

2508274



The Smaller Companies
Investment Trust PLC

Capital growth and income from UK smaller companies



A48
COMPANIES HOUSE

A3RSEK4Y

0759
15/04/03

Annual Report & Accounts
Year ended
31 December 2002

Contents

1	Corporate Summary
	Annual Report
2	Corporate Information
3	Board Members
4	Performance Summary
5	Chairman's Statement
6	Manager's Review
7	Investment Portfolio
10	Holding Breakdown by Market Capitalisation
11	Classification of Investments
	Report and Financial Statements
13	Directors' Report
18	Statement of Directors' Responsibilities
19	Directors' Remuneration Report
20	Independent Auditors' Report
21	Revenue Account
22	Statement of Total Return
23	Balance Sheet
24	Cash Flow Statement
25	Notes to the Financial Statements
	Information
35	Ten Year Financial Record
36	Shareholder Information
38	Information about the Manager
39	Marketing Strategy
	Annual General Meeting
40	Notice of Meeting
Inside back cover	Capital Structure

Financial Calendar

6 March 2003	Announcement of results for the year ended 31 December 2002
15 April 2003	Annual General Meeting
30 April 2003	ELULS interest and final Ordinary dividend for 2002 payable
31 July 2003	ELULS interest payable
August 2003	Announcement of interim results for the six months ending 30 June 2002
31 October 2003	ELULS interest and capital payable



The Smaller Companies Investment Trust PLC

Corporate Summary

Investment Objective

The objective of the Company is to secure a high level of long term total return for its Shareholders through a diversified portfolio of quoted securities, issued by smaller companies incorporated in the UK or Republic of Ireland, including those which have been admitted to the Alternative Investment Market.

Capital Structure

The Company has a capital structure comprising Ordinary shares and Equity-Linked Unsecured Loan Stock ("ELULS"). The ELULS is repayable on 31 October 2003. Interest on the ELULS will be at a rate calculated by reference to the actual dividend on the FTSE SmallCap Index excluding Investment Trusts, grossed up by 10 per cent.

Benchmark Index

The Company compares its performance with that of the FTSE SmallCap Index excluding Investment Trusts.

Risk

Shares in smaller companies may be less marketable than those of larger companies and the movement in their share prices may be more volatile. Due to the gearing provided by the ELULS, the market value of the Company's shares may also be volatile and particularly sensitive to changes in the value of the net assets. If the Company underperforms the FTSE SmallCap Index, the gearing effect on the Company's shares will be adverse.

Duration

The Company's Articles of Association provide that an ordinary resolution shall be put to Shareholders on or before 31 December 2003 that the Company shall continue as an investment trust for a specified period thereafter. If such resolution is not passed, the Directors will be required to draw up proposals for the voluntary liquidation or the reorganisation of the Company to be considered at the Annual General Meeting in 2004. The Directors and its advisers are considering options regarding the future of the Company and an announcement in this regard will be made in due course.

PEP and ISA Status

The Company intends to manage its affairs so that the Ordinary shares will be a fully qualifying investment for inclusion in a PEP or ISA. The ELULS does not qualify as an investment in either a PEP or ISA.

Summary Management Agreement

Management fees are based on an aggregate of net asset value (excluding the total value of holdings in other Aberdeen managed investments) and the principal amount outstanding of the ELULS at a rate of 0.1% per month on the first £25 million, plus 0.08% per month on the next £50 million, plus 0.06% per month on the excess over £75 million (plus VAT).

This agreement is terminable by either party giving one years notice less the number of days elapsed from 31 December 2002 until the date upon which notice is served. Any continuation of this agreement after 31 December 2003 shall be on such terms as the Company and Manager may prior to then agree.

Corporate Information

Directors

F C Carr, Chairman
J A Carwardine
S J Cockburn
C D Fishwick
R M H Heseltine
B R Tora

Manager

Aberdeen Asset Managers Limited
One Bow Churchyard, Cheapside
London EC4M 9HH

Secretaries & Registered Office

Aberdeen Asset Management PLC
One Bow Churchyard, Cheapside
London EC4M 9HH

Company Registration Number: 2508274

Website: www.small-cos.co.uk

Stockbrokers

Close Brothers Securities Limited
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Registrars

Capita Registrars Plc
Registry House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Shareholder Helpline: 0870 162 3100
(Calls charged at National Call Rate)

Auditors

Deloitte & Touche
Chartered Accountants
Stonecutter Court
1 Stonecutter Street
London EC4R 4TR

Bankers

Bank of Scotland
Corporate Banking (Scotland)
38 Albyn Place
Aberdeen AB10 1ZS

Solicitors

Norton Rose
Kempson House
PO Box 570
Camomile Street
London EC3A 7AN

Custodian Bankers

State Street Bank & Trust Company
One Canada Square
London
E14 5AF

Board Members

Chairman

Fred Carr*, Chairman, aged 58, is a stockbroker and is chairman of Carr Sheppards Crosthwaite Limited. He is a director of a number of other investment trusts.

Directors

Aubrey Carwardine, aged 72, is actively involved in the management of the Company as a consultant to the Manager. He has spent his whole career in the City involved in investment management. From 1979 to 1986 he was a director of Baring Brothers & Co. Limited and from 1986 to 1989 a director of Baring Investment Management Holdings Limited.

Stephen Cockburn*, aged 63, has worked in investment management since 1962. He is chairman of Archimedes Investment Trust PLC and a director of six other investment trusts. Since September 1994 he has been managing director of The Investment Company plc.

Christopher Fishwick, aged 41, is a former director of the Manager. He was previously responsible for smaller companies investment and the management of specialist funds. He is a director of The Taverners Trust PLC.

Richard Heseltine*, aged 57, is a governor of the Cripplegate Foundation, City University and Sadler's Wells. He was formerly finance director of Croda International plc and chairman of The Overseas Investment Trust Plc. He is Chairman of the Audit Committee.

Brian Tora*, aged 57, is chairman of the Asset Allocation Committee of Gerrard Limited, the stockbroking and investment management firm created by the merger of Greig Middleton and Capel Cure Sharp. He has previously served as marketing director of Greig Middleton & Co. Limited and as head of its Asset Management Division.

**Member of the Audit and Management Engagement Committees.*

All of the Directors are non-executive and together comprise the Nomination Committee.

Mr Carwardine, Mr Cockburn and Mr Fishwick were founder Directors of the Company. Mr Carr was appointed as a Director on 21 October 1993, Mr Heseltine was appointed on 11 March 1992 and Mr Tora on 31 May 2000.

Manager

Aberdeen Asset Managers Limited is the Manager of the Company. It is a subsidiary of Aberdeen Asset Management PLC whose group companies as at 31 January 2003 managed a combined £21.6 billion for institutions, unit trusts, investment trusts, closed end investment funds, private clients and offshore funds.

Performance Summary

	2002	2001	% change
Ordinary share			
Net asset value per share at 31 December	167.9p	247.5p	(32.1)
Share price at 31 December (mid market)	143.0p	200.5p	(28.7)
Discount %	14.9%	19.0%	—
Highest net asset value per share in year	247.5p	332.6p	(25.6)
Lowest net asset value per share in year	164.4p	233.0p	(29.4)
Highest share price (mid market) in year	214.5p	269.5p	(20.4)
Lowest share price (mid market) in year	134.5p	178.5p	(24.6)
ELULS			
Principal amount per ELULS unit	182.0p	258.9p	(29.7)
ELULS price at 31 December (mid market)	167.5p	235.0p	(28.7)
Discount %	8.0%	9.2%	—
Highest principal amount for ELULS unit in year	267.0p	329.3p	(18.9)
Lowest principal amount for ELULS unit in year	171.2p	204.9p	(16.4)
Highest price (mid market) in year	240.5p	316.0p	(23.9)
Lowest price (mid market) in year	157.5p	235.0p	(33.0)
Revenue and dividends			
Earnings per Ordinary share	4.83p	2.57p	87.9
Dividends per Ordinary share (net)	3.00p	2.50p	20.0
Assets attributable to equity Shareholders	£35.0m	£54.3m	(35.4)
Benchmark index			
FTSE SmallCap Index excluding Investment Trusts	1,819.82	2,589.21	(29.7)

Net asset value compared with FTSE SmallCap Index excluding Investment Trusts and FTSE 100 Index since launch (11 October 1990)*

* Rebased to 100 at 11 October 1990

Chairman's Statement

The year 2002 saw UK equities fall for the third year in succession, a disappointing outcome for investors in smaller companies and FTSE 100 companies alike. The latter index fell by some 24.5% over the twelve months, while the FTSE Small Cap Index ex Investment Trusts (our Benchmark) declined by 29.7%. This was the second consecutive year in which smaller companies have under performed the FTSE 100 Index. At the interim stage the Company's NAV had fallen roughly in line with our benchmark, but during the second half of the year the Company's relative portfolio performance deteriorated, resulting in a decline in NAV from 247.46p at the end of 2001 to 167.94p, or 32.1%. The reasons for this are detailed in the accompanying Manager's Report. During the period since the re-organisation of the Company on 12 October 1998 to the year-end, our benchmark index rose by 0.1%, whereas the NAV of our Ordinary shares rose by 19.9%. Up to 11 March 2003, being the latest practicable date prior to the printing of this Report, the benchmark index has fallen by 9.0% since the reorganisation of the Company and, over the same period, the NAV has risen by 13.7%.

Turning to the Revenue Account, income from portfolio investments has been similar this year to last. During 2002 the Company spent £2.10m (2001 – £12.0m) buying back 1,065,382 Ordinary shares and 12,838 equity-linked unsecured loan stock units ("ELULS"). The principal benefit of these buy backs was an enhancement to the NAV of 1.9p, but the benefit to the earnings per share was minimal as we were unable to reduce significantly the number of ELULS in issue. This year the full benefit of the prior year's buy back of the ELULS was to reduce the total loan stock interest paid by £175,000. Each buyback was executed only where it enhanced Shareholders' asset value. The effects of the above, and the reduction of the investment management fee by £294,000 over the year, resulted in a significant uplift in the earnings per share.

The Directors believe that it is in Shareholders' interests for the Company to take advantage of opportunities to realise part of its investment portfolio to raise cash to fund further buy backs of ELULS and/or purchases of its Ordinary shares (for which a renewal of the authority is being sought at the forthcoming AGM), to enable redemption of the remaining ELULS when due in October this year. This may have an impact, either positive or negative, on the future asset value performance of the Company as, pending purchase or redemption of the ELULS or buy back of the Ordinary shares, a greater proportion of the Company's assets will be in cash than has been the case to date.

