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Smaller Quoted Companies Trust plc
Annual report and accounts 1999/2000



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Investment objective

The Trust's objective is to achieve capital growth for shareholders through long term investment mainly in smaller UK quoted companies.

Financial highlights

	Year ended 29 February 2000	Year ended 28 February 1999
Capital performance		
Net asset value per share at year end	336.3p	200.2p
Change in net asset value per share	+68.0%	-2.2%
Change in FTSE Small Cap Index excluding Investment Companies	+46.7%	-8.4%
Change in Hoare Govett Smaller Companies Index excluding Investment Trusts	+42.3%	-5.1%
Revenue performance		
Earnings per share	4.97p	4.33p
Earnings per share prior to special dividend receipts	4.46p	4.33p
Total dividend per share	4.20p	4.00p

Chairman's statement

Performance

The year to 29 February 2000 has been a rewarding one for smaller companies with the benchmark FTSE Small Cap Index excluding Investment Companies producing a return of 46.7% compared to 5.8% for the FTSE All Share Index. Furthermore, the Trust strongly outperformed its benchmark producing a return of 68.0% giving net assets per share at the year end of 336.3p.

The excellent outcome for the Trust over the last year has more than made up for a longer period of underperformance by smaller companies in general and it is pleasing to note that, in addition to outperforming its benchmark, the Trust has also outperformed both the FTSE All Share and the FTSE 100 Indices over the last one, three, five and ten years. In recognition of its record for consistency of performance, the Trust was recently awarded first place in the Standard and Poor's Ten Year UK Investment Trusts Smaller Companies UK Sector.



Earnings and dividends

Earnings per share for the year were 4.97p which includes 0.51p from special dividend receipts. In the previous year there were no such receipts and earnings per share were 4.33p. Special dividends are generally unpredictable often being received from companies which are restructuring. Against this background the directors are recommending an increase in the total dividend for the year of 5% to 4.20p. At the time of the interim results I announced that the interim and final dividends would be rebalanced with a greater proportion being paid out at the interim stage. As a result the final dividend will be 2.52p compared with 3.01p in the previous year.

Discount and share buy-backs

The Board pays close attention to the discount to net assets at which the Trust's shares trade. In general, the Trust's shares have traded at a discount lower than the average for the AITC sector, which your Board believes is appropriate given the strong track record of the Trust. During the year the discount widened slightly from 14.7% at 1 March 1999 to 16.6% at 29 February 2000 – this compares to a sector average of 20% at both the beginning and the end of the year. Shareholders will be aware that the Trust now has the power to buy-back its shares. The primary purpose of share buy-backs is to enhance net asset value for all continuing shareholders, although a secondary aim is to reduce the discount. The Board has established a framework for evaluating such buy-backs and a process for implementing them. However, during the last year it was felt that the Trust's resources were better invested in the market.

Chairman's statement continued

Recent changes to the Companies Act 1985 have made it possible for investment companies to repurchase their shares without surrendering Investment Company status. At the Annual General Meeting shareholders will be asked to approve certain amendments to the Trust's Articles of Association which will allow the Trust to take advantage of these legislative changes.

Gearing

Gearing levels are set by the Board, in consultation with the Manager, with a view to increasing the long term returns to shareholders. By the year end, the Trust's Debenture proceeds were for practical purposes fully invested with gearing at 7%. We believe the Trust needs greater flexibility and are examining options to increase potential gearing.

Risk management

The Board seeks to identify and monitor all the significant risks to which the Trust is exposed. As to portfolio risk, the Board reviews exposures to sectors as well as individual investments at every Board meeting. The policy of the Board is that risks should be managed in a fashion appropriate for a broadly diversified general smaller companies trust.

Market conditions

Despite near term uncertainty over interest rates, there is the likelihood these will peak at levels that are low in the context of historical comparisons. The outlook for company profits therefore remains positive. Furthermore, most of last year's market price rises were focused in a narrow range of shares leaving many others attractively rated. At the same time, an active new issue market has refreshed the universe of smaller company stocks with a number of dynamic rapidly growing businesses.

At the time of writing, considerable volatility has developed in the world stock markets and a major correction is under way in technology shares. This inevitably has had an impact on the Trust's net asset value, but it will provide opportunities to buy into companies with strong management and proven growth records, at levels not seen for several months. I remain confident that attractive returns can be achieved in the longer term.



W J R Govett
19 April 2000

Board of Directors

W J R Govett*

Non-executive chairman (Aged 62)
Appointed to the Board in 1991

He is a non-executive director of Halifax Financial Services (Holdings) Limited and other Halifax companies, Govett European Enhanced Investment Trust plc and Govett High Income Investment Trust plc. He is also an adviser to the Mineworkers' Pension Scheme and a Trustee of the National Art Collections Fund.

J K R Falconer, CA**

Non-executive director (Aged 45)
Appointed to the Board in 1992
He is a director of Martin Currie Limited.

R D Brewster, FCA**

Non-executive director (Aged 54)
Appointed to the Board in 1998
He is a director of Bankers Investment Trust PLC and former chief executive of Jarvis Porter Group PLC and David S Smith (Holdings) PLC.

R G Ffoulkes-Jones, MBA FCA**

Non-executive director (Aged 57)
Appointed to the Board in 1998
He is non-executive chairman of Brammer plc.

P C R Wates, FSV**

Non-executive director (Aged 62)
Appointed to the Board in 1998
He is chairman of Wates City of London Properties plc.

J Davies, AHMR MSI

Non-executive director (Aged 53)
Appointed to the Board on 25 January 1999
He is managing director of 3i Asset Management Limited and a non-executive director of 3i UK Select Trust Limited.

* Member of the Audit Committee

† Member of the Management Engagement Committee

Investment Manager

Information on 3i Asset Management Limited

3i Smaller Quoted Companies Trust plc is managed by 3i Asset Management Limited, as agent for 3i plc, which is regulated by the Financial Services Authority. 3i Asset Management Limited is an active fund manager which seeks to achieve returns in excess of benchmark indices through the use of fundamental analysis. It specialises in the management of quoted equities with a European smaller company and technology focus.

3i Asset Management Limited is a wholly owned subsidiary of 3i Group plc ("3i"), Europe's leading venture capital company. The relationship with 3i brings several important benefits to 3i Asset Management Limited and the funds that it manages. These include:

- Access to 3i's network of 34 offices throughout Europe, 18 of which are in the United Kingdom and also 2 offices in the Far East and 2 in the United States. This provides an important source of information on local companies;
- Access to 3i's extensive non-confidential historical information concerning smaller companies prior to their flotation which enables the Manager to appraise recently floated companies over the long term;
- The advantages of 3i's present policy of giving 3i Asset Management Limited, on behalf of its clients, the opportunity, subject to certain limitations, to acquire from 3i, or funds managed by 3i, shares in companies when 3i is proposing to sell shares through flotation. This enables the Manager to provide 3i Smaller Quoted Companies Trust plc with an allocation in certain attractive new issues, particularly where stock might otherwise be in short supply.

In addition to the management of 3i Smaller Quoted Companies Trust plc, 3i Asset Management Limited is involved in the management of the 3i Group's own portfolio of quoted investments and manages 3i UK Select Trust Limited, 3i Bioscience Investment Trust plc, 3i European Technology Trust plc and the 3i Group Pension Plan. As at 10 April 2000, funds managed by 3i Asset Management Limited totalled £3.1bn.

