as illustrated below). However, the value added did not accrue evenly throughout the period.

Monthly Relative Total Return Performance
1 January 1999 to 31 December 2000



(figures have been rebased to 100 at 31 December 1998)



■ CHAIRMAN'S STATEMENT

I commented in my statement to you last year on the remarkable stockmarket performance in the final quarter of 1999 of a small group of "growth" companies, particularly those with some relationship with the internet and in the areas known as "TMT" (Technology, Media and Telecommunications). The strong performance of these types of companies continued until March 2000 since when a significant reassessment of the valuation and likely performance of such businesses has taken place.

As the graph illustrates, ASCoT performed well in the period up to September 1999 and has also done so since the beginning of March 2000, outperforming its benchmark index by 24.1 percentage points. However the degree of underperformance in the six-month period mentioned above was significant.

Your Managers have adopted a value investment style and the consistent application of this style and process ensured that the portfolio was well positioned to benefit from the recovery in stockmarket sentiment towards, and the relative valuation of, businesses outwith the TMT sectors.

It is important to emphasise that for investment your Managers consider companies in all sectors of the stockmarket and economy. The overriding judgement is always to assess value against the considered risk of that investment. Consequently ASCoT has at various periods in the past had a significant exposure to the "TMT" areas and, should appropriate valuations prevail for these businesses and sectors in the future, investments will be made once again.

■ GEARING

During the second half of 1999 your Managers began to take a more cautious view of prospective absolute returns from stockmarkets generally. The specific concern was based on the premise that if and when the share prices of the rather narrow band of "growth" companies that performed so spectacularly in the latter part of 1999 suffered a setback it was hard to imagine this not having some knock on effect to stockmarkets generally.

This caution led to ASCoT becoming ungeared by the end of February 2000 and this position has prevailed since. This decision has proved prescient and your Managers remain cautious at the time of writing. However, as has been amply demonstrated in the past two years, stockmarkets adjust remarkably quickly and your Managers remain alert to the opportunity to regear should appropriate circumstances emerge.

The borrowing facilities used by ASCoT during 1998 and 1999 remain available. No cost is incurred when any part of the facilities is not used and they are available "on demand". These cost efficient and flexible borrowing facilities, which total £80m, provide ASCoT with the ability to employ gearing as a tactical addition to your Managers' investment armoury.

■ CORPORATE GOVERNANCE

Your Board has consistently considered and applied, where it believes appropriate, the various codes and guidelines on corporate governance, whether it be the Combined Code on Corporate Governance or the guidelines issued by other interested parties such as Pensions & Investment Research Consultants Limited.

■ CHAIRMAN'S STATEMENT

The structure of your Board has evolved since the Company's formation. Initially David Ross and Alistair Whyte, both Partners of Aberforth Partners, your Managers, were Directors of the Company. They resigned in 1994 whereupon David Shaw was appointed. Since then your Board has consisted entirely of independent Directors each offering himself for re-election at the appropriate time.

In maintaining its commitment to corporate governance your Board will continue to keep its composition under review. This process is constrained by the availability of suitable individuals who have the skills and, just as importantly, the time to devote to your Company. In this regard I am fortunate to have such committed colleagues sitting with me on your Board.

■ SHARE BUY BACK AND WARRANT REPURCHASES

During the year the Company has purchased for cancellation 50,000 Warrants at a price which enhanced Shareholder value.

At the Company's Annual General Meeting in February 2000, the authority to purchase up to 14.99% of the Company's Ordinary Shares was renewed. Your Board will be seeking a further renewal of this authority at the Annual General Meeting to be held on 27 February 2001 and details are set out on page 24. Your Board has carefully considered the circumstances under which such authority will be utilised and, should such circumstances arise, will not hesitate to purchase Ordinary Shares.

■ SUMMARY AND OUTLOOK

ASCoT performed well in the period under review. However, as I have explained, the swings in sentiment and valuation between value and growth investment styles have been particularly marked over the past two years.

The severity of the rerating and consequent flow of funds into the TMT area and out of less fashionable sectors had the effect of creating attractive opportunities in many businesses. Your Managers have been able to take advantage of this and currently enjoy the opportunity to invest in high quality companies at historically very attractive valuations.

While the obstacles to stockmarket performance are perhaps more obvious this year than last, ASCoT's portfolio is well placed to benefit from any rerating or corporate activity which may emerge.

William Y Hughes
Chairman
23 January 2001

■ MANAGERS' REPORT

The year to December 2000 has been a successful one for ASCoT. The total return of 15.6% generated by ASCoT's assets exceeded the total return of 1.2% generated by the investment benchmark. Further, small company share prices have maintained the trend of 1999 in outperforming their larger counterparts with the investment benchmark achieving a total return which compares favourably with that achieved by the FTSE All-Share Index of minus 5.9% over the same period. With regard to relative performance, the year under review has been the mirror image of 1999. ASCoT underperformed its benchmark in that year with the underperformance taking place in the last four months of the year. In contrast, in the current year ASCoT underperformed in the opening two months but recovered sharply thereafter to generate a strong relative return for the year as shown in the table below.

Total Returns	**ASCoT F.Dil NAV**	**Benchmark Index**	**FTSE All-Share**
First Two Months	–5.2%	3.5%	–7.5%
Last Ten Months	21.9%	–2.2%	1.7%
Full Year	15.6%	1.2%	–5.9%

This pattern of relative performance is consistent with an underexposure to shares in the Technology, Media and Telecommunications sectors which are now more commonly known under the acronym of "TMT". In share price terms, companies in these sectors performed extraordinarily well in the period up to, and immediately after, the new Millennium. This euphoria had run its course by March 2000 and subsequently share prices of such companies have, in the vast majority of cases, fallen back sharply. Despite the Managers' underexposure to TMT, consistent with their view that value was no longer apparent, the total return earned by ASCoT over the last two years in aggregate has exceeded that of the investment benchmark by some 14.7 percentage points.

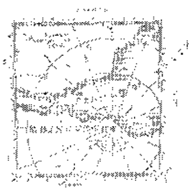
The two key issues which have shaped the performance of ASCoT and the investment benchmark over the last twelve months have been the performance of shares exposed to the so-called New Economy and the changing global economic background.

The environment of easing global monetary policy that began in the second half of 1998, immediately after the financial collapse in Russia and hedge fund concerns in the USA, has given way to an environment of a recovering global economy. Therefore, policymakers have switched their attention towards constraining the level of economic activity given their concerns regarding inflation. Consistent with this, short term interest rates were raised in the USA in June 1999 and have been increased on five subsequent occasions. Domestically, short term interest rates were raised in September 1999 and were increased on three subsequent occasions to the level of 6% which has prevailed since February. The combination of rising short term interest rates, the expectation of slowing corporate profits growth in the face of rising oil prices and a slowing US economy have weighed heavily on equity markets at a time when valuations in certain sectors have been at historically high levels. As a result, the majority of world stock markets have failed to make progress in the year 2000, hence the modest positive return generated by small UK quoted companies should be seen favourably in that context.

The second issue of significance has been the incredible enthusiasm for, and ultimately disappointment with, the TMT sectors as a method of gaining exposure to the New Economy. This upswing started at the end of the third quarter of 1999 reflecting a combination of: growing demand for certain technology products; a desire to embrace technological change as the Millennium approached; and a rapidly growing monetary base as authorities globally ensured there was ample liquidity in the financial system over the Millennium. This stockmarket interest became self fuelling as rising market capitalisations led to the inclusion of technology companies in a wider range of indices so creating additional demand as funds which seek to replicate stockmarket indices became forced buyers.