The Directors are pleased to recommend a final dividend of 2.25p (2001 – 2.0p) per Ordinary share making a total of 3.0p for the year (2001 – 2.5p). This dividend will, subject to shareholder approval, be paid on 30 April 2003 to those shareholders on the register on 14 March 2003.

In my Interim Statement I stated that by the time Shareholders received the Interim Report, "the FTSE 100 will, at the current rate of free-fall, be yielding rather more than gilts". At the time of writing the FTSE 100 yields more than any gilt longer than four years to maturity. The decline in the stock market has occurred during a period when investors have been rocked by accounting scandals in the US, the need by several UK companies to refinance, the rising oil price, the decline of the US dollar, the loss of dividend tax credits previously receivable by pension funds and the general uncertainty regarding the possibility of war in Iraq. This has led to investor confidence being undermined and the appetite for equities remaining weak.

The increased awareness of pension fund deficits and the solvency tests that are affecting the insurance industry have both contributed to the prevailing mood of pessimism inhibiting the stock market performance. At present it is difficult to see what factors will turn this round, but just as euphoria almost always signals an impending slide, widespread pessimism often presages a recovery.

The terms of the Company's Articles are such that the Directors are required, by 31 December 2003, to put forward a resolution that the Company shall continue as an investment trust for a specified period thereafter. This resolution will be put to Shareholders later in the year. If such a resolution is not passed, the Directors are required to draw up proposals for the voluntary liquidation or the reorganisation of the Company, which would be considered at the 2004 Annual General Meeting.

I look forward to welcoming Shareholders at the AGM, which will be held on Tuesday, 15 April 2003.

12 March 2003

 **F C Carr**
Chairman

Manager's Review

2002 proved to be yet another year of disappointment from equities in the UK, with another year of negative returns. Furthermore, smaller companies had another year of under performance against those companies with a larger market capitalisation. Our benchmark index fell by 29.7% over the year, while the FTSE 100 Index also declined, but only by 24.5%.

Almost all world stock markets failed to make any upward progress during the course of the year. A number of factors affected the performance of equity markets during the year. Geopolitical issues undermined sentiment, with the Israeli/Palestinian conflict escalating again and the US government threatening war with Iraq, together with her allies. Corporate governance issues shook investor confidence in the quality of US accounting. Massive accounting irregularities at Enron and Worldcom were uncovered and these events sparked off a hunt for similar abuses elsewhere in the market. In the UK the market was affected by corporate events at the likes of Marconi, British Energy and MyTravel, (formerly Airtours). Falling markets became self perpetuating as life assurance companies' solvency ratios came under scrutiny, with the prospect that they would be forced sellers of equities in order to maintain their solvency ratios.

During the first half of the year our portfolio marginally out performed its benchmark, but this was reversed in the second half, when we under performed by 5.7%, resulting in the Company under performing its benchmark over the year. The principal reasons for this were our overweight stance towards the fund management and stockbroking (this also impacted in the first half), real estate, leisure, entertainment and hotels and media & photography sectors. We were also affected by our holdings in the general retailers sector, even though we were under weight and remain so.

In 2002 the new issue market for smaller companies remained subdued and we only got involved in one new issue, namely Venture Production, which provided the portfolio with some exposure to the oil and gas sector. We did though partake in two small placings in the first half of the year in Retail Decisions (in which we already had a holding) and CSS Stellar. We added to our existing holdings in ASK Central and LA Fitness. We purchased a new holding in Quintain Estates & Development, slightly increasing our exposure to the real estate sector. All these purchases occurred in the first half of the year and no further purchases were made during the year.

We disposed of, in their entirety, the holdings in Cedar Group, Pennant International, Kewill Systems, Leicester City, Nationwide Accident Repair and Transense Technologies. We also disposed of part of our holdings in Just Group, Minerva, Primary Health Properties, Dart Group, Lendu Holdings, McCarthy & Stone, Real Estate Opportunities (both the ordinary shares and the convertible), Westbury and Gresham Computing.

Despite economic, geopolitical and market uncertainties the consumer, both in the UK and US, has remained robust. Debt levels appear high by historic standards, but it must be remembered that debt servicing costs, a function of low interest rates and bond yields, remain comfortable. Property values have undoubtedly played a major part in maintaining consumer confidence, especially in the UK. Inflation levels remain around those targeted by central banks globally, although there are some signs of modest inflationary pressures. It is likely that the level of consumer spending will slow and in the UK the recent press comments regarding pension shortfalls may result in an increase in the personal savings rate.

We feel that the current environment of low inflation and low interest rates in the UK is likely to be sustained for a greater part of the current year, as evidenced by the Monetary Policy Committee's decision to reduce interest rates by 0.25% to a low of 3.75% in January 2003. This has had little immediate impact on the UK stock market and it is likely that events regarding Iraq and their conclusion will need to be settled before any serious recovery can be envisaged.

12 March 2003

Aberdeen Asset Managers Limited

Investment Portfolio

As at 31 December 2002

Company	Market value £'000	Total assets less current liabilities* %
Real Estate Opportunities – 7.5% Cnv 2011	4,673	8.5
Real Estate Opportunities – Ordinary	1,317	2.4
Sector: Real Estate		
Real Estate Opportunities is a closed-ended investment company, investing in UK and Irish properties and European high yield securities. The most recently reported NAV of the Ordinary shares as at 28 February 2003 was 46.61p. Since the year-end the holding in the convertible unsecured loan stock has been reduced.		
McCarthy & Stone	3,162	5.8
Sector: Construction & Building Materials		
McCarthy & Stone continues to dominate its chosen retirement homes niche, with 65% market share, and its increasing margins demonstrate the barriers to entry. The company announced its final results in November, which were ahead of expectations and the company remains confident of sustainable long term growth due to the UK's demographics.		
Burndene Investments	2,047	3.7
Sector: Leisure, Entertainment & Hotels		
The company is split into two divisions, the dominant holiday home manufacturing division, where they are market leaders, and a smaller hosiery division. Record profits for the year ended September 2002 were reported, with holiday homes being significantly ahead of last year and the company reported a strong order book. The hosiery division made a small profit.		
Cosalt	1,830	3.3
Sector: Diversified Industrials		
Cosalt is a diversified industrial company with interests in Holiday Homes, Workwear, and Safety & Protection. It is one of the largest suppliers of schoolwear in the UK and has recently entered the area of provisioning workwear to the fire industry. Its five year profit record shows consistent growth whilst strong cash generation means the company is able to pay a well covered dividend.		
Singer & Friedlander	1,815	3.3
Sector: Speciality & Other Finance		
Involved in merchant banking and investment management. The group is expected to dispose of its 31% stake in Carnegie, based in Sweden, when markets improve. Following the sale it is expected that the proceeds will be used to make bolt-on acquisitions or return cash to shareholders.		
Westbury	1,515	2.8
Sector: Construction & Building Materials		
Well managed, quality regional house builder. The company has a long land bank. It recently reported better than expected first half earnings and said its order book was significantly ahead of last year. Less than 1% of the group's volume emanates from within the M25. The dividend is well covered and the shares yield a premium to the smaller company sector.		
Primary Health Properties	1,447	2.6
Sector: Real Estate		
The company purchases freehold and long leasehold healthcare properties in the UK and then leases them to GP's and NHS Trusts. Given the UK Health Authorities policy of rent reimbursement and long lease periods, the group is well placed to continue its healthy track record of generating rental income and capital growth.		
Access Plus	1,406	2.6
Sector: Media & Photography		
Provides project management services in direct mail, special & security products, and business forms and print management. The group has defensive qualities with 70% repeat business levels. In November the group stated that it would incur a £0.6m bad debt charge, although trading remained in line with the previous year. The group is cash generative and has been implementing a strategy of share buy-backs.		
Dart Group	1,372	2.5
Sector: Transport		
Distributes fresh produce and flowers by air and road to UK supermarkets and operates a fleet of crewed cargo aircraft. It has a dominant position with over 60% of the fresh produce distribution market. It has recently announced that it will enter the low cost passenger flight market, operating out of Leeds.		
International Energy	1,357	2.5
Sector: Gas Distribution		
This is a long established company supplying Low Pressure Gas (LPG) on both Jersey and Guernsey. Deregulation saw the company move into the UK natural gas market and the Isle of Man. The company also has a small successful operation in Portugal and is looking to mirror this in Italy in the near future.		
Top ten investments	21,941	40.0

Investment Portfolio (continued)

Company	Market value £'000	Total assets less current liabilities* %
Windsor	1,302	2.4
Sector: Insurance		
The company is an insurance broker operating in a number of niche sectors: professional indemnity, commercial, aviation and sport and its financial services division complements its broking side. Profits before for the year ended September 2002 were ahead of the previous year and all the operating divisions performed well, exceeding their targets.		
Charles Stanley	1,290	2.4
Sector: Speciality & Other Finance		
One of the largest private client stockbroking firms in the UK providing corporate finance, stockbroking and investment services. The company has been affected by the downturn in world stock-markets over the past few years, but its balance sheet is strong with over £28m in cash. It is well positioned to benefit from any upturn in markets.		
Crest Nicholson	1,178	2.2
Sector: Construction & Building Materials		
The company is now a 100% focussed UK house-builder, having disposed of its construction division in January 2003. It principally operates in the South. Results for the year ended October 2002 were excellent and the company is well positioned for any downturn as it is moving down the affordability scale.		
Gresham Computing	1,167	2.1
Sector: Software & Computer Services		
The company has two core divisions providing areas of data storage management and customised enterprise solutions. The main interest going forward is the emergence of Real Time Nostro, which basically offers a common platform for banks to exchange information. The company has signed a revenue sharing agreement with Cable & Wireless giving it a partner with global reach and has set up a working party with a number of banks to examine procedures and standards around the product.		
Development Securities	1,104	2.0
Sector: Real Estate		
Development Securities is a property development and investment company. Its principal objective is to carry out substantial, complex developments in a risk averse manner with a view to adding maximum value by seeking institutional partners to help fund developments.		
TT Electronics	1,055	1.9
Sector: Electronic & Electrical Equipment		
TT is a global manufacturer of quality products for the automotive, telecommunications and engineering markets, with products ranging from passive electronic components and systems to electric cables. Despite its markets remaining very difficult the firm keeps a very tight control on costs.		
Rowe Evans	959	1.8
Sector: Food Producers & Processors		
The company has investment interests in oil palm and rubber plantations. Interim results to the end of September 2002 were significantly ahead of the previous year. In October 2002 the company transferred from The Official List to AIM and the chairman announced that the prospects for earnings remained positive.		
MS International	959	1.8
Sector: Engineering & Machinery		
The company has three divisions operating in the areas of defence, forgings and specialist engineering. The markets in which the company operates remain challenging. The past year has seen difficult trading conditions, but the company has been buying back its own shares.		
Wilmington Group	947	1.7
Sector: Media & Photography		
Business publishing group, providing high quality information to specialist markets. Management has a strong track record of successful acquisitions. The company is operating in a very difficult economic environment and is unlikely to achieve the prior year's results, but is well placed for any pick up in demand.		
Quintain Estates & Development	947	1.7
Sector: Real Estate		
Quintain is a property investment development company with a proven track record. It specialises in the financial characteristics of commercial property concentrating on more difficult areas: short leaseholds, reversionary properties, those with rent reviews linked to RPI, high yielding or over rented opportunities and special situations.		
Top twenty investments	32,849	60.0

