Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 2011

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 RBS Hoare Govett Smaller Companies Index (excluding Investment Companies) over the long term."

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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your ordinary shares in Aberforth Smaller Companies Trust plc, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee.

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.

Financial Highlights

Year to 31 December 2011

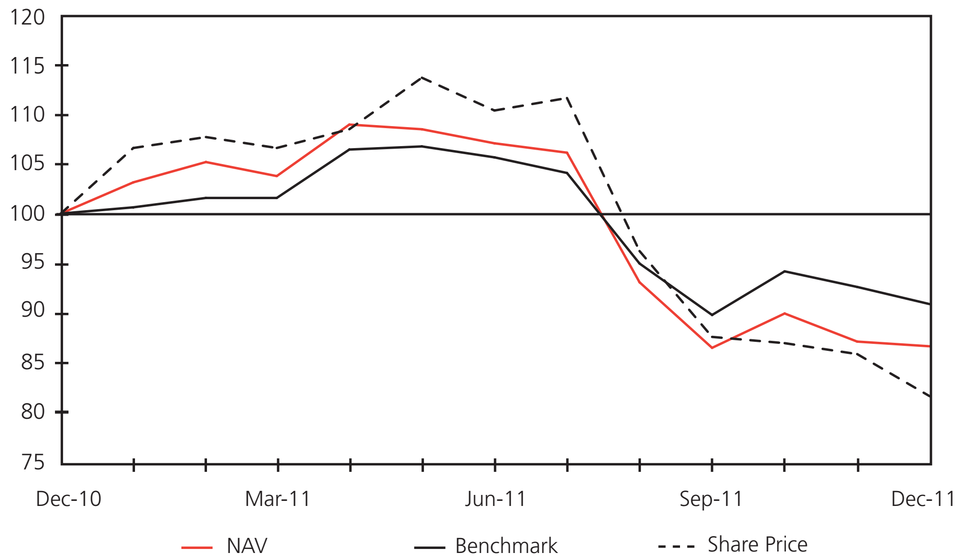
	%
Net Asset Value (total return)	-13.5
RBS Hoare Govett Smaller Companies Index (excl. Investment Companies) (total return)	-9.1
Ordinary Share Price (with net dividends reinvested)	-18.5

	As at 31 December 2011	As at 31 December 2010	% Change
Shareholders' Funds	**£603.1m**	£716.8m	-15.9
Market Capitalisation	**£481.7m**	£609.5m	-21.0
Actual gearing employed	**111.1%**	107.3%	n/a
Ordinary Share net asset value	**627.31p**	743.81p	-15.7
Ordinary Share price	**501.00p**	632.50p	-20.8
Ordinary Share discount	**20.1%**	15.0%	n/a
Revenue per Ordinary Share	**24.13p**	18.11p	+33.2
Dividends per Ordinary Share	**20.75p**	19.00p	+9.2
Total expense ratio	**0.88%**	0.85%	n/a
Portfolio turnover	**29.5%**	37.3%	n/a

	31 December 2011	31 December 2010
Total return per Ordinary Share		
Revenue	**24.13p**	18.11p
Capital	**(121.46p)**	138.08p
Total	**(97.33p)**	156.19p

One Year Performance

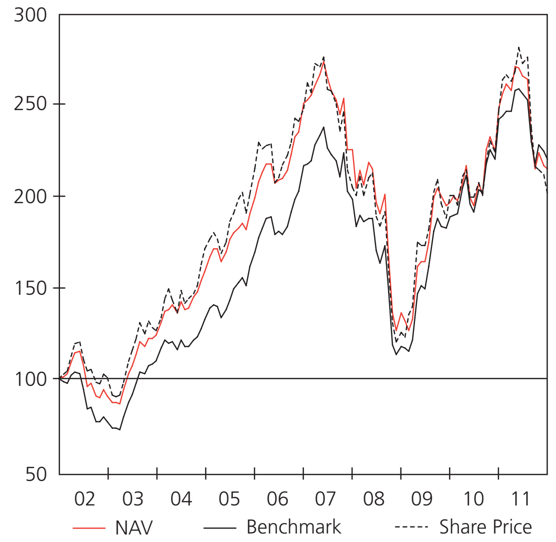
Absolute Performance
(figures are total returns and have been rebased to 100 at 31 December 2010)



Ten Year Investment Record

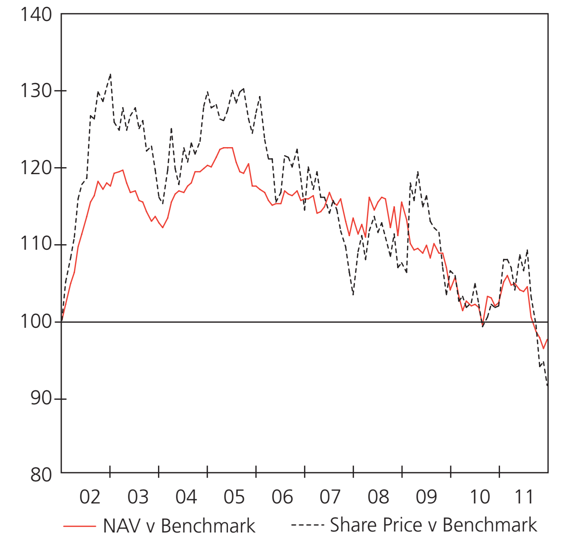
Absolute Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2001)



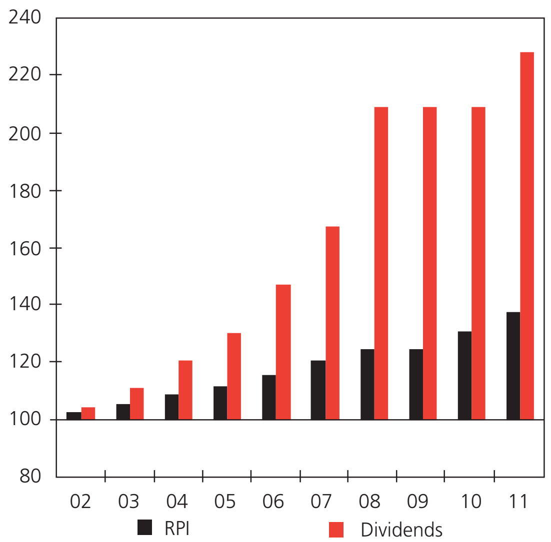
Relative Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2001)



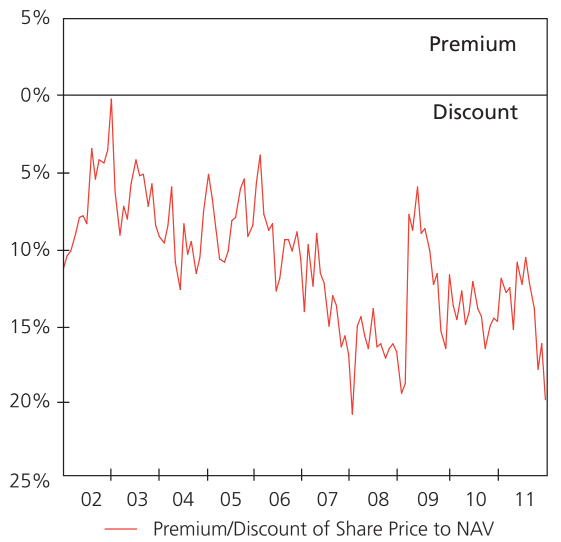
Dividends and RPI Growth

(figures have been rebased to 100 at 31 Dec 2001)



Premium/Discount

(being the difference between Share Price and NAV)



Company Summary

Introduction

Aberforth Smaller Companies Trust plc (ASCoT) is an Investment Trust whose shares are traded on the London Stock Exchange. As at 31 December 2011, it is the largest trust, based on net assets, within its sub-sector of UK Smaller Company Investment Trusts.

Objective

The objective of ASCoT is to achieve a net asset value total return (with dividends reinvested) greater than on the RBS Hoare Govett Smaller Companies Index (excluding Investment Companies) ("RBS HGSC (XIC)") over the long term. The Company's performance is measured against the total return of this index.

Further details regarding the benchmark, investment policy and approach can be found in the Business Review contained in the Directors' Report on pages 18 to 24.

Management Firm

Aberforth Partners LLP are contracted as the investment managers and secretaries to the Company. Both of these contracts can be terminated by either party at any time by giving six months' notice of termination. Further information can be found on pages 19 and 20. Aberforth Partners LLP manage £1.4 billion invested in small UK quoted companies. Further information on the firm is set out on page 6.

Share Capital

At 31 December 2011 the Company's issued share capital consisted of 96,138,792 Ordinary Shares of 1p. During the year 228,000 shares were bought in and cancelled.

Wind-Up Date

The Company has no fixed duration. However, in accordance with the Articles of Association, an ordinary resolution will be proposed at the 2014 Annual General Meeting (and at every third subsequent Annual General Meeting) that the Company continues to manage its affairs as an investment trust.

ISA Status

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

AIC

The Company is a member of The Association of Investment Companies (AIC).

Chairman's Statement

Review of 2011 Performance

After a good start, the second half of 2011 once again saw acute stress in financial markets. Although not as extreme as the fourth quarter of 2008, credit markets, particularly European inter bank markets, displayed a level of dysfunctionality that required, and invited, Central Bank intervention. In such a hostile environment, there was a global flight to safety. Since 30 June 2011, ten year UK government bond yields have fallen from 3.38% to 1.98% mirroring similar moves in Germany and in the USA as risk assets plummeted.

In the UK equity market, all indices fell sharply in July and August, but larger companies staged a partial recovery by the year end, so that over the second half of the year, the FTSE 100 fell a modest 6.3% in capital only terms. Mid and smaller companies suffered more severely and failed to enjoy the same recovery, with the FTSE 250 declining by 15.9%, the RBS HGSC (XIC) by 15.3%, the FTSE SmallCap by 18.6% and the minnows, as represented by the FTSE Fledgling, by 25.6%. The UK was not alone. Of the world's 30 largest equity markets, smaller companies achieved a positive return in just one country, and underperformed their larger counterparts in all but three.

Against such a backdrop, it is frustrating to report that your Company, Aberforth Smaller Companies Trust plc ("ASCoT"), lost all of its relative outperformance of the first half during the brutal sell off of the past six months. For the year to 31 December 2011, your Company's Net Asset Value total return was -13.5% compared with -9.1% total return in the RBS HGSC (XIC), your Company's benchmark. The Managers' Report provides greater insight into the investment themes and influences over the year, where once again wider market style effects have provided significant headwinds to performance.

Dividends

In sharp contrast to the Net Asset Value decline, your Company's income account enjoyed an excellent year. Indeed the recovery in dividends from the investee companies has resulted in your Company's earnings increasing at their fastest rate since 1995. As I wrote in my Interim Statement in July 2011, "dividends matter to all long term investors, but for value investors they have a special importance". Your Board is pleased to declare a second interim dividend, in lieu of a final dividend, of 14.3p. This results in total dividends for the year of 20.75p representing an increase of 9.2% on 2010. This compares favourably with both the ten and twenty year growth rates that have, in the view of your Board and the Managers, been fundamental in establishing your Company's long term record. At the year end share price of 501p, your Company's shares deliver a 4.1% yield. Your Board is well aware of the significance of the income component of the total returns from UK equities over the long term.

Your Board remains committed to your Company's progressive dividend policy. The level of your Company's revenue reserves, after adjusting for payment of the second interim dividend, amounting to 28.1p per share (up from 24.6p as at 31 December 2010), provides a degree of flexibility going forward in the event of the UK economy dipping back into recession.

The second interim dividend will be paid on 24 February 2012 to Shareholders on the register as at the close of business on 3 February 2012. The last date for submissions of Forms of Election for those Shareholders wishing to participate in your Company's Dividend Reinvestment Plan ("DRIP") is also 3 February 2012. Details of the DRIP are available from Aberforth Partners LLP on request or on its website, www.aberforth.co.uk.

Gearing

As I reported in my Interim Statement, your Company, in May 2011, negotiated a new three year facility of £100m, replacing the previous facility. Your Board regularly reviews the level of gearing with the Managers and is comfortable that your Company has access to sufficient liquidity for both investment purposes and also to fund share buy-ins as and when appropriate. As at 31 December 2011, £68m of this facility was utilised. The current level of gearing is based upon attractive valuation levels, described in greater detail in the Managers' Report, but should also be viewed in conjunction with exceptionally strong balance sheets of the underlying investee companies held in your portfolio.