Portfolio analysis

3i Smaller Quoted Companies Trust plc

Sector weighting of portfolio investments as at 29 February 2000

1 Resources	2%
2 Basic industries	10%
3 General industrials	14%
4 Cyclical consumer goods	2%
5 Non-cyclical consumer goods	9%
6 Cyclical services	29%
7 Non-cyclical services	4%
8 Information technology	22%
9 Financials	8%

FTSE Small Cap Index excluding Investment Companies

Sector weighting of portfolio investments as at 29 February 2000

1 Resources	1%
2 Basic industries	8%
3 General industrials	10%
4 Cyclical consumer goods	2%
5 Non-cyclical consumer goods	13%
6 Cyclical services	35%
7 Non-cyclical services	2%
8 Information technology	15%
9 Financials	14%

Investment Manager's review

Strategy

The Manager aims to select and manage a diversified portfolio of shares which will outperform the FTSE Small Cap Index excluding Investment Companies in the medium term.

The Trust is distinguished from others in the smaller companies sector by the use which is made of 3i Group's personnel and information base. The latter includes extensive *non-confidential historical information* concerning companies prior to their flotation which helps in the appraisal of recently floated companies. In certain circumstances the Manager has the ability to buy shares directly from 3i Group in companies which are being floated. This can provide the Trust with a larger allocation of stock which might otherwise be in short supply.

This strategy tends to lead to the Trust being overweight in those sectors in which 3i Group has particular knowledge or experience and for the Trust to follow a growth orientated style although *investment in value or cyclical stocks is not precluded*.

The risk in the portfolio is managed through owning a broadly diversified portfolio, with a maximum of 5% of net assets being held in any one stock, and sector exposures carefully compared to those of the benchmark (FTSE Small Cap Index excluding Investment Companies).

Overall performance

Investment performance has been good during the year to 29 February 2000 with the net asset value per ordinary share increasing by 68.0%. This exceeds the benchmark by 21.3%. After an initial quarter when value stocks and cyclicals performed well, equity markets in general were characterised by strong price rises in an increasingly narrow range of growth stocks, particularly technology stocks. It was therefore important to be geared into the rising market and to have appropriate sector weightings, in particular overweight positions in information technology, media, telecommunications and biotechnology going into the fourth quarter of calendar 1999. Furthermore, within the strongly performing sectors there were a small number of spectacular performances which are quite unusual in a historical context.

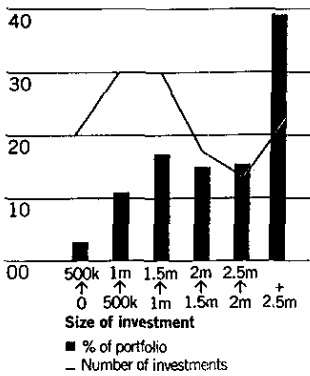
Gearing

Gearing was increased from 4.7% at 1 March 1999 to 7.3% at 29 February 2000. Given the strong growth in share prices of UK smaller companies the increased gearing helped the Trust's performance.

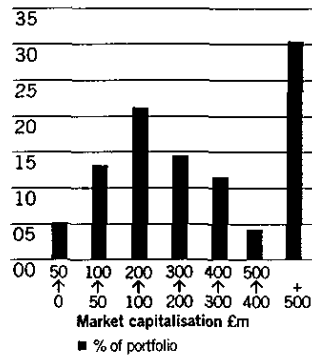
Stocks and sector performance

The weightings of the Trust by sector have, during the last year, proved less important than the weightings in the key sub-sectors going into the fourth quarter of 1999. At the end of September, the Trust was 3.6% overweight in Software & Computer Services and 1.5% overweight in Media. It was broadly weighted in line in Telecommunications Services and Pharmaceuticals (which in the FTSE Small Cap Index largely comprised biotechnology stocks).

Investment size



Market capitalisation



The Information Technology sector performed strongly as concerns evaporated about the slowdown in IT spending ahead of the new millennium and investors began to appreciate the sector's continued long term growth potential and the high levels of spend likely to arise as businesses focus on the internet. The Trust's holdings in NSB Retail and royalblue performed exceptionally well – both are suppliers of software which have leading positions with their customer bases – the retail and investment banking businesses respectively.

In Cyclical Services the key sub-sector was Media. An excellent performance was seen from Bloomsbury Publishing which achieved very good sales of its Harry Potter children's books, several of which have featured regularly in the top 10 sales lists. It also published the Encarta World English Dictionary, the result of many years' work – the CD Rom version is published in conjunction with Microsoft. In the Distributors sub-sector, Abacus Polar finally saw a good result after three years of share price decline. The semiconductor cycle has moved to one of shortage of supply.

The Non-Cyclical Services sector includes Telecommunications Services which performed excellently. The Trust's holdings included IMS which owned a business called Teamtalk. This business specialises in sports information on the internet and was recently demerged from the parent. Fibernet, a holding bought during the year, produced a good return. The company provides high speed digital networks for the interconnection of computers, telephones and video devices.

The key sub-sector in Non-Cyclical Consumer Goods was Pharmaceuticals. An excellent uplift was seen in Oxford GlycoSciences where the stock market attributed greater value to the company's proteomics technology which has allowed the company to apply for more than 800 patents for different protein and use combinations especially for breast cancer and neurological disorders. Shire Pharmaceuticals appreciated well with continued good results. This sector also included some of the poorer performing sub-sectors, notably Food Producers where the Trust held Brake Brothers. This company has produced reasonable results but perception towards the sector is poor. The Trust also held Robert Wiseman which saw its share price halve following announcements on the competitive market conditions and a Monopolies and Mergers Commission investigation. In the Printing and Packaging sub-sector, the Trust held British Polythene whose results have been hit by higher input prices.

In the General Industrials sector, the Trust has for some time sought new holdings in companies with a technological edge. In manufacturing businesses these can be a source of long term competitive advantage and barriers to entry. Excellent performances were seen by the Trust's holdings in IQE which makes epitaxial wafers used in opto-electronic components and the holding in Gooch and Housego which makes acousto-optic devices and has developed a switch for use in telecommunications applications. However, Firth Rixson had a disappointing performance with depressed conditions in the aerospace market.

Investment Manager's review continued

The Trust's holdings in the Resources sector produced an uninspiring performance but exceeded that of the equivalent sector in the benchmark index. Abbott Group fell with reduced activity levels in the North Sea resulting from last year's low oil price. In the Basic Industries sector of the portfolio there were no individual stock performances which had a significant impact on the results as a whole. Holdings in the Cyclical Consumer Goods sector produced a mediocre performance held back in particular by Cornwell Parker where bid talks fell through.

The main underweight sector position continued to be Financials (particularly the Real Estate sub-sector). This proved to be an appropriate asset allocation. The holding in Brewin Dolphin performed well as rising stock markets have been beneficial to private client brokers. In addition, the company was one of the first to launch an internet broking arm and this has helped market perception of the stock.

Takeovers

Activity in the portfolio was high with 12 companies taken over in the period and a further two (BTP and Critchley) in progress at the year end. Since the year end offers for City Technology, Joseph Holt, British Borneo and Border TV have been announced. Examples of takeovers by financial buyers include Denby, Wardle Storeys, Hozelock and Joseph Holt but the remainder have been by trade buyers.

New issues

The new issues market started the year quietly but it became increasingly receptive to technology new issues. The Trust participated in 16 new issues of which four were companies where 3i was a selling shareholder. Consequent new holdings include IQE, Glotel, and Authorizor and, bought from 3i, Morse and Just2clicks.

