nd Accounts 1992

TR
Smaller Companies Investment Trust
PLC

TOUCHE
REMNANT

TR Smaller Companies Investment Trust Personal Equity Plan

Touche, Remnant & Co. has launched a PEP linked to the ordinary shares of TR Smaller Companies Investment Trust PLC. It is –

THE PEP WITH A BIG DIFFERENCE – NO CHARGES

- No initial charge.
- No transaction charge.
- No management charge.
- No withdrawal charge.
- No Government stamp duty is paid by you the investor.

OTHER ADVANTAGES INCLUDE:

- All of your investment is used to buy shares in the PEP.
- Dividend income received in full.
- A maximum investment for the year ending 5 April 1993 of £6,000.
- Investment may be by lump sum or regular savings provided the initial investment is not less than £1,000; regular savings are £50 or more per month.
- A free share exchange facility is available.

FOR FURTHER INFORMATION

If you would like to receive information about the PEP or the Touche Remnant Investment Trust Savings Scheme please call Charles Hodge and on 071-634 0034.

Alternatively, please write to:

Investor Services Department
Touche Remnant Investment Trust Management Limited
Mermaid House, 2 Puddle Dock, London EC4V 3AT

Touche Remnant Investment Trust Management Limited is an Appointed Representative of Touche, Remnant & Co., a member of IMRO

25526.

Objectives

The policy of the Company is to invest in situations offering capital and income growth with the emphasis being on smaller companies.

The principal areas of investment are the United Kingdom, the United States of America and Japan.

Performance

*** Share price total return up 9.4% over one year and up 32.5% over five years.**

*** Net asset value total return up 7.5% over one year and up 16.6% over five years.**

Annual dividend for the current year maintained and has increased by 68.2% over five years.

* Source AITC Services Limited – Total return assumes net dividends are reinvested

Touche Remnant Investment Trust Savings Scheme

Touche Remnant offers a simple and inexpensive way of investing in your Company or the other participating Touche Remnant managed investment trusts – the Touche Remnant Investment Trust Savings Scheme.

The Scheme offers the following facilities:

- **Monthly savings from as little as £25 a month**
- **Weekly dealing for lump sum investments of less than £5,000 (minimum investment of £250)**
- **A daily premium dealing facility for lump sum investments of £5,000 or more**
- **Income reinvestment including income from other quoted UK securities**
- **A free share exchange facility for investors wishing to exchange quoted securities valued at £250 or more**
- **A selling facility for shares held through the Scheme**

Contents

Directors and Officers

Keith Lindsay FCA | Sandy Pease FCA | Paul Mandeco | Michael Meyer, FCIS

Eric Bishop | Peter Cadbury | John Alexander

Chairman's Statement

Assets

This has been another challenging year for those involved in the smaller companies sector. Over the financial year the net asset value per share rose by 3.5%. At 31 May 1992, 73% of the investments were in the UK compared with 67% at the end of the previous year, 19% (21%) in the USA, and 7% (10%) in Japan. The unquoted investments represent 2.5% of the portfolio, most of which is represented by the holding in National Parking Corporation for which there is a market making facility. 25% of our holdings by number in the UK are in companies where the trust has a declarable shareholding, representing 20% of the total portfolio.

Earnings and Dividends

In my Chairman's statement of July 1991, I suggested that "1991 will be the year of dividend disappointments" and this has proved to be the case with earnings per share falling by 17% from 4.32p to 3.49p. Forecasting dividend income for the coming year continues to be difficult while the economy remains weak and companies are keen to conserve cash against a difficult earnings background. Revenue on ordinary activities after taxation was £6,239,000 and total dividends paid and proposed are £6,533,000. Your directors are keen not to reduce the income paid out to shareholders and are comforted by the fact that at 31 May 1991 your Company had a revenue reserve of £6,632,000 which was well in excess of the total dividend payable for this year. After maintaining the interim dividend at 1.5p, the Directors are also proposing a maintained final dividend of 2.2p per ordinary share payable on 2 [illegible] September 1992. This makes an unchanged total dividend for the year of 3.[illegible]p.

Launch of First Ever Personal Equity Plan (PEP) With No Charges

Your Company [illegible] [illegible] [illegible] with the [illegible] [illegible] under PEP Regulations following the changes in the [illegible] [illegible] [illegible] [illegible] [illegible] of £6,000. To maximise the advantages of investing through a PEP, the Board is pleased to announce that the Company, in conjunction with Touche, Remnant & Co., is launching the TR Smaller Companies Investment Trust PEP, which we believe is the first ever PEP to be completely free of charges to the planholders. We believe that this will be particularly attractive to the private investor wishing to invest in a well-managed spread of smaller companies.

Prospects

At the time of writing stockmarket sentiment and expectations for economic growth in the UK have changed from the relative optimism of the immediate post-election period to relative gloom now. Although there is a degree of uncertainty about the underlying trend in the economy, the overall pattern which emerges still points to a bottoming out of the recession against a background of low inflation. The US economy is showing signs of faltering, prompting the Federal Reserve Board to cut its key discount rate to 3%, its lowest level since 1963. It is hoped that this will at last lift the US economy from its lethargy to stronger growth. Business sentiment continues to be weak in Japan but the Government is drafting a supplementary budget including increased public works spending and investment tax credits. The Fund Managers continue to concentrate their investment policy on companies whose managements have proved their ability in these difficult times and have rationalised their cost bases. It is these companies which will be particularly well positioned for any upturn in the economy.

Annual General Meeting (AGM)

Finally I would like to remind shareholders that the AGM will be held at 12.30 pm on Friday 25 September 1992. The Board looks forward to meeting shareholders and answering any questions they may have.

[illegible]

[illegible]

Chairman

[illegible]

Highlights of the Year

	31 May 1992	31 May 1991	% Change
Revenue			
Gross revenue	£13,198,000	£14,450,000	– 8.7
Revenue before taxation	£8,512,000	£10,548,000	–19.3
Earnings per ordinary share	3.49p	4.32p	–19.2
Dividend per ordinary share			
Paid and payable	3.70p	3.70p	
Imputed tax at 25%	1.23p	1.23p	
Total including imputed tax	4.93p	4.93p	
Assets			
Total assets less current liabilities	£297,726,000	£289,944,000	
Long term liabilities and preference stock	20,875,000	22,375,000	
Net Assets attributable to ordinary shareholders	£276,851,000	£267,569,000	
Net asset value per ordinary share	155.4p	150.2p	+ 3.5
Ordinary shares mid-market price	146.5p	138.0p	+ 6.2
Indices			
FTA All-Share Index	1,311.79	1,201.85	+ 9.1
Hoare Govett Smaller Companies Index	1,306.38	1,204.33	+ 8.5
FTA USA Index	137.37	137.66	– 0.2*
Nasdaq Composite Index	320.02	297.70	+ 7.5*
FTA Japan Index	85.84	121.02	–29.1*
TSE I	5,890	8,350	–29.5*
TSE II	8,730	13,817	–36.8*

*These indices have been adjusted to allow for changes in the exchange rates

Largest Investments

at 31 May 1992

The 50 largest equity investments (convertibles and all classes of equity in any one company being treated as one investment) were as follows

	Valuation at 31 May 1992 £'000		Valuation at 31 May 1992 £'000
†Merrydown	5,330	Suter	2,155
*National Parking Corporation	5,250	Avonside Group	2,152
Senior Engineering	4,168	Warner Estate Holdings	2,142
Queens Moat Houses	3,847	Texas Utilities	2,139
Park Food	3,600	TT Group	2,133
FII Group	3,394	Stirling Group	2,118
Claremont Garments	3,363	Morrison (W)	2,099
Trinity International Holdings	3,229	Manders (Holdings)	2,070
Bespak	3,212	McKechnie	2,052
Davis Service Group	3,195	BBA Group	2,043
Morgan Crucible	3,037	Greenalls Group	1,913
Dunhill Holdings	3,029	Molins	1,880
Heywood Williams	3,000	Staveley Inds.	1,872
†Porvair	3,000	Emess	1,863
Brown & Jackson	2,674	Baird (William)	1,836
Alumasc Group	2,598	AMEC	1,834
More O'Ferrall	2,551	Whatman	1,780
Hicking Pentecost	2,549	Scholl	1,733
EIS Group	2,494	Smith (D.S.) Holdings	1,733
Hartstone	2,39[illegible]	†United Friendly Group	1,719
FKI	2,385	†Cook (D.C.) Holdings	1,650
†Asprey	2,307	Low (Wm)	1,650
Bullough	2,236	Norcros	1,639
Hickson International	2,200	Geest	1,639
Wolseley	2,183	†Mayborn Group	1,602

These investments total £124,665,000 or 40.6% of the portfolio.