Share Buy-In Authority and Treasury Shares

At the Annual General Meeting in March 2011, the authority to buy-in up to 14.99% of your Company's Ordinary Shares was approved. During the year, 228,000 Ordinary Shares were bought-in (0.2% of the

Company's issued share capital) at a total cost of £1.18 million. Consistent with your Board's stated policy, those Ordinary Shares have been cancelled rather than held in treasury. Once again, your Board will be seeking to renew the buy-in authority at the Annual General Meeting on 7 March 2012. The Board keeps under constant review the circumstances under which the authority is utilised in relation to the overall objective of seeking to manage the discount.

Board Changes

Eddie Cran, who has been a Director since July 2001, will not be standing for re-election at the forthcoming Annual General Meeting. Eddie has been a valued member of your Board and we will all miss his insights and invaluable contributions. We wish Eddie all the very best for the future.

We are delighted to appoint Richard Rae as a director of your Company with effect from 26 January 2012. Richard's investment career extends over 25 years. He has extensive knowledge of the UK smaller companies area, and we look forward to working with him.

Summary

2011 proved frustrating for your Company. The "return to value" style shift, which was witnessed through the latter part of 2010 and early 2011, faded as dysfunctional European credit markets became the overriding issue for investors.

2012 will undoubtedly bring challenges but amidst all the uncertainty it has been encouraging to see the dividend recovery, described in recent reports by both your Board and the Managers, come to fruition. While the trading backdrop is likely to be tough in 2012, your Board and the Managers are cautiously optimistic that the dividend recovery witnessed in 2011 has the strength to continue through 2012. This optimism is supported by the strong balance sheets of the investee companies and by the relative merits of equity capital, both of which are described in more detail in the Managers' Report.

Value investing has proved extremely successful over the long run, but has always been punctuated by sometimes extended periods when the style is out of fashion. We are currently experiencing one of the longest such periods on record. While it is impossible to know when it will end, your Managers remain confident that your portfolio represents excellent value, and that this will ultimately be recognised by the market.

Professor Paul R Marsh
Chairman
25 January 2012
paul.marsh@aberforth.co.uk

Aberforth Partners LLP – Information

Aberforth Partners LLP (the "firm") act as investment managers and secretaries to the Company. The predecessor business, Aberforth Partners, was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies. Since then funds under management have grown to £1.4 billion (as at 31 December 2011). The firm is wholly owned by six partners – five investment managers (including three founding partners), and Alan Waite, who is responsible for the firm's administration. John Evans, a founding partner, retired on 31 August 2011. Six investment managers work as a team managing the Company's portfolio on a collegiate basis. The founding partners have been managing the portfolio since the Company's inception in December 1990. The partners each have a personal investment in the Company. The biographical details of the investment managers are as follows:

Andrew P Bamford (45) BCom (Hons), CA – Andy joined Aberforth Partners in April 2001, became a partner in May 2004, and is responsible for investment research and stock selection in the following areas – Industrial Transportation; Technology Hardware & Equipment; Travel & Leisure; and a proportion of Support Services. Previously he was with Edinburgh Fund Managers for 7 years, latterly as Deputy Head of UK Small Companies, with specific responsibility for institutional clients. Prior to joining Edinburgh Fund Managers he was a senior investment analyst with General Accident for 2 years supporting the head of UK Smaller Companies. Before joining General Accident, he was a Chartered Accountant with Price Waterhouse.

Euan R Macdonald (41) BA (Hons) – Euan joined Aberforth Partners in May 2001, became a partner in May 2004, and is responsible for investment research and stock selection in the following areas – Industrial Engineering; Life Assurance; Nonlife Insurance; Software & Computer Services; and a proportion of Support Services. Previously he was with Baillie Gifford for 10 years where he managed portfolios invested in small companies both in Continental Europe and in the UK.

Keith Muir (42) BEng (Hons), CFA – Keith joined Aberforth Partners in March 2011 and is responsible for investment research and stock selection in the following areas – Automobiles & Parts; Chemicals; Construction & Materials; Electricity; Fixed Line Telecommunications; Gas, Water & Multiutilities; Household Goods & Home Construction; Industrial Metals & Mining; Leisure Goods; Mining; and Mobile Telecommunications. Previously Keith was an Investment Director with Standard Life Investments for 13 years and spent the last 9 years as a senior member of the Smaller Companies team with associated portfolio management responsibilities. Prior to that he gained experience with Southpac, Scottish Equitable and Murray Johnstone.

Richard M J Newbery (52) BA (Hons) – Richard was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Alternative Energy; Beverages; Electronic & Electrical Equipment; Food & Drug Retailers; Food Producers; General Industrials; General Retailers; and Personal Goods. Previously he was with Ivory & Sime for 9 years where he managed international portfolios for a range of clients including those with a small company specialisation.

David T M Ross (62) FCCA – David was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Real Estate Investment Trusts; Real Estate Investment & Services; and Financial Services. Previously he was with Ivory & Sime for 22 years, the last two of which were as Managing Director. He was a Director of US Smaller Companies Investment Trust plc and served as a member of the Executive Committee of the Association of Investment Companies.

Alistair J Whyte (48) – Alistair was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Aerospace & Defence; Health Care Equipment & Services; Media; Oil & Gas Producers; Oil Equipment; Services & Distribution; and Pharmaceuticals & Biotechnology. Previously he was with Ivory & Sime for 11 years where latterly he managed portfolios in Asia. Prior to that he managed portfolios with the objective of capital growth from smaller companies in the UK and internationally.

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

Managers' Report

Introduction

Performance in the first seven months of 2011 was good in both absolute and relative terms. ASCoT's NAV total return up to the end of July was 6.1% against 4.1% for the RBS HGSC (XIC). However, coinciding with resurgent concerns about the Eurozone and global economic growth, performance deteriorated through the latter part of the year. From the end of July to the end of December, ASCoT's NAV total return was -18.5%, which compares with -12.7% for the benchmark. Hence, over 2011 as a whole, ASCoT's total return was -13.5%, while the RBS HGSC (XIC)'s was -9.1%. Larger companies proved more resilient over the year, with the FTSE All-Share's total return of -3.5% making it one of the best performing equity indices around the globe. The under-performance of smaller companies came within the context of rising macro economic concerns and risk aversion of the second half of the year.

Performance background

For the twelve months ended 31 December 2011	Basis Points
Stock selection	(353)
Sector selection	127
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 35 basis points)	**(226)**
Movement in mid to bid price spread	(7)
Cash/gearing	(125)
Purchase of Ordinary Shares	3
Management fee	(73)
Other expenses	(7)
Total attribution based on bid prices	**(435)**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = -13.48%; Benchmark Index = -9.13%; difference is -4.35% being -435 basis points).

The table above is an attribution analysis that sets out the impact of various factors on ASCoT's relative performance in 2011. The largest effects – Stock and Sector selection – are at the portfolio level. Underlying Stock and Sector selection represent your Managers' individual investment decisions. In any year, within a well diversified portfolio of 89 holdings, there will be good investment decisions and poor investment decisions, the latter being instances where your Managers have got the fundamentals of underlying businesses wrong. However, potentially more influential on relative returns and on portfolio level attribution, at least in the short term, is the wider market's consideration of broader investment themes. This was the case in 2011, when none of the themes that characterise the portfolio and that stem from your Managers' consistently applied investment philosophy proved helpful.

Gearing

ASCoT's portfolio was, on average, geared by 10% through 2011. In an environment of falling equity prices, this gearing exacerbated the decline in ASCoT's NAV. Of ASCoT's 435 basis point under-performance against the benchmark in 2011, the gearing effect accounted for 125 basis points. The reason for the gearing is the abundance of attractively valued businesses within the RBS HGSC (XIC). As described in greater detail later in this report, these valuations would appear to discount the risk of a relapse into recession.

Style

Over the past 21 years, your Managers have consistently followed a value investment style. Though unusual among small company investors, the logic for this approach is underpinned by a number of studies that demonstrate substantial long term out-performance of the value style: for example, the London Business School's ("LBS") work on the RBS HGSC (XIC) points to value outstripping growth by five percentage points per annum since 1955. Within Aberforth's 21 year history, a value philosophy has on the whole proved rewarding, but there have been periods, most notoriously during the TMT bubble, when a focus on low valuations has been made to look misguided. The last five years have witnessed another period that has favoured the growth style, with the LBS study showing growth stocks to have outstripped value stocks by ten percentage points per annum over that period. This has represented a headwind to ASCoT's performance. Your Managers were encouraged by signs of a resurgence of the value style towards the end of 2010 and in the early months of 2011. However, this came to a halt as the macro economic developments of the third quarter weighed on sentiment and threatened the rising tide of general economic growth. Thus, in the second half of the year the LBS study suggests that the growth style returned to the fore. Nevertheless, your Managers continue to favour a value approach that has been advantageous over the long term and that at the current time is supported by the strong balance sheets and dividend prospects detailed below.

Size

This theme is allied to style. The benchmark's definition – those companies in the bottom 10% of the UK stockmarket's total capitalisation – means that FTSE 250 companies account for three quarters of its market capitalisation. However, these mid cap companies represent just half of the portfolio by weight and, accordingly, the portfolio has double the benchmark's weighting in its smaller constituents. This positioning is motivated by the abundance of particularly low valuations among the "smaller small" companies: at the year end, the RBS HGSC (XIC)'s mid cap element was valued on a historic PE ratio 57% higher than that of its small cap element. This substantial valuation gap has opened up over the past eight years as investors have shortened their investment horizons and run shy of the illiquidity of "smaller small" companies, notwithstanding their fundamental attractions. Concurrently, shares in mid cap companies have enjoyed incremental demand from diversification by large company UK equity portfolios. Your Managers believe that the historically low PE ratings accorded to "smaller small" companies in particular have the potential for upward adjustment, with a consequent boost to ASCoT's capital value.

Strong balance sheets

Strong balance sheets are a feature of the corporate sectors of many major economies. This is certainly the case in the UK and, more specifically, among small UK quoted companies. At the year end, 43% of ASCoT's portfolio was invested in companies with net cash on their balance sheets, somewhat higher than the RBS HGSC (XIC)'s still respectable 31%. With the yield from cash extremely low in the current interest rate environment, the stockmarket has been disinclined to value the flexibility and defensiveness afforded by a strong balance sheet, a trait that ASCoT has exploited. Curiously, however, during the bear market of the second half of the year, the correlation between balance sheet strength and share price performance within the benchmark was remarkably low – the relationship between the two was effectively random. This frustrating lack of discernment can probably be attributed to the prevailing climate of extreme risk aversion, which has, so far, out-weighed other considerations.

Dividend yield

The correlation between share price performance and dividend yield within the RBS HGSC (XIC) through the second half was also surprising. Again, the relationship was almost random: a superior dividend yield offered almost no protection against share price falls. This was in sharp contrast to the experience within the large company world, where high yielding sectors such as Tobacco, Pharmaceuticals and Utilities all performed relatively well. The discrepancy is, at least in part, a result of traditional prejudices about small companies: it is not an area the market associates with yield and income. But there is plenty of yield on offer. The 422 companies in the RBS HGSC (XIC) had an aggregate historic yield of 3.2% at the year end, somewhat less than the FTSE All-Share's 3.6%. However, one quarter of the benchmark's constituents did not pay dividends, usually as a result of their early stage business models that require cash generated to be reinvested in the businesses. The aggregate yield of the 300 or so companies that do pay a dividend is 4.0%, actually higher and less concentrated than large companies. As a function of your Managers' value investment style, ASCoT's portfolio has almost always had a higher yield than the RBS HGSC (XIC) and ended the year with a yield of 3.4%.

Valuations

Characteristics	31 December 2011 ASCoT	31 December 2011 Benchmark	31 December 2010 ASCoT	31 December 2010 Benchmark
Number of companies	**89**	**422**	88	430
Weighted average market capitalisation	**£391m**	**£676m**	£424m	£696m
Price earnings ratio (historic)	**9.0x**	**10.5x**	11.8x	13.7x
Dividend yield (historic)	**3.4%**	**3.2%**	2.5%	2.4%
Dividend cover	**3.3x**	**3.0x**	3.4x	3.0x

Managers' Report

The preceding table shows the historic PE and yield statistics for ASCoT's portfolio and the RBS HGSC (XIC). Consistent with Aberforth's value investment style, ASCoT is cheaper on both measures. However, 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 EV/EBITA is balance sheet neutral. That is to say, 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 EV/EBITA is not distorted in this fashion.