Market capitalisation breakdown

The normal universe in which the Trust invests comprises those stocks in the bottom 10% of the market capitalisation of the London Stock Exchange. In addition, investments may be made in UK based companies listed on AIM, EASDAQ or NASDAQ and, by exception, on OFEX and other OTC markets. At 31 March 2000, the smallest constituent of the FTSE Small Cap Index excluding Investment Companies had a market capitalisation of £27m, and the largest a capitalisation of £437m. At that date, 69% of the Trust's portfolio by value was comprised of stocks within this market capitalisation range, 29% was above the range and 2% below it. The Manager will continue to make new investments above this range from time to time where a stock is regarded as attractive and the market capitalisation does not exceed £740m. It would be rare for the Manager to make a new investment in a company with a market capitalisation of less than £30m.

Conclusion and outlook

The performance of the Trust and the UK Smaller Companies sector over the last year has been strong both in actual terms and relative to other main UK indices. Nevertheless, smaller companies continue to offer good relative value – on 31 March 2000 the FTSE 100 Index traded at an average price earnings ratio and yield of 30.4 and 2.0% respectively compared to 14.9 and 3.2% respectively for the FTSE Small Cap Index excluding Investment Companies.

The Trust is positioned to take advantage of a continuation of the trends which have been prevalent last year in the smaller companies market, being geared and having a growth style and an overweight position in the Information Technology sector.

The Manager continues to believe that good quality growing companies with the potential for upgrades in their forecast earnings will outperform over the medium term.

The benchmark index (the FTSE Small Cap excluding Investment Companies) underwent significant re-balancing at the end of March 2000 with the result that the benchmark's weighting in the Information Technology sector fell from 14.9% at the end of February to 7.0% at the end of March as some constituents were promoted to the FTSE 250.

Conversely, some poor performers in the FTSE 250 were demoted to the FTSE Small Cap – these included some companies in the Building and Construction sector where the benchmark weightings increased. Although most of the Trust's holdings in the Information Technology sector are unchanged since the year end, the Trust is more overweight in the sector than it was as a result of the changes to the benchmark.

In the weeks since the year end the flow of new issues has been strong and the Trust has participated in several including Bookham Technology, Profile Therapeutics, Beeson Gregory and Netstore which were bought direct from 3i.

Henrietta Marsh
3i Asset Management Limited
19 April 2000



Fifty largest investments at 29 February 2000

Investment	Market value £'000	% of total portfolio	Business activity
1 NSB Retail Systems	7,538	3.6	Supplier of specialist software to the retail industry
2 royalblue group	6,188	2.9	Software products supplier
3 DIAGONAL	5,403	2.6	IT consultancy and IT services
4 IMS Group	4,604	2.2	Provider of inbound automated telephony services
5 Shire Pharmaceuticals Group	3,948	1.9	Marketing and development of prescription medicines
6 Brewin Dolphin Holdings	3,776	1.8	Fund manager and stockbroker
7 Ultraframe	3,775	1.8	Manufacturer of conservatory roofing systems
8 Oxford GlycoSciences	3,525	1.7	Researcher and developer of drugs using novel proteomics technology
9 Informa Group	3,421	1.6	Provider of business information
10 Taylor & Francis Group	3,403	1.6	Publisher of academic journals and books
11 RM	3,366	1.6	Provider of IT services to education
12 Cammell Laird Holdings	3,073	1.5	Ship conversion and general repair
13 Autonomy Corporation	2,976	1.4	Software products supplier specialising in automating information resources
14 Morse Holdings	2,955	1.4	Supplier of integrated hardware and software systems
15 Abacus Polar	2,903	1.4	Distribution of electronic components
16 AutoLogic Holdings	2,762	1.3	Provider of distribution services to the automotive industry
17 IQE	2,748	1.3	Supplier of compound semiconductor epitaxial wafers
18 Pressac	2,706	1.3	Electronic component manufacturer
19 Topps Tiles	2,684	1.3	Retailer of tiles and bathroom furnishings
20 Guardian iT	2,669	1.3	Provider of business continuity and disaster recovery services
21 First Technology	2,656	1.3	Manufacturer of sensing and measurement products
22 Fibernet Group	2,600	1.2	High speed digital network supplier
23 Bloomsbury Publishing	2,546	1.2	Book publisher
24 Skillsgroup	2,472	1.2	Provider of IT services
25 ITNet	2,459	1.2	Outsourcing supplier of IT and business process management
26 Oxford Asymmetry International	2,433	1.1	Provider of chemical services

Investment	Market value £'000	% of total portfolio	Business activity
27 Gooch & Housego	2,420	1.1	Manufacturer of optical components
28 Headlam Group	2,417	1.1	Distribution of floor coverings and furnishings
29 MTL Instruments Group	2,394	1.1	Manufacturer of electronic explosion-protection instruments
30 Critchley Group	2,341	1.1	Cable accessory manufacturer
31 Westbury	2,335	1.1	Housebuilder
32 LA Fitness	2,278	1.1	Health and fitness clubs operator
33 Glotel	2,254	1.1	Provider of telecommunication and network consultancy services
34 Ultra Electronics Holdings	2,192	1.0	Manufacturer of electronic and electromechanical products
35 Acal	2,181	1.0	Marketing and sale of electronic and industrial controls
36 Whitehead Mann Group	2,072	1.0	Management consultancy services
37 Mentmore Abbey	2,021	1.0	Provider of storage solutions
38 Victrex	1,967	0.9	Manufacturer of aromatic polyketone polymers
39 N. Brown Group	1,944	0.9	Retailer through home shopping catalogues
40 Authoriszor	1,916	0.9	Designer of world wide web security systems
41 Expro International Group	1,864	0.9	Provider of services to the oil industry
42 Independent Insurance Group	1,844	0.9	Provider of general insurance
43 Ashtenne Holdings	1,838	0.9	Property investment and management
44 Nestor Healthcare Group	1,812	0.9	Nursing agency and healthcare services
45 Marshalls	1,802	0.8	Building materials supplier
46 Trifast	1,782	0.8	Manufacturer and distributor of industrial fastenings
47 Brake Bros	1,731	0.8	Frozen and chilled food supplier
48 Cordiant Communications Group	1,695	0.8	Provider of advertising and marketing services
49 Rotork	1,680	0.8	Supplier of control and instrumentation equipment
50 Border Television	1,635	0.8	Channel 3 licence operator
Total of 50 largest investments	138,004	65.5	
Remaining 85 investments	72,554	34.5	

Distribution of investments at 29 February 2000

	3iSQC 2000 %	3iSQC 1999 %	FTSE Small Cap† 2000 %
Equities and convertibles*			
Mining	-	-	-
Oil and gas	1.9	1.8	1.3
Resources	1.9	1.8	1.3
Chemicals	3.3	3.1	1.3
Construction and building materials	6.5	9.8	6.9
Forestry and paper	-	-	-
Steel and other metals	-	-	-
Basic industries	9.8	12.9	8.2
Aerospace and defence	1.9	4.0	1.1
Diversified industrials	-	0.3	0.1
Electronic and electrical equipment	7.4	8.8	4.5
Engineering and machinery	4.8	6.7	3.8
General industrials	14.1	19.8	9.5
Automobiles	1.2	1.1	1.4
Household goods and textiles	0.9	4.1	1.1
Cyclical consumer goods	2.1	5.2	2.5
Beverages	-	-	0.5
Food producers and processors	1.6	2.5	3.2
Health	1.6	2.3	2.5
Packaging	0.5	3.0	0.8
Personal care and household products	-	-	0.7
Pharmaceuticals	5.6	3.6	5.4
Tobacco	-	-	-
Non-cyclical consumer goods	9.3	11.4	13.1
Distributors	6.1	8.3	4.0
General retailers	4.6	5.1	5.7
Leisure, entertainment and hotels	2.5	1.5	6.1
Media and photography	6.7	5.1	8.2
Restaurants, pubs and breweries	1.4	2.8	1.3
Support services	5.4	2.8	6.5
Transport	2.5	1.2	3.1
Cyclical services	29.2	26.8	34.9
Food and drug retailers	0.6	0.5	0.9
Telecommunication services	3.4	0.8	0.9
Non-cyclical services	4.0	1.3	1.8
Electricity	-	-	-
Gas distribution	-	-	-
Water	-	-	0.3
Utilities	-	-	0.3
Information technology hardware	-	-	0.2
Software and computer services	22.0	13.1	14.7
Information technology	22.0	13.1	14.9
Total non-financials	92.4	92.3	86.5
Banks	-	-	-
Insurance	1.3	2.0	1.3
Life assurance	-	-	-
Real estate	2.9	3.7	6.7
Speciality and other finance	3.4	2.0	5.5
Financials	7.6	7.7	13.5
Investment companies	-	-	-
Total investments	100.0	100.0	100.0

* Market value of convertibles amount to £1,450,000; 0.7% (1999: £1,475,000; 1.2%). Overseas investments amount to £1,916,000 (1999: £nil).