†USM investments.

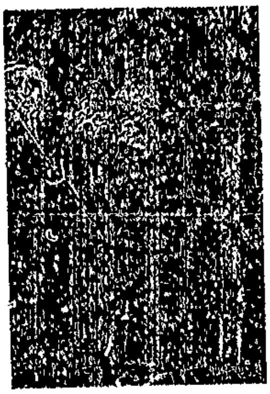
*Unlisted investments.

Classification of Investments

at 31 May 1992

Equities	Total 1991 %	**Total 1992 %**	UK %	USA %	Japan %	Other Countries %
Capital Goods						
Building materials	4.2	**4.3**	3.7	0.1	0.4	0.1
Contracting, construction	4.1	**4.3**	2.6	0.5	1.1	0.1
Electricals	2.4	**2.9**	2.3	0.5	0.1	–
Electronics	4.5	**4.0**	2.6	0.7	0.7	–
Engineering – aerospace	–	**0.2**	–	0.2	–	–
Engineering – general	9.9	**10.1**	7.5	1.4	0.9	0.3
Metals and metal forming	1.5	**1.6**	0.9	0.2	0.3	0.2
Motors	2.2	**3.3**	3.0	–	0.1	0.2
Other industrial materials	4.5	**4.7**	4.6	–	0.1	–
	33.3	**35.4**	27.2	3.6	3.7	0.9
Consumer Group						
Brewers and distillers	2.8	**2.7**	2.7	–	–	–
Food manufacturing	1.9	**1.1**	0.2	0.6	0.3	–
Food retailing	3.2	**4.1**	4.0	–	0.1	–
Health and household products	6.7	**5.2**	2.4	2.0	0.5	0.3
Hotels and leisure	4.9	**4.2**	3.5	0.3	0.1	0.3
Media	2.0	**2.9**	2.4	0.4	0.1	–
Packaging, paper and printing	4.2	**3.6**	2.8	0.8	–	–
Stores	8.4	**7.0**	5.0	1.3	0.7	–
Textiles	2.0	**5.2**	4.7	0.2	0.3	–
	36.1	**36.0**	27.7	5.6	2.1	0.6
Other Groups						
Business services	2.8	**3.9**	2.1	1.5	0.3	–
Chemicals	1.6	**2.4**	1.8	0.6	–	–
Conglomerates	2.3	**2.1**	1.8	0.3	–	–
Transport	1.0	**0.4**	–	0.4	–	–
Electricity	–	**1.4**	–	1.4	–	–
Telephone networks	0.9	**0.5**	–	0.4	0.1	–
Miscellaneous	6.8	**7.2**	6.7	0.2	0.3	–
	15.4	**17.9**	12.4	4.8	0.7	–
Industrial Group						
Oil and gas	4.3	**1.8**	0.4	1.4	–	–
	4.3	**1.8**	0.4	1.4	–	–
Financial Group						
Banks	2.4	**1.5**	0.4	0.7	0.4	–
Insurance (life)	1.3	**0.6**	0.6	–	–	–
Insurance (composite)	0.5	**1.1**	–	1.0	0.1	–
Merchant banks	0.3	**0.3**	0.3	–	–	–
Property	3.4	**2.5**	2.5	–	–	–
Other financial	2.3	**2.4**	1.3	0.9	0.1	0.1
Investment trusts	0.7	**0.5**	–	0.5	–	–
	10.9	**8.9**	5.1	3.1	0.6	0.1
Total for 1992 (including convertibles 4.2%)		**100.0**	**72.8**	**18.5**	**7.1**	**1.6**
Total for 1991 (including convertibles 5.5%)	100.0		66.4	21.1	10.3	2.2

United Kingdom Portfolio Review



- **High interest rates and a lack of confidence prevent the economy from entering a "rapid recovery" phase.**
- **Companies continuing to cut their cost bases and increase productivity to cope with recession. A high level of operational gearing will work in their favour when demand improves.**
- **Cash management and a strong balance sheet are the main priorities at this stage of the economic cycle.**

Rarely has the state of the UK economy been so difficult to assess and this has been reflected in stockmarket sentiment. At the time of writing, this has see-sawed from the excessive optimism of the post election April/May period to excessive gloom now, with the stockmarket tumbling by nearly 10% since hitting an all-time peak in May. Investors are being forced to abandon or scale back their hopes of a profit revival this year as they face a series of chairmens' warnings, dividend cuts and failed new issues. However, amidst this gloom and talk of the UK's largest post-war recession it is possible to detect that a slow, hesitant upturn is underway.

There has been some good news in recent weeks. Manufacturing output rose 1% in the three months to the end of April compared with the previous three months. Exports continue to rise steadily, with non-oil volume up by 4.5% over the year to the quarter ended May Import volumes too are on a firm uptrend, with industrial imports up by 9% over the year to the May quarter. Retailers and wholesalers continue to report positive year-on-year sales growth in the CBI/FT Distributive Trades Survey, while despite mixed anecdotes, retail sales volume in April and May was 0.5% above its first quarter average. It was also interesting to note that bank and building society lending outstripped expectations in April and May, while the 21,300 increase in seasonally adjusted unemployment in May was only two-thirds the average monthly rise during the past six months.

Looking ahead to the medium term, the Government can draw comfort from the trend in prices. When the UK entered the European Community's Exchange Rate Mechanism in October 1990 inflation was more than 10%. Although May's annual rate of retail price inflation was unchanged at 4.3%, the latest indices for industrial producer prices, average earnings, unit labour cost growth and retail price inflation excluding mortgage interest payments all show a downward trend. Average weekly earnings rose by an underlying 7% in April, the lowest annual rate for 25 years. With pay settlements hovering around the inflation rate, annual earnings growth seems certain to fall further. This is encouraging news for Britain's future competitiveness, but it also points to a squeeze on consumers' disposable incomes.

Economists are looking to the consumer to lead the economy out of recession. There is not going to be a sudden and dramatic economic revival because of the consumer's indebtedness. The economic upsurge in the late 1980s was fuelled by an unprecedented increase in consumer indebtedness as borrowing rose from about 6% of personal disposable income at the beginning of the decade to 17% by the peak of the boom in 1988. Inspite of a fall in bank base rates from 15% to 10% over the past 20 months, the debt burden still weighs heavily on Britain's households. Falling house prices and rising unemployment have added to the scars inflicted by the credit squeeze of the late 1980s. However, the pre-conditions for a turn in the economic cycle are slowly falling into place. The mortgage on an average home has fallen as a percentage of average income to its lowest level since 1984, while the ratio of average house prices to average incomes is at its lowest for more than twenty years. Even the savings ratio is standing at 11%, a level not

United Kingdom Portfolio Review

valuations at 31 May 1992 – investments shown are in excess of £900,000

seen for many years. It is the confidence to spend that is missing, but this should slowly rebuild.