Characteristics	2011	2012 EBITA +5%	2012 EBITA -20%
ASCoT portfolio	6.9x	6.6x	8.6x
Tracked RBS HGSC (XIC)	8.7x	8.3x	10.9x

The preceding table sets out the EV/EBITA ratios for the portfolio and the benchmark based on 2011 profits. It also gives two scenarios for 2012. The first shows the EV/EBITA multiples that would prevail if profits grow by 5% in 2012. Given current macro economic headwinds, this might be considered an ambitious outcome, but, for the portfolio at least, is not implausible owing to the impact of acquisitions and recovery situations. The second scenario, which assumes a 20% decline in profits, is essentially a re-run of the last recession: in 2009, the aggregate EBITA of the year end portfolio fell by one fifth on 2008. The resulting EV/EBITA ratio is 8.6x. But, would this represent good value?

In 2010, with the recovery from recession well underway, the stockmarket had re-rated the portfolio's 2009 trough EBITA to 12x. Thus, it might be argued that, if profits do indeed fall by 20% again, present market prices are already sufficiently low to allow an upwards revaluation of around one third, once confidence builds that the current economic uncertainties have stopped getting worse. In short, a lot of the potential bad news may already be in the current price.

Potential catalysts

Value investors are usually capable of articulating the valuation merits of their portfolios. The challenge to such claims typically focuses on what is going to close the valuation gaps and make the portfolios less cheap. A somewhat glib, but nonetheless relevant, response is "time". ASCoT has the luxury of investment trust status and a portfolio of well funded businesses that afford it a long term investment horizon: history suggests that over time investors in relatively illiquid small and cheap equities are disproportionately rewarded. However, there are other catalysts that can precipitate revaluation in shorter time horizons.

Macro economy

An improvement in the global economy, together with a decline in risk aversion, would encourage investment in smaller companies. Experience suggests that it would also help the value style, since growth would be easier to come by and the "scarcity premiums" currently enjoyed by secular growth stocks would be harder to justify. Clearly, however, calling the direction of the macro economy at the current time is more foolhardy than usual. The Eurozone crisis threatens to precipitate another recession in the UK, and to be so reliant on politicians to effect a solution is worrisome. More optimistically, the US economy has been making better progress and relieves some of the pressure emanating from Europe. Most importantly, the UK corporate sector, and within that ASCoT's investment universe, remains relatively well positioned, having spent almost a decade in financial surplus. Balance sheets are better positioned now than they were in 2008 to endure a deterioration in demand.

Corporate engagement

Since Aberforth's formation in 1990, your Managers have taken seriously their governance responsibilities, voting at every general meeting of ASCoT's investee companies and interacting with both the executives and non executives of these companies. Occasionally, your Managers engage with boards more actively, though discreetly, in order to improve the chances of closing value gaps. Such active engagement can take several forms, but one feature of the past year has been the change of chairmen of three investee companies. In each case, your Managers were able to help in installing new chairmen with strong records of shareholder value creation.

Managers' Report

De-equitisation

De-equitisation is a term coined to describe the replacement of equity funding with debt funding. It was all the rage in the years leading up to the global financial crisis and undoubtedly boosted equity valuations. After a pause with the rights issues of 2009, de-equitisation has returned, promoted by the strength of corporate balance sheets. The most high profile form of de-equitisation is takeover activity. Within the small UK quoted company universe, the year under review started strongly in M&A terms: 12 deals, of which ASCoT was a shareholder in three, had been completed by the half year. However, through the third quarter, consistent with greater macro economic uncertainty, takeover activity waned, so that over the year as a whole 18 deals were completed, of which ASCoT had holdings in six. A renewed pick-up in M&A would benefit the valuations of ASCoT's portfolio. In the meantime, other forms of de-equitisation carry on, again promoted by strong balance sheets. Several holdings continue with share buy-back programmes and there have been four special dividends announced over the course of 2011.

Dividends

Payment of ordinary dividends is a form of de-equitisation that has been widely over-looked for much of the past twenty years: with companies able to rely on debt providers for their marginal funding requirements in the years prior to the global financial crisis, income returns to providers of equity were often neglected. However, it would seem that the substantial equity refinancings of 2009 have altered the relationship between companies and their shareholders, with dividends acknowledged now as a higher priority. This secular change has augmented the cyclical recovery in dividends to produce good rates of dividend growth across the small company universe and in ASCoT's portfolio.

Band	Nil	IPOs	Down	Flat	+0-10%	+10-20%	+ >20%	New
No. of holdings	16	1	11	9	21	14	12	5

The preceding table classifies ASCoT's 89 holdings at the year end by their most recent dividend action. The "Nil" category contains those companies that do not pay dividends. Nine of those can be considered structural nil payers, typically technology businesses at a relatively early stage of development. The other seven are cyclical nil payers that will come back to the dividend register once their profits recover and will at that point move into the "New" category. At this stage in the cycle, this phenomenon has a substantial effect on reported dividend growth across the portfolio and the RBS HGSC (XIC) as a whole.

While the pace of dividend increases has to slow from the high rates of the earlier stages of recovery, your Managers still expect the year end portfolio to generate real dividend growth in 2012, from the historic yield of 3.4%. Notwithstanding the clear macro economic challenges, this yield is supported by both strong balance sheets and historically high dividend cover of 3.3x. Despite these characteristics and the global yearning for yield, the well diversified dividend income available in the small UK quoted company universe is an under-appreciated opportunity.

Outlook

It is frustrating to be reporting on a year of poor absolute and relative returns. This sense of frustration is compounded by ASCoT's good performance in the first seven months of the year and by disappointing returns in the second half's bear market from a portfolio that, by virtue of its above average yield and strong underlying balance sheets, might reasonably have been thought capable of performing better. The fact that such characteristics have so far proved worthless highlights the extremity of negative sentiment in the current market towards "smaller small" companies, particularly to those perceived by the market incapable of growing through thick and thin. This majority of companies within the RBS HGSC (XIC) includes numerous high quality businesses: in today's market it is not necessary to compromise on quality to construct an attractively valued portfolio. At the other extreme, lofty valuations are accorded to the fortunate few businesses that are deemed capable of high rates of secular growth. The present gulf between the valuations of value and growth stocks is exaggerated. History suggests that the relationship between the two groups will not stay at such stretched levels. The process of normalisation will be advantageous to the value investment style. However, while this report has described plausible catalysts, the timing is difficult to call.

In the meantime, the superior income characteristics of the portfolio that tend to come hand-in-hand with your Managers' value style offer some compensation pending a re-rating. As the Chairman has described, the admirable income performance of the underlying investments over the last two years is now again being reflected in ASCoT's own dividend payments: like the majority of its investee companies, ASCoT yields more than gilts and has good prospects of dividend growth.

Aberforth Partners LLP
Managers
25 January 2012

Thirty Largest Investments

As at 31 December 2011

No.	Company	Value £'000	% of Total Net Assets	Business Activity
1	RPC Group	28,276	4.7	Plastic packaging
2	e2v technologies	20,107	3.3	Electronic components & subsystems
3	Anite	19,067	3.2	Software - telecoms & travel
4	Galliford Try	18,049	3.0	Housebuilding & construction services
5	Micro Focus International	17,950	3.0	Software - development & testing
6	JD Sports Fashion	17,559	2.9	Retailing - sports goods & clothing
7	RPS Group	16,955	2.8	Energy & environmental consulting
8	Bodycote	16,530	2.7	Engineering - heat treatment
9	Mecom Group	15,724	2.6	European newspaper publisher
10	CSR	15,583	2.6	Location & connectivity chips for mobile devices
	Top Ten Investments	185,800	30.8	
11	Collins Stewart Hawkpoint	15,385	2.5	Stockbroker & private client fund manager
12	Spirit Pub Company	11,993	2.0	Managed pub operator
13	Phoenix IT Group	11,993	2.0	IT services & disaster recovery
14	Optos	11,866	2.0	Medical technology - retinal imaging
15	Regus	11,558	1.9	Serviced office accommodation
16	National Express Group	11,500	1.9	Train, bus & coach operator
17	Brewin Dolphin Holdings	11,351	1.9	Private client fund manager
18	Beazley	11,318	1.9	Lloyds insurer
19	Tullett Prebon	10,703	1.8	Inter dealer broker
20	AZ Electronic Materials	10,521	1.7	Speciality chemicals
	Top Twenty Investments	303,988	50.4	
21	Yule Catto & Company	10,466	1.7	Speciality chemicals
22	Greggs	10,373	1.7	Retailing - baked products & sandwiches
23	Low & Bonar	10,232	1.7	Manufacture of industrial textiles
24	Howden Joinery Group	9,375	1.6	Kitchen supplier
25	Morgan Crucible Company	9,167	1.5	Engineering - ceramic & carbon materials
26	Moneysupermarket.com Group	9,107	1.5	Price comparison websites
27	Castings	8,776	1.5	Engineering - automotive castings
28	Vectura Group	8,639	1.5	Inhaled pharmaceuticals - respiratory specialism
29	KCOM Group	8,606	1.4	Telecommunications services
30	Lavendon Group	8,451	1.4	Hire of access equipment
	Top Thirty Investments	397,180	65.9	
	Other Investments	272,723	45.2	
	Total Investments	669,903	111.1	
	Net Liabilities	(66,812)	(11.1)	
	Total Net Assets	603,091	100.0	

Investment Portfolio

As at 31 December 2011

Security	Value £'000	% of Total Net Assets	% of HGSC (XIC) Index[1]
Oil & Gas Producers	16,832	2.8	4.1
EnQuest	5,263	0.9	
JKX Oil & Gas	7,359	1.2	
Melrose Resources	4,210	0.7	
Oil Equipment & Services	–	–	2.0
Alternative Energy	–	–	
Chemicals	20,987	3.4	2.5
AZ Electronic Materials	10,521	1.7	
Yule Catto & Company	10,466	1.7	
Industrial Metals & Mining	4,528	0.7	0.5
International Ferro Metals	4,528	0.7	
Mining	7,031	1.1	6.1
Anglo Pacific Group	6,292	1.0	
Namakwa Diamonds	739	0.1	
Construction & Materials	28,281	4.7	1.6
Galliford Try	18,049	3.0	
Low & Bonar	10,232	1.7	
Aerospace & Defence	9,280	1.6	2.7
Hampson Industries	1,096	0.2	
UMECO	8,184	1.4	
General Industrials	28,276	4.7	1.2
RPC Group	28,276	4.7	
Electronic & Electrical Equipment	29,274	4.8	2.8
e2v technologies	20,107	3.3	
Morgan Crucible Company	9,167	1.5	
Industrial Engineering	29,145	4.8	1.7
Bodycote	16,530	2.7	
Castings	8,776	1.5	
Hill & Smith Holdings	3,839	0.6	
Industrial Transportation	2,226	0.4	1.9
Wincanton	2,226	0.4	
Support Services	82,296	13.6	13.7
Acal	4,323	0.7	
Capital Drilling	3,036	0.5	
CPPGroup	4,402	0.7	
Howden Joinery Group	9,375	1.6	
Hyder Consulting	179	–	
Lavendon Group	8,451	1.4	
Northgate	6,523	1.1	
office2office	5,784	1.0	
Paypoint	3,395	0.5	
Regus	11,558	1.9	
Robert Walters	4,171	0.7	
RPS Group	16,955	2.8	
Smiths News	4,144	0.7	
Automobiles & Parts	–	–	–
Beverages	–	–	0.9
Food Producers	3,826	0.6	2.5
Cranswick	3,826	0.6	
Household Goods & Home Construction	29,651	4.9	3.3
Barratt Developments	7,968	1.3	
Headlam Group	7,837	1.3	
Persimmon	6,163	1.0	
Redrow	7,683	1.3	
Leisure Goods	–	–	0.3
Personal Goods	–	–	0.3
Health Care Equipment & Services	13,190	2.2	0.6
Corin Group	1,324	0.2	
Optos	11,866	2.0	
Pharmaceuticals & Biotechnology	9,131	1.6	2.7
Ark Therapeutics Group	492	0.1	
Vectura Group	8,639	1.5	