Large quantities of capital, both financial and intellectual, poured into the popular sectors, so increasing competitive pressures and therefore shortening product cycles. This was inconsistent with ever rising company share prices supported by increasingly esoteric valuation methodologies. Concurrently any scarcity premium for New Economy shares was being eroded by the herculean efforts of the investment banking industry to list new companies with an additional supply of shares coming from directors reducing their shareholdings. Ultimately, tightening monetary policy in the USA and its impact on the technology rich NASDAQ index combined with companies reporting profits below anticipated levels, reverberated across the Atlantic leading to sharp declines in domestic share prices. The change in the environment is best illustrated in the UK by the FTSE techMARK 100 Index which declined by some 56% from its March high to its low at the end of November.

The puncturing of the New Economy euphoria in early March served to dampen enthusiasm for equities in general and also directly impacted on the relevant sectors which, in aggregate, represent a meaningful portion of the stockmarket indices. Indeed, much of the performance differential between large and small companies in the year under review may be explained by the telecommunications sector which represented some 14% of the FTSE All-Share Index but less than 1% of the investment benchmark as at 31 December 2000. The constituents of that sector have, in aggregate, demonstrated a significant decline in share prices since March. This decline has taken place despite the continued expansion in demand for capacity as use of the Internet continues to generate explosive growth. This apparent inconsistency is resolved by the fact that investors globally have made significant amounts of incremental capital available to the industry funding both an expansion in the amount of fibre in the ground and advances in optical technology which increase significantly the capacity of existing fibre. Accordingly the spectre has now been raised of capacity growth exceeding demand, with the unfavourable implications for the mix of volume and price which may give a less than satisfactory outcome for revenues and margins than was previously anticipated. As a consequence, returns to equity holders may be lower and cash flow may be insufficient to service the existing fixed interest borrowings. This example justifies the view that no investment opportunity, however alluring it may appear, is immune from the forces of supply and demand.



■ MANAGERS' REPORT

Financial markets have been through a period of excess liquidity which drove down the cost of capital to the New Economy and led to poor capital allocation. Weaker business models were funded whereas in more normal times this would not have been the case. As capital has now become more scarce a winnowing process is underway with the stronger businesses receiving more funding but the weaker ones being allowed to fail.

■ INVESTMENT PERFORMANCE

As already stated ASCoT's assets outperformed the benchmark index over the year by a significant margin with the following being the salient reasons.

- The portfolio was under-represented in the so-called TMT sectors which despite strong performance in the opening two months of the year, underperformed the benchmark over the year as a whole. This lack of exposure does not reflect the Managers' aversion to technology but rather a concern that valuations in that area became increasingly inconsistent with the likely level of future profits and cash flow as illustrated in the example of the telecommunications sector already mentioned. Indeed the decline in valuations in these previously fashionable sectors is likely to present opportunities for ASCoT over the coming twelve months.
- The desire to gain New Economy exposure at the end of 1999 and early 2000 led some investors to see all other sectors of the stockmarket as a source of liquidity. The Managers took advantage of this opportunity and purchased shares in attractive businesses with strong financial returns, unit growth potential and good market positions at valuations which were very inexpensive in an historic context. More recently as the stockmarket has returned to a more fundamental appraisal of equity valuations these shares have enjoyed a rerating. Shareholders may wish to refer to page 15 of this report which highlights the key transactions during the period.
- The Managers' value style seeks to isolate shares in companies where the financial characteristics are expected to improve or are already attractive but remain unrecognised by the stockmarket. This approach has been vindicated in the year under review, with the portfolio benefiting from some 12% of the assets being the subject of a take-over offer that has completed or seems likely to complete, a percentage which the Managers believe exceeds that of the investment benchmark. Over the year, the vast majority of purchasers have been corporate rather than venture capital buyers seeking to take existing listed companies private. Indeed venture capital is increasingly a misnomer, as investors in quoted equities have become less risk averse and prepared to sponsor emerging businesses in the early stages of development whereas some venture capital investors have become more associated with leveraging mature cash flow in businesses currently listed on the stockmarket. Accordingly, the term private equity investors is rather more appropriate.

■ MANAGERS' REPORT

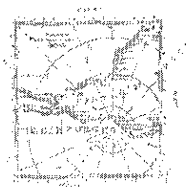
The table below expresses in numerical form the points previously described and shows that over the last year the portfolio was correctly positioned sectorally and within individual sectors shares which ASCoT held performed better than the sector benchmark. Shareholders should not expect this to be the case in every discrete period.

PERFORMANCE ATTRIBUTION ANALYSIS
12 Months to 31 December 2000

	Basis Points
Stock Selection	1,298
Sector Selection	276
	1,574
Cash/Gearing	(77)
Undistributed Revenue	57
Effect of Warrant Buy-Ins and Exercises	(44)
Management Fee and Interest charged to Capital	(62)
Total Attribution	**1,448**

Note: 100 basis points = 1%. Total Attribution is the difference between the capital only performance of the Ordinary Share basic net asset value and the Benchmark Index (i.e. Ordinary Share basic net asset value = 12.28%; Benchmark Index = -2.20%; difference is 14.48% being 1,448 basis points.

As Shareholders will discern from the table above, the returns achieved were negatively impacted to a modest degree by the use of borrowings. The reason for this was that ASCoT became geared in the fourth quarter of 1998 taking advantage of the depressed sentiment towards equities prevailing at that time. This gearing level peaked at 21% in July 1999. Thereafter the gearing was reduced as the Managers became concerned by the level of financial markets in general but, more particularly, the degree of New Economy euphoria. By the close of 1999 gearing had declined to circa 5% and the remaining debt was removed in the opening months of the year under review during a period when ASCoT's assets generated a negative contribution. For a brief period therefore ASCoT had gearing at a time when its portfolio value was declining and this was partially responsible for the small negative in the period under review. However, Shareholders should note that the decision to gear was beneficial to Shareholders in calendar 1999 with a benefit in excess of 5 percentage points to total return.



■ MANAGERS' REPORT

■ INVESTMENT OUTLOOK

This time last year the Managers sounded a note of caution, expressing their concerns regarding the combination of extreme valuations and high levels of optimism surrounding a narrow range of companies at the same time as the global economy was entering a strong synchronised upswing with the resulting upward pressure on short term interest rates.

Given the recent combination of deteriorating investor sentiment, falling share prices and evidence that the global interest rate cycle has peaked following the recent 50 basis points reduction in the USA, the Managers are rather more optimistic than twelve months ago. This optimism requires to be tempered with the caveat that policymakers must achieve a slowdown in the global economy but avoid a recession, a task that is the most difficult to accomplish in the USA given the pace of the current slowdown combined with high levels of gearing in the consumer and corporate sectors.

Should a benign environment prevail then financial markets are likely to make better progress in the coming twelve months than in the period just closed. Against this backdrop the Managers believe the following points are of relevance to the asset class and the portfolio:

- Small UK quoted companies represent attractive value selling at a price-earning discount of some 32% to their larger peers according to data sourced from the London Business School.
- ASCoT's portfolio consists of a range of attractively valued growing businesses, which are expected to benefit from greater investor or corporate interest over the coming year. The salient characteristics of the portfolio and the investment benchmark are detailed below.

	31 December 2000		31 December 1999	
Characteristics	**Benchmark**	**ASCoT**	Benchmark	ASCoT
Number of Companies	**1,024**	**89**	1,085	101
Weighted Average Market Capitalisation	**£337m**	**£331m**	£324m	£290m
Price Earnings Ratio (Historic)	**13.6x**	**13.7x**	13.9x	12.8x
Net Dividend Yield (Historic)	**2.5%**	**3.0%**	2.9%	3.4%
Dividend Cover (Historic)	**2.9x**	**2.4x**	2.5x	2.3x

- The prevailing environment of falling share prices and deteriorating investor confidence as the global economy slows may provide the opportunity to use gearing to benefit returns to Shareholders in the coming year.