Investment Portfolio (continued)

		Market value £'000	Total assets less current liabilities* %
Company			
Fuller Smith & Turner	Leisure, Entertainment & Hotels	925	1.7
Edinburgh Fund Managers	Speciality & Other Finance	919	1.7
Minerva	Real Estate	855	1.6
Fortress Holdings	Electronic & Electrical Equipment	806	1.5
JJB Sports	General Retailers	784	1.4
Ask Central	Leisure, Entertainment & Hotels	721	1.3
CI Traders	Leisure, Entertainment & Hotels	710	1.3
Unite Group	Real Estate	669	1.2
Tenon Group	Speciality & Other Finance	667	1.2
Homestyle Group	General Retailers	642	1.2
Scottish Radio Holdings	Media & Photography	616	1.1
Maybom Group	Personal Care & Household Products	595	1.1
Rolfe & Nolan	Software & Computer Services	586	1.1
Wyndeham Press	Media & Photography	584	1.1
Penna Consulting	Support Services	566	1.0
Queens Moat House	Leisure, Entertainment & Hotels	555	1.0
LA Fitness	Leisure, Entertainment & Hotels	549	1.0
Highway Insurance Holdings	Insurance	543	1.0
Telocom Plus	Telecommunication Services	524	1.0
Teather & Greenwood	Speciality & Other Finance	464	0.8
Top forty investments		46,129	84.3
Chaucer Holdings	Insurance	459	0.8
Hawtin	Household Goods & Textiles	356	0.7
AIM Group	Aerospace & Defence	332	0.6
Venture Production	Oil & Gas	322	0.6
Alexandra Workwear	Household Goods & Textiles	319	0.6
Premier Asset Management	Speciality & Other Finance	318	0.6
Lendu Holdings	Food Producers & Processors	318	0.6
BWD Securities	Speciality & Other Finance	292	0.5
Urbium	Leisure, Entertainment & Hotels	285	0.5
New Chorion	Support Services	277	0.5
Top fifty investments		49,407	90.3
Other investments (22)		1,862	3.4
Total fixed asset investments		51,269	93.7
Net current assets *		3,457	6.3
Total assets less current liabilities *		54,726	100.0

*Excluding the value of ELULS (see note 12).

All investments are in ordinary share capital except as indicated.

Holding Breakdown by Market Capitalisation

As at 31 December 2002

Market capitalisation range	Number of investee companies*	% of gross assets
Up to £50m	39	31.0
£50 – £100m	14	31.0
£100 – £150m	2	6.2
£150 – £200m	4	5.0
£200 – £250m	2	3.2
£250 – £300m	2	4.8
£300 – £350m	3	10.2
£350m+	1	1.4
Cash	–	7.2

* This table excludes the following holdings:

Just Group – In receivership

Jenbacher Holdings and Prestary Group – unquoted

Chaucer warrants and Real Estate Opportunities convertible unsecured loan stock

Classification of Investments

As at 31 December 2002

	2002 Company		FTSE SmallCap (ex IT)	2001 Company		FTSE SmallCap (ex IT)
FTSE Actuaries Sector	£'000	%	%	£'000	%	%
Mining	–	–	0.3	–	–	0.3
Oil & Gas	322	0.6	2.1	–	–	2.1
Resources	322	0.6	2.4	–	–	2.4
Chemicals	–	–	1.6	–	–	1.6
Construction & Building Materials	5,855	11.5	7.4	6,217	7.8	7.4
Basic Industries	5,855	11.5	9.0	6,217	7.8	9.0
Aerospace & Defence	332	0.6	1.2	385	0.5	1.2
Diversified Industries	1,830	3.6	–	1,401	1.8	–
Electronic & Electrical Equipment	1,861	3.7	4.6	2,824	3.6	4.6
Engineering & Machinery	1,124	2.2	3.1	1,778	2.3	3.1
General Industries	5,147	10.1	8.9	6,388	8.2	8.9
Automobiles	–	–	1.3	–	–	1.3
Household Goods & Textiles	675	1.3	–	869	1.1	–
Cyclical Consumer Goods	675	1.3	1.3	869	1.1	1.3
Beverages	–	–	0.6	–	–	0.6
Food Producers & Processors	1,277	2.5	1.7	1,066	1.4	1.7
Health	–	–	4.1	–	–	4.1
Packaging	–	–	0.8	–	–	0.8
Personal Care & Household Products	595	1.2	0.8	587	0.7	0.8
Pharmaceuticals	175	0.3	4.3	364	0.5	4.3
Non Cyclical Consumer Goods	2,047	4.0	12.3	2,017	2.6	12.3
Distributors	–	–	3.6	–	–	3.6
General Retailers	1,426	2.8	7.7	3,978	5.0	7.7
Leisure, Entertainment & Hotels	5,833	11.5	5.0	8,290	10.5	5.0
Media & Photography	3,553	6.8	4.3	6,038	7.7	4.3
Restaurants, Pubs & Breweries	–	–	–	–	–	–
Support Services	1,120	2.2	9.5	3,216	3.9	9.5
Transport	1,372	2.7	4.2	2,435	3.1	4.2
Cyclical Services	13,304	26.0	34.3	23,957	30.2	34.3
Food & Drug Retailers	227	0.4	1.0	985	1.3	1.0
Telecommunication Services	524	1.0	1.3	323	0.4	1.3
Non Cyclical Services	751	1.4	2.3	1,308	1.7	2.3
Gas Distribution	1,357	2.6	0.5	2,092	2.6	0.5
Water	–	–	0.2	–	–	0.2
Utilities	1,357	2.6	0.7	2,092	2.6	0.7

Classification of Investments

	2002		FTSE	2001		FTSE
	Company		SmallCap	Company		SmallCap
			(ex IT)			(ex IT)
FTSE Actuaries Sector	£'000	%	%	£'000	%	%
Information Technology Hardware	–	–	3.0	–	–	3.0
Software & Computer Services	1,965	3.8	8.4	2,104	2.6	8.4
Information Technology	1,965	3.8	11.4	2,104	2.6	11.4
Insurance	2,417	4.7	3.9	2,098	2.6	3.9
Investment Companies	5,990	11.7	–	10,277	12.9	–
Real Estate	5,491	10.7	8.0	6,076	7.7	8.0
Speciality & Other Finance	5,948	11.6	5.5	15,919	20.0	5.5
Financials	19,846	38.7	17.4	34,370	43.2	17.4
Total fixed asset investments	51,269	100.0	100.0	79,322	100.0	100.0

All securities are equities other than 9.8% of investments by value (2001 – 8.3%) held in convertible stock.

Geographical Classification of Investments

As at 31 December 2002

	£'000	%
UK – Listed	40,391	78.8
– AIM	4,888	9.5
Channel Islands	5,990	11.7
Total fixed asset investments	51,269	100.0

Directors' Report

The Directors present their Report on the affairs of the Company, together with the financial statements and auditors' report for the year ended 31 December 2002.

Principal Activity

The business of the Company is that of an investment trust investing in the securities of smaller companies incorporated in the UK, Channel Islands or Republic of Ireland.

Status

The Company is an investment trust company and a member of the Association of Investment Trust Companies ("AITC").

The Company has been approved by the Inland Revenue as an approved investment trust company for the purposes of Section 842 of the ICTA 1988 for the year ended 31 December 2000. The tax computation for the year ended 31 December 2001 has been submitted to the Inland Revenue. The Directors are of the opinion, under advice, that the Company has conducted its affairs for the periods ended 31 December 2001 and 31 December 2002 so as to be able to obtain approval as an investment trust.

The Company's Ordinary shares are a qualifying security for the purposes of Personal Equity Plans and Individual Savings Accounts and it is the Directors' intention that the Company should continue to be a qualifying trust. Potential investors should seek independent advice before making such an investment.

Review of the Business and Future Prospects

A review of the Company's activities is given in the Chairman's Statement on page 5.

At the twelfth Annual General Meeting held on 16 April 2002, Shareholders authorised the Company to purchase in the market up to 3,287,035 Ordinary shares representing approximately 14.99% of its then issued share capital. The Company is also entitled to purchase Units of the ELULS in the market. During the year the Company bought back for cancellation a total of 1,065,382 Ordinary shares, at a cost of £2,070,061, and 12,838 ELULS Units at a cost of £29,271. Subsequent to the year end, the Company has purchased a further 3,569,469 units at a cost of £5,961,013. Further information on these buy-backs is contained in notes 10 and 13 to the financial statements.

Results and Dividends

Revenue on ordinary activities after taxation for the year amounted to £1,018,000 (2001 – £591,000). An interim dividend of 0.75p net per Ordinary share (2001 – 0.5p), costing £157,000 (2001 – £110,000), was paid on 30 September 2002. The Directors recommend payment of a final dividend of 2.25p net per Ordinary share (2001 – 2.00p), at a cost of £469,000 (2001 – £439,000) which, if approved, will be payable on 30 April 2003 to shareholders on the register on the record date, 14 March 2003. This leaves £392,000 to be transferred to distributable revenue reserves (2001 – £47,000).

Directors

The current Directors of the Company are shown on page 2 and brief biographical details on page 3.

Mr J A Carwardine and Mr C D Fishwick will retire by rotation at the Annual General Meeting held on 15 April 2003 and, being eligible, offer themselves for re-election. No Director has a service contract with the Company.

Directors' Report

The Directors who held office on 31 December 2002 had beneficial interests in the Company's securities, as shown below:

Name of Director	31 December 2002		1 January 2002	
	Ordinary 0.05p shares	ELULS units	Ordinary 0.05p shares	ELULS units
F C Carr	8,100	–	8,100	–
J A Carwardine	38,867	–	63,033	–
S J Cockburn	3,461	1,954	3,461	1,954
C D Fishwick	18,386	–	19,119	–
R M H Heseltine	15,000	7,700	35,000*	10,780*
B R Tora	7,700	–	7,700	–

* At 1 January, R M H Heseltine held 20,000 Ordinary shares and 3,080 units of ELULS non-beneficially.