Investment Portfolio

As at 31 December 2011

Security	Value £'000	% of Total Net Assets	% of HGSC (XIC) Index[1]
Food & Drug Retailers	**10,373**	**1.7**	**1.5**
Greggs	10,373	1.7	
General Retailers	**41,765**	**6.9**	**6.3**
Debenhams	8,169	1.4	
Game Group	760	0.1	
Halfords Group	7,845	1.3	
JD Sports Fashion	17,559	2.9	
Mothercare	211	–	
Topps Tiles	3,176	0.5	
WH Smith	4,045	0.7	
Media	**51,614**	**8.5**	**3.9**
4imprint Group	5,443	0.9	
Centaur Media	2,400	0.4	
Chime Communications	3,892	0.7	
Future	3,285	0.5	
Huntsworth	8,048	1.3	
Mecom Group	15,724	2.6	
Moneysupermarket.com Group	9,107	1.5	
Wilmington Group	3,715	0.6	
Travel & Leisure	**32,294**	**5.4**	**7.8**
Air Partner	2,037	0.3	
National Express Group	11,500	1.9	
Punch Taverns	3,312	0.6	
Spirit Pub Company	11,993	2.0	
Sportech	3,452	0.6	
Fixed Line Telecommunications	**8,606**	**1.4**	**3.2**
KCOM Group	8,606	1.4	
Electricity	**–**	**–**	**1.2**
Gas, Water & Multiutilities	**–**	**–**	**–**
Nonlife Insurance	**14,623**	**2.5**	**1.7**
Beazley	11,318	1.9	
Novae Group	3,305	0.6	
Life Insurance	**7,822**	**1.3**	**1.0**
Hansard Global	7,822	1.3	
Real Estate Investment & Services	**22,446**	**3.8**	**3.4**
Safestore Holdings	6,966	1.2	
St.Modwen Properties	8,439	1.4	
Unite Group	7,041	1.2	
Real Estate Investment Trusts	**11,419**	**1.9**	**3.5**
Hansteen Holdings	5,499	0.9	
Workspace Group	5,920	1.0	
Financial Services	**56,424**	**9.4**	**7.5**
Brewin Dolphin Holdings	11,351	1.9	
Charles Stanley Group	4,476	0.7	
Collins Stewart Hawkpoint	15,385	2.5	
GlobeOp Financial Services	6,609	1.1	
Investec	7,511	1.3	
Record	389	0.1	
Tullett Prebon	10,703	1.8	
Software & Computer Services	**65,370**	**10.9**	**5.9**
Anite	19,067	3.2	
Kofax	4,393	0.7	
Micro Focus International	17,950	3.0	
Microgen	8,322	1.4	
Phoenix IT Group	11,993	2.0	
RM	3,645	0.6	
Technology Hardware & Equipment	**33,193**	**5.5**	**1.7**
CSR	15,583	2.6	
Filtronic	2,410	0.4	
Laird	6,545	1.1	
Pace	3,660	0.6	
Promethean World	4,995	0.8	
Investments as shown in the Balance Sheet	**669,903**	**111.1**	**100.0**
Net Liabilities	(66,812)	(11.1)	–
Total Net Assets	**603,091**	**100.0**	**100.0**

All investments have a listing on the London Stock Exchange.

[1] This reflects the rebalanced index as at 1 January 2012.

Portfolio Information

FTSE Industry Classification Exposure Analysis

	31 December 2010					31 December 2011		
Sector	*RBS HGSC (XIC) Weight %*	Portfolio Weight %	Valuation £'000	Net[2] Purchases/ (Sales) £'000	Net Appreciation/ (Depreciation) £'000	**Portfolio Valuation £'000**	**Weight %**	***RBS HGSC (XIC)[1] Weight %***
Oil & Gas	*6*	3	25,079	8,678	(16,925)	**16,832**	**3**	*6*
Basic Materials	*5*	3	20,412	20,806	(8,672)	**32,546**	**5**	*9*
Industrials	*24*	30	229,652	(7,503)	(13,371)	**208,778**	**31**	*26*
Consumer Goods	*10*	2	11,845	24,053	(2,421)	**33,477**	**5**	*7*
Health Care	*2*	6	45,309	(26,170)	3,182	**22,321**	**3**	*3*
Consumer Services	*22*	28	213,629	(29,217)	(48,366)	**136,046**	**20**	*20*
Telecommunications	*2*	1	8,183	(918)	1,341	**8,606**	**1**	*3*
Utilities	*1*	–	–	–	–	**–**	**–**	*1*
Financials	*20*	14	111,093	15,627	(13,986)	**112,734**	**17**	*17*
Technology	*8*	13	103,752	8,083	(13,272)	**98,563**	**15**	*8*
	100	100	768,954	13,439	(112,490)	**669,903**	**100**	*100*

[1] This reflects the rebalanced index as at 1 January 2012.

[2] Includes transaction costs.

FTSE Index Classification Exposure Analysis

	31 December 2010				31 December 2011			
	Portfolio				**Portfolio**			
Index Classification	No. of Companies	Valuation £'000	Weight %	*RBS) HGSC (XIC) Weight %*	**No. of Companies**	**Valuation £'000**	**Weight %**	***RBS HGSC (XIC)[1] Weight %***
FTSE 100	–	–	–	*–*	**–**	**–**	**–**	*–*
FTSE 250	32	337,636	44	*76*	**33**	**345,320**	**52**	*76*
FTSE SmallCap	42	352,434	46	*19*	**40**	**260,950**	**39**	*17*
FTSE Fledgling	8	39,352	5	*2*	**8**	**16,817**	**2**	*1*
Other	6	39,532	5	*3*	**8**	**46,816**	**7**	*6*
	88	768,954	100	*100*	**89**	**669,903**	**100**	*100*

[1] This reflects the rebalanced index as at 1 January 2012.

Summary of Material Portfolio Changes

For the year ended 31 December 2011

Purchases	Cost £'000	Sales	Proceeds £'000
AZ Electronic Materials	13,049	ProStrakan Group	17,924
Yule Catto & Co	11,361	Holidaybreak	14,910
Howden Joinery Group	9,895	Dialight	13,568
GlobeOp Financial Services	9,314	Millenium & Copthorne Hotels	11,774
Headlam Group	9,230	Domino Printing Sciences	10,815
Morgan Crucible Company	8,867	Kofax	10,400
Barratt Developments	8,447	Dunelm Group	9,632
EnQuest	8,326	Anite	9,242
CSR	7,719	De La Rue	8,235
Northgate	7,016	Chaucer Holdings	7,687
Micro Focus International	6,945	Beazley	7,657
Workspace Group	6,885	William Hill	7,648
William Hill	6,334	Ferrexpo	7,562
Laird Group	6,263	Keller Group	7,044
Robert Walters	6,025	Elementis	6,213
Persimmon	5,954	Micro Focus International	6,112
Phoenix IT Group	5,901	Lookers	5,768
RPC Group	5,227	Spectris	5,682
Punch Taverns	5,154	BTG	5,595
International Ferro Metals	4,993	RPC Group	5,493
Other Purchases	84,296	Other Sales	44,801
Total for the period	237,201	Total for the period	223,762

This summary shows the 20 largest aggregate purchases and sales including transaction costs.

Long-Term Record

Historic Total Returns

Period	Discrete Annual Returns (%) NAV[1]	Index[2]	Share Price[3]
1 year to 31 December 2011	**-13.5**	**-9.1**	**-18.5**
1 year to 31 December 2010	26.6	28.5	22.8
1 year to 31 December 2009	44.4	60.7	59.2
1 year to 31 December 2008	-39.6	-40.8	-38.3
1 year to 31 December 2007	-10.4	-8.3	-17.3
1 year to 31 December 2006	26.3	28.0	15.0
1 year to 31 December 2005	24.9	27.8	25.1
1 year to 31 December 2004	28.7	20.7	35.2
1 year to 31 December 2003	37.1	43.0	25.4
1 year to 31 December 2002	-9.7	-23.3	1.7
1 year to 31 December 2001	7.9	-13.0	17.7
1 year to 31 December 2000	15.6	1.2	4.2
1 year to 31 December 1999	49.5	56.2	62.5
1 year to 31 December 1998	-6.1	-5.7	-14.2
1 year to 31 December 1997	5.3	9.2	-1.4

Periods to 31 December 2011	Compound Annual Returns (%)			Cumulative Returns (%)		
	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years from 31 December 2009	4.7	8.1	0.1	9.5	16.8	0.1
3 years from 31 December 2008	16.5	23.3	16.8	58.2	87.7	59.4
4 years from 31 December 2007	-1.2	2.7	-0.4	-4.5	11.0	-1.7
5 years from 31 December 2006	-3.1	0.4	-4.1	-14.5	1.8	-18.7
6 years from 31 December 2005	1.3	4.5	-1.1	8.0	30.3	-6.5
7 years from 31 December 2004	4.4	7.6	2.3	34.9	66.5	17.0
8 years from 31 December 2003	7.1	9.1	5.9	73.7	101.0	58.1
9 years from 31 December 2002	10.1	12.4	7.9	138.1	187.4	98.4
10 years from 31 December 2001	8.0	8.2	7.3	115.1	120.5	101.7
11 years from 31 December 2000	8.0	6.1	8.2	132.0	91.8	137.5
12 years from 31 December 1999	8.6	5.7	7.8	168.2	94.1	147.5
13 years from 31 December 1998	11.3	8.9	11.3	300.8	203.1	302.2
14 years from 31 December 1997	9.9	7.8	9.2	276.2	185.7	245.0
15 years from 31 December 1996	9.6	7.9	8.5	296.2	212.0	240.1
16 years from 31 December 1995	10.4	8.5	9.2	384.4	270.3	309.9
17 years from 31 December 1994	11.1	9.0	9.9	496.9	330.0	396.0
18 years from 31 December 1993	10.3	8.3	8.9	481.3	316.7	361.4
19 years from 31 December 1992	12.1	9.8	11.0	777.3	490.0	627.3
20 years from 31 December 1991	11.6	9.6	10.6	802.2	527.8	652.1
21.1 years from inception on 10 December 1990	12.5	9.9	11.3	1,095.6	636.6	854.0

1 Represents Net Asset Value (Fully Diluted Net Asset Value prior to 1 April 2003) with net dividends reinvested since 2 July 1997, prior to which gross dividends were reinvested.

2 Represents capital appreciation/(depreciation) on the RBS Hoare Govett Smaller Companies Index (Excluding Investment Companies) with net dividends reinvested (prior to 1 January 1997 in its "Extended" version and prior to 2 July 1997 with gross dividends reinvested).

3 Represents Ordinary Share price with net dividends reinvested since 2 July 1997, prior to which gross dividends were reinvested.

Long-Term Record

Ten Year Capital Summary

As at 31 December	Total assets[5] £m	Borrowings £m	Equity Shareholders' funds £m	Net asset Value per Share[1] p	Share Price p	Discount[2] %
2011	**671.1**	**68.0**	**603.1**	**627.3**	**501.00**	**20.1**
2010	768.6	51.8	716.8	743.8	632.50	15.0
2009	635.2	48.3	586.9	605.9	534.00	11.9
2008	465.3	41.2	424.1	437.7	351.25	19.7
2007	735.0	—	735.0	743.9	587.00	21.1
2006	833.3	—	833.3	843.4	723.00	14.3
2005	671.2	—	671.2	679.3	640.00	5.8
2004[3]	547.2	—	547.2	553.7	522.00	5.7
2003[4]	431.5	—	431.5	436.7	395.75	9.4
2002	275.9	—	275.9	326.3	325.25	0.3
2001	315.3	—	315.3	371.6	328.75	11.5

1 The calculation of Net Asset Value per Share is explained in the Shareholder Information section on page 50. This represents the Fully Diluted Net Asset Value prior to 1 April 2003.

2 The discount calculation is the percentage difference between the Company's Ordinary Share price and the underlying Net Asset Value per Share which includes current year revenues.

3 2004 figures have been restated in line with the restated financial statements for that year.

4 In 2003 the Company raised £61,876,000 through the issue of Shares pursuant to the scheme of reconstruction of Aberforth Split Level Trust plc.

5 Total assets less liabilities excluding borrowings.

Ten Year Revenue Summary

Year to 31 December	Available for Ordinary Shareholders £'000	Revenue per Ordinary Share[1] p	Dividends per Ordinary Share net p	Total expense ratio[2] %	Gearing[3] %
2011	**23,247**	**24.13**	**20.75**	**0.88**	**111.1**
2010	17,512	18.11	19.00	0.85	107.3
2009	16,813	17.35	19.00	0.85	107.7
2008	22,223	22.75	19.00	0.94	109.5
2007	18,158	18.38	15.20	0.86	96.7
2006	16,209	16.40	13.40	0.97	96.2
2005	14,325	14.50	11.85	0.99	98.3
2004[4]	13,085	13.24	11.00	0.99	97.0
2003[5]	10,026	11.59	10.10	0.98	96.3
2002	8,855	10.57	9.50	1.04	99.1
2001	9,134	10.93	9.10	0.98	96.8

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

2 Ratio of operating costs (excluding transaction costs taken to capital reserve) to average Shareholders' funds (calculated per AIC guidelines). Since 2007, the figures exclude VAT on investment management fees although earlier years have not been restated.

