Aberforth Smaller Companies Trust plc

Half Yearly Report
30 June 2012

Investment Objective

The investment objective of Aberforth Smaller Companies Trust plc (ASCoT) is to achieve a net asset value total return (with dividends reinvested) greater than on the Numis Smaller Companies Index (excluding Investment Companies) over the long term.

Contents

All data throughout this Half Yearly Report are to, or as at, 30 June 2012 as applicable, unless otherwise stated.

Performance Summary

Six months to 30 June 2012 – Total return

	%
Net Asset Value[1]	**13.0**
Numis Smaller Companies Index (XIC)[2]	**11.6**
Ordinary Share Price[3]	**18.5**

Historic Returns

Discrete Annual Returns (%) Period	NAV[1]	Index[2]	Share Price[3]
1 year to 30.6.12	-8.7	-4.1	-12.6
1 year to 30.6.11	36.3	34.2	36.3
1 year to 30.6.10	18.9	28.0	15.2
1 year to 30.6.09	-16.6	-12.4	-8.5
1 year to 30.6.08	-25.6	-24.8	-26.5

Compound Annual Returns (%) Period to 30.06.12	NAV[1]	Index[2]	Share Price[3]
3 years from 30.6.09	13.9	18.1	11.2
5 years from 30.6.07	-1.7	1.7	-1.6
10 years from 30.6.02	8.6	10.1	7.9
15 years from 30.6.97	10.5	8.5	9.9
Since inception on 10.12.90	12.8	10.3	11.9

Cumulative Returns (%) Period to 30.06.12	NAV[1]	Index[2]	Share Price[3]
3 years from 30.6.09	47.9	64.8	37.4
5 years from 30.6.07	-8.2	8.6	-7.7
10 years from 30.6.02	127.4	161.9	114.2
15 years from 30.6.97	344.1	240.5	311.4
Since inception on 10.12.90	1,251.1	721.8	1,030.4

1 Represents Net Asset Value (Fully Diluted Net Asset Value prior to 1 April 2003) with dividends reinvested.

2 Represents the return on the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)) with dividends reinvested (prior to 1 January 1997 in its "Extended" version). This index comprises the bottom 10% of all UK quoted companies by market value, which at 1 January 2012 consisted of 422 companies, the largest market capitalisation of which was £1.264 billion and the aggregate market capitalisation of which was £134 billion.

3 Represents Ordinary Share price with dividends reinvested.

Chairman's Statement

For the six months to 30 June 2012, Aberforth Smaller Companies Trust plc (ASCoT) achieved a net asset value total return of 13.0%, which compares with a total return of 11.6% from your Company's investment benchmark, the Numis Smaller Companies Index excluding Investment Companies (NSCI XIC), formerly known as the RBS Hoare Govett Smaller Companies Index. Meanwhile, the larger company oriented FTSE All-Share Index registered a total return of 3.3%. Over the period, smaller companies thus delivered a return that was 8.3 percentage points higher than on the FTSE All-Share, while ASCoT's NAV return exceeded the FTSE All-Share by 9.7 percentage points. The NSCI XIC represents a change in name only for your Company's investment benchmark. The data and series continue to be provided by London Business School and represent an unbroken series since 1955.

The Managers' Report provides greater insight into the influences that have affected markets and your Company during the period. It has once again been a volatile period for markets with events in the Eurozone continuing to cast a shadow. Around the world, investors remain cautious, often favouring safer havens, and this, together with the actions of central banks has driven some government bond yields to their lowest levels for well over a hundred years. Against such a global backdrop, it is encouraging that for your Company we have seen a continuation of the recent trends of rising dividends and gradually increasing merger and acquisition (M&A) activity, which has frequently been referenced in our recent Annual and Interim Reports to Shareholders.

For long term investors, dividends are a key contributor to overall returns, while for the value investor that role is amplified. The dividend environment continues to be favourable and is allowing your Board to pursue the Company's progressive dividend policy with an 8.5% rise in the first interim dividend to 7.0p per Ordinary Share. The interim dividend will be paid on 23 August 2012. For Shareholders participating in ASCoT's Dividend Re-Investment Plan, the last date for submission of Forms of Election is 2 August 2012. With the introduction of recent tax changes allowing investment companies to distribute capital gains, Shareholders should be reassured that the increased dividend has been delivered via the revenue account while also allowing an increase in the "old fashioned" revenue reserves which now stand at 28.1p per share. Those revenue reserves, while playing a minor role in your Company's longer term dividend record, were utilised in the immediate aftermath of the global financial crisis.