None of the Directors' interests had changed at the date of this Report.

During the year, Mr C D Fishwick was a director of Aberdeen Asset Managers Limited and Aberdeen Asset Management PLC, both of which are regulated by the Financial Services Authority ("FSA"). Aberdeen Asset Managers Limited is entitled to receive fees under the Management Agreement described in note 3 to the financial statements. J A Carwardine has a consultancy agreement with the Manager described in note 4 to the financial statements. No other Directors had interests in contracts with the Company.

Substantial Shareholdings

At 11 March 2003, being the nearest practicable date to the signing of this Report, the following were registered or had notified the Company as being interested in 3% or more of the Company's Ordinary share capital:

Name of Shareholder	Number of shares held	% held
Laxey Partners	6,203,354	29.73
Carrousel Capital Limited	3,667,138	17.58
Deutsche Bank Proprietary Account	2,333,450	11.18
Universities Superannuation Funds	1,209,373	5.80
Funds managed by ISIS Asset Management	1,152,257	5.52
Funds managed by Aberdeen Asset Management	750,000	3.59

Directors' Report

Corporate Governance

The Board has put in place a framework for corporate governance which it believes is suitable for an investment trust.

The Board considers that the Company has complied with the provisions contained in Section 1 of the Principles of Good Governance and Code of Best Practice ("the Combined Code") prepared by the Committee on Corporate Governance published in June 1998, throughout this accounting period, except for the provision in respect of appointing a senior independent Director. The following statement describes how the relevant principles of governance are applied to the Company.

The Board

The Board currently consists of six non-executive Directors, a majority of whom are independent of the Company's Investment Manager and free from any business or other relationships which could materially interfere with the exercise of its independent judgement. The Chairman is an independent Director and the Board does not therefore consider that it is necessary to appoint a senior independent Director. From their biographies on page 3 it will be seen that the Board has a breadth of experience relevant to the Company. The Articles of Association provide that the number of Directors nearest to, but not greater than, one third of the Board retire by rotation every year. Accordingly, Mr J A Carwardine and Mr C D Fishwick will retire by rotation and offer themselves for re-election at the forthcoming Annual General Meeting. The Board meets regularly and between these formal meetings there is regular contact with the Investment Manager. The Directors also have access to the Company Secretary and, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

The Board has delegated the following areas of responsibility:

Management and Administration

Subject to the direction of the Board, the management of the investment portfolio and the administration of the Company has been delegated to Aberdeen Asset Management PLC and its subsidiaries pursuant to the Management Agreement. Custody and settlement services are undertaken by State Street Bank and Trust Company, a subsidiary of State Street Corporation. The Board has delegated the exercise of voting rights attaching to the Company's investments to the Investment Manager.

All other matters are reserved for the approval of the Board.

Board Committees

Separate Audit and Management Engagement Committees have been established. The Board as a whole fulfils the function of a Nomination Committee, with Mr F C Carr as Chairman, which meets when necessary to select and propose suitable candidates for appointment.

The Audit and Management Engagement Committees each consist of Directors independent of the Investment Manager. The Audit Committee, with Mr R M H Heseltine as Chairman, examines the effectiveness of the Company's internal control system and receives information from the Investment Manager's internal audit and compliance departments and the auditors, Deloitte & Touche. The Management Engagement Committee, with Mr F C Carr as Chairman, keeps under review the terms of the Management Agreement.

Internal Controls

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness.

Directors' Report

Following publication of 'Internal Control: Guidance for Directors' on the Combined Code (the Turnbull guidance), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of this Annual Report and Accounts, and is regularly reviewed by the Board and accords with the guidance. The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and the policies by which these risks are managed. The significant risks faced by the Company are as follows:

- financial;
- operational;
- compliance; and
- risk management.

The key components designed to provide effective internal control are outlined below:

- The Investment Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- The Board and Investment Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board. The Investment Manager's evaluation procedure and financial analysis of the companies concerned include detailed appraisal and due diligence;
- As a matter of course the compliance department of Aberdeen Asset Management continually reviews the Investment Manager's operations;
- Written agreements are in place which specifically define the roles and responsibilities of the Investment Manager and other third party service providers;
- The Board has considered the need for an internal audit function, but because of the internal control system in place at the Investment Manager, has decided to place reliance on the Investment Manager's systems and internal control procedures; and
- At its February Board meeting, the Board carried out an annual assessment of internal controls for the year to 31 December 2002 by considering documentation from the Investment Manager, including their internal audit and compliance functions and taking account of events since 31 December 2002.

Financial Statements

The Directors' responsibilities regarding the financial statements and safeguarding of assets are set out on page 18. The Directors acknowledge that their responsibility to present a balanced and understandable assessment extends to interim and other price sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.

Going Concern

The Company's Articles of Association provide that an ordinary resolution shall be put to Shareholders on or before 31 December 2003 that the Company shall continue as an investment trust for a specified period thereafter. If such resolution is not passed the Directors will be required to draw up proposals for the voluntary liquidation or the reorganisation of the Company to be considered at the Annual General Meeting in 2004. The Directors and its advisers are considering options regarding the future of the Company. Given the aforementioned, and notwithstanding the fact that the ELULS are due for repayment on 31 October 2003, the Directors believe that it is appropriate to continue adopting the going concern basis in preparing the financial statements.

Directors' Report

Relations with Shareholders

The Investment Manager maintains a regular dialogue with institutional Shareholders, the feedback from which is reported to the Board. In addition, Board members and representatives of the Investment Manager are available to answer Shareholders' questions at the Annual General Meeting of the Company.

The Secretaries are available to answer general Shareholder queries at any time.

Special Business at forthcoming Annual General Meeting

Three resolutions are being put to the Annual General Meeting as Special Business.

Resolution 7 will, if passed, renew the Directors' existing general power to allot securities until the conclusion of the next Annual General Meeting up to an aggregate nominal amount of £3,442, representing approximately 33% of the issued share capital of the Company at the date of this document. Resolution 8 will, if passed, renew the Directors' existing authority until the conclusion of the next Annual General Meeting to make limited allotments of shares for cash other than according to the statutory pre-emption rights which require all shares issued for cash to be offered first to all existing Shareholders. The authority conferred by this resolution and by resolution 7, if passed, would provide the Directors with flexibility to act in the best interests of Shareholders when the opportunity arises so that the Company (i) can follow normal practice in an event of a rights issue or open offer (if appropriate) and (ii) may, in addition, issue a limited number of Ordinary shares up to a nominal value of £521, representing approximately 5% of the current issued Ordinary share capital of the Company, for cash on a non pre-emption basis. The Directors do not have any immediate plans to issue further shares in the Company.

Resolution 9 will, if passed, authorise the Company, until the conclusion of the next Annual General Meeting, to make purchases of the Company's own shares up to a maximum of 14.99% of the current issued share capital and subject to maximum and minimum prices based on 5% above the average of the middle market quotations for an Ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date of purchase and 0.05p respectively. The Directors would use this authority with the objective of enhancing Shareholder value. Purchases would only be made through the market for cash at prices below the prevailing net asset value per Ordinary share which would have the effect of increasing the net asset value per Ordinary share for the remaining Shareholders. Any Ordinary shares which are purchased would be cancelled.

The Directors consider that it would be advantageous to Shareholders in the Company to have the authority to make such purchases as and when they consider the timing to be favourable. Accordingly, the Directors recommend that Shareholders vote in favour of this resolution as they intend to do so in respect of their own beneficial shareholdings.

The Notice of Annual General Meeting is set out on pages 40 and 41 of this document.

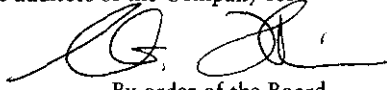
Creditor Payment Policy

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant market in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. The Directors do not consider any creditors to represent trade creditors.

Auditors

Deloitte & Touche have indicated their willingness to continue in office. The Directors will place a resolution before the Annual General Meeting for the reappointment of Deloitte & Touche as auditors of the Company for the ensuing year.

One Bow Churchyard, Cheapside
London EC4M 9HH
12 March 2003


By order of the Board
Aberdeen Asset Management PLC
Secretaries

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the total return of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Remuneration Report

Given the size and composition of the Board, the Directors have not deemed it necessary to appoint a separate Remuneration Committee. The Board as a whole undertakes consideration of the Directors' remuneration.

Remuneration policy

The Company's remuneration policy is designed to reflect the importance of retaining independent directors of the calibre necessary to oversee the management of the Company's affairs. The Directors' remuneration, detailed below and in note 4 to the financial statements, comprises fees for their services undertaken during the year.

Total return performance graph

The graph shown below illustrates the total Shareholder return for a holding in the Company's shares as compared to the FTSE SmallCap excluding Investment Trusts Index for the period since the launch of the Company until 31 December 2002. The Company considers the FTSE SmallCap excluding Investment Trusts Index to be the most appropriate index against which to measure the Company's performance.

Service contracts

No Director has a service contract with the Company.

Directors' emoluments (audited information)

	2002	2001
	£'000	£'000
Non-executive fees		
F C Carr	15	15
J A Carwardine	—	—
S J Cockburn	11	10
C D Fishwick	—	—
R M H Heseltine	11	10
B R Tora	11	10
	48	45

F C Carr, Chairman

Fred Carr

Independent Auditors' Report to the Members of The Smaller Companies Investment Trust PLC

We have audited the Company's financial statements for the year ended 31 December 2002 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the part of the Directors' remuneration report that is described as having been audited. This report is made solely to the Company's members, as a body, in accordance with section 235 of the Company's Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by the law, we do not accept responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. They are also responsible for the preparation of the other information contained in the Annual Report, including the Directors' remuneration report.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report that is described as having been audited in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards and the Listing Rules of the Financial Services Authority.