Aberforth Partners
Managers
23 January 2001

PORTFOLIO INFORMATION

Summary of Material Portfolio Changes
12 Months to 31 December 2000

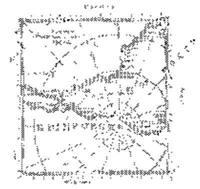
Purchases		Cost £'000	Sales		Proceeds £'000
MFI Furniture Group		5,485	Celltech Group	ϕ	10,173
Bodycote International	+	5,083	Cordiant Communications Group	ϕ	9,376
Mersey Docks & Harbour	+	4,977	*Ellis & Everard*	ϕ	6,641
Maiden Group	+	4,621	Ascot	ϕ	6,076
FirstGroup	+	3,862	Hewden Stuart	ϕ	5,120
De Vere Group		3,384	Wickes	ϕ	4,525
SIG	+	3,320	Chime Communications		4,372
SMG	+	3,116	Gerrard Group	ϕ	4,174
Hepworth	+	2,945	Waddington		4,026
Friends Ivory & Sime	+	2,880	*Atkins (WS)*	ϕ	3,799
Balfour Beatty	+	2,860	Azlan Group		3,542
Bellway		2,696	Delta	ϕ	3,389
Uniq	+	2,662	Marshalls	ϕ	3,172
Enterprise Inns		2,662	London Clubs International	ϕ	2,938
Esporta	+	2,644	Prism Rail	ϕ	2,937
Go-Ahead Group		2,582	Findel		2,839
Caradon	+	2,531	National Express Group	ϕ	2,837
T&S Stores		2,473	Perkins Foods		2,777
ITE Group	+	2,461	Iceland Group		2,436
Iceland Group	+	2,459	Baird (William)	ϕ	2,395
Other Purchases		53,201	Other Sales		58,872
Total for the period		118,904	Total for the period		146,416

The summary of material portfolio changes shows the 20 largest aggregate purchases and sales. Portfolio turnover for the year was 45.1% (1999 – 63.5%)

+ Indicates a company which is a new holding.
ϕ Indicates a company which has been disposed of completely.

FTSE Industry Classification Exposure Analysis

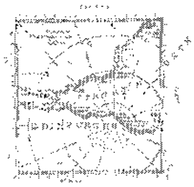
	←31 December 1999→					**←31 December 2000→**		
	Index Weight %	Portfolio Weight %	Portfolio Valuation £'000	Net Purchases/ (Sales) £'000	Net Appreciation/ (Depreciation) £'000	**Portfolio Valuation £'000**	**Portfolio Weight %**	***Index Weight %***
Resources	*1*	3	8,844	1,317	1,240	**11,401**	**4**	***1***
Basic Industries	*13*	17	46,574	(12,127)	4,531	**38,978**	**13**	***12***
General Industrials	*10*	11	32,040	4,918	2,028	**38,986**	**13**	***10***
Cyclical Consumer Goods	*3*	3	9,087	(5,431)	(2,043)	**1,613**	**1**	***2***
Non-cyclical Consumer Goods	*10*	10	28,189	(17,548)	8,350	**18,991**	**7**	***9***
Cyclical Services	*33*	37	105,065	11,410	11,716	**128,191**	**45**	***32***
Non-cyclical Services	*2*	1	1,736	2,495	980	**5,211**	**2**	***2***
Utilities	*2*	1	1,072	(749)	(323)	**0**	**0**	***1***
Information Technology	*10*	6	16,015	(5,203)	876	**11,688**	**4**	***15***
Financials	*16*	11	30,703	(6,594)	6,899	**31,008**	**11**	***16***
	100	100	279,325	(27,512)	34,254	**286,067**	**100**	***100***



■ PORTFOLIO INFORMATION

FIFTY LARGEST INVESTMENTS

No.	Company	Valuation £'000	% of Total	Business Activity
1	Johnson Service Group	7,663	2.5	Textile rental and drycleaning
2	Go-Ahead Group	7,096	2.4	Bus and train operator
3	communisis	6,982	2.3	Direct marketing and related printing services
4	Roxboro Group	6,957	2.3	Manufacture of electronic products
5	Bellway	6,946	2.3	Housebuilding
6	Cairn Energy	6,729	2.2	Oil and gas exploration and production
7	MFI Furniture Group	6,500	2.2	Manufacture and sale of furniture
8	Friends Ivory & Sime	6,202	2.1	Investment management
9	Holidaybreak	6,113	2.0	Holiday company
10	Macro 4	6,098	2.0	Computer software and services
11	Bodycote International	5,790	1.9	Heat treatment
12	FirstGroup	5,667	1.9	Bus and train operator
13	Mersey Docks & Harbour Company	5,645	1.9	Port operator
14	Meggitt	5,586	1.9	Aerospace
15	Azlan Group	5,253	1.7	Computer networking: distribution, training and services
16	Scapa Group	4,996	1.7	Technical adhesive tapes
17	Enterprise Inns	4,979	1.7	Tenanted pub operator
18	Acal	4,896	1.6	Electronic component distribution
19	Hepworth	4,791	1.6	Manufacture of domestic heating boilers
20	Maiden Group	4,608	1.5	Outdoor advertising
21	Dairy Crest Group	4,447	1.5	Dairy products
22	Mowlem (John) & Company	4,268	1.4	Construction and other services
23	Johnston Press	4,233	1.4	Regional newspapers
24	TDG	3,981	1.3	Logistics
25	Luminar	3,922	1.3	Nightclub operator
26	Persimmon	3,893	1.3	Housebuilding
27	Homestyle Group	3,852	1.3	Household textile and furniture retailer
28	T & S Stores	3,836	1.3	Convenience store retailer
29	Oxford Instruments	3,788	1.3	Manufacture of advanced instrumentation
30	Lex Service	3,509	1.2	Automotive and business services
31	Brammer	3,445	1.1	Distribution of bearings and electronic equipment rental
32	Fenner	3,329	1.1	Engineering
33	Glynwed International	3,323	1.1	Engineering
34	Balfour Beatty	3,223	1.1	Construction
35	Tops Estates	3,207	1.1	Property
36	Domestic & General Group	3,200	1.1	Insurance
37	SMG	3,196	1.1	Media
38	Community Hospitals Group	3,161	1.1	Hospital management
39	Fairey Group	3,121	1.0	Manufacture of process control equipment



■ PORTFOLIO INFORMATION

FIFTY LARGEST INVESTMENTS

No.	Company	Valuation £'000	% of Total	Business Activity
40	Robert Walters	3,109	1.0	Recruitment and human resources services
41	Grainger Trust	3,093	1.0	Property
42	Quintain Estates & Development	3,064	1.0	Property
43	PPL Therapeutics	2,996	1.0	Biotechnology
44	Countrywide Assured Group	2,992	1.0	Insurance and estate agent
45	Grantchester Holdings	2,958	1.0	Property
46	Caradon	2,894	1.0	Building products, aluminium extrusions and security printing
47	New Look Group	2,846	0.9	Womenswear retailer
48	Bryant Group	2,806	0.9	Housebuilding
49	SIG	2,756	0.9	Distribution of insulation products
50	De Vere Group	2,680	0.9	Hotels
	Top Fifty Investments	**220,625**	**73.4**	
	Other Investments (39)	65,442	21.7	
	Net Current Assets	14,853	4.9	
	Total Assets less Liabilities	**300,920**	**100.0**	

■ LONG-TERM RECORD

Historic Total Returns

Period	Discrete Annual Returns (%) F.Dil NAV*	Index†	Share Price ɸ
1 year to 31 December 2000	15.6	1.2	4.2
1 year to 31 December 1999	49.5	56.2	62.5
1 year to 31 December 1998	–6.1	–5.7	–14.2
1 year to 31 December 1997	5.3	9.2	–1.4
1 year to 31 December 1996	22.3	18.7	20.5
1 year to 31 December 1995	23.2	16.1	21.0
1 year to 31 December 1994	–2.6	–3.1	–7.0
1 year to 31 December 1993	50.9	41.6	57.6
1 year to 31 December 1992	2.8	6.4	3.4
1 year to 31 December 1991	32.1	18.3	29.4