† FTSE Small Cap Index excluding Investment Companies at 29 February 2000

- 1 Resources
- 2 Basic industries
- 3 General industrials
- 4 Cyclical consumer goods
- 5 Non-cyclical consumer goods
- 6 Cyclical services
- 7 Non-cyclical services
- 8 Utilities
- 9 Information technology
- 10 Financials

Historical record

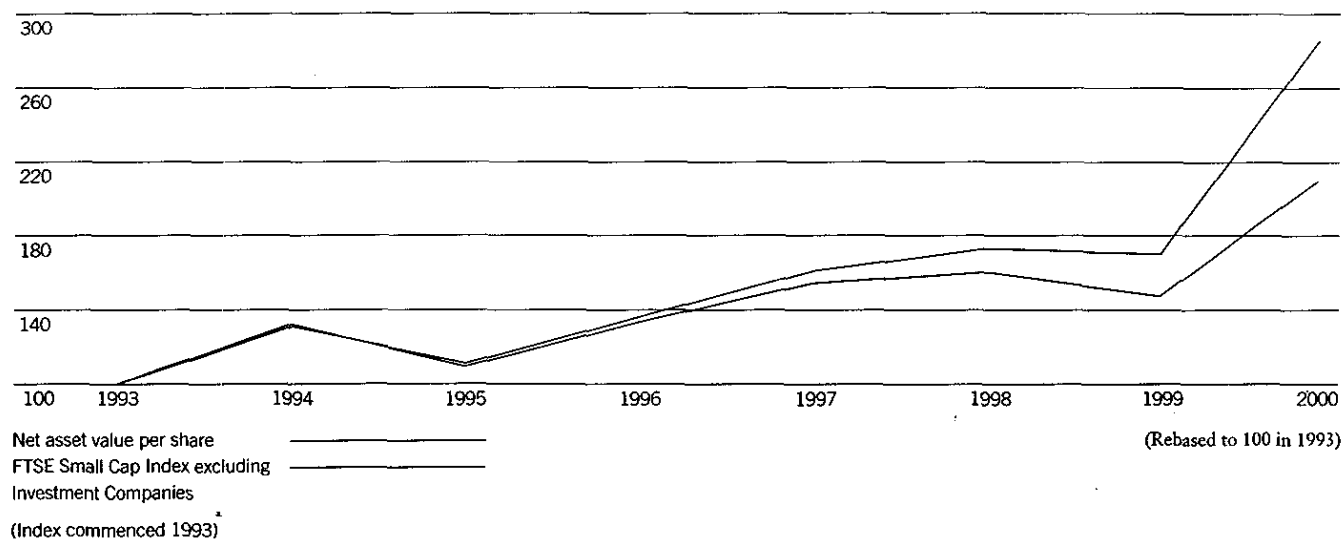
Assets and revenue

Year ended February	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total assets less current liabilities – £'000	24,629	30,317	31,861	41,705	35,321	92,919	110,240	133,186	130,604	209,471
Shareholders' funds – £'000	24,629	30,317	31,861	41,705	35,321	92,919	110,240	118,541	115,945	194,797
Net asset value per share – p	91.2	112.3	118.0	154.5	131.2	160.4	190.3	204.7	200.2	336.3
Revenue available for dividends – £'000	837	915	954	1,023	1,007	1,721	2,462	2,713	2,505	2,877
Earnings per share – p	3.10	3.39	3.53	3.79	3.73	5.09	4.25	4.68	4.33	4.97
Net dividends per share – p	3.06	3.25	3.45	3.57	3.68	4.42*	3.80	3.88	4.00	4.20

Figures for 1996 and subsequent years reflect a change in accounting policy in respect of income recognition and allocation of the investment management fee.

*Includes special dividend of 0.74p.

Asset growth



Directors' report

Principal activity and business review

The principal activity of the Trust is that of an investment trust investing mainly in UK smaller quoted companies with a view to capital growth.

A review of the developments of the business during the year, and likely future developments, is contained in the Chairman's statement on pages 1 and 2.

The Trust is registered as an investment company as defined by Section 266 of the Companies Act 1985.

Revenue and dividends

The net revenue for the year amounted to £2,877,000.

The directors recommend the payment of a final dividend of 2.52p which, together with the interim dividend of 1.68p makes a total of 4.20p for the year compared with 4.00p for the year ended 28 February 1999.

Assets

The net assets at 29 February 2000 totalled £194.8m compared with net assets of £115.9m at 28 February 1999. The net asset value per share at 29 February 2000 was 336.3p compared with 200.2p at 28 February 1999.

Significant shareholdings

According to the Trust's register of substantial shareholdings at 21 March 2000, the following had interests of 3% or more in its issued share capital:

	Number of shares	%
United Assurance Group	5,785,000	9.99
Prudential Corporation Group	3,317,615	5.72
Royal Bank of Scotland Staff Pension Scheme	2,363,000	4.08
The Royal Bank of Scotland Group	2,261,339	4.02
Sun Life of Canada Group	2,083,575	3.59

Directors

The directors of the Trust, all of whom are non-executive, are listed on page 3.

Mr R D Brewster and Mr J K R Falconer retire in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

The directors are appointed for specific terms subject to their re-appointment being approved by shareholders.

Directors' interests

Those directors who held office at the year end had the following interests in the shares of the Trust, which include beneficial and family interests.

	As at 29 February 2000 Ordinary 25p shares	As at 28 February 1999 Ordinary 25p shares
J Davies	8,131	8,131
J K R Falconer	11,111	11,111
P C R Wates	9,100	9,100

There have been no changes in these interests between 29 February 2000 and 21 March 2000. All the above interests are beneficial.

The directors had no other disclosable interests in the shares of the Trust or its subsidiaries.

The Trust has no contracts with any of the directors. The directors hold office in accordance with letters of appointment and the Trust's Articles of Association.

Taxation status

The Trust operates as an investment trust under the provisions of the Income and Corporation Taxes Act 1988 and has been treated as such by the Inland Revenue for the year ended 28 February 1998. Since that date, the Trust has directed its affairs so as to enable it to continue to qualify for such approval. The Trust, as an approved Investment Trust, is not liable to tax on capital gains.

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Trust.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing the re-appointment of Scott-Moncrieff, Chartered Accountants, as auditors will be put to the Annual General Meeting.

Corporate Governance

As required by the Stock Exchange Listing Rules, the Trust has stated below, the manner in which it has applied the Principles of the Combined Code ("the Code") and the extent of its compliance with the Code Provisions.