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 Company 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 Company is not disclosed. We review whether the Corporate Governance Statement reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures. We read the Chairman's Statement, Directors' Report and other information contained in the Annual Report for the above year as described in the contents section and consider the implications for our report if we became aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2002 and of its result for the year then ended, and the financial statements and the part of the Directors' remuneration report that is described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and Registered Auditors
London

12 March 2003

Revenue Account

	Notes	Year ended 31 December 2002		Year ended 31 December 2001	
		£'000	£'000	£'000	£'000
Income from fixed asset investments	2				
UK dividend income (net)		1,760		1,971	
Unfranked investment income		860		602	
Overseas dividends		44		109	
			2,664		2,682
Other income	2				
Interest received		98		119	
Underwriting commission		1		—	
			99		119
Total income			2,763		2,801
Expenses and interest payable					
Investment management fee	3	(758)		(1,052)	
Other administrative expenses	4	(203)		(199)	
Finance charges	5	(777)		(953)	
			(1,738)		(2,204)
Net revenue on ordinary activities before taxation			1,025		597
Taxation on ordinary activities	6		(7)		(6)
Net revenue on ordinary activities after taxation			1,018		591
Dividends	7				
Interim		(157)		(105)	
Final		(469)		(439)	
			(626)		(544)
Transfer to reserves			392		47
Return per Ordinary share (pence):	8		4.83		2.57

The accompanying notes are an integral part of these financial statements.

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

Statement of Total Return

	Notes	Year ended 31 December 2002			Year ended 31 December 2001		
		Revenue	Capital	Total	Revenue	Capital	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Losses on investments	9	–	(25,876)	(25,876)	–	(26,666)	(26,666)
Income	2	2,763	–	2,763	2,801	–	2,801
Investment management fee	3	(758)	–	(758)	(1,052)	–	(1,052)
Other administrative expenses	4	(203)	–	(203)	(199)	–	(199)
Net return before finance costs and taxation		1,802	(25,876)	(24,074)	1,550	(26,666)	(25,116)
Finance (charge)/credit	5	(777)	8,328	7,551	(953)	7,318	6,365
Return on ordinary activities before taxation		1,025	(17,548)	(16,523)	597	(19,348)	(18,751)
Taxation on ordinary activities	6	(7)	–	(7)	(6)	–	(6)
Return on ordinary activities after taxation		1,018	(17,548)	(16,530)	591	(19,348)	(18,757)
Dividends in respect of equity shares	7	(626)	–	(626)	(544)	–	(544)
Transfer to/(from) reserves		392	(17,548)	(17,156)	47	(19,348)	(19,301)
Return per Ordinary share (pence):	8	4.83	(83.21)	(78.38)	2.57	(84.10)	(81.53)

The revenue column of this statement represents the revenue account of the Company.

The accompanying notes are an integral part these financial statements.

All revenue and capital items are derived from continuing operations.

No operations were acquired or discontinued in the year.

Balance Sheet

		As at 31 December 2002	As at 31 December 2001
	Notes	£'000	£'000
Fixed assets			
Investments	9	51,269	79,322
Current assets			
Debtors	11	271	289
Cash at bank and in hand		3,995	3,650
		4,266	3,939
Creditors: amounts falling due within one year	12		
Equity-Linked Unsecured Loan Stock 2003		(19,688)	—
Other		(809)	(952)
		(20,497)	(952)
Net current (liabilities)/assets		(16,231)	2,987
Total assets less current liabilities		35,038	82,309
Creditors: amounts falling due after more than one year			
Equity-Linked Unsecured Loan Stock 2003		—	(28,045)
Net assets		35,038	54,264
Capital and reserves			
Called-up share capital	13	10	11
Special reserve	14	8,609	10,679
Capital redemption reserve	14	5	4
Other reserves:			
Capital reserve – realised	14	44,493	48,667
Capital reserve – unrealised	14	(19,158)	(5,784)
Revenue reserve	14	1,079	687
Equity Shareholders' funds		35,038	54,264
Net asset value per Ordinary share (pence):	15	167.94	247.46

The financial statements were approved by the board of Directors on 12 March 2003 and signed on its behalf by:

F C Carr Chairman



The accompanying notes are an integral part of these financial statements.

Cash Flow Statement

	Notes	Year ended 31 December 2002		Year ended 31 December 2001	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	18		1,735		1,613
Servicing of finance					
ELULS interest paid		(793)		(1,003)	
Bank and loan interest paid		—		(1)	
Net cash outflow from servicing of finance			(793)		(1,004)
Taxation					
Withholding and income tax suffered		—		(73)	
Net tax paid			—		(73)
Financial investment					
Purchase of investments		(1,961)		(13,629)	
Sale of investments		4,049		22,640	
Net cash inflow from financial investment			2,088		9,011
Equity dividends paid			(596)		(241)
Net cash inflow before financing			2,434		9,306
Financing					
Repurchase of own shares		(2,060)		(6,720)	
Repurchase of ELULS		(29)		(5,249)	
Expenses paid in respect of share buyback		—		(20)	
Net cash outflow from financing			(2,089)		(11,989)
Increase/(decrease) in cash	19		345		(2,683)
Reconciliation of net cash flow to movements in net debt					
Increase/(decrease) in cash as above			345		(2,683)
Cash outflow from repurchase of ELULS			29		—
Decrease in net debt arising from finance costs			8,328		12,571
Movement in net debt in the year			8,702		9,888
Net debt at 1 January			(24,395)		(34,283)
Net debt at 31 December	19		(15,693)		(24,395)

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2002

I. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and with the preceding year, is set out below. The Company's accounting policies comply with the Statement of Recommended Practice ("SORP") 'Financial Statements of Investment Trust Companies' except that the Revenue Account is included as the first primary financial statement, and not the Statement of Total Return, which is included thereafter:

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention as modified to include the revaluation of investments, and in accordance with applicable Accounting Standards. As a result of the capital re-organisation effected on 15 October 1998 the Company ceased to be an investment company within the meaning of Section 266 of the Companies Act 1985. However, it continued to conduct its affairs as an investment trust for taxation purposes under Section 842 of the Income and Corporation Taxes Act 1998 and the Articles of the Company prevent capital profits being distributed by dividend. As such, the Directors consider it appropriate to present the financial statements in accordance with the SORP. Under the SORP, the financial performance of the Company is presented in the statement of total return, in which the revenue column is the profit and loss account of the Company.

The revenue account, and the revenue column on pages 21 and 22 exclude certain capital items which, since the Company is no longer an investment company, the Companies Act and FRS3 would ordinarily require to be included in the profit and loss account: losses on disposal of investments of £4,168,000 and finance charges of £8,328,000 charged to capital. In the opinion of the Directors, the inclusion of these items in the profit and loss account would obscure and distort both the revenue and capital performance of the Company and would not clearly show revenue profits distributable by way of a dividend. The Directors, therefore, consider that these departures from the specific provisions of schedule 4 of the Companies Act, relating to the form and content of accounts for companies other than investment companies and these departures from accounting standards, are necessary to give a true and fair view. They have no effect on the balance sheet or total return.

(b) Valuation of investments

Quoted investments are valued at middle market prices. Where trading in the securities of an investee company is suspended the investment is valued at the Board's estimate of its net realisable value. Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve-realised, and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve-unrealised as explained in note 1(f) below.

(c) Income

Dividends receivable on equity shares are brought into account on the ex-dividend date. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity shares are recognised on a time apportioned basis so as to reflect the effective yield returns on the shares. Other returns on non-equity shares are recognised when the right to the return is established. The fixed return on a debt security is recognised on a time apportioned basis so as, if material, to reflect the effective yield on the debt security. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

Notes to the Financial Statements

(d) Expenses

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

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment;
- expenses are charged to capital reserve-realised where a connection with the maintenance or enhancement of the value of the investments can be demonstrated;
- expenses which represent hedges of capital gains and losses are accounted in capital reserves, along with the gain or loss on the related position being hedged.

(e) Deferred taxation

The charge for taxation is based on the net revenue for the year. Following the introduction of FRS19, deferred taxation is provided for using the full provision method on all timing differences, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

(f) Capital reserves

Capital reserve – realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature;
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

Capital reserve – unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end;
- unrealised exchange differences of a capital nature;
- unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

(g) Finance costs

The change in value of the ELULS is accounted for as interest and charged or credited to capital reserves. Interest on the ELULS is accounted for on an accruals basis and in accordance with the provisions of the Financial Reporting Standard 4 "Capital Instruments".

(h) Foreign currency

Overseas assets and liabilities are converted into sterling at the rate of exchange ruling at the balance sheet date. Transactions during the period involving foreign currencies are converted at the rate of exchange ruling at the transaction date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

Notes to the Financial Statements

	2002 £'000	2001 £'000
2. Income		
Income from investments		
UK dividend income (net)	1,760	1,971
UK unfranked investment income	860	602
Overseas dividends	44	109
	<u>2,664</u>	<u>2,682</u>
Other income		
Deposit interest	98	119
Underwriting commission	1	–
	<u>99</u>	<u>119</u>
Total income	<u>2,763</u>	<u>2,801</u>

All of the overseas dividends amounting to £44,000 (2001 – £109,000) arose from investments listed in Jersey, Guernsey and Ireland. All income from listed investments arose on investments listed in the UK.

	2002 Revenue £'000	2001 Revenue £'000
3. Investment management fee		
Investment management fee	<u>758</u>	<u>1,052</u>

The Company has an agreement with Aberdeen Asset Managers Limited for the provision of management services. Management fees have been calculated on the aggregate of net asset value (excluding the total value of the holdings in other investments in other Aberdeen managed investments) and the principal amount outstanding on the Equity-Linked Unsecured Loan Stock 2003 at month end at the rate of 0.1% per month on the first £25m, plus 0.08% per month on the next £50m, plus 0.06% per month on the excess over £75m (plus VAT). The balance due to Aberdeen Asset Managers Limited at the year end was £157,284 (2001 – £244,402).

This agreement is terminable by either party giving one years notice less the number of days elapsed from 31 December 2002 until the date upon which notice is served. Any continuation of this agreement after 31 December 2003 shall be on such terms as the Company and Manager may prior to then agree.

	2002 Revenue £'000	2001 Revenue £'000
4. Other administration expenses		
Directors' fees	48	45
Share Plan marketing contribution	37	41
Auditors' remuneration:		
– audit	14	14
– other services	4	4
Other	100	95
	<u>203</u>	<u>199</u>

The Company has an agreement with Aberdeen Asset Managers Limited ("AAM") for the provision of marketing services in relation to the Company's participation in the Aberdeen Investment Trust Share Plan, PEP and ISA. The total fees paid and payable under the agreement were £37,000 (2001 – £41,000). Marketing services at the year end were prepaid £22,000 (2001 – nil).

Notes to the Financial Statements

The Directors' fees of £48,000 (2001 – £45,000) comprised £15,000 (2000 – £15,000) paid to the Chairman, Mr Carr; £11,000 (2001 – £10,000) each to Mr Cockburn, Mr Heseltine and Mr Tora.