At the Annual General Meeting on 7 March 2012, all resolutions were passed, including that which renewed the authority to buy-in up to 14.99% of ASCoT'S Ordinary Shares. During the six months to 30 June 2012, 251,000 Ordinary Shares were purchased under this authority for a total consideration of £1,469,000 at an average discount of 17%. Your Board keeps under review the circumstances under which the authority is utilised in relation to the overall objective of seeking to manage the discount.

Chairman's Statement

Based on the dual influences of rising dividends and M&A activity, last year's Interim Report expressed cautious optimism, but this proved misplaced as the second half of 2011 saw dysfunctional European credit markets re-emerge as the central issue for investors. A re-run of last year cannot be ruled out, but nor can it be taken as a given.

Uncertainty is always present and, while real economic challenges lie ahead, the equity market's ability, eventually, to work through such periods is not in question. Indeed, for investors with a long term horizon, a heightened level of uncertainty can also represent an opportunity. Your Board fully understands the Managers' portfolio positioning in favour of the smaller small companies in the NSCI (XIC) universe. This provides valuation support with the added benefit of balance sheet flexibility at the investee company level.

Your Board remains confident that the Managers' experience and consistency of approach will benefit ASCoT over the long term.

Professor Paul R Marsh
Chairman

18 July 2012

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Managers' Report

Introduction

ASCoT performed well in absolute terms over its first half, with a 13.0% NAV total return. This exceeded the NSCI (XIC)'s 11.6%, which was itself some way ahead of the FTSE All-Share's 3.3%. These six month figures mask a volatile period for equities. The first quarter was particularly strong: the NSCI (XIC)'s 18.1% return was the sixth strongest quarterly performance in Aberforth's 22 year history. The second quarter was rather different. In stockmarket conditions reminiscent of the second half of 2011, the NSCI (XIC)'s total return was -5.6%.

Such swings in sentiment have been a feature of financial markets since the global financial crisis and recession. Associated with this "risk-on, risk-off" behaviour have been higher correlations between asset classes: risk assets such as equities and commodities have tended to move en masse as allocations to supposedly safe government bonds are nudged higher or lower in response to changes in confidence.

The overwhelming influences on confidence have been macro economic and political. The most significant for two years now has been the turmoil within the Eurozone. Entering 2012, it seemed that the Long Term Refinancing Operation had succeeded at least in buying time for a lasting solution to be found, whether that was to embrace Federalism with a banking union or to manage an orderly exit for those no longer able to remain within the single currency zone. However, financial markets have proved impatient, with Greece's elections and Spain's troubled banking sector raising the stakes. Despite some progress from yet another EU summit at the period end, the days of "muddling-through", which have allowed Germany to enjoy its most competitive currency for decades, appear numbered.

Developments elsewhere added to uncertainty. Entering 2012, economic data were on an improving trend, particularly in the US. However, this was not sustained, with weaker indicators in the US, China and the UK. Indeed, the UK is back in technical recession, with consecutive quarters of contracting GDP influenced by the problems of its major trading partner, the Eurozone. Familiar themes characterise the domestic economy: austerity-driven government sector retrenchment, households beset by pressure on real disposable incomes and inclined to save rather than spend, and a robust corporate sector continuing to operate in financial surplus.

The health of businesses is illustrated by results issued in the first half by companies in your Managers' tracked universe, which accounts for 96% by value of the NSCI (XIC). Aggregate revenues of companies reporting final results rose by 5%, with operating profits up by 9%. Cumulative capital expenditure was well ahead of depreciation, though this was driven by the very large investment programmes of a small number of resources companies. In aggregate, net debt was reduced again and balance sheets strengthened further.

Investment Performance

At the portfolio level, ASCoT's total return was 12.4% over the first half. After expenses, average gearing of 10% enhanced this performance to produce the NAV total return of 13.0%. The continued tactical deployment of gearing is motivated by attractive valuations, which are described in greater detail later in this report. The following table quantifies the impact of gearing on ASCoT's performance relative to the NSCI (XIC).

The relative performance attributable to the portfolio of investments is driven by your Managers' bottom-up investment process, with the principal selection criteria being the

Managers' Report

sustainable profitability of the underlying business and the valuation accorded to the business by the stockmarket. That said, there are several themes inherent in the portfolio that have influenced ASCoT's performance. These themes are explained in the following paragraphs.

For the six months ended 30 June 2012		Basis Points
Stock selection	Based on mid-prices	(228)
Sector selection	Based on mid-prices	306
Attributable to the portfolio of investments (after transaction costs of 18 basis points)		78
Movement in mid to bid price spread		1
Cash/gearing		108
Purchase of Ordinary Shares		5
Management fee		(44)
Other expenses		(4)
Total attribution based on bid-prices		**144**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 13.01%; Benchmark Index = 11.57%; difference is 1.44% being 144 basis points).