3 Total investments divided by Shareholders' funds.

4 2004 figures have been restated in line with the financial statements.

5 In 2003 the Company raised £61,876,000 through the issue of Shares pursuant to the scheme of reconstruction of Aberforth Split Level Trust plc.

Directors

Directors

Professor P R Marsh, (Chairman, appointed as a director on 16 July 2004)
Paul Marsh is Emeritus Professor of Finance at London Business School. Within London Business School, he has been Deputy Principal, Faculty Dean, Chair of the Finance area, Associate Dean Finance Programmes and an elected Governor. He has advised on several public enquiries, and was previously a Director of Majedie Investments plc (until 2006) and M&G Group (until 1999). He co-designed the FTSE 100 Index and the RBS Hoare Govett Smaller Companies Index, produced for The Royal Bank of Scotland at London Business School.

H N Buchan, (appointed 11 November 2003 and is a Member of the Audit and Management Engagement Committee)
Hamish Buchan is a consultant in the financial sector and is a Director of Standard Life European Private Equity Trust plc, Templeton Emerging Markets Investment Trust plc, The Scottish Investment Trust plc and is Chairman of JPMorgan American Investment Trust plc and Personal Assets Trust plc. He was previously Chairman of The Association of Investment Companies. From 1969 until his retirement in 2000 he was an investment trust analyst with Wood Mackenzie & Co and its successor firms.

J E G Cran, ACMA (appointed 17 July 2001 and is a Member of the Audit and Management Engagement Committee)
Edward Cran was Chief Executive of Cattles plc, a company involved in the consumer credit business, until his retirement in May 2001. He joined the Board of Cattles plc in 1990 prior to which he held various senior positions in the credit industry.

D J Jeffcoat, FCMA (appointed 22 July 2009 and is Chairman of the Audit and Management Engagement Committee)
David Jeffcoat began his career as a production engineer at Jaguar Cars Ltd. After qualifying as an accountant several years later, he held a number of senior positions including subsidiary-level Finance Director at GlaxoWellcome plc and Group Financial Controller at Smiths Industries plc. More recently he was Group Finance Director and Company Secretary at Ultra Electronics Holdings plc from 2000 until his retirement in 2009. He also sits on the Board of WYG plc and is a Trustee of the Marine Society & Sea Cadets.

Professor W S Nimmo, (appointed 16 July 2004)
Walter Nimmo was previously Chief Executive and Chairman of the Inveresk Research Group until 2004. He founded Inveresk Clinical Research in 1988. Currently he sits on the Board of a number of private companies.

R Rae, CA, (appointment with effect 26 January 2012)
Richard Rae qualified as a chartered accountant with KPMG and joined Hoare Govett as an investment analyst in 1987. He spent 22 years working in investment research and equities management, latterly as a Managing Director, responsible for smaller companies, in the Global Equities division of ABN AMRO. Since 2009, he has established himself as an independent management consultant providing due diligence and corporate advice to both listed and unlisted companies. He is a non-executive director of Mouchel Group plc.

Directors' Report

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year to 31 December 2011.

Business Review

Investment Objective

The objective of ASCoT is to achieve a net asset value total return (with dividends reinvested) greater than on the RBS Hoare Govett Smaller Companies Index (Excluding Investment Companies) over the long term.

Investment Policy

The Company aims to achieve its objective and to diversify risk by investing in typically over 80 small UK quoted companies. Small companies are those having a market capitalisation, at time of purchase, equal to or lower than the largest company in the bottom 10% of the main UK equity market or companies in the RBS Hoare Govett Smaller Companies Index (Excluding Investment Companies). The upper market capitalisation limit to this index at 1 January 2012 (the date of the last annual index rebalancing) was £1.264 billion, although this limit will change owing to movements in the stockmarket. The aggregate market capitalisation of the index as at 1 January 2012 was £134 billion and it includes 422 companies.

The Company may, at time of purchase, invest up to 15% of its assets in any one security although, in practice, each investment will typically be substantially less and, at market value, represent less than 5% of the portfolio on an ongoing basis.

If any company held by ASCoT no longer falls within the definition of a small company, as defined above, its securities will become candidates for sale. The Managers aim to keep the Company near fully invested in equities at all times and there will normally be no attempt to engage in market timing by holding high levels of liquidity.

The Company's policy towards companies quoted on the Alternative Investment Market (AIM) generally precludes investment except in the circumstances where either an investee company moves from the "Main Market" to AIM (so as to avoid being a forced seller) or where a company quoted on AIM has committed to move from AIM to the "Main Market" (so as to enable investment before a full listing is obtained). The Company does not invest in any unquoted securities nor any securities issued by investment trusts or investment companies.

The Board, in conjunction with the Managers, is responsible for determining the gearing strategy for the Company. When considered appropriate, gearing is used tactically in order to enhance returns. The Company's Articles of Association limit borrowings to 100% of Shareholders' funds although the Board would anticipate any gearing to be substantially below this limit.

The Board believes that small UK quoted companies continue to provide opportunities for positive total returns over the long term. Any material changes to the Company's investment objective and policy will be subject to Shareholder approval.

A detailed analysis of the investment portfolio is contained in the Managers' Report and Portfolio Information contained on pages 7 to 14.

Investment Strategy and Style

The portfolio is diversified and will normally comprise investments in over 80 individual companies. The Managers' investment style is to focus on ''value investing", an approach that has been developed over time that does not use any one style or sub-set of value investing. In seeking investments, the approach will be fundamental in nature, involving regular contact with the management of prospective and existing investments, in conjunction with rigorous financial and business analysis of these companies. The Managers recognise that different types of businesses perform better than others depending on the stage of the economic cycle and this is reflected in the portfolio. Therefore, the emphasis within the portfolio will reflect the desire to invest in companies whose shares represent relatively attractive value within a given stockmarket environment.

The sectoral disposition of the portfolio is a result of the "bottom-up" stock selection process and there are no sectoral constraints, though a "top-down" risk assessment is undertaken regularly.

Bank Debt Facility

In April 2011, the Board negotiated a new bank debt facility of £100 million with The Royal Bank of Scotland. This facility can be used at any time. As at 31 December 2011, the Company had drawn down £68 million under the facility. Further information can be found in Note 12.

Directors' Report

Corporate Structure, Governance and Regulation

The Company is an investment company as defined within the meaning of Section 833 of the Companies Act 2006 and manages its affairs so as to qualify as an investment trust under Section 1158 of the Corporation Tax Act 2010. It has a fixed share capital although, subject to Shareholder approval sought annually, it may purchase its own Shares. The Company is listed and its Shares trade on The London Stock Exchange. Furthermore the Company is subject to the laws and regulations relating to UK listed companies.

It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs. In common with the majority of investment trusts, the Company has no executive directors nor any employees. However, the Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company. The Corporate Governance Report within this annual report contains a thorough review of the Company's stance on corporate governance.

Continuation of the Company

The Company has no fixed duration. However, in accordance with the Company's Articles of Association an ordinary resolution will be proposed at the Annual General Meeting to be held in 2014 (and, if passed, at every third subsequent Annual General Meeting) that the Company continues to manage its affairs as an investment trust.

If such resolution is not passed, the Directors will prepare and submit to Shareholders (for approval by special resolution) proposals for the unitisation or appropriate reconstruction of the Company. In putting forward such proposals the Directors will seek, inter alia, to provide Shareholders with a means whereby they can defer any liability to capital gains tax on their investment at that time. If these proposals are not approved, Shareholders will, within 180 days of the relevant Annual General Meeting, have the opportunity of passing an ordinary resolution requiring the Company to be wound up. On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to the holders of Ordinary Shares and distributed, pro rata, among such holders.

Investment Trust Status

The Company is exempt from corporation tax on capital profits, provided it qualifies as an investment trust. In respect of the year ended 31 December 2011, this required that:

- the Company's revenue (including dividend and interest income but excluding profits/losses on sale of investments) should be derived wholly or mainly from shares and securities;
- the Company must not retain in respect of each accounting period more than 15% of its income from shares and securities;
- no investment in a company may represent more than 15% by value of the Company's investment portfolio at time of purchase;
- realised profits on sale of shares and securities may not be distributed by way of a dividend; and
- the Company must not be a close company.

The Company has been approved by HM Revenue & Customs as an investment trust up to 31 December 2010. It is the opinion of the Directors that the Company has subsequently conducted its affairs so as to enable it to continue to seek such approval. The Company will continue to conduct its affairs as an investment trust.

Management

Aberforth Partners LLP, a limited liability partnership, provides investment management, administration and company secretarial services to the Company. These services can be terminated by either party at any time by giving six months' notice of termination. Compensation fees would be payable in respect of this six month period only if termination were to occur sooner. Aberforth Partners LLP receives a quarterly management fee, payable in advance, equal to 0.2% of the total net assets of the Company. However, the total fee paid each year may be slightly higher or lower than 0.8% depending on the movements in the value of the Company's assets during the year. The Company also pays a quarterly secretarial fee, payable in advance, which amounted to £17,446 (excluding VAT) per quarter during 2011. The secretarial fee is adjusted annually in line with the Retail Prices Index and is subject to VAT which is currently irrecoverable by the Company.

Directors' Report

The Board considers the Company's investment management and secretarial arrangements on an ongoing basis and a formal review is conducted annually by the Audit and Management Engagement Committee (the Committee). The Committee specifically considers the following topics in its review: investment performance in relation to the investment policy and strategy; the continuity of personnel managing the assets and reporting to the Board; the alignment of interests between the investment manager and the Company's Shareholders; the level of service provided in terms of the accuracy and timeliness of reports to the Board; and, the frequency and quality of both verbal and written communications with Shareholders. Following the most recent review the Board, upon the recommendation of the Committee, is of the opinion that the continued appointment of Aberforth Partners LLP as investment managers, on the terms agreed, is in the best interests of Shareholders as a whole.

Capital Structure and Share Buy-Backs

At 31 December 2011, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 96,138,792 were issued and fully paid. During the year, 228,000 shares (with a nominal value of £2,280) were bought back (0.2% of the Company's issued share capital) and cancelled at a total cost of £1,176,000. No shares are held in treasury. Subject to the requirement that purchases by the Company of its own shares will be made only at a level that enhances the net asset value (NAV), the principal objective of any such purchase will be to seek to sustain as low a discount between the Company's NAV and share price as seems possible. Accordingly, it is the Board's intention to continue to use the share purchase facility within guidelines established from time to time by the Board.

Return and Dividends

The total return attributable to Shareholders for the year amounted to a loss of £93,778,000 (2010 – gain of £151,017,000). The net asset value per Ordinary Share at 31 December 2011 was 627.31p (2010 – 743.81p).

Your Board is pleased to declare a second interim dividend, in lieu of a final dividend, of 14.30p, which produces total dividends for the year of 20.75p, an increase of 9.2% over the previous year. The second interim dividend of 14.30p per share will be paid on 24 February 2012 to Shareholders on the register at the close of business on 3 February 2012.

	£'000	£'000
Revenue return for the year available for dividends		23,247
Dividends in respect of the revenue available:		
First interim dividend of 6.45p per Ordinary Share paid 26 August 2011	(6,216)	
Second interim dividend of 14.30p per Ordinary Share payable 24 February 2012	(13,748)	(19,964)
Transfer to reserves		3,283

Key Performance Indicators

The Board assesses the Company's performance in meeting its objective against the following key performance indicators:

- Net asset value total return
- Share price total return
- Performance attribution
- Share price discount
- Revenue and dividend position

A record of these measures is shown on pages 7, 15 and 16.

In addition to the above, the Board considers the performance of the Company against its investment trust peer group.

Review of Performance, activity during the year and the investment outlook

A comprehensive review can be found in the Chairman's Statement and Managers' Report.

Directors' Report

Principal Risks and Risk Management

The Directors have established an on-going process for identifying, evaluating and managing the key risks faced by the Company. This process was in operation during the year and continues in place up to the date of this report.

Investment in small companies is generally perceived to carry more risk than investment in large companies. While this is reasonable when comparing individual companies, it is much less so when comparing the volatility of returns from diversified portfolios of small and large companies. The Company has a diversified portfolio. In addition, 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. Nonetheless, 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, and liquidity risk. An explanation of these risks and how they are managed is contained in Note 18 to the Accounts.