Mr Carwardine has a consultancy agreement with the Manager whereby he receives a percentage of the management services' fee paid by the Company to the Manager which percentage amounted to £25,723 (2001 – £35,925).

Neither he nor Mr Fishwick, who is a former director of the Manager, receives any Directors' fees from the Company.

The company does not have any employees.

5. Finance charges	2002			2001		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Bank overdrafts	–	–	–	1	–	1
ELULS	777	(8,328)	(7,551)	952	(7,318)	(6,366)
	777	(8,328)	(7,551)	953	(7,318)	(6,365)

The amount credited to capital for the ELULS represents the decrease in value of the ELULS, reflecting the movement in the FTSE SmallCap Index excluding Investment Trusts from 1 January 2002 to 31 December 2002 for the units outstanding at the year end and the decrease in value from 1 January 2002 to the repurchase price for ELULS repurchased during the year.

6. Taxation on Ordinary activities	2002 £'000	2001 £'000
a) Analysis of charge for the year		
Overseas taxation	7	6
	2002 £'000	2001 £'000
b) Factors affecting tax charge for the year		
Profit on ordinary activities before taxation	1,025	597
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001 – 30%)	308	179
<i>Effects of:</i>		
Franked investment income	(528)	(591)
Current year expenses not utilised	203	393
Disallowable expenses	17	19
Irrecoverable overseas tax	7	6
Current tax charge for the period (note 6(a))	7	6

c) Provision for deferred taxation

The Company has not recognised a deferred tax asset of £2,280,000 (2001 – £2,077,000) arising as a result of having unutilised management and loan stock interest expenses. The deferred tax asset would only be recovered if the Company were to generate sufficient taxable profits in the future to utilise these expenses. It is considered uncertain that the Company will generate sufficient profits and therefore no deferred tax asset has been recognised.

Notes to the Financial Statements

	2002 Revenue £'000	2001 Revenue £'000
7. Dividends		
Dividends on Ordinary shares:		
– adjustment to 2000 final paid	–	(5)
– interim paid of 0.75p per share (2001 – 0.50p)	157	110
– final proposed of 2.25p per share (2001 – 2.00p)	469	439
	626	544

	2002 Revenue p	2002 Capital p	2002 Total p	2001 Revenue p	2001 Capital p	2001 Total p
8. Return per share						
Ordinary share	4.83	(83.21)	(78.38)	2.57	(84.10)	(81.53)

The revenue return per Ordinary share is based on the net revenue on ordinary activities after taxation of £1,018,000 (2001 – £591,000) and on 21,090,472 (2001 – 23,005,799) Ordinary shares, being the weighted average number of shares in issue during the year. The capital return per Ordinary share is based net capital losses for the financial year of £17,548,000 (2001 – loss of £19,348,000) and on 21,090,472 (2001 – 23,005,799) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

	2002 £'000	2001 £'000
9. Investments		
Investments listed on a recognised investment exchange	51,269	79,322
	Listed in UK £'000	Listed overseas £'000
Book cost at 1 January 2002	74,544	2,213
Opening unrealised appreciation	1,701	864
Valuation at 1 January 2002	76,245	3,077
Movements in the year:		
Purchases at cost	1,872	–
Sales – proceeds	(4,049)	–
– realised losses on sales	(4,168)	–
Increase in unrealised depreciation	(20,937)	(771)
Valuation at 31 December 2002	48,963	2,306
Closing book cost	68,199	2,213
Closing unrealised (depreciation)/appreciation	(19,236)	93
	48,963	2,306

Notes to the Financial Statements

	Listed in UK £'000	Listed overseas £'000	Total £'000
Losses on investments			
Realised losses on sales	(4,168)	–	(4,168)
Increase in unrealised depreciation	(20,937)	(771)	(21,708)
	(25,105)	(771)	(25,876)

10. Repurchase of ELULS

During the year the Company purchased for cancellation 12,838 units of ELULS for £29,271. These units were purchased at a discount to their current net asset value which resulted in a gain of £5,926.

The amount transferred from capital reserve-unrealised to capital reserve-realised for the repurchase of the ELULS represents the movement in value between the initial principal amount of 181.843p per unit and the repurchase price.

As a result of the cancellation of ELULS units during the year there were 10,818,480 units in issue at the year end (2001 – 10,831,318).

	2002 £'000	2001 £'000
11. Debtors: Amounts falling due within one year		
Prepayments and accrued income	245	281
Tax Recoverable	4	8
Other debtors	22	–
	271	289

	2002 £'000	2001 £'000
12. Creditors: Amounts falling due within one year		
Interest on ELULS	127	143
Amounts due to brokers	–	89
Proposed dividends	469	439
Other creditors	213	281
ELULS*	19,688	–
	20,497	952

Interest on the ELULS is payable quarterly, on the last dealing day of January, April, July and October in each year. Interest is calculable by reference to the gross dividend yield on the FTSE SmallCap Index excluding Investment Trusts ("the Index") grossed up by 10 per cent for the last working day in December, March, June and September in each year. The yield is then multiplied by the Index to arrive at an annual gross rate per unit, which is then pro-rated to cover the payment period.

At 31 December 2002 there were 10,818,480 units of ELULS (2001 – 10,831,318) with an initial principle amount of 181.843p per unit. The unit value was calculated by reference to the Index value at close of business on 12 October 1998 which stood at 1,818.43. The return on the ELULS is directly linked to the capital and income values of the Index.

* As the repayment date of the ELULS falls due within 12 months of the balance sheet date, the liability at 31 December 2002 of £19,688,000 (2001 – £28,045,000) has been reclassified in the balance sheet as an amount falling due within one year.

Notes to the Financial Statements

	2002		2001	
	Authorised	Issued and fully paid	Authorised	Issued and fully paid
	£'000	£'000	£'000	£'000
13. Called up share capital				
Ordinary shares of 0.05p each	20,160	10	20,160	11

The Company purchased for cancellation a total of 1,065,382 Ordinary shares at a discount to their net current asset value for £2,070,061, which resulted in a gain of £415,606.

As a result of the cancellation of Ordinary shares during the year there were 20,862,801 Ordinary shares in issue at the year end (2001 – 21,928,183).

	Special reserve	Redemption reserve	Capital reserve – realised	Capital reserve – unrealised	Capital Revenue reserve
	£'000	£'000	£'000	£'000	£'000
14. Reserves					
At 1 January 2002	10,679	4	48,667	(5,784)	687
Buy-back of own shares for cancellation	–	1	–	–	–
Buy-back of ELULS Units 2003 for cancellation	–	–	(6)	6	–
Decrease in value of ELULS Units	–	–	–	8,328	–
Net loss on realisation of investments	–	–	(4,168)	–	–
Increase in unrealised depreciation	–	–	–	(21,708)	–
Costs of repurchasing own shares	(2,070)	–	–	–	–
Retained revenue	–	–	–	–	392
At 31 December 2002	8,609	5	44,493	(19,158)	1,079

15. Net asset value per share

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

	Net asset value per share attributable		Net asset value attributable	
	2002	2001	2002	2001
	p	p	£'000	£'000
Ordinary shares	167.94	247.46	35,038	54,264

Net asset value per Ordinary share is based on net assets, and on 20,862,801 Ordinary shares (2001 – 21,928,183), being the number of Ordinary shares in issue at the year end.

	2002	2001
	£'000	£'000
16. Reconciliation of movements in Shareholders' funds		
Opening Shareholders' funds	54,264	80,305
Total recognised losses	(17,156)	(19,301)
Buy-back of Ordinary shares	(2,070)	(6,740)
Closing Shareholders' funds	35,038	54,264

Notes to the Financial Statements

17. Financial instruments

The Company's financial instruments comprise:

- Securities that are held in accordance with the Company's investment objectives, which are set out on page 1 of this Report and Accounts;
- Equity-Linked Unsecured Loan Stock 2003, the main purpose of which is to raise finance for the Company's operations; and
- Cash and liquid resources that arise directly from the Company's operations.

The main risks arising from the Company's financial instruments are market price risk, interest rate risk, liquidity risk and gearing risk. The Board regularly reviews and agrees policies for managing each of these risks and these are summarised below. These policies have remained unchanged since the reorganisation of the Company in 1998.

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet, except for the ELULS, which had a market value of £18,121,557 at 31 December 2002.

The Company has taken advantage of the exemption allowed under FRS 13, 'Derivatives and other Financial Instruments' and excluded short-term debtors and creditors from disclosures under financial instruments.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

To mitigate this risk the Board's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined accounting, market and sector analysis, with the emphasis on long term investments. An appropriate spread of investments are held in the portfolio in order to reduce both the statistical risk and the risk arising from factors specific to a sector. The Investment Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to consider investment strategy.

A list of the main investments held by the Company is shown in the portfolio valuation table on pages 7 to 9. All investments are stated at mid-market value.

Interest rate risk

Financial assets

Bond and preference shares yields, and as a consequence their prices, are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, the Government's fiscal position, short-term interest rates and international market comparisons. The Investment Manager takes all these factors into account when making any investment decisions as well as considering the financial standing of the potential investee company.

Returns from bonds and preference shares are fixed at the time of purchase, as the fixed coupon payments are known, as are the final redemption proceeds. This means that if a bond is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a bond the market price at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date is likely to have a different price to its purchase level and a profit or loss may be incurred.

Notes to the Financial Statements

The interest rate profile of the company at 31 December 2002 was as follows:

Type†	Total (as per Balance Sheet) £'000	Floating Rate £'000	Fixed Rate £'000	Financial assets/ (liabilities) on which no interest is paid £'000	Weighted average interest rate** %	Weighted average period for which rate is fixed (No. of years)*
Assets:						
Corporate bonds and convertible unsecured loan stock	5,067	—	5,067	—	9.83	8.55
Equities	46,202	—	—	46,202	—	—
Cash at bank	3,995	3,995	—	—	4.00	—
Liabilities:						
ELULS	(19,688)	(19,688)	—	—	7.03	—
Total net assets	35,576	(15,693)	5,067	46,202	—	—

The interest rate profile of the company at 31 December 2001 was as follows:

Type†	Total (as per Balance Sheet) £'000	Floating Rate £'000	Fixed Rate £'000	Financial assets/ (liabilities) on which no interest is paid £'000	Weighted average interest rate** %	Weighted average period for which rate is fixed (No. of years)*
Assets:						
Corporate bonds and convertible unsecured loan stock	6,225	—	6,225	—	8.37	9.79
Equities	73,097	—	—	73,097	—	—
Cash at bank	3,650	3,650	—	—	4.00	—
Liabilities:						
ELULS	(28,045)	(28,045)	—	—	7.79	—
Total net assets	54,927	(24,395)	6,225	73,097	—	—

† All currencies are sterling denominated.