	Compound Annual Returns (%)			Cumulative Returns (%)		
Periods to 31 December 2000	F.Dil NAV*	Index†	Share Price ɸ	F.Dil NAV*	Index†	Share Price ɸ
2 years from 31 December 1998	31.4	25.7	30.1	72.7	58.0	69.3
3 years from 31 December 1997	17.5	14.2	13.2	62.2	48.9	45.2
4 years from 31 December 1996	14.3	12.9	9.4	70.8	62.7	43.2
5 years from 31 December 1995	15.9	14.1	11.5	108.8	93.1	72.6
6 years from 31 December 1994	17.1	14.4	13.1	157.3	124.2	108.8
7 years from 31 December 1993	14.0	11.7	10.0	150.5	117.3	94.3
8 years from 31 December 1992	18.1	15.1	15.0	278.1	207.6	206.2
9 years from 31 December 1991	16.3	14.1	13.7	288.8	227.3	216.6
10 years from 31 December 1990	17.8	14.5	15.1	413.6	287.3	309.8
10.1 years from inception on 10 December 1990	17.7	14.3	14.8	415.3	284.0	301.6

* Represents fully diluted net asset value with net dividends reinvested since 2.7.97, prior to which gross dividends were reinvested.

† Represents capital appreciation on the Hoare Govett Smaller Companies Index (excluding investment trusts) with net dividends reinvested (prior to 1.1.97 in its "Extended" version and prior to 2.7.97 with gross dividends reinvested).

ɸ Represents Ordinary Share price with net dividends reinvested since 2.7.97, prior to which gross dividends were reinvested.

■ LONG-TERM RECORD

■ CAPITAL SUMMARY

As at 31 December	Total assets £m	Borrowings £m	Equity Shareholders' funds £m	*Fully Diluted* Net Asset Value per Share# p	Share price p	Discount/ (Premium)† %	Warrant price p
1991*	76.5	4.6	71.9	121.8	124.0	(1.8)	54.0
1992	78.1	9.0	69.1	119.0	122.0	(2.5)	48.0
1993	120.0	13.9	106.1	173.9	185.0	(6.4)	89.0
1994	114.0	14.2	99.8	164.5	167.0	(1.5)	84.0
1995	132.2	11.6	120.6	195.3	195.5	(0.1)	100.5
1996*	222.6	14.4	208.2	231.2	228.5	1.2	127.5
1997	227.6	16.6	211.0	235.7	217.5	7.7	119.0
1998	205.3	22.3	183.0	214.4	180.5	15.8	92.3
1999	280.6	14.2	266.4	313.0	283.5	9.4	183.0
2000	**300.9**	**–**	**300.9**	**352.7**	**287.0**	**18.6**	**187.0**

The calculation of Fully Diluted Net Asset Value per Share is explained in the Shareholder Information section on page 39.

† The Discount/(Premium) calculation is the difference between the Company's Ordinary Share price and the underlying Fully Diluted Net Asset Value per Share.

* In 1991 and 1996 the Company raised £53,179,000 and £64,743,000 respectively (both figures net of expenses) through "C" Share issues.

■ REVENUE SUMMARY

■ GEARING RATIOS

Year to 31 December	Available for Ordinary Shareholders £'000	Earnings per Ordinary Share net† p	Dividends per Ordinary Share net p	Expenses ratio¶ %	Actual gearing‡ %
1991+*	790	5.27	4.50	1.36	74.9
1992	3,266	5.80	4.60	1.28	115.1
1993	2,456	4.36	4.60	1.14	112.7
1994	2,415	4.29	4.60	1.13	114.4
1995	3,457	6.14	5.10	1.13	109.8
1996Ø*	5,447	7.61	5.50	1.16	107.9
1997	7,385	8.97	7.05	1.08	108.0
1998	7,237	8.75	7.30	1.09	114.6
1999	8,045	9.72	7.60	1.00	104.9
2000	**8,716**	**10.48**	**8.65**	**1.00**	**95.1**

† The calculation of earnings per Ordinary Share is based on the revenue from ordinary activities after taxation and the weighted average number of Ordinary Shares in issue.

¶ Ratio of operating costs against average Shareholders' funds (calculated per AITC guidelines).

‡ Total investments divided by Shareholders' funds.

+ This period is from 10 December 1990 (the Company's date of inception) to 31 December 1991.

* In 1991 and 1996 the Company raised £53,179,000 and £64,743,000 respectively (both figures net of expenses) through "C" Share issues.

Ø In relation to the year to 31 December 1996 and due to an accounting policy change to allocate both management and interest expenses on the basis of 37.5% to the Revenue Account and 62.5% to Capital Reserves, the Company also paid a Special Dividend of 0.60p per Ordinary Share.

■ INFORMATION ON ABERFORTH PARTNERS

Aberforth Partners was established in 1990 to provide institutional and wholesale investors with a high level of resources focused on small UK quoted companies. Since then funds under management have grown to £626 million (as at 31 December 2000). Aberforth Partners is wholly owned by six partners – five founding partners who are responsible for fund management and a sixth partner who is responsible for administration and compliance. The five fund managers work as a team managing the Company's portfolio on a collegiate basis. Together they have been managing the portfolio since the Company's inception in December 1990. These managers each have a substantial personal investment in the Company. Their Curriculum Vitae are as follows:

John M Evans (43) MA(Hons) – John is responsible for investment research and stock selection in the following areas – Automobiles & Parts; Construction and Building Materials; Distributors; Gas Distribution; Leisure, Entertainment and Hotels; and Water. Previously he was with Ivory & Sime for eleven years where he was latterly responsible for the management of portfolios whose objectives were income and capital growth from UK equities.

Richard M J Newbery (41) BA(Hons) – Richard is responsible for investment research and stock selection in the following areas – Beverages; Electronic and Electrical Equipment; Food and Drug Retailers; Food Producers and Processors; Household Goods and Textiles; Information Technology Hardware; Personal Care and Household Products; General Retailers; and Telecommunications Services. Previously he was with Ivory & Sime for nine years where he managed international portfolios for a range of clients including those with a small company specialisation.

David T M Ross (51) FCCA – David is responsible for investment research and stock selection in the following areas – Insurance; Leisure, Entertainment and Hotels; Real Estate; Speciality and Other Finance; and Transport. Previously he was with Ivory & Sime for twenty two years, the last two of which were as Managing Director. He was a Director of US Smaller Companies Investment Trust plc and served as a member of the Executive Committee of the Association of Investment Trust Companies.

David Warnock (43) BCom(Hons), CDipAF – David is responsible for investment research and stock selection in the following areas – Chemicals; Forestry and Paper; Health; Packaging; Software and Computer Services; and Support Services. Previously he was with Ivory & Sime for four years and had responsibility for the management of investment trusts whose objectives were capital and income growth from equities on a global basis. Prior to joining Ivory & Sime, he was with 3i plc for seven years in both Scotland and the USA.

Alistair J Whyte (37) – Alistair is responsible for investment research and stock selection in the following areas – Aerospace and Defence; Diversified Industrials; Engineering and Machinery; Media and Photography; Mining; Oil and Gas; Pharmaceuticals; and Steel and Other Metals. Previously he was with Ivory & Sime for eleven years where latterly he managed portfolios in Asia. Prior to that he managed portfolios with the objective of capital growth from smaller companies in the UK and internationally.

Further information on Aberforth Partners and its clients is available on its website at **www.aberforth.co.uk**.

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 BY THE AUDITORS

TO THE SHAREHOLDERS OF ABERFORTH SMALLER COMPANIES TRUST PLC

We have audited the accounts on pages 26 to 37 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 29 and 30.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described above this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the corporate governance statement on pages 23 and 24 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit 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.

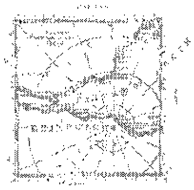
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. 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 2000 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
Registered Auditor

Edinburgh
23 January 2001



REPORT OF THE DIRECTORS

The Directors have pleasure in submitting the Tenth Annual Report and Accounts of the Company for the year to 31 December 2000.