The Board

As the Board consists entirely of non-executive directors, it has no chief executive officer and principles B.1 to B.3 of the Code, relating to executive directors' remuneration, are not applicable to the Trust.

The Board believes that the directors, other than Mr Govett (who was a director of 3i Group plc, the ultimate parent company of 3i Asset Management Limited, until 15 July 1998) and Mr Davies (who is managing director of 3i Asset Management Limited), are independent of the Investment Manager. No senior independent non-executive director has been recognised by the Board as concerns can be raised with any of the Trust's independent non-executive directors.

Appointment of directors

As the Board is small, it deals with all matters relating to the appointment of directors and applies a procedure involving the determination of a specification for the particular post, identification of suitable candidates, measurement of the candidates against that specification and selection of the proposed appointee. No separate Nominations Committee has been formed.

Throughout the year, the Trust's Articles of Association provided for one-third (or the number nearest to but not exceeding one-third) of the directors to be subject to re-election at each Annual General Meeting (excluding directors appointed since the previous Annual General Meeting who are subject to separate re-election provisions). Whilst this would have resulted in each of the six present directors submitting themselves for re-election every three years, had the number of directors differed it could have resulted in directors seeking re-election every three to five years. Accordingly, at the Trust's Annual General Meeting in June 1999 shareholders adopted a revision to the Articles of Association to ensure that directors will be subject to re-election every three years, regardless of their number.

Board committees

The Trust has an Audit Committee, comprising all of the directors except Mr Davies, which operates within defined terms of reference agreed by the Board. There is also a Management Engagement Committee, comprising the four independent non-executive directors, to consider the remuneration of the Investment Manager and Secretaries.

Internal controls

The Board is responsible for establishing and maintaining the Trust's system of internal control. In September 1999, the Turnbull Committee issued its guidance entitled "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull guidance") to assist directors in assessing the internal controls of a company.

As permitted by the transitional disclosure requirements of the London Stock Exchange with regard to internal control, the Trust has applied Code principle D.2 by detailing below the procedures established to implement the Turnbull guidance.

The Turnbull guidance recognised that a sound system of internal control would rely on a thorough and regular evaluation of the nature and extent of the risks to which the Trust is exposed. In January 2000, the Board reviewed the risks and the related internal controls that were in place. It also adopted a Risk Reporting and Review Structure intended to identify, evaluate and manage the key risks of the Trust on an on-going basis.

The Manager now provides a risk report to each regular Board Meeting, identifying new risk or control issues. At these meetings, which are held approximately every two months, the Board reviews risk reports, investment performance, investment policy, revenue forecasts and other management information which is provided to it by the Investment Manager on a timely basis. The Board will also carry out regular six monthly reviews of the Trust's risk and control environment.

Towards the end of each financial year, the Board will review the Trust's risk and internal control environment taking into account the findings of the management group's Internal Audit department and the Trust's Auditors.

The Investment Manager maintains its own internal control system which it applies to its clients' affairs. This system is periodically assessed by the management group's Internal Audit department and, insofar as it applies to the Trust, is reviewed by the Trust's Auditors, Audit Committee and Board each year.

In general, internal control systems may differ between companies depending on their particular needs and the risks to which they are exposed, and by their nature can provide only reasonable but not absolute assurance against material misstatement or loss. In accordance with Code provision D.2.1, the Audit Committee and Board have reviewed the Trust's system of internal control and the effectiveness of the key internal controls.

After review, the Audit Committee has decided that a separate internal audit function is not required. It has also reviewed the Auditors' cost effectiveness, independence and objectivity to ensure that an appropriate relationship is maintained.

General

The Trust's willingness to enter into discussions with institutional shareholders is demonstrated by the programmes of institutional presentations, made by the Investment Manager, following the release of each set of Trust results. The Trust also encourages the participation of its private investors at its Annual General Meetings.

The directors have responsibilities in relation to the preparation of the accounts and these are detailed later in this Report. The Board as a whole approves the Chairman's Statement and Investment Manager's Review, which form part of the annual and interim reports, to ensure that they present a balanced and understandable assessment of the Trust's position and future prospects.

The directors are satisfied that the Trust has adequate resources to continue to operate for the foreseeable future and is financially sound. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The Trust has, throughout the period, complied with all detailed provisions of the Code except provisions A.2.1 (insofar as it relates to chief executive officers and senior independent non-executive directors), A.5.1 (relating to Nominations Committees), A.6.2 (insofar as it relates to directors' re-election), and B.1.1-B.3.5 (relating to executive directors' remuneration) explanations for which have been given above.

Special business

Authorisations to issue shares

At last year's Annual General Meeting, shareholders passed a resolution which permitted the directors to allot new shares to applicants under the 3i SQC Savings Plan at times when the share price stood at a premium to net asset value.

It was stated last year that the directors envisaged seeking the renewal of the authority to allot new shares to such plan applicants in 2000 and this is now being done by means of a special resolution at the Annual General Meeting. The directors consider that the reasons for asking shareholders to approve such authorisation still apply. As the shares have been trading at a discount to net asset value, the authority has not been used. Nevertheless in the event that the shares stand at a premium to their net asset value, investors under the current plan would be able to buy shares at their mid-market price and thus save the difference between the offer and the mid-market price. The Trust also benefits from the marginal increase in its net asset value per share.

The resolution required to allot shares in this way is set out as resolution 7 in the notice of Annual General Meeting. This resolution, if passed, will renew your directors' power contained in the Articles of Association to allot, for cash, equity securities of the Trust up to a maximum aggregate nominal amount of £723,981 (being an amount equal to 5% of the issued ordinary share capital of the Trust as at 29 February 2000) to investors under the plan or in other circumstances, as if Section 89(1) of the Companies Act 1985 did not apply. (This section creates a right of pre-emption under which new shares which are to be allotted for cash must first be offered to existing shareholders in proportion to their existing holdings of shares.)

The existing authority also allows the directors to make allotments in connection with a rights issue up to an amount stated in the Articles of Association of £4,826,543, being an amount just under one-third of the issued ordinary share capital of the Trust. Resolution 8 provides for the authority to be renewed.

The above calculations are in accordance with the limits laid down by the London Stock Exchange and Investor Protection Committee guidelines, and the Trust will not use the authorities other than in accordance with these guidelines.

The authorities contained in resolutions 7 and 8 will continue until the Annual General Meeting of the Trust in the year 2001 (or until 31 August 2001, if earlier) and your directors envisage seeking the renewal of these authorities in the year 2001 and in each succeeding year, subject to such renewals again being in accordance with the above guidelines.

Your directors will not make any issues of new ordinary shares to investors under the plan unless they consider it advantageous to the Trust to do so and no issue of ordinary shares will be made pursuant to the authorisations in resolutions 7 and 8 which would effectively alter the control of the Trust without the prior approval of shareholders in general meeting.

There are no plans at present to allot ordinary shares pursuant to the authorisations in these resolutions, other than in connection with the plan.

Authorisation to buy back shares

A resolution passed by the shareholders at last year's Annual General Meeting authorised the Trust to purchase its own ordinary shares in the market. This authority, which has not been used to date, will expire at the conclusion of the forthcoming Annual General Meeting.

The directors consider that the reasons for asking shareholders to approve such authority still apply. The main purpose of any share buy-backs will be to enhance the net asset value of the remaining ordinary shares, as the shares will only be acquired at a cost which is less than their net asset value. Purchases should also provide liquidity for shareholders wishing to sell their ordinary shares and may have a beneficial effect on the discount at which the ordinary shares currently trade to their net asset value.