Investment Style

There are signs that the headwinds confronting your Managers' value style are becoming less severe, but growth stocks nevertheless managed to out-perform value stocks by around 2% over the first half, according to data from Style Research (an independent analysis firm). With doubts over general economic growth, the relative ratings of growth companies have improved as their prospects for secular profit progression have been rewarded. Concurrently, the very low interest rates of recent years have favoured the growth style, since a greater proportion of the worth of a growth stock is the discounted value of its mid to long term profits. In this respect, small cap resources stocks, which are generally cash consuming exploration businesses, may be considered aligned with the growth style. These twin dynamics have resulted in the largest recorded bull market over the last five years for small cap growth stocks since 1955 and in exaggerated gaps between the valuations of growth and value stocks that your Managers consider unsustainable.

Size

Of the total value of the NSCI (XIC), 78% is accounted for by the overlap with the FTSE 250. In contrast, the portfolio has an exposure of just 51% to these mid cap companies. The consequent over-weight positioning in "smaller small" companies proved beneficial over the first half, which can be gauged by comparing the performance of the FTSE 250, up by 11.0%, with that of the FTSE SmallCap, up by 13.4%. However, this represents only the second instance of "smaller small" out-performance in the ten six-month periods since 2007. Such is the extremity of risk aversion and concern about illiquidity that underlying business characteristics and prospects are being overlooked. "Smaller small" companies are valued on wide discounts to the mid cap constituents of the NSCI (XIC), a state of affairs that allows your Managers to buy smaller businesses with above average growth prospects – value investors do not dislike growth, though they do dislike paying for it.

Overseas exposure

Last year's interim report noted that just over half the revenues of the companies in the portfolio were generated outside the UK, which represented rather more overseas exposure than is traditionally associated with small UK companies. This analysis has been updated and extended to quantify exposure to the Eurozone: of the revenues of the 90 companies in the portfolio at 30 June 2012, 48% came from the UK, 18% from the Eurozone, 15% from the Americas, and 19% from the rest of the world. Thus, while some Eurozone exposure is unavoidable, it is not particularly high. It should be noted that a particular geographical profile for the portfolio is not targeted; rather, the present distribution is the result of accumulated decisions about individual businesses. Moreover, this form of analysis risks over-simplifying what would be a horrendously complicated turn of events should the Eurozone fragment. For example, while the stockmarket has discounted – arguably over discounted – the risks of exposure to Spain, it may not have grasped the implications of the re-emergence of a Deutsche Mark bloc for those businesses that have thrived in recent years on selling to Germany's extremely competitive export sector.

Strong Balance Sheets

Another demonstration of the peculiar behaviour of the stockmarket at present regards balance sheet strength. While the valuations of very highly geared companies within the NSCI (XIC) are penalised, there is little evidence that companies at the other end of the balance sheet spectrum are rewarded. This has allowed your Managers to tilt the portfolio towards companies with strong balance sheets without compromising their value investment principles: 39% of the portfolio is invested in companies with net cash, which compares with the NSCI (XIC)'s 31%. Strong balance sheets offer flexibility to invest and acquire, or, in the absence of such opportunities, to return surplus funds to shareholders.

M&A

Despite a relapse into "risk-off" conditions in the second quarter, there was a notable upsurge in M&A activity. While deals for seven NSCI (XIC) constituents had been completed in the first half, another eight companies were at some stage of takeover discussions at 30 June. M&A activity is still well down on the levels before the global financial crisis, but the exciting aspect of recent deals has been the takeover premiums. Exit multiples of EBITA have held up well and so premiums of 50-60% are now more common than the traditional 30%. These high premiums reflect the low valuations currently accorded to small companies by the stockmarket and the determination of fund managers such as Aberforth to reject mooted takeovers at inappropriately low valuations. ASCoT itself saw two deals completed for its holdings during the first half, with another outstanding at the period end. On top of this direct boost to performance, there has probably been an indirect benefit as the scale of premiums has drawn attention to the opportunities within the asset class.

Income

The dividend experience through the first half has been positive, continuing the recovery that began early in 2010. The following table classifies ASCoT's 90 holdings at 30 June by their most recent dividend action. The "Nil" category contains those companies that do not currently pay dividends. Your Managers consider that the majority of these will appear on the dividend register within the next two years, at which point they will move into the "New" category. At the current stage in the cycle, this phenomenon can have a substantial effect on reported dividend growth across both the portfolio and the NSCI (XIC).