PRINCIPAL ACTIVITY AND STATUS

The Company is an investment company as defined in Section 266 the Companies Act 1985 and has been approved by the Inland Revenue as an investment trust, under section 842 of the Income and Corporation Taxes Act 1988, up to 31 December 1998. It is the opinion of the Directors that the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval. The Company will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year. However, under Corporation Tax Self Assessment, which applies to accounting periods ended after 30 June 1999, the Inland Revenue will no longer be obliged to give written approval. Instead the Inland Revenue have twelve months after the return filing date in which to give notice that they intend to enquire into the return but if no such notice is given then approval may be assumed to have been obtained.

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 AND GOING CONCERN BASIS

The Company has no fixed duration however in accordance with the Articles of Association an ordinary resolution will be proposed at the 2002 Annual General Meeting (and at every third subsequent Annual General Meeting) that the Company continues to manage its affairs as an investment trust.

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.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, notwithstanding the resolution on the Company's continuance detailed above. For this reason, they continue to adopt the going concern basis in preparing the accounts.

RESULTS AND DIVIDENDS

	£'000	£'000
Revenue available for dividends		8,716
Interim dividend of 3.00p per Ordinary Share paid 1 September 2000	2,498	
Proposed final dividend of 5.65p per Ordinary Share, payable 2 March 2001 to Shareholders on the Register at close of business on 9 February 2001	4,704	(7,202)
Transferred to revenue reserve		1,514

■ REPORT OF THE DIRECTORS

■ DIRECTORS

The Directors who held office during the year and their interests in the Shares and Warrants of the Company as at 31 December 2000 and 31 December 1999, were as follows:

		Ordinary Shares		**Warrants**	
		2000	1999	**2000**	1999
W Y Hughes	Beneficial	**28,000**	3,000	**3,000**	3,000
Dr F MacKenzie	Beneficial	**23,630**	23,630	**35,000**	35,000
K M Miller	Beneficial	**10,000**	10,000	**2,000**	2,000
D R Shaw	Beneficial	**10,000**	—	**—**	—

There has been no change in the holdings of the Directors between 31 December 2000 and 23 January 2001.

In accordance with the Company's Articles of Association Mr K M Miller retires as a Director at the Annual General Meeting to be held on 27 February 2001. Mr Miller, whose biographical details are shown on page 6, being eligible, offers himself for re-election.

No Director has a contract of service with the Company.

■ CORPORATE GOVERNANCE—THE COMBINED CODE OF BEST PRACTICE

Directors

The Board of Directors comprises four wholly independent non-executive Directors of which Mr Hughes acts as Chairman on all matters considered by the Board. The Company has no executive Directors nor any employees, however the Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company. Clear documented contractual arrangements are in place between the Company and these firms which set out the areas where the Board has delegated authority to them. The Board as a whole constitutes and performs the functions of a Management Engagement Committee and at least once a year formally reviews the terms of the agreements with the Managers and Secretaries. The Board meets at least quarterly to review the overall business of the Company and to consider the matters specifically reserved for it to decide on. Detailed information is provided by the Managers and Secretaries for these meetings which enables the Directors to monitor the investment performance of the Company compared to its benchmark index and in relation to comparable investment trusts. The Directors also review the Company's activity over the quarter relative to its investment policy.

As the Board is small there is no formal Nomination Committee and appointments of new Directors are considered by the Board as a whole. In accordance with the Articles of Association, new Directors are subject to election by Shareholders at the first General Meeting after their appointment and thereafter at least at every third subsequent Annual General Meeting. In light of the shareholders right to vote periodically on whether the Company should continue and the mandatory re-election of Directors every three years, the Board does not consider it appropriate that Directors be appointed for a specified term. Directors may seek independent professional advice at the expense of the Company.

Directors' Remuneration

Directors' remuneration comprises solely of Directors' fees, details of which are shown in note 5 of the Accounts. No Director has a contract of service with the Company.

Relations with Shareholders

The Company was formed to, and continues to, invest in a portfolio of small UK quoted companies. The Board believes that regular contact with Shareholders, the majority of whom are institutions, is essential. The Managers meet most of the institutional Shareholders twice a year and provide them with a detailed report on the progress of the Company. Directors of the Company have also met the institutional Shareholders and are always available for discussion with any Shareholder. All Shareholders have the opportunity to attend and vote at the Annual General Meeting during which the Directors and Managers are available to discuss key issues affecting the Company.

Accountability and Audit

The Company reports formally to Shareholders twice a year by way of the Annual Report and Accounts and the Interim Report. As mentioned above, the Managers meet major Shareholders regularly to update them and in addition Company performance and other relevant information is available on the Aberforth Partners' website at **www.aberforth.co.uk**.

With effect from July 2000 the Company has applied the guidance published by The Institute of Chartered Accountants in England and Wales in respect of the Combined Code's sections on Internal Control (commonly known as the Turnbull Guidance on Internal Control).

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Directors have established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This was implemented in July 2000 and continues in place up to the date of this report. At least once a year the Directors formally review the effectiveness of the Company's system of internal control and this process principally comprises receiving and examining reports from the firms to which services are subcontracted detailing the internal control objectives and procedures adopted by each firm. Each report has been reviewed by the respective firm's auditors. The Directors have not identified any significant problems in respect of the Company's system of internal control.

The Board as a whole constitutes and performs the functions of an Audit Committee and specifically considers the financial reporting by the Company, the internal control principles adopted and the relationship with the Company's auditors.

Voting Policy and the Environment

The Company is a significant shareholder in approximately 100 small companies officially listed on the London Stock Exchange. The Company has given discretionary voting powers to the Investment Managers, Aberforth Partners. Aberforth Partners exercise these voting rights on every resolution which is put to shareholders of the investments owned by the Company. Aberforth Partners vote against resolutions which they believe may damage Shareholders' rights or economic interests and under normal circumstances these concerns would have been raised with the management of the company concerned. In all other cases votes are cast in favour. Day to day management of the Company's portfolio of investments is carried out by Aberforth Partners. The Directors are aware that the Managers give consideration to environmental issues, among many other factors, when investment decisions are taken.

Compliance with the Provisions of The Combined Code

Subject to the special circumstances of the Company as an investment trust, the Company has complied with the provisions of The Combined Code during the financial year with the following exceptions. Directors are not appointed for a specified term and the Turnbull Guidance on Internal Control was not applied from 1 January 2000 until 18 July 2000. Both these issues are explained above.

■ ANNUAL GENERAL MEETING – SPECIAL BUSINESS

Purchase of Own Shares

The current authority of the Company to make market purchases of up to 14.99% of the issued Ordinary Shares of the Company expires at the end of the Annual General Meeting. Resolution 5, as set out in the notice of the Annual General Meeting, seeks renewal of such authority until the Annual General Meeting in

■ REPORT OF THE DIRECTORS

2002. The price paid for shares will not be less than the nominal value of 1p per share nor more than 105% of the average of the middle market quotations for the shares for the five business days immediately preceding the date of purchase. Any shares purchased under the authority will be automatically cancelled thereby reducing the Company's issued share capital. As at 23 January 2001 (being the latest practical date prior to the publication of the annual report and accounts) there were outstanding 2,878,897 Warrants to subscribe for Ordinary Shares of 1p each in the Company representing 3.46% of the issued share capital of the Company at that date. If the existing share buy-back authority and the authority referred to above are both exercised in full, the outstanding Warrants as at 23 January 2001 would represent 4.78% of the issued share capital of the Company. There are no outstanding options to subscribe for equity shares in the capital of the Company.

Subject to the requirement that purchases by the Company of its own shares will only be made at a level which enhances NAV, the principal objective of any such purchase will be to seek to sustain as low a discount between the Company's NAV and share price as seems possible. Accordingly, it is the Board's intention to use the share purchase facility within the guidelines established from time to time by the Board.