In the USA short term interest rates have been reduced to their lowest level since 1963 in order to help revive a flagging economy. The Government's options for tackling these problems in the UK are limited, since the UK is tied by the rules of the European Monetary System and German interest rates are likely to remain high while Germany is wrestling with the inflationary consequences of unification. Once in the ERM it is difficult to get out without causing a crisis of confidence. The markets might see a withdrawal from the system as proof, yet again, that the British lack the stomach for economic discipline.

The managements of smaller companies have learnt to adjust to these tough times. They have been concentrating hard on reducing the cost bases of our companies and are continuing with their drive on cash management, with a tight control over working capital and capital expenditure, all of which have been reflected in strengthened balance sheets. A strong balance sheet and good cash flow continue to be key to any investment decision against a background of continuing high interest rates. Any improvement in demand will be reflected in some expansion of margins at the operating level. We are invested in a sector of the stockmarket which has a high level of operational gearing.

In stockmarket terms it is a sector that continues to offer relative value. By the end of the first quarter of 1992 the price earnings ratio of the smaller companies sector stood at 13 times reported earnings, a discount of 10% to that enjoyed by the FTA All-Share. We believe that the Trust remains well placed to benefit from any sustained upturn in the economy which should be particularly beneficial to well managed smaller companies.

CAPITAL GOODS	£000
Building Materials	
Heywood Williams	3 000
Wolseley	2 183
Manders (Holdings	2 070
Wickes	1 544
Evered Bardon	1 047
Contracting, Construction	
Avonside Group	2,152
AMEC	1,834
Electricals	
Emess	1,863
Wholesale Fittings	1,430
Volex Group	1 399
Alba	1,330
Bea[illegible] Hunter	1,160
Electronics	
Graseby	1,560
Diploma	1,394
Cray Electronic Holdings	1 225
Control Techniques	984
Engineering — General	
Senior Engineering	4 168
EIS Group	2,484
FKI	2,385
Bullough	2,236
TT Group	2,133
Molins	1,880
Brammer	1,325
Adwest Group	1,320
Hadon MacLellan	1 174
Ransomes	1,108
Bromsgrove Inds	988
Metals and Metal Forming	
ASW Holdings	1,530
Motors	
UBA Group	2,043
†Cook (DC) Holdings	1,650
Lex Service	1,350
T & N	1 215
Kwik Fit Holdings	1 177
Other Industrial Materials	
Morgan Crucible	3,037
Suter	2 155
McKechnie	2 052
Staveley Inds	1,872
Norcros	1 6[illegible]
Expamet International	1,465
Scapa Group	1,231
Total Largest Investments	**69,803**
Total Capital Goods Group	**83,446**

†USM investments

United Kingdom Portfolio Review

valuations at 31 May 1992 – investments shown are in excess of £300,000

CONSUMER GROUPS	£'000
Brewers and Distillers	
†Merrydown	5,330
Greenalls Group	1,913
Highland Distilleries	1,148
Food Retailing	
Park Food	3,[illegible]
Morrison (W)	2,099
Low (Wm)	1,650
Geest	1,639
Nurdin & Peacock	1,411
Budgens	1,033
Greggs	902
Health and Household Products	
Bespak	3,212
†Mayborn Group	1,602
†Le Creuset	1,588
Hotels and Leisure	
Queens Moat Houses	3,847
Rank Organisation	1,356
City Centre Restaurants	1,260
Owners Abroad Group	965
Quadrant Group	907
Media	
Trinity International Holdings	3,229
More O'Ferrall	2,551
†Flextech	1,368
Packaging, Paper and Printing	
Whatman	1,780
Smith (DS) Holdings	1,733
[illegible]	1,531
[illegible]	1,266
[illegible] Holding	1,0[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible] John	[illegible]
[illegible]es	
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible] Group	[illegible]8
[illegible] (William)	1,[illegible]
[illegible] Group	1,308
Total Largest Investments	**77,004**
Total Consumer Group	**85,124**

OTHER GROUPS	£'000
Business Services	
Davis Service Group	3,195
Southern Business Group	1,539
Chemicals	
Hickson International	2,200
Croda International	1,140
Brent Chemicals International	1,103
Canning (W)	976
Conglomerates	
Grampian Holdings	1,478
Bibby (J) & Sons	1,340
600 Group	930
Miscellaneous	
*National Parking Corporation	5,250
Fii Group	3,394
†Porvair	3,000
Alumasc Group	2,598
Lambert Howarth	1,239
Young (H) Holdings	1,238
Auto Security Holdings	1,098
Total Largest Investments	**31,778**
Total Other Groups	**37,914**
INDUSTRIAL GROUP	
Oil and Gas	
Brit Borneo Petroleum	1,258
Total Industrial Group	**1,258**
FINANCIAL GROUP	
Banks	
Royal Bank of Scotland Group	1,386
Insurance (Life)	
*United Friendly Group	1,719
Property	
Warner Estate Holdings	2,142
Frogmore Estates	1,423
Bradford Property Trust	988
Other Financial	
MAI	923
Total Largest Investments	**8,551**
Total Financial Group	**15,712**
Total United Kingdom	**223,454**

†USM investments
*Unlisted investments

Japanese Portfolio Review

Valuation at 31 May 1990 – investments shown are in excess of £300,000

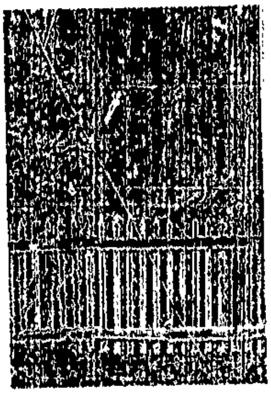
- **Despite lower interest rates, Japanese institutional investors stay in cash.**
- **Government action to stimulate the economy may be announced shortly.**
- **The Stockmarket should move to discount recovery in advance of any 'hard' evidence.**

As a result of the deteriorating economic situation and no sign of an upturn yet, the Japanese stockmarket has continued the decline which began in January 1990. Companies earnings forecasts have been revised down sharply and shares that had begun to represent 'good value' on the basis of their earnings, were no longer so attractive. Smaller Japanese companies did worse than larger ones, with share prices falling by around 37%, reflecting their greater economic sensitivity.

Many Japanese institutional investors had substantial cash positions throughout the period and were content to keep these, despite short term interest rates falling below long rates during the first quarter of the calendar year. Until there are signs that the economy will recover, this attitude seems set to continue. With the stockmarket at these low levels, many of Japan's leading banks will fail to meet next April's BIS (Bank of International Settlement) capital adequacy ratios. This potential problem is not only a major worry for the banks but also the stockmarket. The government now seems likely to introduce both fiscal and monetary stimulation measures to assist in stimulating the ailing economy. These measures will likely lead to a return of confidence in the equity market and prices should rise and begin to discount future earnings growth. However, the magnitude of any rise will be determined both by the estimated strength of recovery and the eventual level that the market reaches in relation to the current deteriorating earnings prospects.