Band	Nil	IPOs	Down	Flat	+0-10%	+10-20%	+ >20%	New
No. of holdings	15	1	10	8	27	14	10	5

Helped by this dividend experience, the portfolio and, by extension, ASCoT itself continue to offer attractive income characteristics. The historic yield of the portfolio at the end of June was 3.4%, with 14% of the portfolio still nil yielding. This compares with the FTSE All-Share's 3.7%, the NSCI (XIC)'s 3.0% and a ten year gilt yield of 1.7%. With strong balance sheets, scope for current nil yielders to return to the dividend register, and a historic dividend cover well above its historic average, prospects for income growth from the portfolio are realistic, notwithstanding the obvious macro economic concerns. These portfolio characteristics are reflected in the 8.5% rise in ASCoT's first interim dividend, which, together with the second interim dividend paid in February, gave a trailing yield of 3.7% at the end of June. This yield is underpinned not just by the well-diversified portfolio but also by 28p of "old fashioned" revenue reserves.

Valuations

The following table sets out the historic PE ratios and yields of ASCoT's portfolio and the NSCI (XIC). On both measures, the portfolio compares well. Moreover, the valuations at the end of June also compared well with the long term averages: since 1990, the average portfolio PE, yield and dividend cover have been 12.8x, 3.4% and 2.5x respectively.

	30 June 2012		31 December 2011		30 June 2011	
Characteristics	**ASCoT**	**NSCI (XIC)**	ASCoT	NSCI (XIC)	ASCoT	NSCI (XIC)
Number of companies	**90**	**413**	89	422	92	417
Weighted average market capitalisation	**£425m**	**£806m**	£391m	£676m	£433m	£780m
Price earnings ratio (historic)	**9.8x**	**12.8x**	9.0x	10.5x	10.8x	13.4x
Dividend yield (historic)	**3.4%**	**3.0%**	3.4%	3.2%	2.9%	2.4%
Dividend cover (historic)	**3.0x**	**2.6x**	3.3x	3.0x	3.2x	3.1x

The principal valuation metric in your Managers' investment process is the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). This is because, with cash yielding so little at the current time, the PE ratio of a company is affected by the liability structure of its balance sheet: other things being equal, a company with a high amount of net debt will have a lower PE ratio than a company with net cash. The following table demonstrates the progression of the EV/EBITA ratios of the portfolio and the NSCI (XIC). This progression is influenced both by expectations of higher profits and by a declining EV, as surplus cash is generated to reduce debt or increase cash balances. This second dynamic typically accounts for around 20% of the movement in the ratio from one year to the next. The portfolio's valuation advantage over the small company universe is again evident.

EV/EBITA	Actual 2011	Forecast 2012	Forecast 2013
ASCoT portfolio	7.5x	7.1x	6.1x
Tracked NSCI (XIC)	9.6x	8.7x	7.6x

Outlook

There is plenty to worry about. The macro economic issues are obvious. But logical analysis of these issues only gets you so far. Eventually politics and national self-interest get in the way. Official policy in several major economies has brought interest rates close to zero. This financial repression complicates the appraisal of investments since it introduces extra doubt about the appropriate discount rate. The reverse yield gap is a thing of the past, with the yield premium of equities over gilts reinforced by regulatory shifts in assets allocation. Prospects for equities often appear rooted in the short term, with an obsession about whether the next quarterly statement will precipitate upgrades or downgrades. Within the NSCI (XIC), "larger small" companies are accorded exaggerated premiums against "smaller small" companies. Related to this, growth companies enjoy historically high premiums over value companies. Primary and secondary issuance has dwindled, with the resources sectors dominating what little there has been. At the same time, de-equitisation has continued to shrink the UK's stock of quoted equity capital.

Notwithstanding all of the above and taking a step back from the short term "risk-on, risk-off" noise, the small company universe offers abundant investment opportunities. The businesses are run by boards with recent experience of managing in a severe recession. Industrial exposures are very different from the financials and resources heavy large cap world, and, despite greater reliance on the UK than large caps, geographic diversification is still available. Businesses are well funded, with balance sheets never so strong in Aberforth's experience. And profit margins have recovered well over the last two years, offering protection should trading conditions deteriorate.

However, a skittish stockmarket is reluctant to reflect these fundamental strengths in valuations. The majority of small businesses are valued well below their long term averages. A fortunate few – large growth companies – have been able to break free but trade on exaggerated valuations compared with most small companies. It is from this silent majority of the UK stockmarket that ASCoT's portfolio is selected.