■ 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 assets less all liabilities of the Company, and a quarterly secretarial fee, payable in advance, of £12,823 (excluding VAT) per quarter during 2000. The secretarial fee is adjusted annually in line with the Retail Prices Index.

■ SUBSTANTIAL INTERESTS IN SHARE CAPITAL

The Board has been informed of the following substantial interests in the issued share capital of the Company as at 23 January 2001.

Interested Person	**Percentage Held**
Liverpool Victoria Friendly Society Limited	12.6
Newton Management Limited	10.3
Refuge Assurance plc	6.8
Britannic Investment Managers Limited	4.8
Merseyside Pension Fund	4.1
Scottish Widows Investment Partnership Limited	3.8

■ CREDITORS PAYMENT POLICY

The Company's creditor payment policy is to agree terms of payment before business is transacted, to ensure suppliers are aware of these terms and to settle bills in accordance with them. The Company did not have any trade creditors at the year end.

■ 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
for Aberforth Partners, *Secretaries*
14 Melville Street, Edinburgh EH3 7NS
23 January 2001

STATEMENT OF TOTAL RETURN
(INCORPORATING THE REVENUE ACCOUNT*) OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2000

			2000			1999	
		Revenue	**Capital**	**Total**	Revenue	Capital	Total
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Gains/(losses) on invesments	9	**—**	**34,254**	**34,254**	—	86,685	86,685
Deemed cost of Warrants purchased for cancellation	13	**—**	**(41)**	**(41)**	—	(1,225)	(1,225)
Income	2	**9,898**	**—**	**9,898**	10,006	—	10,006
Investment management fee	3	**(945)**	**(1,576)**	**(2,521)**	(813)	(1,354)	(2,167)
Other expenses	4	**(196)**	**—**	**(196)**	(242)	—	(242)
Net return before finance costs and taxation		**8,757**	**32,637**	**41,394**	8,951	84,106	93,057
Interest payable and similar charges		**(41)**	**(69)**	**(110)**	(906)	(1,510)	(2,416)
Return on ordinary activities before tax		**8,716**	**32,568**	**41,284**	8,045	82,596	90,641
Tax on ordinary activities	6	**—**	**—**	**—**	—	—	—
Return attributable to equity shareholders		**8,716**	**32,568**	**41,284**	8,045	82,596	90,641
Dividends in respect of equity shares	7	**(7,202)**	**—**	**(7,202)**	(6,290)	—	(6,290)
Transfer to reserves		**1,514**	**32,568**	**34,082**	1,755	82,596	84,351
Returns per ordinary share	8						
Basic		**10.48p**	**39.17p**	**49.65p**	9.72p	99.81p	109.53p
Diluted		**10.25p**	**38.31p**	**48.56p**	9.45p	96.98p	106.43p

*The revenue column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the year.

The accompanying notes are an integral part of this statement.

BALANCE SHEET
AS AT 31 DECEMBER 2000

	Note	2000 £'000	1999 £'000
FIXED ASSETS: INVESTMENTS			
Securities officially listed on the London Stock Exchange:			
UK ordinary shares		**285,178**	278,363
UK convertible securities		**889**	962
Total investments	9	**286,067**	279,325
Current assets			
Debtors	10	**5,430**	5,278
Cash at bank		**15,074**	—
		20,504	5,278
Creditors (amounts falling due within one year)	11	**(5,651)**	(18,233)
Net current assets/(liabilities)		**14,853**	(12,955)
TOTAL ASSETS LESS LIABILITIES		**300,920**	266,370
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital:			
Ordinary shares	12	**833**	828
Reserves:			
Share premium account	13	**500**	2
Special reserve	13	**133,525**	133,525
Capital reserve—realised	13	**121,672**	101,158
Capital reserve—unrealised	13	**35,977**	23,958
Revenue reserve	13	**8,413**	6,899
	14, 15	**300,920**	266,370
NET ASSET VALUES PER SHARE—BASIC	14	**361.4p**	321.9p
—FULLY DILUTED	14	**352.7p**	313.0p
—DILUTED (FRS 14)	14	**353.5p**	313.5p

Approved by the Board of Directors ~~on~~ 23 January 2001
and signed on its behalf by W Y Hughes, *Chairman*

The accompanying notes are an integral part of this balance sheet.

CASH FLOW STATEMENT

FOR THE YEAR TO 31 DECEMBER 2000

Reconciliation of revenue before finance costs and taxation to net cash inflow from operating activities

	2000	1999
	£'000	£'000
Revenue before finance costs and taxation	**8,757**	8,951
Scrip dividends	**(148)**	(85)
Tax withheld from income on investment	**(12)**	(23)
Tax recovered	**23**	15
Investment management fee charged to capital	**(1,576)**	(1,354)
Increase in other debtors	**(30)**	(201)
Net cash inflow from operating activities	**7,014**	7,303

CASH FLOW STATEMENT

	Note		
Net cash inflow from operating activities		**7,014**	7,303
Returns on investments and servicing of finance	16	**(182)**	(2,418)
Capital expenditure and financial investment	16	**28,449**	11,530
		35,281	16,415
Equity dividends paid		**(6,429)**	(6,124)
		28,852	10,291
Financing	16	**427**	(2,245)
Increase in cash		**29,279**	8,046

Reconciliation of net cash flow to movement in net debt	17		
Increase in cash in the year		**29,279**	8,046
Change in Net Debt		**29,279**	8,046
Net Debt at 1 January 2000		**(14,205)**	(22,251)
Net Funds at 31 December 2000		**15,074**	(14,205)

The accompanying notes are an integral part of this statement.

■ NOTES ON THE ACCOUNTS

1 ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year is set out below.

(a) Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of fixed asset investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial statements of investment trust companies".

(b) Valuation of investments

Quoted investments are valued at middle market prices. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value.

Realised surpluses or deficits on the disposal of investments are taken to capital reserve—realised and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve—unrealised as explained in note 1(g) below.

(c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. In accordance with FRS16 dividend income is shown excluding any related tax credit. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

Other income is accounted for on an accruals basis.

(d) Expenses

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

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment;
- expenses are charged to capital reserve—realised where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fee has been allocated 62.5% to capital reserve—realised and 37.5% to revenue reserve, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

(e) Finance costs

Finance costs are accounted for on an accruals basis. Finance costs of debt, insofar as they relate to the financing of the Company's investments or to financing activities aimed at maintaining or enhancing the value of the Company's investments, are allocated 62.5% to capital reserve—realised and 37.5% to revenue account, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

■ NOTES ON THE ACCOUNTS

1 ACCOUNTING POLICIES continued

(f) Taxation

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

(g) Capital reserves

Capital reserve—realised

The following are accounted for in this reserve:

— gains and losses on the realisation of investments;

— gains on the return of capital by way of investee companies paying special dividends;

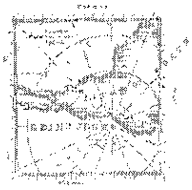
— expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies;

— costs to purchase Warrants for cancellation.

Capital reserve—unrealised

The following are accounted for in this reserve:

— *increases and decreases in the valuation of investments held at the year end.*



■ NOTES ON THE ACCOUNTS

2 INCOME

	2000	1999
	£'000	£'000
Income from investments		
Franked investment income	**9,162**	9,702
UK unfranked investment income	**58**	117
Foreign income dividends	**—**	99
Scrip dividends	**148**	85
	9,368	10,003
Other income		
Deposit interest	**505**	2
Underwriting commission	**25**	1
	530	3
Total income	**9,898**	10,006
Total income comprises:		
Dividends	**9,310**	9,886
Interest	**563**	119
Other income	**25**	1
	9,898	10,006
Income from Investments:		
Listed UK	**9,368**	10,003

3 INVESTMENT MANAGEMENT FEE

		2000			1999	
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Investment management fee	**945**	**1,576**	**2,521**	813	1,354	2,167

The Company's investment managers are Aberforth Partners. The contract between the Company and Aberforth Partners may 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 all liabilities of the Company. In addition to the investment management fee, above, the Company also obtains secretarial services from Aberforth Partners. The fee for these services is recorded with other expenses (Note 4).