The resolution to authorise the Trust to purchase its own ordinary shares is set out in resolution 9. This resolution, if passed, will give the Trust the authority to purchase its own ordinary shares within guidelines established from time to time by the Board. Purchases will only be made for cash at a cost which is below the prevailing net asset value per ordinary share. Under the rules of the London Stock Exchange, the maximum price which may be paid is 5% above the average of the market values of the ordinary shares for the five business days before the purchase is made. The minimum price payable will be 25p, being the nominal value of an ordinary share. Ordinary shares which are purchased will be cancelled. Purchases will be funded either by using available cash resources, by selling investments in the portfolio or by borrowings.

The resolution, if passed, will give the Trust the authority to purchase up to 8,687,778 ordinary shares (representing just under 15% of the Trust's current issued ordinary share capital, which is the maximum authorisation permitted by the London Stock Exchange under any general authority), less any ordinary shares that may be purchased by the Trust prior to the passing of resolution 9, for cancellation. The granting of authority by this resolution to make share buy-backs will give the Trust the necessary flexibility, but should not, of itself, be taken as an indication that these powers will be exercised and share buy-backs made.

The authority contained in resolution 9 will continue until the Annual General Meeting in 2001 and your directors envisage seeking the renewal of this authority in 2001 and in each succeeding year.

Changes to the Articles of Association

The Companies Act 1985 was amended in November 1999 to allow companies which are investment companies, in terms of Section 266 of that Act, to use realised capital reserves to fund share buy-backs without being required to give up their investment company status. Previously, investment trusts had to "opt out" of investment company status before any share buy-back using realised capital reserves could be made. At last year's Annual General Meeting and before these changes to the Companies Act 1985 were made, the Trust sought authority from shareholders to buy back shares. The Articles of Association adopted by the Trust at last year's Annual General Meeting therefore reflect the law as it was and require the Trust to give up its investment company status before making any share buy-backs using realised capital reserves.

It is proposed that the Trust alter its Articles to reflect this change in the Companies Act 1985 at the forthcoming Annual General Meeting. Provided that the Trust does not undertake any share buy-backs prior to the approval of the changes to the Articles, the changes will allow the Trust to use its realised capital reserves to fund share buy-backs without being required to give up its investment company status. This would avoid it becoming subject to the more restrictive rules for calculating distributable reserves for dividend purposes which arise from the loss of investment company status. The proposed changes to the Articles would not affect the Trust's ability to satisfy the requirements for approval as an investment trust within the meaning of Section 842 of the Income and Corporation Taxes Act 1988.

In short, the proposed alterations to the Articles of Association would allow the directors to take advantage of this change to the Companies Act 1985 and pursue the course most suitable for the Trust in circumstances when buy-backs are to be made.

The resolution proposing the alterations to the Articles is set out in resolution 10 in the notice of Annual General Meeting.

A copy of the text of resolution 10 proposing the alterations to the Articles of Association and a copy of the existing Memorandum and Articles of Association may be inspected by members at the registered office of the Trust at Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN and at the offices of 3i plc, 91 Waterloo Road, London SE1 8XP during normal business hours on weekdays (Saturdays and public holidays excepted) until the meeting and at the meeting.

Policy for paying creditors

The Trust's policy is to pay creditors in accordance with the CBI Prompt Payers Code of Good Practice, copies of which can be obtained from the Confederation of British Industry at Centre Point, 103 New Oxford Street, London WC1A 1DU. The Trust had no trade creditors during the year.

Year 2000

The business of the Trust is effected through the processes and systems operated by the Investment Manager. 1 January 2000 has now passed and the Investment Manager has experienced no systems problems of significance. As expected, a number of companies in the Trust's investment portfolio have announced some adverse effects on trading in the last quarter of 1999 and the early part of 2000. Potential areas of risk will continue to be monitored.

All costs associated with making systems Year 2000 compliant have been borne by the Investment Manager and there was no related cost to the Trust.

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements which give a true and fair view of the state of affairs of the Trust at the end of the financial year, and of the surplus for the year. They are also responsible for ensuring that proper accounting records are kept and for taking such steps as are reasonably open to them to ensure that proper procedures have been followed to safeguard the assets of the Trust and to prevent and detect fraud and other irregularities. Appropriate accounting policies, which comply with applicable accounting standards and are explained in the notes to the financial statements, have been applied consistently.

In addition, reasonable and prudent judgements and estimates have been used in the preparation of the financial statements, which have been prepared on a going concern basis.

By order of the Board

3i plc
Secretaries

19 April 2000



To the Shareholders of 3i Smaller Quoted Companies Trust plc

We have audited the financial statements on pages 17 to 26 which have been prepared under the historical cost convention as modified by the revaluation of investments and on the basis of the accounting policies set out on pages 20 and 21.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 15 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Trust has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Trust is not disclosed.

We review whether the corporate governance statement in the directors' report reflects the Trust's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its internal controls.

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

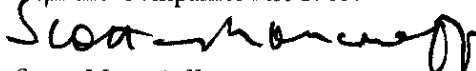
Basis of audit opinion

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust'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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Trust's affairs as at 29 February 2000 and of its revenue for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Scott-Moncrieff
Chartered Accountants
Registered Auditor
Edinburgh

19 April 2000

Statement of total return for the year ended 29 February 2000 (incorporating the Revenue Account)

	Notes	Year ended 29 February 2000			Year ended 28 February 1999 (as restated)*		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments							
Net realised gains over previous valuation			12,631	12,631		4,962	4,962
Net unrealised appreciation/(depreciation)			67,490	67,490		(6,504)	(6,504)
			80,121	80,121		(1,542)	(1,542)
Income	2	4,107		4,107	3,572		3,572
Investment management fee	3	(378)	(1,135)	(1,513)	(221)	(661)	(882)
Other expenses	4	(253)		(253)	(251)		(251)
Net return before finance costs		3,476	78,986	82,462	3,100	(2,203)	897
Interest payable and similar charges	6	(599)	(578)	(1,177)	(595)	(582)	(1,177)
Return on ordinary activities for the financial year		2,877	78,408	81,285	2,505	(2,785)	(280)
Dividends	7	(2,433)		(2,433)	(2,316)		(2,316)
Transfer to reserves	14	444	78,408	78,852	189	(2,785)	(2,596)
Return per ordinary share	8	4.97p	135.37p	140.34p	4.33p	(4.81p)	(0.48p)

*As restated for the change in accounting policy (see note 1 on page 20).

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

Balance sheet as at 29 February 2000

	Notes	2000 £'000	1999 £'000
Fixed assets			
Investments	9	210,558	124,020
Current assets			
Debtors	10	1,716	382
Cash and short term deposits		576	9,263
		2,292	9,645
Creditors: amounts falling due within one year	11	(3,379)	(3,061)
Net current (liabilities)/assets		(1,087)	6,584
Total assets less current liabilities		209,471	130,604
Creditors: amounts falling due after more than one year	12	(14,674)	(14,659)
Net assets		194,797	115,945
Capital and reserves			
Called-up share capital	13	14,480	14,480
Share premium	14	38,952	38,952
Capital reserve			
– realised	14	48,742	34,883
– unrealised	14	90,359	25,810
Revenue reserve	14	2,264	1,820
Total shareholders' funds		194,797	115,945
Net asset value per share	15	336.3p	200.2p

The financial statements on pages 17 to 26 were approved by the Board on 19 April 2000 and were signed on its behalf by:

W J R Govett
Director

Cash flow statement for the year ended 29 February 2000

	Notes	2000 £'000	1999 £'000
Operating activities			
Investment income received		3,775	3,166
Deposit interest received		313	305
Underwriting commission received		30	24
Investment management fees paid		(942)	(844)
Secretarial fees paid		(59)	(59)
Other cash receipts		8	8
Other cash payments		(201)	(180)
Net cash inflow from operating activities	18	2,924	2,420
Servicing of finance			
Interest paid		(1,162)	(1,178)
Net cash outflow from servicing of finance		(1,162)	(1,178)
Taxation			
Taxation recovered		-	245
Total taxation recovered		-	245
Financial investment			
Purchase of investments		(42,324)	(28,834)
Sale of investments		34,591	32,591
Net cash (outflow)/inflow from financial investment		(7,733)	3,757
Equity dividends paid		(2,716)	(2,264)
(Decrease)/increase in cash	17	(8,687)	2,980

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year with one exception detailed in note 1a, is set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of 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".