* "The weighted average period for which rate is fixed" includes Corporate Bonds and Unsecured Loan Stock only.

** The weighted average interest rate is based on the current yield of each asset, weighted by its market value. This excludes all equities and stocks where payments have been suspended.

Financial liabilities

Interest on the ELULS is payable quarterly, on the last dealing day of January, April, July and October in each year. Interest is calculated by reference to the gross dividend yield on the Index grossed up by 10 percent for the last working day in December, March, June and September in each year. The yield is then multiplied by the Index to arrive at an annual gross rate per unit, which is then pro-rated to cover the payment period.

Notes to the Financial Statements

The capital value on redemption or liquidation of the ELULS will be derived from the value of the Index at that date.

The Company did not enter into any hedging agreements in the year.

The Company had no drawn or undrawn borrowing facilities throughout the financial year.

Liquidity risk

The Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary.

Short term flexibility is achieved through use of overdraft facilities.

Gearing risk

Due to the gearing provided by the ELULS, the market value of the Company's shares may be volatile and particularly sensitive to changes in the value of the assets. If the Company underperforms the Index, the gearing effect on the Company's shares will be adverse.

18. Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities	2002 £'000	2001 £'000
Net return before finance costs and taxation	1,802	1,550
Decrease in accrued income	27	71
Increase in other debtors	(13)	(11)
(Decrease)/Increase in other creditors	(78)	12
Overseas tax deducted at source	(3)	(9)
	1,735	1,613

	31 Dec 2001 £'000	Cashflow £'000	Other non cash movements £'000	31 Dec 2002 £'000
19. Analysis of changes in net debt				
Cash at bank and in hand	3,650	345	—	3,995
<i>Debt:</i>				
Debt falling due within one year*	—	—	(19,688)	(19,688)
Debt falling due after more than one year	(28,045)	—	28,045	—
Net debt	(24,395)	345	8,357	(15,693)

* see note 12

20. Contingencies, guarantees and financial commitments

There were no contingent liabilities at the year end (2001 – nil).

21. Related party disclosures

Mr C D Fishwick is a former director of Aberdeen Asset Management PLC and its subsidiary Aberdeen Asset Managers Limited ("AAM"). AAM has an agreement to provide both management and marketing services to the Company, the terms of which are outlined in notes 3 and 4 of the financial statements.

Ten Year Financial Record (unaudited)

Year to 31 December

	1993	1994	1995	1996	1997	1998*	1999	2000	2001	2002
Total Revenue £'000	1,582	2,894	3,138	3,182	2,871	2,351**	2,855**	3,135**	2,801**	2,763**
Per Ordinary share:										
Net earnings	3.0p	3.1p	3.6p	3.4p	2.8p	2.9p	1.2p	0.7p	2.6p	4.8p
Net dividends paid	2.60p	2.75p	3.00p	3.15p	3.30p	1.90p	1.05p	1.05p	2.50p	3.00p
Net asset value per										
Ordinary share:										
Undiluted net asset value	146.4p	130.9p	151.6p	162.3p	163.1p	164.4p	318.8p	324.0p	247.5p	167.9p
Diluted net asset value	104.7p	127.4p	145.1p	154.0p	162.0p	—	—	—	—	—
Equity Shareholders' funds £'000	71,903	64,280	74,449	79,638	80,123	49,308	86,301	80,305	54,264	35,038
ELULS										
Principal amount per ELULS unit	—	—	—	—	—	202.9p	302.4p	314.2p	258.9p	182.0p
Interest paid per ELULS unit	—	—	—	—	—	—	7.9p	10.4p	8.0p	7.1p

*Adjusted for re-organisation of Company in October 1998

**net of tax credits on UK dividend income

Interest paid per ELULS unit (p)

Net dividends per share (p)

Net asset value per share (p)

Shareholder Information (unaudited)

Aggregate discount of ELULS units and Ordinary shares to asset entitlements since effective date of re-organisation (16 October 1998) assuming 600 new Ordinary shares and 308 units of ELULS for every 1,000 old Ordinary shares previously held.

Discount to undiluted net asset value per Ordinary share (since 31 December 1992)

Net Asset Value

The net asset value of the Company's Ordinary shares and the principal amount of the ELULS can be obtained daily by contacting Aberdeen Asset Managers Limited on 0500 00 00 40.

Share Prices

The prices of the Company's Ordinary shares are published daily in the *Financial Times* and the *Daily Telegraph*. The prices of the Company's ELULS are published daily in the *Financial Times*.

Shareholder Information (unaudited)

Shareholder Distribution

As at 31 December 2002 there were 20,862,801 Ordinary shares in issue. The distribution of these was as follows:

Range	Number of Shareholders	Shares held %	Aggregate Holdings	% of Capital
1 – 1,000	68	21.12	35,438	0.17
1,001 – 5,000	150	46.58	386,049	1.85
5,001 – 10,000	38	11.80	303,316	1.45
10,001 – 100,000	48	14.91	1,411,350	6.76
100,001 and over	18	5.59	18,726,648	89.77
	322	100.00	20,862,801	100.00

In addition to the above shareholdings, there were 470 members in the Aberdeen Share Plan, PEP and ISA at the date of this Report.

Stock Exchange Codes

Class of Security	SEDOL Number	ISIN Code
Ordinary shares	0418506	GB 0004185061
Equity-Linked Unsecured Loan Stock 2003 ("ELULS")	0418421	GB 0004184213

AITC

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

Information about the Manager

Aberdeen Investment Trust Share Plan

Aberdeen Asset Managers Limited ("AAM") runs a Share Plan (the "Plan") which covers a number of investment companies under its management including The Smaller Companies Investment Trust PLC. All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250 per trust, while regular savers may invest from just £50 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on entry. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing AAM in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

Aberdeen Investment Trust Individual Savings Account

The Aberdeen Investment Trust ISA (the "ISA") has been available from 6 April 1999. It aims to generate income and/or capital growth within a tax efficient environment. Investors can hold up to three components within an ISA: stocks and shares (including Investment Trusts), cash and life insurance. AAM offers both a Mini and Maxi stocks and shares ISA, but does not offer the cash or life insurance components.

Maxi ISA

The Maxi ISA offers a wide range of AAM managed or advised Investment Companies. The Maxi ISA does not have a cash or life insurance component. An investment of up to £7,000 can be made in the tax year 2002/2003.

Mini ISA

AAM offers a Mini ISA which will enable investors to invest up to £3,000 in the Aberdeen Investment Trusts in the tax year 2002/2003.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £15 + VAT. The annual ISA management charge is 0.5% + VAT, calculated monthly and deducted from income half yearly. Under current legislation, trusts can grow free of income or capital gains tax. In the case of dividends from equity assets held within an ISA or a PEP, a 10% tax credit will be reclaimed until April 2004, when the tax credit will be abolished.

Trust Information

If investors would like details of any trust managed by AAM, or information on the Share Plan or ISA please telephone 0500 00 00 40 or write to Aberdeen Asset Managers Limited, One Albyn Place, Aberdeen AB10 1YG or e-mail at inv.trusts@aberdeen-asset.com. Details are also available by accessing the internet on the following page: <http://www.aberdeen-asset.com>

The information above is issued and has been approved for the purposes of the Financial Services and Markets Act 2000 by Aberdeen Asset Managers Limited, One Bow Churchyard, Cheapside, London EC4M 9HH which is regulated by the FSA.

Marketing Strategy

The Smaller Companies Investment Trust PLC contributes to the marketing programme run by the Manager, Aberdeen Asset Managers Limited ("Aberdeen"), on behalf of a number of investment trusts under its management. This agreement will see the Company's contribution matched by Aberdeen over its length and is worth £28,850 a year. During the last year, the terms of the Marketing Agreement with Aberdeen were changed so that this agreement can be terminated on two months notice by either party.

The purpose of the programme is to communicate effectively with existing Shareholders and gain more new Shareholders, thus improving liquidity and thereby enhancing the value and rating of the Company's shares. Aberdeen's experience has also shown that well-targeted marketing of the Company's investment merits through packaged products, whether singly or in conjunction with income trusts run by Aberdeen, can be a cost-effective way of gaining new investors.

These aims can be met in several ways:

Investor relations Aberdeen runs an investor relations programme to existing and prospective institutional investors in investment trusts. Each month, institutional investors and prospects receive a Manager's report on your Company that includes detailed performance analysis.

Group schemes The Manager runs a group Share Plan, PEP and ISA. These schemes allow investment free of dealing costs and with only nominal exit charges, have proved popular with private investors.

Direct response advertising The Manager has advertised the packaged product availability of the Trust over the past few years in selected surveys in national broadsheets as well as the specialist financial press.

Direct mail Periodic mail shots of information packs inviting named addressees to respond is a low-cost method of building awareness and investor databases. Target groups include existing holders of other Aberdeen investment trusts as well as known buyers of investment trusts.

Newsletter The 'Bulletin' newsletter, an informed commentary on markets and investment trusts managed by Aberdeen, is distributed free of charge twice a year, and shortly, quarterly.

Public relations The Manager undertakes to brief journalists, write regularly through placed articles and ensure Company results and any corporate activity are brought to public attention.

Shareholder services Aberdeen runs an investment help desk for retail enquirers and investors. Enquirers or investors will be sent any relevant literature on request and have queries answered immediately. The Marketing Programme is under the direction of Aberdeen's Investment Trust Marketing Director, who has sixteen years experience in the marketing and communications of investment products. He is supported by a team of marketing professionals.

Internet The Aberdeen Investment Trusts web site contains a link to Trustnet, which allows web users to access real time information on the Company's share price performance, yield, as well as historical data. The site is continuously being evaluated for improvement. The site is <http://www.aberdeen-asset.com>. The Company also has its own dedicated website which can be accessed at www.small-cos.co.uk.

It is intended that ongoing Programme activities in these various fields will assist the Company to increase and maintain its Shareholder base, improve liquidity and sustain ratings.

The Company is committed to a close monitoring of the marketing programme. The marketing director of Aberdeen reports to the Board and provides a written summary quarterly.

If you have any questions about your Company, the Manager or performance, please telephone the Manager's Customer Services Department (direct private investors) on 0500 00 00 40 or the Broker Desk on 0800 592 487 (Institutions and IFAs). Alternatively, internet users may e-mail the Manager on inv.trusts@aberdeen-asset.com or write to One Albyn Place, Aberdeen AB10 1YG.