■ NOTES ON THE ACCOUNTS

4 OTHER EXPENSES

	2000 £'000	1999 £'000
Secretarial services	**60**	59
Directors' fees (Note 5)	**38**	37
Auditors' fee—for audit services	**8**	8
—for non-audit services	**1**	1
Other	**89**	137
	196	242

5 DIRECTORS' FEES

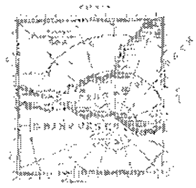
The emoluments of the Chairman who was the highest paid Director were £11,100 (1999—£10,950). The other three Directors who served during the year each received emoluments of £8,880 (1999—£8,760). Of these fees £8,880 (1999—£8,760) was paid to a third party in respect of making available the services of one Director.

6 TAXATION

As a result of the Company's expenses exceeding unfranked income there is no liability to corporation tax.

7 DIVIDENDS

	2000 £'000	1999 £'000
Interim dividend (3.00p per Ordinary Share, (1999—2.85p))	**2,498**	2,359
Proposed final dividend (5.65p per Ordinary Share, (1999—4.75p))	**4,704**	3,931
	7,202	6,290



■ NOTES ON THE ACCOUNTS

8 RETURNS PER ORDINARY SHARE

The returns per Ordinary Share are based on (i) a numerator being the Returns attributable to equity shareholders of:

	2000		1999	
	Revenue	**Capital**	Revenue	Capital
	£'000	**£'000**	£'000	£'000
Basic and diluted	**8,716**	**32,568**	8,045	82,596

and (ii) a denominator being a specific number of shares as follows:

	2000	1999
	£'000	£'000
Basic calculation:		
Weighted average number of shares in issue during the year	**83,135,270**	82,756,530
Diluted calculation:		
Weighted average number of warrants in issue during the year	**3,027,858**	3,986,494
Less number of shares that would have been issued at fair value using an average share price of 264.07p (1999—252.82p) during the year	**(1,146,612)**	(1,576,811)
Shares that would have been issued for no consideration	**1,881,246**	2,409,683
Add weighted average number of shares in issue during the year	**83,135,270**	82,756,530
Number of shares used to determine diluted returns per share	**85,016,516**	85,166,213

9 INVESTMENTS

	Listed in UK
	£'000
Opening book cost	255,367
Opening unrealised appreciation	23,958
Opening valuation	**279,325**
Movements in the period:	
Purchases at cost	118,904
Sales—proceeds	(146,416)
—realised gains on sales	22,235
Increase in unrealised appreciation	12,019
Closing valuation	**286,067**
Closing book cost	250,090
Closing unrealised appreciation	35,977
Closing valuation	**286,067**

	2000	1999
	£'000	£'000
Realised gains on sales	**22,235**	28,847
Increase in unrealised appreciation	**12,019**	57,838
Gains/(losses) on investments	**34,254**	86,685

■ NOTES ON THE ACCOUNTS

10 DEBTORS

	2000	1999
	£'000	£'000
Amounts due from brokers	**4,206**	4,073
Investment income receivable	**1,201**	1,175
Tax recoverable	**12**	23
Other debtors	**11**	7
	5,430	5,278

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000	1999
	£'000	£'000
Bank overdrafts	**—**	14,205
Amounts due to brokers	**922**	—
Proposed final dividend	**4,704**	3,931
Other creditors	**25**	97
	5,651	18,233

12 ORDINARY SHARE CAPITAL

	2000		1999	
	No. of Shares	**£'000**	No. of Shares	£'000
Authorised:				
Ordinary Shares of 1p	**333,299,254**	**3,333**	333,299,254	3,333
Allotted, issued and fully paid:				
Ordinary Shares of 1p	**83,260,325**	**833**	82,757,359	828

On 31 March 2000, as a result of certain holders exercising the subscription rights of their Warrants, 502,966 Ordinary Shares of 1p were issued at 100p per share.

During the year the Company bought in 50,000 Warrants for cancellation at a total cost of £76,000.

At 31 December 2000, there were 2,878,897 Warrants in issue. Each Warrant confers the right to subscribe for one Ordinary Share of 1p at 100p on 31 March in any of the years 2001 to 2003 inclusive.

■ NOTES ON THE ACCOUNTS

13 RESERVES

	Share premium account £'000	Special reserve £'000	Capital reserve-realised £'000	Capital reserve-unrealised £'000	Revenue reserve £'000
Beginning of year	**2**	**133,525**	**101,158**	**23,958**	**6,899**
Premium created on exercise of Warrants	498	—	—	—	—
Net gain on realisation of investments	—	—	22,235	—	—
Increase in unrealised appreciation	—	—	—	12,019	—
Deemed cost of Warrants purchased for cancellation	—	—	(41)	—	—
Deemed original value of Warrants purchased for cancellation	—	—	(35)	—	—
Management fees charged to capital	—	—	(1,576)	—	—
Interest expense charged to capital	—	—	(69)	—	—
Retained net revenue for the year	—	—	—	—	1,514
End of year	**500**	**133,525**	**121,672**	**35,977**	**8,413**

14 NET ASSET VALUE PER SHARE

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

	Net asset value per share attributable		Net asset values attributable	
	2000	1999	**2000**	1999
	pence	pence	**£'000**	£'000
Ordinary Shares (basic)	**361.4p**	321.9p	**300,920**	266,370

The movements during the year of the assets attributable to the Ordinary Shares were as follows:

	Ordinary Shares (basic) £'000
Total net assets attributable at beginning of year	266,370
Total recognised gains and losses for the year	41,284
Dividends	(7,202)
Deemed original value of Warrants purchased for cancellation	(35)
Additional shareholders' funds by exercise of Warrants	503
Total net assets attributable at end of year	300,920

Basic net asset value per Ordinary Share is based on net assets, and on 83,260,325 (1999—82,757,359) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

Fully diluted net asset value per share is 352.7p (1999—313.0p). This has been calculated on the assumption that the Warrants in issue were fully exercised at the year end at £1 each resulting in a larger number of Ordinary Shares totalling 86,139,222 (1999—86,189,222) and increased net assets of £303,799,000 (1999—£269,802,000).

Diluted net asset value per share calculated in accordance with Financial Reporting Standard 14 (Earnings per Share) is 353.5p (1999—313.5p). This is based on net assets and on 85,136,122 (1999—84,978,688) Ordinary Shares being the number of Ordinary Shares in issue at the year end plus 1,875,797 Ordinary Shares (1999—2,221,329) being the notional number of shares that would have been issued for no consideration using a year end share price of 287.0p (1999—283.5p) to represent the fair value of an Ordinary Share.

NOTES ON THE ACCOUNTS

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000 £'000	1999 £'000
Opening shareholders' funds	**266,370**	183,039
Total recognised gains and losses before dividends	**41,284**	90,641
Dividends	**(7,202)**	(6,290)
Deemed original value of Warrants purchased for cancellation	**(35)**	(1,023)
Additional shareholders' funds by exercise of Warrants	**503**	3
Closing shareholders' funds	**300,920**	266,370

16 GROSS CASH FLOWS

	2000 £'000	1999 £'000
Returns on investment and servicing of finance		
Interest paid	**(182)**	(2,418)
Capital expenditure and financial investment		
Payments to acquire investments	**(117,834)**	(178,969)
Receipts from sales of investments	**146,283**	190,499
	28,449	11,530
Financing		
Issue of Ordinary Shares	**503**	3
Warrants purchased for cancellation	**(76)**	(2,248)
	427	(2,245)

17 ANALYSIS OF CHANGE IN NET DEBT

	Net debt at 1 Jan 2000 £'000	Cash flows £'000	Net funds at 31 Dec 2000 £'000
Overdrafts	(14,205)	14,205	—
Cash at bank	—	15,074	15,074
	(14,205)	29,279	15,074

■ NOTES ON THE ACCOUNTS

18 CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

There were no contingencies, guarantees or financial commitments of the Company as at 31 December 2000, which had not been accrued.