	£000
CAPITAL GOODS	
Taisei Prefab Construction	1015
Hitachi Electronics	791
Dai Nippon Construction	665
Matsui Construction	636
Kato Industries	631
Shin Nikkei Co	629
Matsumura Gumi	603
Wakita	551
USS Corp	546
Yamato Setsubi	520
Daimei Telecom	518
Kawagishi Bridge	482
Hino Auto Body	415
Sanyo Engineering and Construction	396
Kyocera	382
Mory Industries	350
Kawasaki Electric	330
Total Largest Investments	**9,459**
Total Capital Goods	**11,476**
CONSUMER GROUP	
Aoyama Trading	659
Fuso Pharmaceutical	606
Teikoku Hormone	541
Kikkoman Shoyu	496
Noritake	430
Shoei Foods	416
Maruwa Co	353
Home Y Do Corp	325
Mutow	304
Total Largest Investments	**4,130**
Total Consumer Group	**6,310**
OTHER GROUPS	
Oliver	852
Capcom	536
Hitachi Information Systems	353
Total Largest Investments	**1,741**
Total Other Groups	**2,110**
FINANCIAL GROUP	
Bank of Fukuoka	663
[illegible] anko Bank	506
Koa Fire & Marine	377
Total Largest Investments	**1,546**
Total Financial Group	**2,013**
Total Japan	**21,909**

United States Portfolio Review



- **Slow pace of economic recovery should ensure that inflation remains subdued.**
- **Federal Reserve likely to keep interest rates low in order to help Bush's election campaign.**
- **Recent corrections have brought emerging growth stocks back to attractive valuations.**

The past year has seen a slow but erratic recovery in the US economy, with the occasional shot of adrenalin being delivered by the Federal Reserve whenever the recovery has faltered. After two cuts in the discount rate over the past six months, the current level of 3% is the lowest since 1963. Consumer confidence has remained fragile due to rising concerns over job security. The service sector has continued to undergo restructuring, with major cost-cutting programmes in industries such as banking, insurance and media and with many large industrial corporations cutting whole layers from their management structures. The resulting white-collar unemployment has created a much more sober attitude amongst consumers and a desire to pay back debt.

The stock market has responded favourably to the fall in interest rates, reaching new all time highs this year. Growth stocks were the leaders throughout 1991 as perceptions of economic growth remained subdued. The rebound in the first quarter, led by housing and autos, caused a sharp rally in cyclical stocks. Financial stocks, led by banks, have consistently been amongst the best performers, as low interest rates have enabled them to widen their margins and the pace of acquisitions has accelerated. As expected, smaller companies continued to outperform the blue chips, maintaining their longer term recovery which started in October 1990.

In line with our expectations of an economic recovery, we have continued to raise the cyclical exposure of our American portfolios, whilst staying with financially sound companies. Examples include Shaw Industries, a leading carpet manufacturer, Juno Lighting, in lighting fittings, Fastenal, a distributor of fasteners for industrial use and Wabash, a manufacturer of customised truck trailers. The stores sector has been a fruitful area of investment over the past year and we have taken profits in a number of holdings whilst adding new speciality retailing areas such as Catherines Stores, in outsized womens' apparel and CUC International offering electronic shopping services.

The food manufacturing industry has suffered a widespread margin squeeze over the past year and we have sold most of our holdings here. The pharmaceutical sector has also suffered from self imposed limits on drug price rises, initiated in order to stem the threat of government controls. This has clouded the outlook for the biotechnology industry and we have sold most of our holdings in this sector. We remain committed to the medical technology companies which can boost productivity amongst doctors and nurses and thereby help achieve reductions in medical costs.

Although our strategy remains more concentrated on the beneficiaries of an economic recovery, our stock selection continues to focus on smaller companies where long-term earnings can grow well above average either due to new product developments or market share gains. The corrections experienced in the last few months are not unusual after a strong advance and comparable setbacks occurred in 1978 and 1980 during the last smaller stock bull market. It has brought many emerging growth stocks back to attractive valuations. The threat to the stock market from rising inflation and interest rates appears to be very slight and the profits recovery should flow through into higher share prices.

United States Portfolio Review

[illegible] at 31 May 1992 [illegible]

CAPITAL GOODS	£000
Contracting, Construction	
Ryland	622
Ply Gem Industries	591
Electricals	
Juno Lighting	837
Electronics	
Envoy Corp	579
Legent Corp	598
Sterling Software	541
Engineering – Aerospace	
BE Avionics	656
Engineering – General	
Amcast Industrial	764
Fastenal	744
Brady (W H)	733
Smith (A O) Corp	587
Ametek	582
URS Corp	564
Metals and Metal Forming	
Freeport McMoran	654
Total Largest Investments	**9,002**
Total Capital Goods Group	**10,934**
CONSUMER GROUPS	
Food Manufacturing	
[illegible] & W Brands	878
Health and Household	
[illegible] Medical	929
[illegible]	776
Cygnus Therap[illegible]	625
Foundation Heal[illegible]	607
[illegible] Med Life Sys[illegible]	585
Preferred Health[illegible]	525
Media	
BHC Communicat[illegible]	656
Packaging, Paper and Printing	
Constar Internat[illegible]	1 378
Longview Fibre	683
Stores	
Merry Go Round	731
Pep Boys Manny Moe and Jack	696
[illegible] International	675
TJX	543
[illegible] Brothers Stores	543
Textiles	
Shaw Ind[illegible]	706
Total Largest Investments	**11,626**
Total Consumer Group	**17,153**

OTHER GROUPS	£000
Business Services	
Catalina Marketing	590
Foote Cone & Belding	555
Tetra Technologies	501
Chemicals	
Lawter International	*1,289
Conglomerates	
Thermo Electron	908
Shipping and Transport	
Arkansas Freightways	1,134
Electricity	
Texas Utilities	2 133
Pacific Gas & Electric	1,405
Montana Power	841
Telephone Networks	
Pacific Telesis Group	670
GTE Corp	600
Total Largest Investments	**10,700**
Total Other Groups	**14,793**
INDUSTRIAL GROUP	
Oil and Gas	
Production Operators	875
Valero Energy Corp	760
Burlington Resources	753
Amerada Hess Corp	503
Total Largest Investments	**2,891**
Total Industrial Group	**4,416**
FINANCIAL GROUP	
Banks	
PNC Finan[illegible]	701
Wachovia [illegible]	698
Society [illegible]	640
Other Financial Groups	
H & R Block	1 180
Golden West Financial	549
First Financial Management	543
Insurance (Composite)	
MBIA	1,148
Ambac	1 011
Nymagic	793
Investment Trusts	
Berkeley Atlantic	803
*Berkeley Development	553
Total Largest Investments	**8,625**
Total Financial Group	**9,468**
Total United States	**56,764**

*Unlisted investments

Other Countries Portfolio Review

Valuation as at 31 May 1992 – all investments are shown

CANADA

- **Inflation and interest rates falling faster in Canada than the US.**
- **Lower Canadian dollar boosting manufacturing competitiveness.**

After experiencing a much longer and deeper recession than in the US, Canadian inflation rates are now below those in the US. Interest rates, having been well above US rates for the last two years, are now falling rapidly to close the gap. The Canadian dollar has fallen by 5% against the US dollar over the past year and this is boosting their manufacturing competitiveness. We have added some industrial manufacturing holdings in the steel and auto parts sectors.

CANADA	£000
Four Seasons Hotels	1,163
MDS Health Group	777
Linamar Machine	664
St Lawrence Cement	443
Co Steel Inc	391
Arimetco International	[illegible]
Total Canada	**3,640**

CONTINENTAL EUROPE

- **Small companies shunned by investors due to illiquidity.**
- **Higher interest rates dampen sentiment.**

The comments a year ago still largely hold true. 1991 was a poor year for smaller companies with underperformance of around 20% compared with their larger counterparts. Whilst smaller companies can have greater risk having less mass and narrower product or geographical profiles, the principal reason for weakness is lack of liquidity.

Although we do not expect lower interest rates until next year and recognise that corporate profit growth will not come easily, there may be increasing opportunities for investment.