The accounting policies differ from previous years with regard to recognition of tax credits attributable to UK dividends – see note 1c, and the comparative figures for the year ended 28 February 1999 have been restated accordingly.

b) Valuation of investments

Listed investments are valued at middle market prices. Unlisted investments are valued by the Board on the basis of the latest accounting and other relevant information.

Realised gains or losses on the disposal of investments are taken to capital reserve – realised.

Unrealised gains or losses on the revaluation of investments are taken to capital reserve – unrealised.

Year-end exchange rates are used to translate the value of investments which are denominated in foreign currencies.

c) Income

Dividends receivable from listed equity investments are brought into account on the ex-dividend date.

Dividends receivable from equity investments where no ex-dividend date is quoted are brought into account when the Trust's right to receive payment is established. In accordance with Financial Reporting Standard 16 – Current Tax, dividends receivable have been recognised at an amount that excludes attributable tax credits.

This represents a change in accounting policy from previous years, when dividends receivable included attributable tax credits. This change in accounting policy has been reflected by restating the revenue column of the statement of total return for the year ended 28 February 1999. No change in the brought forward revenue reserve results from this change in accounting policy.

Fixed returns on non-equity investments and on debt securities are recognised on a time apportionment basis.

Where the Trust 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 reserve – unrealised.

Interest receivable on deposits 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 or disposal of an investment are added to the cost of the investment or deducted from the sale proceeds;
- the investment management fee has been allocated 75% to capital reserve – realised and 25% 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.

e) Finance costs

Finance costs are accounted for on an accruals basis. Finance costs are allocated, insofar as they relate to the financing of the Trust's investments, 75% to capital reserve – realised and 25% 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.

1 Accounting policies continued

f) Capital reserves

Capital reserve – realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- expenses and finance costs, charged to this reserve in accordance with the above policies.

Capital reserve – unrealised

The following are accounted for in this reserve:

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

2 Income

	2000 £'000	1999 as restated) £'000
Income from investments		
Dividends	3,751	3,112
Foreign income dividends	–	29
Scrip dividends	40	68
Loan stock interest	–	2
	3,791	3,211
Other income		
Deposit interest	286	337
Underwriting commission	30	24
	316	361
Total income	4,107	3,572
Total income comprises:		
Dividends	3,791	3,209
Interest	–	2
Other income	316	361
	4,107	3,572
Income from investments:		
Listed UK	3,737	3,166
Unlisted	54	45
	3,791	3,211

3 Investment management fee

	2000			1999		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	225	674	899	188	563	751
Performance fee	97	292	389	–	–	–
Irrecoverable VAT	56	169	225	33	98	131
	378	1,135	1,513	221	661	882

3i Asset Management Limited is employed as investment manager of the Trust under a contract which may be terminated at any date by either party giving 12 months' notice of termination. Mr Davies is interested in this contract as a director of 3i Asset Management Limited.

3 Investment management fee continued

3i Asset Management Limited receives an annual fee, inclusive of secretarial fee, equal to 0.65% of the average of the total assets less current liabilities of the Trust at the previous four half year ends, payable half-yearly in arrears.

3i Asset Management Limited receives a performance fee based on the increase in net asset value per share in excess of the performance of the benchmark, and is calculated on a total return basis. The fee is paid at the rate of 10% of the average of the excess performance in the two previous financial years, applied to the average of the total assets less current liabilities of the Trust at the previous four half year ends. The fee will be paid annually in April.

For the purposes of the first such fee, payable April 2000, the excess performance for the year to 28 February 1999 is assumed to be nil. The fee is capped at 0.25% of the average of total assets less current liabilities at the four previous half year ends.

3i plc are employed under contract as company secretaries and to provide administrative services. The contract can be terminated on 12 months' notice being given by either party. The fee for these services is recorded within other expenses – see note 4.

4 Other expenses

	2000 £'000	1999 £'000
Secretarial fee	59	59
Directors' fees	57	59
Auditors' remuneration – audit	11	13
– other services	7	3
Administrative expenses	119	117
	253	251

5 Directors' fees

The fees of the directors (including irrecoverable VAT) of £56,750 (1999: £59,221) are at a rate of £10,000 per annum per director (1999: £10,000), with £15,000 to the chairman (1999: £15,000). Mr Davies was appointed on the basis that he would not be entitled to a fee.

National Insurance contributions of £3,375 (1999: £2,860) relating to the directors' fees are included in administrative expenses.

6 Interest payable and similar charges

	2000			1999		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
7.75% debenture stock interest	595	567	1,162	592	571	1,163
Amortised debenture stock issue expenses	4	11	15	3	11	14
	599	578	1,177	595	582	1,177

The allocation of finance costs between revenue and capital reflects the high level of funds on deposit during the year. To the extent that these deposits, which are only capable of earning revenue return, have been financed by borrowing, the associated finance costs have been charged to revenue. The remaining finance costs have been allocated in the ratio 75:25 between capital and revenue in line with the expected long-term split of returns from the investment portfolio.

7 Dividends

	2000 Per share	1999 Per share	2000 £'000	1999 £'000
On 57,918,523 (1999: 57,918,523) 25p ordinary shares				
Interim paid	1.68p	0.99p	973	573
Proposed final	2.52p	3.01p	1,460	1,743
	4.20p	4.00p	2,433	2,316

8 Return per ordinary share

Return	2000			1999		
	Revenue	Capital	Total	Revenue	Capital	Total
	4.97p	135.37p	140.34p	4.33p	(4.81p)	(0.48p)

Revenue return per ordinary share is based on the net revenue on ordinary activities of £2,877,000 (1999: £2,505,000), and on 57,918,523 (1999: 57,918,523) ordinary shares, being the number of ordinary shares in issue during the year.

Capital return per ordinary share is based on net capital gains/(losses) for the financial year of £78,408,000 (1999: £(2,785,000)), and on 57,918,523 (1999: 57,918,523) ordinary shares, being the number of ordinary shares in issue during the year.

9 Investments

	2000 £'000	1999 £'000
Investments listed on a recognised investment exchange:		
UK	200,728	120,596
Unlisted investments:		
Quoted on the Alternative Investment Market	6,239	1,972
Quoted on the USA Over The Counter Market	1,916	-
Other investments	1,675	1,452
	210,558	124,020

	Listed £'000	Unlisted £'000	Total £'000
Opening cost	95,457	2,753	98,210
Opening unrealised appreciation	25,139	671	25,810
Opening valuation	120,596	3,424	124,020
Movements in the year:			
Purchases at cost	38,167	4,217	42,384
Sales – proceeds	(34,040)	(1,927)	(35,967)
– realised gains on sales	14,449	1,123	15,572
Transfer on listing – cost	399	(399)	-
– unrealised appreciation	252	(252)	-
Increase in unrealised appreciation	60,905	3,644	64,549
Closing valuation	200,728	9,830	210,558
Comprising:			
Closing cost	114,432	5,767	120,199
Closing unrealised appreciation	86,296	4,063	90,359
Closing valuation	200,728	9,830	210,558

A list of the Trust's 50 largest investments by their aggregate market value is shown on pages 8 and 9 and an industrial or commercial sector analysis of the investment portfolio is shown on page 10.