Notice of Meeting

Notice is hereby given that the thirteenth Annual General Meeting of The Smaller Companies Investment Trust PLC will be held at One Bow Churchyard, Cheapside, London EC4M 9HH on Tuesday 15 April 2003 at 12 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions, of which Resolutions 1 to 7 inclusive will be proposed as Ordinary Resolutions and Resolutions 8 and 9 as Special Resolutions:

As Ordinary Business

1. To receive the report of the Directors and the financial statements for the year ended 31 December 2002.
2. To declare a final dividend of 2.25p net per Ordinary share.
3. To re-elect Mr J A Carwardine as a Director of the Company.
4. To re-elect Mr C D Fishwick as a Director of the Company.
5. To re-appoint Deloitte & Touche as auditors of the Company and to authorise the Directors to determine their remuneration.
6. To approve the Remuneration Report.

As Special Business

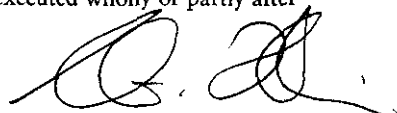
7. That in substitution for any existing power under Section 80 of the Companies Act 1985 (as amended and in force from time to time) (the "Act") but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal value of £3,442 provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2004 but so that such authority shall allow the Company to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the power conferred herein had not expired.
8. That, conditionally upon the passing of Resolution 7 above, in substitution for any existing power under Section 95 of the Companies Act 1985 (as amended and in force from time to time) (the "Act"), but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and are hereby empowered until the conclusion of the Annual General Meeting of the Company to be held in 2004, pursuant to Section 95 of the Act, to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority given in accordance with Section 80 of the Act by Resolution 7 above as if Section 89(1) did not apply to any such allotment provided that this power shall be limited to:
 - (i) the allotment of equity securities in connection with a rights issue or open offer in favour of Shareholders where the entitlements to such equity securities respectively attributable to the Ordinary Shareholders are proportionate (as nearly as may be) to the respective number of Ordinary shares held by them, subject to such exclusions or other arrangements that the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under any law, or requirement of any regulatory authority or any stock exchange; and
 - (ii) the allotment for cash (otherwise than pursuant to subparagraph (i) above), of equity securities up to an aggregate nominal amount of £521.

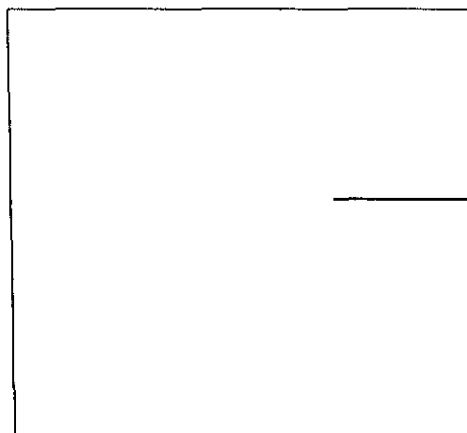
but so this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

Notice of Meeting (continued)

9. That the Company be and is hereby authorised in accordance with Section 166 of the Companies Act 1985 to make market purchases (within the meaning of Section 163 of the Act) of shares provided that:
- (i) the maximum number of Ordinary shares of 0.05p each ("Shares") hereby authorised to be purchased is 3,127,333;
 - (ii) the minimum price which shall be paid for a Share shall be 0.05p;
 - (iii) the maximum price (exclusive of expenses) which may be paid for a Share shall be not more than 5 percent. above the average of the market value of the Shares on the Official List of the London Stock Exchange for the five business days prior to the date on which any such purchase is made; and
 - (iv) unless renewed, the authority hereby conferred is to expire on the conclusion of the Annual General Meeting of the Company to be held in 2004, save that the Company may, prior to such expiry enter into a contract to purchase Shares which will or may be completed or executed wholly or partly after such expiry.

One Bow Churchyard, Cheapside
London EC4M 9HH
12 March 2003


By order of the Board
Aberdeen Asset Management PLC
Secretaries



Aberdeen Asset Managers Limited
One Bow Churchyard, Cheapside, London

Notes:

1. A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed.
2. Instruments of proxy and the power of attorney or other authority, if any, under which they are signed or notarially certified copy of that power or authority should be sent to The Registrars, The Smaller Companies Investment Trust PLC, Capita Registrars Plc, Proxy Department, PO Box 25, Beckenham, Kent, BR3 4BR so as to arrive not less than forty eight hours before the time fixed for the meeting.
3. No Director has a service contract with the Company.
4. The Register of Directors' interests is kept by the Company in accordance with Section 325 of the Companies Act 1985 and will be open for inspection at the meeting.
5. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, to have the right to attend and vote at the meeting referred to above a member must first have his or her name entered in the Company's register of members by not later than forty eight hours before the time fixed for the meeting (or in the event that the meeting be adjourned on the register of members forty eight hours before the time of the adjourned meeting). Changes to entries on that register after that time (or, in the event that the meeting is adjourned, on the register of members less than forty eight hours before the time of any adjourned meeting) shall be disregarded in determining the rights of any member to attend and vote at the meeting referred to above.

Proxy

Please complete in block capitals

I/we[†]

of

being (a) Shareholder(s) of the above named company hereby appoint *the Chairman of the meeting/

.....

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Tuesday 15 April 2003 and at any adjournment thereof.

I/we direct my/our proxy to vote on the resolutions as set out in the notice convening the Annual General Meeting as follows:

Resolution		For	Against	Vote Withheld ^{††}
1. Directors' report and accounts	**			
2. Declaration of a final dividend	**			
3. Re-election of Mr J A Carwardine	**			
4. Re-election of Mr C D Fishwick	**			
5. Re-appointment of auditors	**			
6. Ordinary resolution – approval of remuneration report	**			
7. Ordinary resolution – allotment of shares	**			
8. Special resolution – disapplication of pre-emption rights	**			
9. Special resolution – authority to buy back shares	**			

Signed this day of 2003

To be valid, the form of proxy must be lodged with The Registrars, The Smaller Companies Investment Trust PLC, Capita Registrars Plc, Proxy Department, PO Box 25, Beckenham, Kent BR3 4BR, not less than forty-eight hours before the time fixed for the meeting.

[†] In any case of joint holders, the signature of any one holder will be sufficient. In the case of a corporation, the proxy should be executed under its common seal or under the hand of an officer/attorney, duly authorised in writing on its behalf.

^{††} The "Vote Withheld" option is provided to enable you to abstain from voting on a particular resolution. However, it should be noted that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of votes "for" and "against" a resolution.

* If it is desired to appoint any other person as a proxy, insert their name and strike out "the Chairman of the meeting".

** Please indicate how you wish your vote to be cast by placing an "X" in the appropriate box. Unless otherwise indicated, the proxy will exercise his discretion both as to how to vote and as to whether or not he abstains from voting.

Third Fold and Tuck In

BUSINESS REPLY SERVICE
Licence No. MB 122

21 1

**The Registrars
The Smaller Companies Investment Trust PLC
Capita Registrars Plc
Proxy Department
PO Box 25
Beckenham
Kent
BR3 4BR**

First Fold

Second Fold

Capital Structure

	Issued share capital at date of Report
20,862,801	Ordinary shares of 0.05p each
7,249,011	Equity-Linked Unsecured Loan Stock 2003 ("ELULS") units of 183.842p each
	Capital History
11 October 1990	15,000,000 Ordinary shares of 50p nominal each placed at 100p with 3,000,000 Warrants attaching, each Warrant conferring the right to subscribe for one Ordinary share of 50p nominal for 100p.
25 June 1993	16,729,142 Ordinary shares of 50p nominal each issued with 3,345,768 Warrants attaching, each Warrant conferring the right to subscribe for one Ordinary share of 50p nominal for 100p, in connection with a Placing and Offer to shareholders.
24 October 1993	17,917,604 'C' Shares of £1 each issued for a consideration of 135p each.
8 December 1994	The 'C' Shares of £1 each were converted into 17,380,040 Ordinary shares of 50p nominal and 3,475,980 Warrants conferring the right to subscribe for one Ordinary share of 50p nominal for 135p.
31 May 1996	1,865 Ordinary shares issued following the exercise of 1,409 1998 Warrants and 456 1999 Warrants.
April/May 1997	5,771,097 1998 Warrants bought for cancellation.
29 May 1997	77 Ordinary shares issued following the exercise of 77 1998 Warrants.
28 October 1997	2,658,000 1999 Warrants bought for cancellation.
January 1998	90,000 1998 Warrants bought for cancellation.
28 May 1998	653,687 Ordinary shares issued following the exercise of 257,694 1998 Warrants and 395,993 1999 Warrants. The remaining 225,491 1998 Warrants lapsed.
8 October 1998	Compulsory acquisition of remaining 421,531 1999 Warrants outstanding.
15 October 1998	Capital re-organisation of the Company resulting in 600 Ordinary shares of 0.05p each and 308 ELULS units of 181.843p each issued for every 1,000 Ordinary shares of 50p held.
June 1999	2,926,000 Ordinary shares and 1,491,297 ELULS units bought for cancellation.
December 1999	30,000 ELULS units bought for cancellation.
January 2000	440,057 ELULS units bought for cancellation.
February 2000	1,180,000 Ordinary shares and 150,000 ELULS units bought for cancellation.
March 2000	100,000 Ordinary shares and 20,000 ELULS units bought for cancellation.
June 2000	1,000,000 Ordinary shares and 100,000 ELULS units bought for cancellation.
July 2000	15,000 ELULS units bought for cancellation.
September 2000	66,366 ELULS units bought for cancellation.
October 2000	158,264 ELULS units bought for cancellation.
February 2001	100,000 Ordinary shares and 400,000 ELULS units bought for cancellation.
March 2001	875,000 Ordinary shares and 488,741 ELULS units bought for cancellation.
April 2001	385,000 Ordinary shares bought for cancellation.
July 2001	1,500,000 Ordinary shares bought for cancellation.
November 2001	1,206,015 ELULS units bought for cancellation.
March 2002	1,065,382 Ordinary shares bought for cancellation.
May 2002	12,838 ELULS units bought for cancellation.
March 2003	3,569,469 ELULS units bought for cancellation.



Aberdeen

Aberdeen Asset Managers Limited

One Albyn Place, Aberdeen AB10 1YG. Telephone 01224 631999 Fax 01224 647010
One Bow Churchyard, Cheapside, London EC4M 9HH. Telephone 020 7463 6000 Fax 020 7463 6001

Regulated by the FSA

Member of the Aberdeen Asset Management Group of Companies