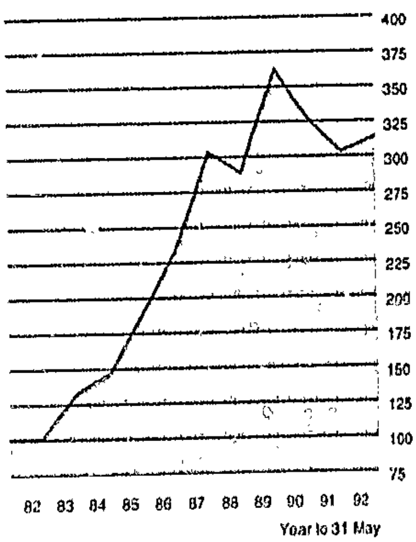
CONTINENTAL EUROPE	£000
EIRE	
Abbey	367
LUXEMBOURG	
ECI Investments	245
SWITZERLAND	
Schindler Holdings	583
Total Continental Europe	**1,195**
Total Other Countries	**4,835**
TOTAL INVESTMENTS	**308,362**

Ten Year Record

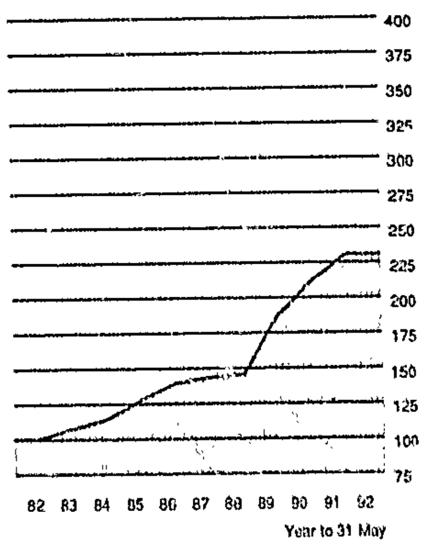
Year to 31 May		1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Gross revenue	£000	5,234	5,734	5,996	7,643	8,393	9,060	9,451	11,953	13,399	14,450	**13,198**
Per ordinary share (in pence)												
Earned net		1.60	1.77	1.78	2.15	2.28	2.40	1.82	3.29	3.71	4.32	**3.49**
Dividend paid		1.50	1.60	1.70	1.90	2.10	2.20	2.30	3.00	3.40	3.70	**3.70**
Imputed tax		0.64	0.68	0.73	0.81	0.88	0.85	0.80	1.00	1.13	1.23	**1.23**
Total dividend		2.14	2.28	2.43	2.71	2.98	3.05	3.10	4.00	4.53	4.93	**4.93**
Assets attributable to ordinary shares	£000	88,335	116,618	128,932	165,291	205,459	268,051	254,662	319,685	287,535	267,569	**276,851**
Net asset value per 25p share (in pence)		49.6	65.5	72.4	92.8	115.3	150.4	142.9	179.4	161.4	150.2	**155.4**
INDICES: 1982 = 100												
Ordinary share price		100	125	146	200	231	368	344	444	396	406	**431**
Net asset value		100	132	146	187	232	303	288	362	325	303	**313**
Ordinary dividend gross		100	107	114	127	139	143	145	187	212	230	**230**
FT Actuaries All-Share Index		100	130	141	188	234	325	274	323	342	356	**389**
FT Actuaries All-Share Dividend Index		100	107	122	146	159	179	202	240	282	300	**308**
Retail Price Index		100	104	109	117	120	125	130	141	155	164	**171**

The comparative figures for the years to 1987 have been adjusted where necessary to allow for the 1 for 1 capitalisation issue in 1987.

Index of Net Asset Value



Index of Ordinary Dividends (Gross)



Report of the Directors

The directors present the audited accounts of the Group and the Company for the year to 31 May 1992.

Activities and Business Review

The Company has directed its affairs so as to enable it to seek approval to continue as an investment trust. A review of the business is given in the Chairman's Statement and the Portfolio Reviews by the Fund Managers.

Investments

The Group's total assets less current liabilities increased during the year from £289,944,000 to £297,726,000. The net asset value of each 25p share, after deducting prior charges at par, was 155.4p at 31 May 1992 compared with 150.2p in the previous year, an increase of 3.5%. A list of the 50 largest investments is shown on page 6.

Revenue and Dividend

The Group's gross revenue was £13,198,000, a decrease of £1,252,000 over the preceding year. After deducting administrative expenses, debenture and other interest, taxation and the dividend on the preference stock, the amount available for the ordinary dividend is £6,211,000 compared with £7,705,000 in the previous year, a decrease of 19.4%.

The directors recommend a maintained final dividend of 2.2p per share. If this is added to the interim dividend of 1.5p the total dividend for the year remains unchanged at 3.7p per share. The final dividend will be paid on 29 September 1992 to shareholders whose names appear on the register on 20 August 1992.

As there was a shortfall of available revenue to cover the ordinary dividend for the year to 31 May 1992, an amount of £382,000 has been transferred from the retained revenue account.

Donations

During the year the Company made charitable donations of £4,000 and a contribution of £8,600 to the Conservative Party.

Substantial share interests

As at 31 May 1992 notices had been received by the Company of the following substantial interests in the issued ordinary share capital of the Company:

B S Pension Fund	17.2%
Prudential Corporation PLC	7.1%
The Standard Life Assurance Company	5.7%
Pearl Group of Companies	4.6%
The Equitable Life Assurance Society	4.6%
Electricity Supply Pension Scheme	3.5%
Scottish Widows Fund	3.1%
Pilkington Pension Funds	3.0%

The Company has not been informed of any change to the above holdings since the end of the financial year. So far as the directors are aware no other person held or was beneficially interested in 3% or more of the ordinary share capital of the Company.

Directors

The following directors all of whom, except for Messrs Alexander and Manduca are non-executive, held office during the year to 31 May 1992. Their interests in the ordinary shares of the Company were as follows:

	Ordinary shares of 25p each	
	31.5.92	1.6.91
Beneficial interest		
J R Alexander	**22,000**	17,000
P H G Cadbury	**8,500**	8,500
E C Elstob	**10,000**	10,000
P V S Manduca	**2,662**	2,662
M S Moye	**2,000**	2,000
D A Pease	**1,600**	1,600

None of the directors had an interest in the preference or debenture stocks of the Company. There have been no changes in the above holdings since the end of the financial year.

The directors retiring by rotation are Mr P V S Manduca and Mr D A Pease who, being eligible, offer themselves for re-election. Mr J R Alexander is an executive of the management company and is remunerated by that company in respect of services provided to TR Smaller Companies Investment Trust PLC under the management agreement.

Report of the Directors

continued

There were no contracts subsisting during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business.

Directors' and officers' liability insurance is maintained for the benefit of the directors.

Management Company

Investment management, accounting, secretarial and administrative services are provided to the Company by Touche Remnant Holdings Limited and its subsidiaries ("the Touche Remnant Group"). Touche Remnant Holdings Limited is a wholly owned subsidiary of Société Générale, the largest privately owned bank in France and one of the world's major banks.

The annual management charge is currently 0.40% on quoted assets and 1.25% on unquoted assets and direct property on the average value of assets under management on the last day of each of the three years preceding the calendar year in respect of which the calculation is made. Investment in funds managed by the Touche Remnant Group are wholly excluded from charge.

The management agreement may be terminated by either party but in certain events the Company will be required to pay compensation to the Touche Remnant Group of an amount of one year's management charges. Compensation is not payable if one year's notice of termination is given.

The non executive directors constitute a committee which deals with any potential conflicts of interest between the shareholders and the Management Company.

Personal Equity Plans (PEP's)

The Company has conducted its investment policy so as to comply with the 50% EC (including the UK) equities rule as required under PEP Regulations and it is the Board's intention to continue to satisfy these Regulations.

Repayment of debenture stocks

Under the terms and provisions of the Trust Deeds the following debenture stocks will be repaid on 1 October 1992:

£500,000 4% debenture stock 1984/92
£1,000,000 6½% debenture stock 1987/92

Subsidiary undertaking

The Company has one wholly owned subsidiary undertaking which was incorporated on 1 February 1991. This company is incorporated in, and operates principally in the UK as: TR Smaller Companies Finance Limited.

The company carries on the business of an investment dealing com[illegible] and has an issued share capital of £[illegible] [illegible] business during the year [illegible] and its results have been consol[illegible] with those of the parent company.