Looking at the value proposition in another way, small companies have generated an average annual total return of 15.3% since 1955. Adjusted for inflation, the return has been 9.1%, which compares with 5.8% from the wider UK market. The components of the real return from small companies are an average starting yield of 4.8%, real dividend growth of 2.1% and an annual valuation change of 1.9%.

Moving on to the situation at the end of June, the average current year yield from the portfolio's holdings was 3.6%. However, with above average dividend cover and the likelihood of nil yielders starting to pay dividends again, near term prospects for dividend growth are good: your Managers estimate 7.5% per annum over the next two years, or, assuming a 3.0% inflation rate, 4.5% in real terms. Clearly, extrapolation of such rates of

Managers' Report

growth into the medium and long term is too ambitious, but your Managers believe that over time the value investment style ought to be capable of generating incremental income growth as holdings are re-rated and sold, with the proceeds reinvested in cheaper and higher yielding companies. On top of this, with valuations for the asset class below their long term average and with value stocks particularly cheap, it might also be reasonable to expect some extra return from re-rating. Thus, small UK quoted companies selected according to a value discipline offer a medium to long term investment proposition that stacks up well in comparison with history and, indeed, with other financial assets.

Aberforth Partners LLP
Managers

18 July 2012

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David J Jeffcoat
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Richard A Rae

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Investment Portfolio

Fifty Largest Investments as at 30 June 2012

No.	Company	Valuation £'000	% of Total	Business Activity
1	RPC Group	28,286	4.2	Plastic packaging
2	e2v technologies	25,034	3.8	Electronic components & subsystems
3	Galliford Try	23,137	3.5	Housebuilding & construction services
4	JD Sports Fashion	20,740	3.1	Retailing - sports goods & clothing
5	CSR	20,688	3.1	Location & connectivity chips for mobile devices
6	RPS Group	19,081	2.9	Energy & environmental consulting
7	Bodycote	19,026	2.8	Engineering - heat treatment
8	Micro Focus	15,917	2.4	Software - development & testing
9	Phoenix IT Group	14,364	2.2	IT services & disaster recovery
10	Spirit Pub Company	14,012	2.1	Managed pub operator
	Top Ten Investments	**200,285**	**30.1**	
11	Howden Joinery Group	13,909	2.1	Kitchen supplier
12	Low & Bonar	13,462	2.0	Manufacture of industrial textiles
13	AZ Electronic Materials	12,858	1.9	Chemicals for semiconductor production
14	UMECO	12,801	1.9	Advanced composite materials
15	Vectura Group	12,740	1.9	Inhaled pharmaceuticals - respiratory specialism
16	St. Modwen Properties	12,662	1.9	Property investment & development
17	National Express Group	12,561	1.9	Train, bus & coach operator
18	Northgate	12,539	1.9	Van rental
19	Tullett Prebon	12,244	1.9	Inter dealer broker
20	Anite	12,149	1.8	Software - telecoms & travel
	Top Twenty Investments	**328,210**	**49.3**	
21	Optos	11,492	1.7	Medical technology - retinal imaging
22	Debenhams	11,438	1.7	Department stores
23	Laird	11,367	1.7	Electronic systems and controls
24	Lavendon Group	11,076	1.7	Hire of access equipment
25	Brewin Dolphin Holdings	11,011	1.6	Private client fund manager
26	Huntsworth	10,698	1.6	Public relations
27	Castings	10,655	1.6	Engineering - automotive castings
28	Barratt Developments	10,535	1.6	Housebuilding
29	Regus	10,327	1.5	Serviced office accommodation
30	Morgan Crucible Company	9,712	1.5	Engineering - ceramic & carbon materials
	Top Thirty Investments	**436,521**	**65.5**	

Investment Portfolio

Fifty Largest Investments as at 30 June 2012

No.	Company	Valuation £'000	% of Total	Business Activity
31	Beazley	9,299	1.4	Lloyds insurer
32	WH Smith	9,174	1.4	Newsagents
33	KCOM Group	9,091	1.4	Telecommunications services
34	Workspace Group	8,633	1.3	Property - rental to small businesses
35	Microgen	8,621	1.3	Workflow & financial services software
36	Unite Group	8,209	1.2	Property - student accommodation
37	Cranswick	8,103	1.2	Food manufacturer
38	Hansteen Holdings	7,886	1.2	Property - industrial
39	Centamin	7,799	1.2	Gold miner
40	Yule Catto & Co	7,504	1.1	Speciality chemicals
	Top Forty Investments	**520,840**	**78.2**	
41	Moneysupermarket.com Group	7,294	1.1	Price comparison websites
42	Safestore Holdings	7,251	1.1	Property - self storage
43	Hansard Global	7,248	1.1	Life assurance savings products
44	4imprint Group	7,047	1.1	Promotional products
45	F&C Asset Management	6,576	1.0	Investment manager
46	EnQuest	6,343	0.9	Oil & gas exploration & production
47	Halfords Group	6,152	0.9	Retailing & car servicing
48	JKX Oil & Gas	6,136	0.9	Oil & gas exploration & production
49	Robert Walters	6,125	0.9	Recruitment
50	Anglo Pacific Group	6,122	0.9	Natural resources royalties company
	Top Fifty Investments	**587,134**	**88.1**	
	Other Investments (40)	137,823	20.7	
	Total Investments	**724,957**	**108.8**	
	Net Liabilities	(58,835)	(8.8)	
	Total Net Assets	**666,122**	**100.0**	