Additional key risks faced by the Company, together with the approach taken by the Board towards them, have been summarised below:

(i) *Investment policy/performance* – The performance of the investment portfolio will typically not match the performance of the benchmark. However, the Board's aim is to achieve the investment objective over the long term whilst managing risk by ensuring the investment portfolio is managed appropriately. The Managers have a clearly defined investment philosophy and manage a diversified portfolio. The value of the portfolio will also be affected by events or developments in the economic environment generally, for example inflation or deflation, recession and movements in interest rates. The Board continually monitors the Company's performance against the benchmark, and regularly receive a detailed portfolio attribution analysis. The peer group is also regularly monitored by the Board and this includes NAV and share price performance, portfolio exposure, management fees and total expense ratios.

(ii) *Share price discount* – investment trust shares tend to trade at discounts to their underlying net asset values. The Board and the Managers monitor the discount on a daily basis. Furthermore, the Board intends to continue to use the share buy back facility to seek to sustain as low a discount as seems possible.

(iii) *Gearing risk* – in rising markets, the effect of borrowings would be beneficial but in falling markets the gearing effect would adversely affect returns to Shareholders. The Board consider the gearing level and associated risk at each meeting.

(iv) *Loss of key personnel* – the quality of the investment management team is considered crucial in delivering the investment objective and the loss of key personnel at Aberforth Partners LLP could adversely affect performance. Board members are in regular contact with the partners and staff of Aberforth Partners LLP and monitor personnel changes.

(v) *Regulatory risk* – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's share price listing, financial penalties or a qualified audit report. A breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to capital gains tax. The Board receives quarterly compliance reports from the Secretaries to monitor compliance with rules and regulations, together with information on future developments.

(vi) *Operational/Financial risk* – failure of the Managers' accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring, or potentially lead to the misappropriation of assets. Agreements are in place with all key third party service providers and the Board reviews regular reports on the internal controls of the Managers and other key parties.

In summary, the Board regularly considers the risks associated with the Company, the measures in place to monitor them and the possibility of any other risks that may arise.

Directors' Report

Other Matters

Going Concern

In accordance with the report "Going Concern and Liquidity Risk : Guidance for Directors of UK Companies 2009" issued by the Financial Reporting Council, the Directors have undertaken and documented a rigorous assessment of whether the company is a going concern. The Directors considered all available information when undertaking the assessment.

The company's business activities, capital structure and borrowing facility, together with the factors likely to affect its development, performance and position are set out in the Managers' Report and the Business Review. In addition, the notes to the financial statements include the company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk. The company's assets comprise mainly readily realisable equity securities which, if necessary, can be sold to meet any funding requirements though funding flexibility can typically be achieved through the use of the bank debt facility. The company has appropriate financial resources to enable it to meet its day-to-day working capital requirements and the Directors believe that the company is well placed to continue to manage its business risks. The Directors consider that the company has adequate resources to continue in operational existence for the foreseeable future.

In summary and taking into consideration all available information, the Directors have concluded it is appropriate to continue to prepare the financial statements on a going concern basis.

Directors

The Directors who held office at 31 December 2011 and their interests in the Shares of the Company as at that date and 1 January 2011 were as follows:

Directors	Nature of Interest	Ordinary Shares 31 December 2011	 1 January 2011
Prof P R Marsh	Beneficial	**25,000**	25,000
H N Buchan	Beneficial	**19,474**	19,474
M L A Chiappelli (retired 2 March 2011)	Beneficial	**n/a**	29,173
J E G Cran	Beneficial	**32,670**	31,684
D J Jeffcoat	Beneficial	**4,738**	4,599
Prof W S Nimmo	Beneficial	**29,157**	25,656

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2011 and 25 January 2012.

As stated in the separate Corporate Governance Report, all Directors seek re-election every year and, as a result, all Directors retire at the AGM to be held on 7 March 2012. All Directors, with the exception of Mr Cran who will retire at the forthcoming AGM, offer themselves for re-election and biographical details for each are shown on page 17.

Corporate Governance Report

The Corporate Governance Report, which details compliance with the UK Corporate Governance Code (formerly "Combined Code (2008)"), can be found on pages 25 to 29 and forms part of this report.

Voting Rights

At Shareholder meetings and on a show of hands, every Shareholder present in person or by proxy has one vote and, on a poll, every Shareholder present in person has one vote for each share he/she holds and a proxy has one vote for every share in respect of which he/she is appointed. The deadline for proxy appointments is 48 hours before the time fixed for the meeting, or any adjourned meeting.

Your Board is pleased to offer electronic proxy voting, including CREST voting capabilities. You may therefore complete the enclosed form of proxy and return it to Capita Registrars, the Company's registrar, or alternatively, you may registrar your vote on-line (www.capitashareportal.com) or via CREST. Further details can be found in the Notice of the AGM.

Directors' Report

Annual General Meeting

The AGM will be held on Wednesday, 7 March 2012 at 6.30 p.m. at 14 Melville Street, Edinburgh EH3 7NS. The following special resolution will be proposed at the AGM.

Purchase of Own Shares

The current authority of the Company to make market purchases of up to 14.99% of the issued Ordinary Shares of the Company expires at the end of the AGM. Resolution 9, as set out in the Notice of the AGM, seeks renewal of such authority until the AGM in 2013. The price paid for Shares will not be less than the nominal value of 1p per Share and the maximum price shall be the higher of (i) 105% of the average of the middle market quotations for the Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out. Any Shares purchased under the authority will be automatically cancelled, rather than being held in treasury, thereby reducing the Company's issued share capital. There are no outstanding options/warrants to subscribe for equity shares in the capital of the Company.

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

Directors' Recommendation

The Directors consider each resolution being proposed at the AGM to be in the best interests of Shareholders as a whole and they unanimously recommend that all Shareholders vote in favour of them, as they intend to do so in respect of their own beneficial shareholdings.

Substantial Share Interests

The Board has received notifications in accordance with the FSA's Disclosure and Transparency Rules of the following interests in 3% or more of the voting rights of the Company, which total 96,138,792 votes, as at 25 January 2012.

Interested person	Percentage of Voting Rights Held
Rathbone Brothers plc	5.4
Brewin Dolphin Limited	5.1
Lloyds Banking Group plc (including discretionary investment management)	4.2
Legal & General Investment Management	3.1

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, debt facilities, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The main risks that the Company faces arising from its financial instruments are disclosed in Note 18 to the accounts.

Section 992 of the Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006;

- The Company's capital structure and voting rights are summarised on page 3.
- Details of the substantial shareholders in the Company are listed above.
- The rules concerning the appointment and replacement of directors, are contained in the Company's Articles of Association and are discussed on page 28.
- Amendment of the Company's Articles of Association and powers to issue on a non pre-emptive basis or buy back the Company's shares require a special resolution to be passed by shareholders.

Directors' Report

- There are: no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that might affect its control following a takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

Donations

The Company did not make any political or charitable donations during the year (2010 – £nil).

Creditors Payment Policy

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

Auditor

Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution proposing their re-appointment will be put to the forthcoming Annual General Meeting.

Disclosure of Information to Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all steps that he ought to have taken as a Director to make him aware of any relevant audit information, and to establish that the Company's Auditor is aware of that information.

By Order of the Board
Aberforth Partners LLP, Secretaries
25 January 2012

Corporate Governance Report

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (the AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (the AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in The UK Corporate Governance Code ("The Code"), issued by the Financial Reporting Council, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The AIC Code, issued in October 2010, can be obtained from the AIC's website at www.theaic.co.uk.

The Board has consequently decided to base this report on the principles and recommendations of the AIC Code, including reference to the AIC Guide (which incorporates The Code). The Board considers that this provides more relevant information to shareholders, whilst meeting the Board's obligations under The Code.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of The Code, except as set out below. The Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For reasons set out in the AIC Guide, and as explained in The Code, the Board considers that these provisions are not relevant to the Company as it is an externally managed investment company. This report, which forms part of the Directors' Report, outlines how the principles and recommendations of the AIC Code were applied, unless otherwise stated, throughout the financial year. The Directors are also aware that there are many other published guidelines relating to corporate governance and, whilst these receive due consideration, the Board does not consider it appropriate to address them individually in this report.

The Board

The Board is responsible for the effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are determined by the Board. A formal schedule of matters reserved for decision of the Board has been adopted. The Board of Directors comprises five non-executive Directors of which Professor Marsh acts as Chairman. The Company has no executive Directors nor any employees. However, the Board has engaged external firms to provide investment management, secretarial, registrar, and custodial services to the Company. Documented contractual arrangements are in place between the Company and these firms, which clearly set out the areas where the Board has delegated authority to them.

The Board, being comprised entirely of independent non-executive Directors, has not appointed a Remuneration nor a Nomination Committee. Directors' fees and the appointment of new Directors are considered by the Board as a whole. The Board has also decided not to nominate a Deputy Chairman nor a senior independent director although the Chairman of the Audit and Management Engagement Committee, fulfils this role when necessary, for example, taking the lead in the annual evaluation of the Chairman.

The Board carefully considers the various guidelines for determining the independence of non-executive Directors, placing particular weight on the view that independence is evidenced by an individual being independent of mind, character and judgement. An individual can therefore be considered to be independent even though their length of service exceeds nine years. No limit on the overall length of service of any of the Directors, including the Chairman, has therefore been imposed. All Directors are considered to be independent notwithstanding that Mr Cran has sat on the Board for more than nine years. As in previous years, all Directors retire at each AGM and, if appropriate, seek re-election. Each Director has signed a letter of appointment to formalise the terms of his engagement as a non-executive Director, copies of which are available on request and at the Company's AGM.

Meetings

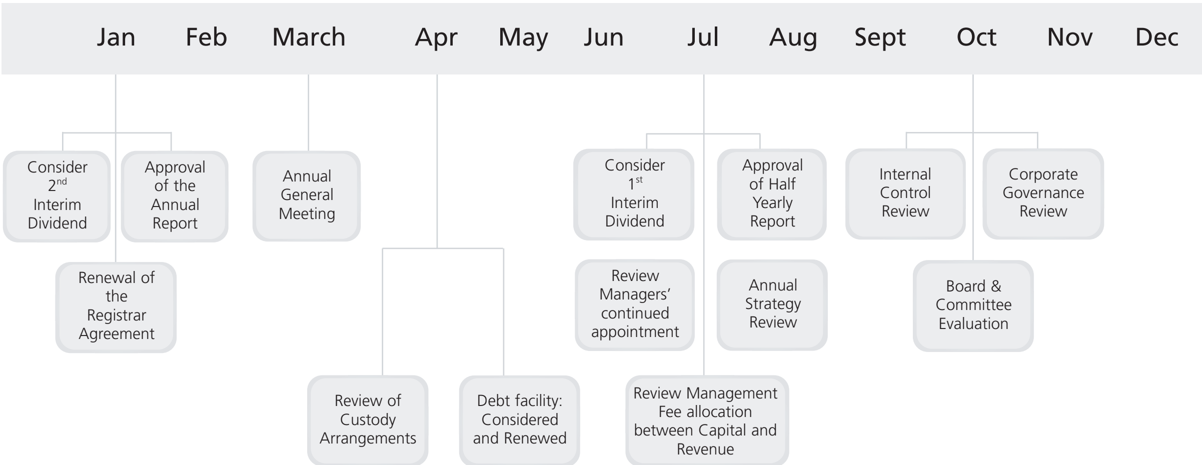
The Board meets at least quarterly to review the overall business of the Company and to consider the matters specifically reserved for it. Detailed information is provided by the Managers and Secretaries for these meetings and additionally at regular intervals to enable the Directors to monitor compliance with the investment objective and the Company's investment performance compared with its benchmark index. The Directors also review several key areas including:

- the Company's investment activity over the quarter relative to its investment policy;
- the stockmarket environment; the revenue and balance sheet position;

- gearing;
- performance in relation to comparable investment trusts;
- share price discount (both absolute levels and volatility);
- Regulatory matters; and
- relevant industry issues.

The Board receives regular reports from the Managers analysing and commenting on the composition of the Company's share register and monitors significant changes. The Board also holds an annual strategy session to consider, amongst other matters, the Company's objective and investment focus and style.

The following highlights various additional matters considered by the Board during the past year:



The following table sets out the number of Board and Committee meetings held during the financial year and the number of meetings attended by each Director (whilst a Director or Committee member). All Directors also attended the AGM in March 2011.