At the balance sheet date the Trust had a wholly owned subsidiary NBSC Limited (in voluntary liquidation), which had a wholly owned subsidiary, London Smaller Companies Investment Trust plc (in voluntary liquidation), both of which were incorporated in England and Wales, and were both individually and in aggregate immaterial and as a result consolidated accounts have not been prepared.

10 Debtors

	2000 £'000	1999 £'000
Falling due within one year:		
Amounts due from brokers	1,433	57
Prepayments and accrued income	102	144
Other debtors	181	181
	1,716	382

11 Creditors: amounts falling due within one year

	2000 £'000	1999 £'000
Amounts due to brokers	341	326
Proposed final dividend	1,460	1,743
Other creditors	1,578	992
	3,379	3,061

12 Creditors: amounts falling due after more than one year

	2000 £'000	1999 £'000
7.75% debenture stock 2022	15,000	15,000
Unamortised issue expenses	(326)	(341)
	14,674	14,659

The £15m debenture stock was issued on 8 July 1997. Interest on the stock is payable in equal half-yearly instalments on 31 July and 31 January in each year. The stock is secured by a first floating charge over the whole of the assets of the Trust. The stock is redeemable at par on 31 July 2022.

13 Called-up share capital

	2000 Number	1999 Number	2000 £'000	1999 £'000
Authorised:				
Ordinary shares of 25p	80,000,000	80,000,000	20,000	20,000
Allotted, called-up and fully paid:				
Ordinary shares of 25p	57,918,523	57,918,523	14,480	14,480

14 Reserves

	Share premium £'000	Capital reserve- realised £'000	Capital reserve- unrealised £'000	Revenue reserve £'000
Opening reserves	38,952	34,883	25,810	1,820
Unrealised appreciation at beginning of year on investments realised in the year		2,941	(2,941)	
Net gain on realisation of investments over previous valuation		12,631		
Increase in unrealised appreciation			67,490	
Debenture loan interest		(567)		
Amortised debenture issue expenses		(11)		
Investment management fee		(1,135)		
Retained net revenue for the year				444
Closing reserves	38,952	48,742	90,359	2,264

15 Net asset value per share

	2000	1999
Total shareholders' funds (£'000)	194,797	115,945
Number of shares in issue at the year end	57,918,523	57,918,523
Net asset value (pence per share)	336.3p	200.2p

16 Reconciliation of movements in shareholders' funds

	2000 £'000	1999 £'000
Opening shareholders' funds	115,945	118,541
Total return for the year	81,285	(280)
Dividends appropriated in the year	(2,433)	(2,316)
Closing shareholders' funds	194,797	115,945

17 Analysis of changes in cash during the year

	2000 £'000	1999 £'000
Opening cash	9,263	6,283
Net cash (outflow)/inflow	(8,687)	2,980
Closing cash	576	9,263

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

	2000 (as restated) £'000	1999 £'000
Net revenue before finance costs	3,476	3,100
Scrip dividends	(40)	(68)
Investment management fee charged to capital	(1,135)	(661)
Decrease/(increase) in accrued income	50	(9)
Increase in creditors	581	61
Increase in debtors	(8)	(3)
Net cash inflow from operating activities	2,924	2,420

19 Reconciliation of net cash flow to movement in net debt

	2000 £'000	1999 £'000
(Decrease)/increase in cash in the year	(8,687)	2,980
Amortised debenture stock issue expenses	(15)	(14)
Movement in net debt in the year	(8,702)	2,966
Opening net debt	(5,396)	(8,362)
Closing net debt	(14,098)	(5,396)

20 Analysis of changes in net debt

	Opening £'000	Cash flows £'000	Amortised issue expenses £'000	Closing £'000
Cash and short term deposits	9,263	(8,687)	-	576
Debt due after more than one year	(14,659)	-	(15)	(14,674)
	(5,396)	(8,687)	(15)	(14,098)

21 Contingencies, guarantees and financial commitments

Contingencies, guarantees and financial commitments of the Trust at the year-end, which have not been accrued, are as follows:

	2000 £'000	1999 £'000
Underwriting commitments	-	304
Placing commitments	907	578
	907	882

22 Financial instruments

The Trust's financial instruments comprise investments in equity shares, or securities convertible into equity shares, of mainly smaller UK quoted companies in accordance with the Trust's stated investment objective. In addition, the Trust holds cash and short term deposits, and debtors and creditors that arise directly from its operations, in respect of sales and purchases awaiting settlement and accrued income.

The main risks for the Trust arising from its financial instruments are:

a) Market price risk

Market price risk arises mainly from uncertainty about future prices of the financial instruments held. It represents the potential loss the Trust might suffer through holding market positions in the face of price movements. Market price risk is managed through investment guidelines agreed by the Board with the Manager and is discussed at each Board meeting. The Manager actively monitors the investment portfolio's exposure to market price fluctuations. It is the Trust's policy to increase its exposure to equity market price risk through the investment of borrowings which increase the opportunity for growth in rising markets but increases risk when markets fall. The borrowings can be offset by increasing levels of cash balances through the sale of equities in order to reduce the downside risk.

The Manager is authorised by the Board to use derivatives to manage specific portfolio risk. No such transaction took place during the year.

b) Interest rate risk

The Trust has financial assets in the form of bank balances and short term deposits. These are held on variable rate accounts or on short term fixed rates of interest. The Trust's policy is to hold equity securities and not usually to invest in fixed rate securities.

All of the Trust's long term debt is fixed rate. The Trust is therefore exposed to changes in the market value of its debenture in the event that this is repaid before maturity.

c) Liquidity risk

The Trust's assets comprise mainly listed securities which can be sold to meet funding requirements if necessary. In addition the Trust has access to an overdraft facility.

Fair value of financial instruments

All of the financial assets and liabilities of the Trust are held at fair value, with the exception of the debenture stock. As detailed in note 12 the fixed rate debenture stock has a carrying value in the balance sheet of £14,674,000. The market value of the listed debenture stock as at 29 February 2000 was £18,600,000.

Advisers

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Registered number

6176

Financial calendar 2000

Ex-dividend date	15 May
Record date	19 May
Annual General Meeting	31 May
Final dividend to be paid	14 June
Interim dividend and interim figures for the half year to 31 August 2000 to be announced	October
Interim Statement to be posted	October
Interim dividend to be paid	November



The Trust is a member of
The Association of Investment Trust Companies.

The net asset value of the Trust is published monthly and is available from The Association of Investment Trust Companies, Durrant House, 8-13 Chiswell Street, London EC1Y 4YY. Tel: 020 7282 5555.

The price of the Trust's ordinary shares appears daily in the *Financial Times Share Information Service*.

Savings plan

A savings plan for 3i Smaller Quoted Companies Trust plc allows regular and lump sum investment without recourse to a stockbroker. A flat administration charge, typically 1% (plus stamp duty), is charged on all transactions. By avoiding stockbrokers minimum charges the plan offers a cost effective method of investment, particularly for relatively small investments.

Requests for the brochure setting out full details of the savings plan, and including an application form, should be made to the Manager at the following address: 3i Asset Management Limited, 91 Waterloo Road, London SE1 8XP. Tel: 020 7928 3131.

The value of shares and the income from them may go down as well as up as a result of market movements. Investors may not get back the amount invested.

The above section has been approved by 3i Asset Management Limited, which is regulated by the FSA in the conduct of investment business.