Long-Term Investment Record

Historic Returns

Period	Discrete Annual Returns (%) NAV[1]	Index[2]	Share Price[3]
1 year to 30.6.12	–8.7	–4.1	–12.6
1 year to 30.6.11	36.3	34.2	36.3
1 year to 30.6.10	18.9	28.0	15.2
1 year to 30.6.09	–16.6	–12.4	–8.5
1 year to 30.6.08	–25.6	–24.8	–26.5
1 year to 30.6.07	26.9	25.4	22.6
1 year to 30.6.06	18.4	25.9	12.8
1 year to 30.6.05	24.1	18.2	25.6
1 year to 30.6.04	32.6	32.7	27.2
1 year to 30.6.03	0.2	–2.6	5.0
1 year to 30.6.02	3.9	–13.0	9.5
1 year to 30.6.01	24.8	–4.4	30.9
1 year to 30.6.00	8.7	19.0	4.4
1 year to 30.6.99	17.6	6.8	19.7
1 year to 30.6.98	17.8	22.9	7.3
1 year to 30.6.97	2.7	4.5	2.6
1 year to 30.6.96	34.0	27.2	28.9
1 year to 30.6.95	9.6	4.4	9.7
1 year to 30.6.94	12.4	11.9	4.4
1 year to 30.6.93	27.4	25.8	20.8
1 year to 30.6.92	19.3	9.4	26.3

Periods to 30.6.12	Compound Annual Returns (%)			Cumulative Returns (%)		
	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years from 30.6.10	11.5	13.5	9.2	24.4	28.7	19.2
3 years from 30.6.09	13.9	18.1	11.2	47.9	64.8	37.4
4 years from 30.6.08	5.4	9.6	5.9	23.4	44.4	25.7
5 years from 30.6.07	–1.7	1.7	–1.6	–8.2	8.6	–7.7
6 years from 30.6.06	2.6	5.3	2.1	16.5	36.2	13.2
7 years from 30.6.05	4.7	8.0	3.6	38.0	71.5	27.7
8 years from 30.6.04	7.0	9.2	6.1	71.2	102.7	60.4
9 years from 30.6.03	9.5	11.6	8.2	127.0	169.0	104.0
10 years from 30.6.02	8.6	10.1	7.9	127.4	161.9	114.2
15 years from 30.6.97	10.5	8.5	9.9	344.1	240.5	311.4
21.6 years from inception on 10.12.90	12.8	10.3	11.9	1,251.1	721.8	1,030.4

1 Represents Net Asset Value (Fully Diluted Net Asset Value prior to 1 April 2003) with dividends reinvested.

2 Represents capital appreciation/(depreciation) on the Numis Smaller Companies Index (excluding Investment Companies) with dividends reinvested (prior to 1 January 1997 in its "Extended" version).

3 Represents Ordinary Share price with dividends reinvested.

Interim Management Report

Risks and Uncertainties

A review of the half year and the outlook for the Company can be found in the Chairman's Statement and the Managers' Report. The Directors have established an ongoing process for identifying, evaluating and managing the key risks faced by the Company. The Board believes that the Company has a relatively low risk profile in the context of the investment trust industry. This belief arises from the fact that the Company has a simple capital structure; invests only in small UK quoted companies; has never been exposed to derivatives and does not presently intend any such exposure; and outsources all the main operational activities to recognised, well established firms.

As the Company's investments consist of small UK quoted companies, the principal risks facing the Company are market related and include market price, interest rate, credit and liquidity risk. Additional risks faced by the Company relate to investment objective, investment policy, share price discount, regulatory, operational/financial risk and gearing risk. An explanation of these risks and how they are managed can be found in the Directors' Report contained within the 2011 Annual Report.

These principal risks and uncertainties have not changed from those disclosed in the 2011 Annual Report.