Director	The Board Held	The Board Attended	Audit and Management Engagement Committee Held	Audit and Management Engagement Committee Attended	Other Committees Held	Other Committees Attended
Prof P R Marsh, Chairman	4	4	–	–	6	6
H N Buchan	4	4	3	3	1	1
M L A Chiappelli	1	1	1	1	–	–
J E G Cran	4	3	3	2	1	1
D J Jeffcoat	4	4	3	3	1	1
Prof W S Nimmo	4	4	–	–	6	6

Conflicts of Interest

A company director has a statutory obligation to avoid a situation in which they (and connected persons) have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the company. The Board has in place procedures for authorising any conflicts, or potential conflicts, of interest though no such conflicts arose during the year under review.

Training and advice

All Directors are entitled to receive appropriate training when required and changes affecting Directors' responsibilities are advised to the Board as they arise. Directors, in the furtherance of their duties, may seek independent professional advice at the expense of the Company. No Director took such advice during the financial year under review.

Corporate Governance Report

All Directors have access to the advice and services of the Company's Secretaries, Aberforth Partners LLP, who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Furthermore, appropriate induction training is arranged by the Secretaries for newly appointed directors.

Directors' and Officers' Liability Insurance

The Company maintains appropriate insurance cover in respect of legal action against its Directors. Following changes to the law relating to a company's ability to indemnify its directors, the Company has also entered into a deed of indemnity with each Director to cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the Company or costs incurred in connection with criminal proceedings in which the Director is convicted or required to pay any regulatory or criminal fines.

Appointments to the Board

The Board conducts an annual review of its composition having regard to the present and future needs of the Company and the Board's structure, including the balance of expertise and skills brought by individual Directors and their length of service, where continuity and experience can add significantly to the strength of the Board. As mentioned in the Chairman's statement, Mr Cran will retire at the conclusion of this year's AGM and, in order that the Board should continue to have a balance of skills and experience, the Board decided that an additional Director should be appointed.

The Board therefore appointed a Committee for this purpose, chaired by Professor Paul Marsh. This Committee, of which Professor Walter Nimmo was also a member, was requested to identify and nominate, for approval by the Board, candidates to fill the forthcoming board vacancy. The Committee was instructed to complete this process taking into consideration the Board's agreed requirements.

The Committee consulted widely and identified twenty strong candidates, consisting of 13 males and 7 females. It therefore decided on this occasion not to appoint an external search company. Following several meetings and conference calls, the Committee then agreed a short list of candidates, comprising 4 males and 4 females, who were approached. Four wished to be considered, and were interviewed by the Committee. Finally, the remaining Directors met the preferred candidate put forward by the Committee. After due consideration, the Board appointed Richard Rae as a Director of the Company with effect from 26 January 2012. Richard will stand for formal election by Shareholders at the AGM and his biography can be found on page 17. Richard brings to the Board a deep knowledge of the smaller companies sector having previously headed up the top-rated SmallCap research team at ABN AMRO until 2009.

Board performance and re-appointment of Directors

The Board undertakes a formal annual self-assessment of its collective performance on a range of issues including the Board's role (including Committees), processes and interaction with the Managers. The Directors also evaluate the performance of the Board and the Audit and Management Engagement Committee by way of an evaluation questionnaire. The Board then considers the results of this exercise, together with other relevant discussion areas. The appraisal of the Chairman is led by the Chairman of the Audit and Management Engagement Committee.

In line with the Board's policy, each Director retires at the AGM to be held on 7 March 2012. Messrs Buchan, Jeffcoat, Prof Marsh and Prof Nimmo, whose biographical details are shown on page 17, being eligible, offer themselves for re-election. As stated above Mr Rae will stand for election. The Board believes that each Director continues to be effective, bringing a wealth of knowledge and experience to the Board and recommends the re-election of each Director to Shareholders.

The Board, currently, does not consider that the use of external consultants to conduct this evaluation is likely to provide any meaningful benefit to the evaluation process, though the option to do so is kept under review.

Corporate Governance Report

Relations with Shareholders

The Board believes that regular contact with Shareholders is essential and receives regular reports from the Managers on views and attitudes of Shareholders. The Managers endeavour to meet all of the larger Shareholders twice a year and provide them with a detailed report on the progress of the Company. Directors of the Company are always available to meet with any Shareholder. The Directors may be contacted through the Secretaries whose details are shown on the inside back cover or through the Chairman's email address which is paul.marsh@aberforth.co.uk. In addition to the annual and half yearly reports the Company's performance, weekly Net Assets Values, monthly factsheet and other relevant information is published on the Managers' website at www.aberforth.co.uk.

All Shareholders have the opportunity to attend and vote at the AGM during which the Directors and Managers are available to discuss key issues affecting the Company. Proxy voting figures are announced at the AGM and are available via the Managers' website shortly thereafter.

Internal Control

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Company applies the revised guidance published in October 2005 by The Institute of Chartered Accountants in England and Wales in respect of The Code's sections on Internal Control (commonly known as the Turnbull Guidance on Internal Control). Internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve the business objective and can provide only reasonable and not absolute assurance against material misstatement or loss. These controls aim to ensure that the assets of the Company are safeguarded, that proper accounting records are maintained and that the financial information of the Company is reliable. The Directors have an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and these are recorded in a risk matrix. This was in operation during the year and continues in place up to the date of this report. The Directors regularly formally review the effectiveness of the Company's system of internal control. This process principally comprises the Audit Committee receiving and examining reports from Aberforth Partners LLP, The Northern Trust Company, the Company's custodian and Capita Registrars, the Company's registrar. The reports detail the internal control objectives and procedures adopted by each firm and each report has been independently reviewed by PricewaterhouseCoopers LLP, KPMG LLP and HLB Vantis Audit plc respectively. The Audit Committee then submits a detailed report on its findings to the Board. The Directors have not identified any significant failures or weaknesses in respect of the Company's system of internal control.

Audit and Management Engagement Committee

The Directors have appointed an Audit and Management Engagement Committee ("Committee"), chaired by Mr Jeffcoat, a qualified accountant. This Committee, of which Messrs Buchan and Cran are also members, specifically considers the Company's financial statements and the accounting policies adopted, the Company's key risks, the internal control principles adopted and the relationship with the Company's auditor including making recommendations to the Board on the appointment, reappointment or removal, and the terms of appointment, including remuneration, of the auditor. In addition, it reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to non-audit fees. Such fees amounted to £2,000 (2010 – £2,000) and related to the completion and submission of the corporation tax returns. The Committee considers that the provisions of these services is cost effective and does not impair the independence of the auditor. Furthermore, non-audit work requires the prior approval of the Committee. The Committee has direct access to the Company's auditor, representatives of whom attend the Committee meeting at which the results of the audit and the Annual Report and Accounts are considered.

The appointment of the auditor is reviewed by the Committee annually, with advice sought from the Secretaries. On the basis of the auditor's performance, audit fees and confirmation of the auditor's independence, the Committee recommended to the Board the continuing appointment of Ernst & Young LLP as the Company's auditor.

This Committee also formally reviews the terms of the agreements with the Managers and the Secretaries annually, including the level of service, the basis of fees payable and the length of the notice period. Details of the arrangements are set out in the Directors' Report.

The Committee also considers annually whether there is a need for an internal audit function. However, as the Company has no employees and subcontracts all its business to third parties, it believes that an internal audit function is not necessary and the Board places reliance on the Managers and its other contractors to ensure that they operate effective internal controls.

The Committee operates within terms of reference that have been agreed with the Board. The Committee's findings and recommendations are submitted to the Board for consideration. These terms of reference are reviewed annually and are available for inspection on request.

Social, Environmental and Ethical Issues

The Company is normally a shareholder in over 80 small UK quoted companies. Day to day management of the Company's investment portfolio is carried out by its Managers, Aberforth Partners LLP. The Managers have a consistent and well-defined investment process based on fundamental analysis of the constituents of their investment universe. The Manager's Corporate Governance Policy and Stewardship Code Statement are available from their website.

The Managers' primary objective is to deliver investment returns greater than the return on the Company's benchmark index, the RBS HGSC (XIC), over the long term. The Directors, through the Company's Managers, also encourage investee companies to adhere to best practice in the area of Corporate Governance and Socially Responsible Investment (SRI). The Board and the Managers support the Statement of Principles of the Institutional Shareholders Committee which set out the responsibilities of institutional shareholders and agents.

Effective management of risks and opportunities posed by social, environmental and ethical (SEE) issues is an important component of good corporate governance. Companies that ignore significant corporate responsibilities risk serious damage to their reputation, brand and shareholder value, as well as litigation and operational risks.

The Managers believe that sound SEE policies make good business sense and take these issues into account when investment decisions are taken. However, the Managers do not exclude companies from their investment universe purely on grounds of SEE concerns. Instead, the Managers adopt a positive approach whereby such matters are discussed with management with the aim of improving procedures and attitudes.

Voting Policy

The Board has also given discretionary voting powers to the Managers. Aberforth Partners LLP exercises these voting rights on every resolution that is put to shareholders of the companies in which the Company is invested. The Managers vote against resolutions that they believe may damage shareholders' rights or economic interests and under normal circumstances these concerns would have been raised with directors of the company concerned.

The Board receives from the Managers quarterly reports on governance issues (including voting) arising from investee companies and reviews, from time to time, the Managers' voting guidelines and its stance towards SRI and SEE matters.

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting.

The law requires the Company's Auditor to audit certain elements of this report. These elements are described below as "audited". The Auditor's opinion is included in the Independent Auditor's Report on page 33.

Remuneration Committee

The Board is composed wholly of non-executive Directors who together consider and determine all matters relating to the Directors' remuneration at the beginning of each financial period. A Remuneration Committee has not been formed as all of the Directors are non-executive and considered independent.

Statement of the Company's Policy on Directors' Remuneration

The Company's policy is that the remuneration of the Directors should reflect the experience of the Board, as a whole, and be comparable to that of similar investment trusts within the AIC's UK Smaller Companies sector and other investment trusts that are similar in size and structure. This information is provided by Aberforth Partners LLP, as Secretaries, who were appointed by the Board. It is intended that this policy will remain in place for the following financial year and subsequent periods.

Directors' remuneration is determined within the limits set by the Company's Articles of Association and is solely composed of Directors' fees. Directors are not eligible for bonuses, pension benefits, share options or any other benefits. There are no performance conditions relating to Directors' fees. There are no long-term incentive schemes.

Directors' Service Contracts

Each Director has entered into a letter of appointment with the Company for an initial period of service of three years, subject to annual re-election by Shareholders. After the initial period, each Director's term is, upon review, extended for a further year. Directors are subject to election by Shareholders at the first Annual General Meeting after their appointment and thereafter at every subsequent Annual General Meeting. A Director may be removed without notice and no compensation will be due on loss of office.

The following Directors held office during the year:

Director	Date of Appointment	Date of Retirement	Date of Letter of Appointment	Unexpired Term[1]
Prof P R Marsh, *Chairman*	16 July 2004	—	16 July 2004	1 year
H N Buchan	11 November 2003	—	11 November 2003	1 year
M L A Chiappelli	17 July 2001	2 March 2011	29 April 2003	—
J E G Cran	17 July 2001	—	29 April 2003	5 weeks
D J Jeffcoat	22 July 2009	—	22 July 2009	1 year
Prof W S Nimmo	16 July 2004	—	16 July 2004	1 year

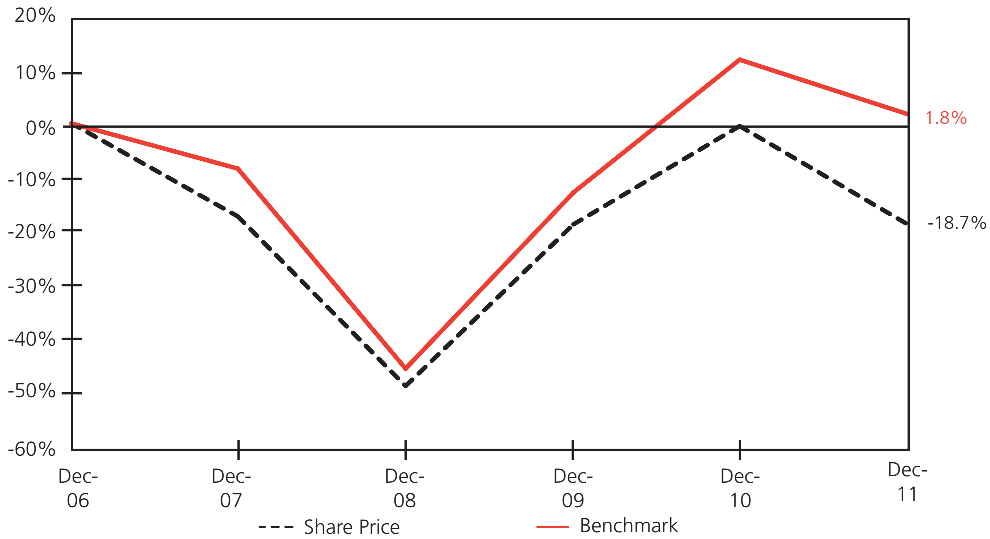
[1] Each Director's unexpired term, other than that of Mr Cran, is subject to their re-election at the Annual General Meeting in March 2012. As previously stated, Mr Cran will retire at the forthcoming Annual General Meeting.