Registered Auditor

A resolution to re-appoint Coopers & Lybrand as the Company's auditor will be proposed at the Annual General Meeting. Until 1 June 1992 the firm practised in the name of Coopers & Lybrand Deloitte.

K K Lindsey

K K Lindsey
Touche Remnant Secretarial Services Limited
Secretary
24 July 1992

Consolidated Revenue Account

for the year ended 31 May 1992

				1992 £'000	1991 £'000
Notes 1 & 2	**Income from fixed asset investments**				
	Franked			10,365	11,615
	Unfranked			1,768	1,769
				12,133	13,384
	Other interest receivable and similar income				
	Dealing profits			338	–
	Bank interest			278	820
	Underwriting commission and other income			449	236
	Gross revenue			13,198	14,450
Notes 3 & 4	**Administrative expenses**			1,552	1,550
	VAT irrecoverable			144	67
				1,696	1,617
	Net revenue before interest payable and taxation			11,502	12,833
	Interest payable				
	Debentures:				
	repayable wholly within one year (1991 – two years)			85	85
	repayable wholly or partly after five years			2,100	2,100
	Bank overdraft and other interest			805	100
				2,990	2,285
	Revenue on ordinary activities before taxation			8,512	10,548
Note 5	**Taxation on revenue on ordinary activities**			2,273	2,815
	Revenue on ordinary activities after taxation			6,239	7,733
	Appropriations				
	Cumulative preference stock dividends			28	28
Note 6	**Available for ordinary shareholders**			6,211	7,705
	Dividends on ordinary shares	1992	1991		
	– interim	1.50p	1.50p	2,673	2,673
	– final	2.20p	2.20p	3,920	3,920
		3.70p	3.70p	6,593	6,593
Note 16	**Transfer (from)/to retained revenue account**			(382)	1,112
Note 6	**Earnings per ordinary share**			3.49p	4.32p

The notes on pages 21 to 27 form part of these accounts

Balance Sheets

at 31 May 1992

		Group		Company	
		1992 £'000	1991 £'000	1992 £'000	1991 £'000
Notes 1, 7, 8 & 9	**Fixed assets**				
	Long leasehold property	12	19	12	19
	Investments				
	Listed at market value				
	In Great Britain	196,032	165,972	196,032	165,972
	Abroad	82,669	93,704	82,669	93,704
	Unlisted – directors' valuation	28,261	23,714	28,261	23,714
	Subsidiary undertaking	–	–	243	–
		306,962	283,390	307,205	283,390
Note 7	**Total fixed assets**	306,974	283,409	307,217	283,409
	Current assets				
Note 10	Debtors	5,988	13,496	5,771	13,496
Note 11	Investments	353	–	–	–
	Cash at bank and short term deposits	2,310	5,887	2,212	5,887
		8,651	19,383	7,983	19,383
Note 12	**Creditors**				
	Amounts falling due within one year	17,899	12,848	17,474	12,848
	Net current (liabilities)/assets	(9,248)	6,535	(9,491)	6,535
	Total assets less current liabilities	297,726	289,944	297,726	289,944
	Creditors				
	Amounts falling due after one year				
Note 13	Debenture stocks (secured)	20,000	21,500	20,000	21,500
	Total net assets	277,726	268,444	277,726	268,444
	Capital and reserves				
Note 14	Called up share capital	45,425	45,425	45,425	45,425
Note 15	Non-distributable reserves	225,985	216,321	226,228	216,321
Note 16	Retained revenue account	6,316	6,698	6,073	6,698
		277,726	268,444	277,726	268,444

P H G Cadbury } Directors — P H G Cadbury

J R Alexander } — J R Alexander

These accounts were approved by the directors on 24 July 1992

The notes on pages 21 to 27 form part of these accounts

Consolidated Cash Flow Statement

for the year ended 31 May 1992

		1992 £'000	1992 £'000	1991 £'000	1991 £'000
	Operating activities				
	Cash received from investments	9,205		10,289	
	Cash paid on investment dealing	(570)		–	
	Interest and commission received	721		1,062	
	Investment management fees paid	(1,238)		(1,157)	
	Cash paid to and on behalf of directors	(43)		(35)	
	Other cash payments	(498)		(519)	
Note 18	**Net cash inflow from operating activities**		7,577		9,640
	Servicing of finance				
	Debenture interest paid	(1,639)		(1,639)	
	Bank interest paid	(618)		(180)	
	Dividends paid:				
	Preference stock	(28)		(28)	
	Ordinary shares	(6,593)		(6,059)	
	Net cash outflow from servicing of finance		(8,878)		(7,906)
	Taxation				
	UK tax recovered (including ACT)	742		607	
	UK income tax paid	(470)		(240)	
	Net tax recovered		272		367
	Investing activities				
	Purchase of investments	(78,259)		(76,268)	
	Sale of investments	71,321		71,918	
	Net cash outflow from investing activities		(6,938)		(4,350)
	Net cash outflow		(7,967)		(2,249)
Note 19	**Decrease in cash and cash equivalents**		(7,967)		(2,249)

The notes on pages 21 to 27 form part of these accounts

Notes to the Accounts

1 Accounting policies

a The annual accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of investments, and in accordance with applicable accounting standards.

b The consolidated accounts include the accounts of the Company and its subsidiary undertaking.

c Income, including imputed tax credit, is taken to the revenue account on a due date basis. Expenses are accounted for on an accruals basis.

d Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Assets and liabilities denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date. Bank currency loans covered by related forward currency transactions are translated at the rates specified in the forward contracts.

e Realised and unrealised capital gains and losses on fixed asset investments, together with exchange differences arising on the translation of foreign currency assets and liabilities, are dealt with in the non-distributable reserves.

f The dealing profits of the subsidiary undertaking representing realised gains on sale of current asset investments are dealt with in the revenue account.

g Fixed asset listed investments are valued at middle market prices for those listed in Great Britain and at closing or bid prices for those listed abroad.

h Fixed asset unlisted investments are valued by the directors. Investments for which market quotations are available, but which are restricted as to saleability or transferability, are valued at the listed prices less a discount of 25% and are included in unlisted investments. Other unlisted investments are valued at cost, unless circumstances indicate different valuations are warranted, in which case valuations are made at the discretion of the directors. In general, valuations are increased where a substantial arm's length transaction has occurred subsequent to acquisition at a price higher than cost. Valuations are decreased where subsequent transactions have taken place at a price lower than cost or where the directors are aware that the company is experiencing operating difficulties.

i Advance corporation tax attributable to dividends accrued or proposed at the balance sheet date is treated as a current liability. To the extent that such advance corporation tax is regarded as recoverable in the foreseeable future it is also treated as a current asset.

2 Income from fixed asset investments

	1992 £'000	1991 £'000
Franked:		
Listed investments	9,584	10,750
Unlisted investments	781	865
	10,365	11,615
Unfranked:		
Listed investments		
Dividend income	1,437	1,412
Interest income	227	228
Unlisted investments		
Dividend income	53	3
Interest income	51	126
	1,768	1,769

Notes to the Accounts

continued

3 Administrative expenses include:

	1992 £'000	1991 £'000
Management fee	1,238	1,147
Auditor's remuneration (including £14,500 relating to the parent undertaking (1991 – £16,000))	15	16
Ex-gratia payments for the purchase of annuities for former employees	–	10

4 Directors' emoluments

	1992 £'000	1991 £'000
Fees and other emoluments	19	15
Consideration paid to third parties (including Touche, Remnant & Co)	30	20
	49	35

Directors' emoluments include:

	1992	1991
Chairmen (see note below)		
1 October 1990 to 31 May 1992	13	7
1 June 1990 to 30 September 1990	–	3
Highest paid director (1992 – Chairman)	13	9
The emoluments of directors (excluding consideration paid to third parties) fell within the following ranges:	Number	Number
£0 to £5,000	4	5
£5,001 to £10,000	2	2

Note: The amounts relating to the Chairmen and highest paid director include £12,500 paid to a third party (1991 – highest paid director includes £8,334 paid to a third party).