19 FINANCIAL INSTRUMENTS—FRS 13 DISCLOSURES

The Company's financial instruments comprise its investment portfolio (see note 9 and pages 16 and 17), cash balances, overdrafts, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. Overdrafts are utilised when the Managers' believe it is in the interest of the Company to financially gear the portfolio. The disclosures below exclude short-term debtors and creditors.

The main risks that the Company faces arising from its financial instruments are i) interest rate risk; and ii) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movement. Since the Company invests in UK equities traded on the London Stock Exchange, currency risk and liquidity risk are not significant.

(i) Interest rate risk

The Company has bank overdraft facilities totalling £80,000,000 of which £Nil were utilised at 31 December 2000 (1999—total facilities £80,000,000 of which £14,205,000 were utilised). The interest rate on amounts utilised is variable at 0.6% (1999—0.6%) over base rate with no arrangement or non-utilisation fees payable. The debt may be repaid by the Company at any time without penalty but the lender cannot withdraw the facilities without providing at least 364 days' notice at all times.

When the Company decides to hold cash balances, all balances are held on variable rate bank accounts yielding rates of interest linked to bank base rate which at 31 December 2000 was 6.0% (1999—5.5%). The Company's policy is to hold ordinary securities and not usually to invest in fixed rate securities.

(ii) Market risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the investment managers in pursuance of the investment objective. Further information on the investment portfolio is set out in the Managers' Report on pages 10 to 14, which is not subject to audit. It is not the Managers' policy to use derivatives to manage portfolio risk.

The Company held the following categories of financial instruments at 31 December 2000:

	2000		***1999***	
	Book Value £'000	**Fair Value £'000**	**Book Value £'000**	**Fair Value £'000**
Financial Assets				
Investment Portfolio	286,067	286,067	279,325	279,325
Cash at Bank	15,074	15,074	—	—
Financial Liabilities				
Bank Overdrafts	—	—	14,205	14,205

The investment portfolio consists of listed investments, which are valued at mid-market price.

■ SHAREHOLDER INFORMATION

■ SHAREHOLDER REGISTER ENQUIRIES

All administrative enquiries relating to Shareholders such as queries concerning holdings, dividend payments, notification of change of address, loss of certificate or to be placed on a mailing list should be addressed to the Company's registrars:

Shareholder Services Department	Tel:	01484 600 900
Northern Registrars Limited	Fax:	01484 600 911
Northern House	Email:	client.services@northernregistrars.co.uk
Woodsome Park	Website:	**www.northernregistrars.co.uk**
Fenay Bridge		
Huddersfield HD8 0LA		

■ PAYMENT OF DIVIDENDS

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's registrars, whose address is given above, to pay them directly into a bank account; tax vouchers are then mailed to Shareholders separately. This method also avoids the risk of dividend cheques being delayed or lost in the post.

■ SOURCES OF FURTHER INFORMATION

The prices of the Ordinary Shares and Warrants are quoted daily in the *Financial Times*, *The Times*, *The Herald* and *The Scotsman*. These prices, together with the Net Asset Values and other financial data, can be found on the TrustNet website at **www.trustnet.co.uk**. Other websites containing useful information on the Company are **www.FT.com** and **www.aitc.co.uk**. Company performance and other relevant information is available on the Aberforth Partners' website at **www.aberforth.co.uk** which is updated regularly.

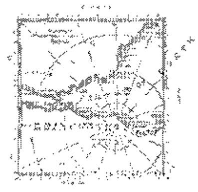
■ HOW TO INVEST

The Company's Ordinary Shares and Warrants are traded on the London Stock Exchange. They can be bought or sold by placing an order with a stockbroker, by asking a professional adviser to do so, or through most banks. The Company's Managers, Aberforth Partners, do not offer any packaged products such as ISAs, PEPs, Savings Schemes or Pension Plans.

Stock Exchange Codes	Ordinary Shares of 1p	0-006-655
	Warrants	0-006-666

■ AITC

The Company is a member of the Association of Investment Trust Companies which produces a detailed Monthly Information Service on the majority of investment trusts. This can be obtained by contacting the Association of Investment Trust Companies, Durrant House, 8–13 Chiswell Street, London EC1Y 4YY (Tel: 020 7282 5555).



■ SHAREHOLDER INFORMATION

■ FINANCIAL CALENDAR

Results	For the half year to 30 June announced	July
	For the full year to 31 December announced	January
Ordinary Share Dividends	*Interim*	
	Ex-dividend	July/August
	Payable	September
	Final	
	Ex-dividend	January/February
	Payable	March
Interim Report		July
Annual Report and Accounts		January
Annual General Meeting		February
Publication of Net Asset Values		Weekly (via Aberforth Partners' website and London Stock Exchange)
		Monthly (as weekly and also via AITC)
Website Content Update		Weekly/Monthly

■ GLOSSARY OF TECHNICAL TERMS

Discount

The amount by which the stockmarket price per Ordinary Share is lower than the Fully Diluted Net Asset Value per Ordinary Share. The discount is normally expressed as a percentage of the Fully Diluted Net Asset Value per Ordinary Share.

Expense Ratio

Total annual operating costs (net of tax relief), excluding interest costs, divided by the average Shareholders' funds (calculated per AITC guidelines).

Market Capitalisation

The market capitalisation of the Company is calculated by multiplying the stockmarket price per Ordinary Share by the total number of Ordinary Shares in issue.

Net Asset Value

Also described as Shareholders' funds, Net Asset Value is the value of total assets less liabilities. Liabilities for this purpose include borrowings as well as current liabilities. The Net Asset Value per Ordinary Share is calculated by dividing this amount by the total number of Ordinary Shares in issue.

Fully Diluted Net Asset Value

The Fully Diluted Net Asset Value is calculated on the same basis as the Net Asset Value, however, the total number of Warrants in issue are deemed to be exercised at 100p each. This results in Shareholders Funds being increased by £1 x the number of Warrants in issue and the number of Ordinary Shares in issue being increased by the number of Warrants in issue.

Premium

The amount by which the stockmarket price per Ordinary Share exceeds the Fully Diluted Net Asset Value per Ordinary Share. The premium is normally expressed as a percentage of the Fully Diluted Net Asset Value per Ordinary Share.

■ NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Eleventh Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 27 February 2001 at 6 pm for the following purposes.

ORDINARY BUSINESS

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

1. That the Report and Accounts for the year to 31 December 2000 be adopted.
2. That the payment of the final dividend of 5.65p per Ordinary Share be approved.
3. That Mr K M Miller be re-elected as a Director.
4. That Ernst & Young be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following Special Resolution:

5. That pursuant to and in accordance with its Articles of Association, the Company be and it is hereby authorised in accordance with section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of section 163(3) of the Act) of Ordinary Shares of 1p each in the capital of the Company ("Shares"), provided that:—
   (a) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the issued share capital of the Company on the date on which this resolution is passed;
   (b) the minimum price which may be paid for a Share shall be 1p being the nominal value of a Share;
   (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be 5% above the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the Shares for the five business days immediately preceding the date of purchase; and
   (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 July 2002 or, if earlier, at the Annual General Meeting of the Company to be held in 2002, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiry of such authority and may make a purchase of Shares pursuant to any such contract.

By Order of the Board
for Aberforth Partners, *Secretaries*

Dated 23 January 2001

Registered Office:
14 Melville Street
Edinburgh EH3 7NS

The final dividend, if approved, will be paid on 2 March 2001 to Shareholders on the Register at 9 February 2001.

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 his/her 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.