Directors' Responsibility Statement

The Directors confirm that, to the best of their knowledge:

(i) the condensed set of financial statements has been prepared in accordance with the Statement `Half-yearly financial reports' issued by the Financial Reporting Council; and

(ii) the half-yearly report includes a fair review of information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events during the first six months of the year and their impact on the financial statements together with a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being disclosure of related party transactions and changes therein.

On behalf of the Board

Prof. Paul Marsh
Chairman

18 July 2012

Income Statement

(unaudited)

For the six months ended 30 June 2012

	Six months ended 30 June 2012 Revenue £'000	Capital £'000	Total £'000
Realised net (losses)/gains on sales	–	(37,221)	(37,221)
Movement in fair value	–	104,931	104,931
Net gains/(losses) on investments	–	67,710	67,710
Dividend income	15,291	–	15,291
Other income	–	–	–
Investment management fee (Note 2)	(1,000)	(1,667)	(2,667)
Transaction costs	–	(1,083)	(1,083)
Other expenses	(228)	–	(228)
Net return before finance costs and tax	14,063	64,960	79,023
Finance costs	(284)	(473)	(757)
Net return on ordinary activities before tax	13,779	64,487	78,266
Tax on ordinary activities	(18)	–	(18)
Return attributable to equity shareholders	13,761	64,487	78,248
Returns per Ordinary Share (Note 4)	14.34p	67.18p	81.52p

Dividends

On 18 July 2012, the Board declared a first interim dividend for the year ending 31 December 2012 of 7.00p per Ordinary Share (2011 – 6.45p) which will be paid on 23 August 2012.

Income Statement

Six months ended 30 June 2011			Year ended 31 December 2011		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	53,206	53,206	–	69,356	69,356
–	(10,947)	(10,947)	–	(179,371)	(179,371)
–	42,259	42,259	–	(110,015)	(110,015)
14,125	–	14,125	26,502	–	26,502
–	–	–	1	–	1
(1,086)	(1,810)	(2,896)	(2,105)	(3,508)	(5,613)
–	(1,497)	(1,497)	–	(2,475)	(2,475)
(300)	–	(300)	(522)	–	(522)
12,739	38,952	51,691	23,876	(115,998)	(92,122)
(309)	(515)	(824)	(616)	(1,027)	(1,643)
12,430	38,437	50,867	23,260	(117,025)	(93,765)
(6)	–	(6)	(13)	–	(13)
12,424	38,437	50,861	23,247	(117,025)	(93,778)
12.89p	39.89p	52.78p	24.13p	(121.46)p	(97.33)p

Reconciliation of Movements in Shareholders' Funds

(unaudited)

For the six months ended 30 June 2012

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2011	**961**	**27**	**182,103**	**379,276**	**40,724**	**603,091**
Return on ordinary activities after tax	–	–	–	64,487	13,761	78,248
Equity dividends paid	–	–	–	–	(13,748)	(13,748)
Purchase of Ordinary Shares	(2)	2	(1,469)	–	–	(1,469)
Balance as at 30 June 2012	**959**	**29**	**180,634**	**443,763**	**40,737**	**666,122**

For the six months ended 30 June 2011

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2010	964	24	183,279	496,301	36,221	716,789
Return on ordinary activities after tax	–	–	–	38,437	12,424	50,861
Equity dividends paid	–	–	–	–	(12,528)	(12,528)
Purchase of Ordinary Shares	–	–	–	–	–	–
Balance as at 30 June 2011	964	24	183,279	534,738	36,117	755,122

For the year ended 31 December 2011

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2010	964	24	183,279	496,301	36,221	716,789
Return on ordinary activities after tax	–	–	–	(117,025)	23,247	(93,778)
Equity dividends paid	–	–	–	–	(18,744)	(18,744)
Purchase of Ordinary Shares	(3)	3	(1,176)	–	–	(1,176)
Balance as at 31 December 2011	961	27	182,103	379,276	40,724	603,091

Balance Sheet

(unaudited)

As at 30 June 2012

	30 June 2012 £'000	31 December 2011 £'000	30 June 2011 £'000
Fixed assets: investments at fair value through profit or loss	**724,957**	669,903	818,496
Current assets			
Amounts due from brokers	**1,254**	–	3,013
Other debtors	**3,777**	2,578	4,160
Cash at bank	**92**	151	1,024
	5,123	2,729	8,197
Creditors (amounts falling due within one year)			
Amounts due to brokers	**(3,988)**	(1,137)	(1,571)
Other creditors	**(310)**	(520)	(142)
	(4,298)	(1,657)	(1,713)
Net current assets	**825**	1,072	6,484
Total assets less current liabilities	**725,782**	670,975	824,980
Creditors (amounts falling due after more than one year)			
Bank debt facility	**(59,660)**	(67,884)	(69,858)
Total net assets	**666,122**	603,091	755,122
Capital and reserves: equity interests			
Called up share capital:			
Ordinary Shares	**959**	961	964
Reserves:			
Capital redemption reserve	**29**	27	24
Special reserve	**180,634**	182,103	183,279
Capital reserve	**443,763**	379,276	534,738
Revenue reserve	**40,737**	40,724	36,117
Total shareholders' funds	**666,122**	603,091	755,122
Net asset value per share (Note 5)	**694.69p**	627.31p	783.59p
Share price	**579.50p**	501.00p	685.50p