5 Taxation

	1992 £'000	1991 £'000
Imputed tax at 25% on franked income	2,097	2,702
Corporation tax at 33%	110	–
Prior year adjustment	(126)	(63)
Overseas withholding tax	192	176
	2,273	2,815

The corporation tax charge for the year is in respect of the subsidiary undertaking. No corporation tax charge arose for the Company during the year as a result of an excess of management expenses over unfranked investment income. Excess management expenses have resulted in a recovery of tax attributable to franked investment income amounting to £495,000 (1991 – £265,000)

Notes to the Accounts

continued

6 Earnings per ordinary share

The earnings per ordinary share are calculated on a net basis on earnings of £6,211,000 (1991 – £7,705,000) and on the 178,200,000 ordinary shares in issue for the two years ended 31 May 1992

7 Changes in fixed assets

(a) Group	Long leasehold property £'000	Investments £'000	Total fixed assets £'000
Valuation at 1 June 1991	19	283,390	283,409
Unrealised appreciation	–	10,566	10,566
Cost at 1 June 1991	19	272,824	272,843
Additions at cost	–	76,826	76,826
Disposals at cost	–	(53,045)	(53,045)
Cost at 31 May 1992	19	296,605	296,624
Unrealised (depreciation)/appreciation	(7)	10,357	10,350
Valuation at 31 May 1992	**12**	**306,962**	**306,974**

(b) Company	Long leasehold property £'000	Investments £'000	Subsidiary undertaking £'000	Total fixed assets £'000
Valuation at 1 June 1991	19	283,390	–	283,409
Unrealised appreciation	–	10,566	–	10,566
Cost at 1 June 1991	19	272,824	–	272,843
Additions at cost	–	76,826	–	76,826
Disposals at cost	–	(53,045)	–	(53,045)
Cost at 31 May 1992	19	296,605	–	296,624
Unrealised (depreciation)/ appreciation	(7)	10,357	243	10,593
Valuation at 31 May 1992	**12**	**306,962**	**243**	**307,217**

The investment in the subsidiary undertaking is stated at net asset value.

Notes to the Accounts

continued

8 Subsidiary undertaking

The Company has an investment in the issued ordinary share capital, fully paid, of £2 in its wholly owned subsidiary undertaking, TR Smaller Companies Finance Limited, which is registered in England and Wales and operating in the United Kingdom as an investment dealing company.

9 Substantial equity interests

The Company has substantial interests in the following companies which are registered in England and Wales.

	Class of shares held	% holding of class
Academy Sound & Vision Limited	Ordinary	19.5
Merrydown Wine PLC	Ordinary	19.3
Fortress Trust PLC	Ordinary	16.7
Brown & Jackson PLC	Ordinary	14.5
Young (H) Holdings PLC	Ordinary	13.6
Porvair Limited	Ordinary	12.2
Continuous Stationery PLC	Ordinary	11.1
Hicking Pentecost PLC	Ordinary	10.1

10 Debtors

	Group		Company	
	1992 £'000	1991 £'000	**1992 £'000**	1991 £'000
Securities sold for future settlement	**3,880**	11,364	**3,012**	11,364
Advance corporation tax recoverable	**1,307**	1,307	**1,307**	1,307
Corporation tax recoverable	**509**	617	**509**	617
Amount owed by subsidiary undertaking	**–**	–	**651**	–
Prepayments and accrued income	**253**	190	**253**	190
Other debtors	**39**	18	**39**	18
	5,988	13,496	**5,771**	13,496

11 Current asset investments

Group current asset investments, which are stated at cost, relate to shares in USM investments held by the subsidiary undertaking.

Notes to the Accounts

continued

12 Creditors

Amounts falling due within one year	Group 1992 £'000	Group 1991 £'000	Company 1992 £'000	Company 1991 £'000
Debenture stocks (secured)	**1,500**	–	**1,500**	–
Bank overdraft	**8,354**	3,920	**8,354**	3,920
Securities purchased for future settlement	**1,845**	2,965	**1,532**	2,965
Other creditors	**241**	243	**241**	243
Advance corporation tax	**1,307**	1,307	**1,307**	1,307
Income tax	**260**	255	**260**	255
Corporation tax	**110**	–	**–**	–
Accrued expenses	**103**	167	**101**	167
Debenture and bank overdraft interest accrued	**259**	71	**259**	71
Proposed ordinary dividend	**3,920**	3,920	**3,920**	3,920
	17,899	12,848	**17,474**	12,848

The debenture stocks are to be redeemed on 1 October 1992 at par (see Note 13)

13 Debenture stocks (secured)

	Group and Company 1992 £'000	Group and Company 1991 £'000
Redemption terms		
Amounts falling due after one year		
– between one and two years		
4% debenture stock 1984/92: redeemable at par at any time after 1 October 1984 at the option of the Company or finally on 1 October 1992 or on the security being enforced	**–**	500
6½% debenture stock 1987/92: redeemable at par at any time after 1 October 1987 at the option of the Company or finally on 1 October 1992 or on the security being enforced	**–**	1,000
	–	1,500
in more than five years		
10½% debenture stock 2016: redeemable at par on 31 May 2016	**20,000**	20,000
	20,000	21,500

It is not the Company's present intention to repay before the final redemption date these debenture stocks which may be redeemed in all or in part at the option of the Company. Accordingly these stocks have been included in amounts falling due within one year or amounts falling due after one year as appropriate by reference to the final redemption dates. The debenture loans are secured on all of the Company's assets.

Notes to the Accounts

continued

14 Called up share capital

	1992 £'000	1991 £'000
Authorised, allotted and fully paid £875,000 4½% (now 3.15% + tax credit) cumulative preference stock	875	875
178,200,000 ordinary shares of 25p each	44,550	44,550
	45,425	45,425

15 Non-distributable reserves

(a) Group

	Unrealised appreciation of fixed assets £'000	Other reserves £'000	Total £'000
At 1 June 1991	10,566	205,755	216,321
Decrease in the year	(216)	–	(216)
Net realised gains on investments	–	9,924	9,924
Net loss on foreign exchange	–	(44)	(44)
At 31 May 1992	**10,350**	**215,635**	**225,985**

The reserve for unrealised appreciation of fixed assets at 31 May 1992 includes £3,287,000 (1991 – £257,000) in respect of unrealised appreciation of unlisted investments.

(b) Company

	Unrealised appreciation of fixed assets £'000	Other reserves £'000	Total £'000
At 1 June 1991	10,566	205,755	216,321
Increase in the year	27	–	27
Net realised gains on investments	–	9,924	9,924
Net loss on foreign exchange	–	(44)	(44)
At 31 May 1992	**10,593**	**215,635**	**226,228**

The reserve for unrealised appreciation of fixed assets at 31 May 1992 includes £3,530,000 (1991 – £257,000) in respect of unrealised appreciation of unlisted investments.

16 Retained revenue account

	Group £'000	Company £'000
At 1 June 1991	6,698	6,698
Transferred in the year after appropriations	(382)	(625)
At 31 May 1992	**6,316**	**6,073**

As permitted by Section 230 of the Companies Act 1985 the Company has not presented its own revenue account. The amount of the consolidated revenue dealt with in the accounts of the Company is £5,996,000 (1991 – £7,733,000).