Cash Flow Statement

(unaudited)

For the six months ended 30 June 2012

	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000	Year ended 31 December 2011 £'000
Net cash inflow from operating activities	**11,150**	7,866	18,763
Taxation			
Taxation recovered/(paid)	**9**	(11)	(15)
Returns on investments and servicing of finance	**(742)**	(777)	(1,584)
Capital expenditure and financial investment			
Payments to acquire investments	**(100,346)**	(145,979)	(238,064)
Receipts from sales of investments	**113,516**	134,135	224,277
Net cash inflow/(outflow) from capital expenditure and financial investment	**13,170**	(11,844)	(13,787)
	23,587	(4,766)	3,377
Equity dividends paid	**(13,748)**	(12,528)	(18,744)
	9,839	(17,294)	(15,367)
Financing			
Purchase of Ordinary Shares	**(1,648)**	–	(800)
Net (repayment)/drawdown of bank debt facilities (before costs)	**(8,250)**	18,250	16,250
Change in cash during the period	**(59)**	956	83
Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities			
Net return before finance costs and taxation	**79,023**	51,691	(92,122)
(Gains)/losses on investments	**(67,710)**	(42,259)	110,015
Scrip dividends received	**–**	–	(137)
Transaction costs	**1,083**	1,497	2,475
Increase in debtors	**(1,226)**	(3,050)	(1,471)
(Decrease)/increase in creditors	**(20)**	(13)	3
Net cash inflow from operating activities	**11,150**	7,866	18,763

Notes to the Financial Statements

1. Accounting Standards

The financial statements have been prepared on a going concern basis and in accordance with UK generally accepted accounting practice ("UK GAAP") and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in 2009. The total column of the Income Statement is the profit and loss account of the Company. All revenue and capital items in the Income Statement are derived from continuing operations. No operations were acquired or discontinued in the period.

The same accounting policies used for the year ended 31 December 2011 have been applied.

2. Investment Management Fee

	Revenue £'000	Capital £'000	Total £'000
For the six months ended 30 June 2012	**1,000**	**1,667**	**2,667**
For the six months ended 30 June 2011	1,086	1,810	2,896
For the year ended 31 December 2011	2,105	3,508	5,613

3. Dividends

	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000	Year ended 31 December 2011 £'000
Amounts recognised as distributions to equity holders in the period:			
Second interim dividend of 13.0p for the year ended 31 December 2010	–	12,528	12,528
First interim dividend of 6.45p for the year ended 31 December 2011	–	–	6,216
Second interim dividend of 14.3p for the year ended 31 December 2011	**13,748**	–	–
	13,748	12,528	18,744

The first interim dividend for the year ending 31 December 2012 of 7.00p (2011 – 6.45p) will be paid on 23 August 2012 to shareholders on the register on 3 August 2012. The ex-dividend date is 1 August 2012.

Notes to the Financial Statements

4. Returns per Ordinary Share

The returns per Ordinary Share are based on:

	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000	Year ended 31 December 2011 £'000
Weighted average number of shares in issue during the period	**95,992,743**	96,366,792	96,345,381

5. Net Asset Values

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

	30 June 2012 £'000	31 December 2011 £'000	30 June 2011 £'000
Net assets attributable	**666,122**	603,091	755,122

	Pence	Pence	Pence
Net asset value attributable per Ordinary Share	**694.69**	627.31	783.59

As at 30 June 2012, the Company had 95,887,792 Ordinary Shares in issue (31 December 2011 – 96,138,792 and 30 June 2011 – 96,366,792).

Notes to the Financial Statements

6. Further Information

The foregoing do not constitute statutory accounts (as defined in section 434(3) of the Companies Act 2006) of the Company. The statutory accounts for the year ended 31 December 2011, which contained an unqualified Report of the Auditors, have been lodged with the Registrar of Companies and did not contain a statement required under section 498(2) or (3) of the Companies Act 2006. All information shown for the six months to 30 June 2012 is unaudited.

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

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