Notes to the Accounts

(continued)

17 Contingent liabilities

There were contingent liabilities of £1,187,000 (1991 – £3,710,000) relating to underwriting commitments of which £165,000 (1991 – £nil) related to the subsidiary undertaking

	1992 £'000	1991 £'000
18 Reconciliation of operating revenue to net cash inflow from operating activities		
Net revenue before interest payable and taxation	11,502	12,833
Increase in investment dealing assets	(908)	–
(Increase)/decrease in accrued income	(58)	37
Increase in other debtors	(26)	(21)
Decrease in creditors	(63)	(78)
Tax on franked investment income included within income from UK companies	(2,592)	(2,904)
UK income tax deducted at source	(71)	(51)
Overseas withholding tax suffered	(207)	(176)
Net cash inflow from operating activities	7,577	9,640

	1992 £'000	1991 £'000
19 Analysis of changes in cash and cash equivalents during the year		
Cash balance at 1 June	1,967	4,364
Net cash outflow	(7,967)	(2,249)
Effect of foreign exchange rate loss movement	(44)	(148)
Cash balance at 31 May	(6,044)	1,967

	1992 £'000	1991 £'000	Change in the year £'000
20 Analysis of balances of cash and cash equivalents as shown in the balance sheet			
Cash at bank and short term deposits	2,310	5,887	(3,577)
Bank overdraft	(8,354)	(3,920)	(4,434)
	(6,044)	1,967	(8,011)

Report of the Auditor

Report of the Auditor to the members of TR Smaller Companies Investment Trust PLC

We have audited the accounts on pages 18 to 27 in accordance with Auditing Standards

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 May 1992 and of the revenue and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985

Coopers & Lybrand

COOPERS & LYBRAND

Chartered Accountants and Registered Auditor

London

23 July 1992

Analysis of Ordinary Shareholders

	Number of shareholders	%	Number of shares held	%	Average holding
* Individuals	3,274	80 54	20,054,432	11 25	6,125
Banks and Nominees	543	13.36	27,077,880	15 20	49,867
Insurance Companies	53	1 30	55,942,050	31 39	1,055,510
Investment Trusts	6	0 15	929,550	0 52	154,925
Pension Funds	28	0.69	60,276,759	33 83	2,152,741
Unit Trusts	95	2 34	7,409,237	4 16	77,992
Others	66	1.62	6,510,092	3.65	98,638
	4,065	100.00	178,200,000	100.00	43,838

* Includes shareholders who have invested through the Touche Remnant Investment Trust Savings Scheme. The Savings Scheme shareholders increased from 306 to 786 during the financial year.

Capital Gains Tax

To help holders of shares and stocks in the Company to calculate their Capital Gains Tax position, the prices of the Company's shares and stocks on 31 March 1982, the start of indexation allowance for inflation, are as follows:

	31 March 1982
Ordinary shares of 25p each	35 5p*
4½% (now 3 15% + tax credit)	
cumulative preference stock	32%
6½% debenture stock 1987/92	58 5%
Retail price index (new basis 100 in January 1987)	79.44

*Adjusted to allow for the capitalisation issue (1 for 1) 1987

For those shareholders who have purchased shares through the Touche Remnant Investment Trust Savings Scheme on a monthly basis, the Inland Revenue have introduced new rules for calculating the capital gains tax liability (if any) on the sale of such shares. In addition to the normal statutory basis for calculating the capital gains liability to tax, an optional basis has been introduced, which allows taxpayers to aggregate the cost of the shares purchased through the Touche Remnant monthly savings scheme during the Company's accounting year and treat them as if they were a single investment made in the seventh month of that year, which in your Company's case would [illegible]ember. In this respect you are advised to keep a separate note of purchases made through the [illegible]avings Scheme since other purchases will not be eligible for the optional basis. Guidance notes prepared by the Association of Investment Trust Companies, which include a question and answer brief, should be read before you make a decision as to whether to opt for the optional basis and these are available free of charge from the Company Secretary at the Registered Office.

Notice of Meeting

Notice is hereby given that the one hundred and fourth Annual General Meeting of the Company will be held at Mermaid House, 2 Puddle Dock, London EC4V 3AT, on Friday 25 September 1992 at 12.30 pm for the following purposes.

1 To receive and adopt the accounts and the report of the directors for the year ended 31 May 1992 and to declare a dividend.

2 To re-elect Mr P V S Manduca, as a director of the Company.

3 To re-elect Mr D A Pease, as a director of the Company.

4 To re-appoint Coopers & Lybrand as registered auditor of the Company and to authorise the directors to determine their remuneration.

By order of the Board

K K Lindsey

For and on behalf of Touche Remnant Secretarial Services Limited,
Secretary
21 August 1992

Notes

(i) A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company.

(ii) A form of proxy is enclosed and to be valid must be lodged with the Registrars of the Company not less than forty-eight hours before the time fixed for the meeting.

(iii) This notice is sent for information only to holders of the preference shares who are not entitled to attend or vote at the meeting.

(iv) The register of directors' interests kept by the Company in accordance with Section 325 of the Companies Act 1985 will be open for inspection at the Annual General Meeting.

(v) No director has a contract of service with the Company.

Status and History

Status

The Company is an investment trust company as defined by Section 842 of the Income and Corporation Taxes Act 1988 Inland Revenue approval of the Company's status has been obtained for the year ended 31 May 1991 and the Company has subsequently directed its affairs so as to enable it to continue to obtain such approval. The 'close company' provisions of the Act do not apply to the Company.

History

The Company was incorporated under the Companies Acts 1862 to 1886 on 16 December 1887 with the name of "The Trustees, Executors and Securities Insurance Corporation Limited". The name was changed in August 1917 to "The Trustees Corporation Limited", in April 1982 to "TR Trustees Corporation PLC" and in September 1990 to "TR Smaller Companies Investment Trust PLC". Whilst the Trustee Department operated until June 1978 the principal business of the Company has been that of an investment trust company.

Financial Calendar

Results

Half-year announced January
Full-year announced July
Report and Accounts published August
Annual General Meeting held in London in September.

Dividend and interest payments

Ordinary shares:
Interim announced in January, paid March
Final announced in July, paid September
Preference stock
Paid 1 June and 1 December

4% Debenture stock 1984/92
6½% Debenture stock 1987/92
Paid 1 April and 1 October

10⅛% Debenture stock 2016
Paid 31 May and 30 November.

Information

The market price of the Company's ordinary shares is quoted, daily in 'The Financial Times', 'The Times', 'The Daily Telegraph', 'The Independent', 'The Guardian' and the 'Evening Standard'
The Financial Times provides the following additional information daily, an estimated net asset value and the discount

Warrants

Warrants for the final dividend will be posted on 28 September 1992 to those shareholders whose names appear on the register on 20 August 1992 (ex dividend 10 August 1992).

Directors and other Information

Directors
Peter Hugh George Cadbury
(Chairman)
Eric Carl Elstob
(Deputy Chairman)
John Randle Alexander
Paul Victor Sant Manduca
Michael Siegfried Meyer FCIS
Derrick Allix Pease FCA

Investment Manager
Touche, Remnant & Co.
represented by John Alexander

Secretary
Touche Remnant Secretarial
Services Limited
Represented by
Keith Lindsey FCA

Registered Office
Mermaid House
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Telephone: 071-236 6565
Telex: 885703
Fax 071-248 9756

Registered Number
Registered as an investment trust company
in England No. 25526

Registrars
National Westminster Bank PLC
Registrar's Department
PO Box No 82
Caxton House
Redcliffe Way
Bristol BS99 7NH
Telephone. (0272) 306666

Registered Auditor
Coopers & Lybrand
PO Box 207
128 Queen Victoria Street
London EC4P 4JX

Solicitors
Slaughter and May
35 Basinghall Street
London EC2V 5BD

Bankers
Midland Bank PLC
96 Old Broad Street
London EC2N 1BA

Stockbrokers
Barclays de Zoete Wedd
Ebbgate House
2 Swan Lane
London EC4R 3TS