Directors' Remuneration Report

Share Price Performance

The graph below compares the performance of the Company's share price against the RBS Hoare Govett Smaller Companies Index (Excluding Investment Companies), on a total return basis (assuming all dividends reinvested). This index has been selected for the purposes of comparing the Company's share price performance as it has been the Company's benchmark since inception.

Total Return Performance since 31 December 2006



Note: For further information on the above graph, please refer to the Historic Total Returns tables on page 15.

Directors' Fees (Audited)

The emoluments of the Directors who served during the year were as follows:

	Fees 2011 £	Fees 2010 £
Prof P R Marsh, *Chairman*	**30,000**	24,674
H N Buchan, *Member of the Audit and Management Engagement Committee*	**21,000**	18,500
M L A Chiappelli, *Chairman of the Audit and Management Engagement Committee until 25 January 2011. Retired on 2 March 2011*	**3,789**	22,000
J E G Cran, *Member of the Audit and Management Engagement Committee*	**21,000**	18,500
D J Jeffcoat, *Chairman of the Audit and Management Engagement Committee with effect from 25 January 2011*	**24,884**	18,500
Prof W S Nimmo	**20,000**	17,500
D R Shaw, *retired 3 March 2010*	**–**	4,459
	120,673	124,133

No other emoluments or pension contributions were paid by the Company to or on behalf of any other Director.

Approval

The Directors' Remuneration Report on pages 30 to 31 was approved by the Board on 25 January 2012 and signed on its behalf by Professor Paul Marsh, Chairman.

Directors’ Responsibility Statement

The Directors are required by law to prepare financial statements for each financial year. The Directors are also required to prepare a Directors’ Report, Business Review, Directors’ Remuneration Report and Corporate Governance Statement.

The Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and 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 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for ensuring that the Annual Report includes information required by the Listing Rules and the Disclosure and Transparency Rules of the Financial Services Authority. The Directors confirm that they have complied with these requirements in preparing the financial statements.

The Annual Report is published on www.aberforth.co.uk, which is the website maintained by the Company’s Manager. The work undertaken by the Auditor does not involve consideration of the maintenance and integrity of the website and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Declaration

Each of the Directors confirm to the best of their knowledge that:

(a) the financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board
Professor Paul Marsh
Chairman
25 January 2012

Independent Auditor's Report

To the Members of Aberforth Smaller Companies Trust plc

We have audited the financial statements of Aberforth Smaller Companies Trust plc for the year ended 31 December 2011 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume 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 auditor

As explained more fully in the Directors' Responsibility Statement set out on page 32, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- The Directors' statement on page 22 in relation to going concern;
- The part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to the shareholders by the Board on Directors' remuneration.

Susan Dawe (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh

25 January 2012

(a) The maintenance and integrity of the Aberforth Partners LLP web site is the responsibility of the partners of Aberforth Partners LLP; the work carried out by the auditor of Aberforth Smaller Companies Trust plc does not involve consideration of these matters and, accordingly, the auditor accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

For the year ended 31 December 2011

	Note	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
(Losses)/gains on investments	9	—	(110,015)	(110,015)	—	140,996	140,996
Investment income	2	26,502	—	26,502	20,533	—	20,533
Other income	2	1	—	1	43	—	43
Investment management fee	3	(2,105)	(3,508)	(5,613)	(1,803)	(3,005)	(4,808)
Other expenses	4	(522)	(2,475)	(2,997)	(455)	(3,159)	(3,614)
Net return before finance costs and tax		23,876	(115,998)	(92,122)	18,318	134,832	153,150
Finance costs	5	(616)	(1,027)	(1,643)	(796)	(1,327)	(2,123)
Return on ordinary activities before tax		23,260	(117,025)	(93,765)	17,522	133,505	151,027
Tax on ordinary activities	6	(13)	—	(13)	(10)	—	(10)
Return attributable to equity shareholders		23,247	(117,025)	(93,778)	17,512	133,505	151,017
Returns per Ordinary Share	8	24.13p	(121.46p)	(97.33p)	18.11p	138.08p	156.19p

The Board declared on 25 January 2012 a second interim dividend of 14.30p per Ordinary Share (2010 — 13.0p). The Board also declared on 20 July 2011 a first interim dividend of 6.45p per Ordinary Share (2010 — 6.0p).

The total column of this statement is the profit and loss account of the Company. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year. A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes form an integral part of this statement.

Reconciliation of Movements in Shareholders' Funds

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 taxation	—	—	—	(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

For the year ended 31 December 2010

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2009	969	19	186,025	362,796	37,113	586,922
Return on ordinary activities after taxation	—	—	—	133,505	17,512	151,017
Equity dividends paid	—	—	—	—	(18,404)	(18,404)
Purchase of Ordinary Shares	(5)	5	(2,746)	—	—	(2,746)
Balance as at 31 December 2010	964	24	183,279	496,301	36,221	716,789

The accompanying notes form an integral part of this statement.

Balance Sheet

As at 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets:			
Investments at fair value through profit or loss	9	**669,903**	768,954
Current assets			
Debtors	10	**2,578**	1,620
Cash at bank		**151**	68
		2,729	1,688
Creditors (amounts falling due within one year)	11	**(1,657)**	(53,853)
Net current assets/(liabilities)		**1,072**	(52,165)
TOTAL ASSETS LESS CURRENT LIABILITIES		**670,975**	716,789
Creditors (amounts falling due after more than one year)	12	**(67,884)**	—
TOTAL NET ASSETS		**603,091**	716,789
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital:			
Ordinary Shares	13	**961**	964
Reserves:			
Capital redemption reserve	14	**27**	24
Special reserve	14	**182,103**	183,279
Capital reserve	14	**379,276**	496,301
Revenue reserve	14	**40,724**	36,221
TOTAL SHAREHOLDERS' FUNDS		**603,091**	716,789
NET ASSET VALUE PER SHARE	15	**627.31p**	743.81p

Approved and authorised for issue by the Board of Directors on 25 January 2012 and signed on its behalf by Professor Paul Marsh, *Chairman*

The accompanying notes form an integral part of this statement.

Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Net cash inflow from operating activities		18,763	15,766
Taxation		(15)	(35)
Returns on investments and servicing of finance	16	(1,584)	(1,739)
Capital expenditure and financial investment	16	(13,787)	3,364
		3,377	17,356
Equity dividends paid	7	(18,744)	(18,404)
		(15,367)	(1,048)
Financing			
Purchase of Ordinary Shares		(800)	(2,746)
Net drawdown of bank debt facilities (before costs)	17	16,250	3,500
Increase/(decrease) in cash	17	83	(294)

	Note	2011 £'000	2010 £'000
Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities			
Net return before finance costs and taxation		(92,122)	153,150
Losses/(gains) on investments		110,015	(140,996)
Scrip dividends received		(137)	(51)
Expenses incurred in acquiring or disposing of investments		2,475	3,159
(Increase)/decrease in debtors		(1,471)	508
Increase/(decrease) in other creditors		3	(4)
Net cash inflow from operating activities		18,763	15,766

	Note	2011 £'000	2010 £'000
Reconciliation of net cash flow to movement in net debt	17		
Increase/(decrease) in cash in the year		83	(294)
Net drawdown of bank debt facilities		(16,100)	(3,500)
Amortised costs in respect of the bank debt facility		(173)	(423)
Change in net debt		(16,190)	(4,217)
Opening net debt		(51,543)	(47,326)
Closing net debt		(67,733)	(51,543)

The accompanying notes form an integral part of this statement.

Notes to the Financial Statements

1 Accounting Policies

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

(a) Basis of accounting

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.

(b) Investments

The Company's investments have been categorised as "financial assets at fair value through profit or loss" as the Company's business is to invest in financial assets with a view to profiting from their total return in the form of capital growth and income. Quoted investments are valued at their fair value which is represented by the bid price. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its fair value.

As investments have been categorised as "financial assets at fair value through profit or loss", gains and losses arising from changes in fair value are included in the capital return for the period and transaction costs on acquisition or disposal of a security are expensed to the capital reserve.

Purchases and sales of investments are accounted for on trade date.

(c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividend income is shown excluding any related tax credit. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any surplus or deficit in the value of the shares received compared to the cash dividend foregone is recognised as capital. Other income is accounted for on an accruals basis.

(d) Expenses

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

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

(e) Finance costs

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

The arrangement fee in relation to the £100 million bank debt facility is being amortised over the expected life of the facility (with 62.5% allocated to capital reserve and 37.5% to revenue reserve) on a straight line basis. The unamortised value of these costs is deducted from the fair value of the bank debt facility.

(f) Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- increases and decreases in the valuation of investments held at the year-end.
- gains on the return of capital by way of investee companies paying special dividends; and
- expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies.

(g) Special reserve

This reserve may be treated as distributable profits for all purposes, excluding the payment of dividends. The cost of purchasing Ordinary Shares for cancellation is accounted for in this reserve.

(h) Capital redemption reserve

The nominal value of Ordinary Shares bought back for cancellation is added to this reserve.

(i) Revenue reserve

This reserve represents the only reserve from which dividends can be funded.

Notes to the Financial Statements

1 Accounting Policies *(continued)*

(j) Taxation

The tax effect of different items of income/gain and expenditure/loss is allocated between revenue and capital on the same basis as the particular item to which it relates, under the marginal method, using the Company's effective rate of tax for the accounting period. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets being recognised only if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods.

2 Income

	2011 £'000	2010 £'000
Income from investments (UK listed)		
Franked investment income (net)	**26,182**	19,869
Scrip dividends	**137**	51
Other investment income	**183**	613
	26,502	20,533
Other income		
Deposit interest	**1**	1
Underwriting/placing commission	—	42
	1	43
Total income	**26,503**	20,576
Total income comprises:		
Dividends	**26,502**	20,533
Interest	**1**	1
Underwriting/placing commission	—	42
	26,503	20,576

During the year the Company received no special dividends (2010 – nil) which were considered as a return of capital by the investee companies.

3 Investment Management Fee

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Investment management fee	**2,105**	**3,508**	**5,613**	1,803	3,005	4,808

The Company's investment managers are Aberforth Partners LLP. The contract between the Company and Aberforth Partners LLP may be terminated by either party at any time by giving six months' notice of termination. Aberforth Partners LLP receive a quarterly management fee, payable in advance, equal to 0.2% of the value of the total assets less all liabilities of the Company.

Notes to the Financial Statements

4 Other Expenses

	2011 £'000	2010 £'000
The following expenses have been charged to revenue:		
Directors' fees (refer to Directors' Remuneration Report)	121	124
Secretarial services	84	78
Registrars fees	65	67
AIC fees	34	38
Custody and other bank charges	37	33
Directors and Officers liability insurance	10	10
Auditor's fee – for audit services: recurring	20	20
– for non-audit services: recurring – taxation services	2	2
Legal fees	33	15
Other expenses	116	68
	522	455
The following expenses have been charged directly to capital:		
Expenses incurred in acquiring or disposing of investments classified at fair value through profit or loss	2,475	3,159

Expenses incurred in acquiring or disposing of investments classified at fair value through profit or loss are analysed below.

	2011 £'000	2010 £'000
Analysis of total purchases		
Purchase consideration before expenses	235,402	248,049
Commissions	852	1,078
Taxes	947	1,127
Total acquisition expenses	1,799	2,205
Total purchases	237,201	250,254
Analysis of total sales		
Sales consideration before expenses	224,438	252,477
Total disposal expenses – commissions	676	954
Total sales net of expenses	223,762	251,523

5 Finance Costs

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Interest/non-utilisation costs on bank debt facility	551	919	1,470	637	1,063	1,700
Amortisation of bank debt facility costs	65	108	173	159	264	423
	616	1,027	1,643	796	1,327	2,123

6 Taxation

Analysis of tax charged on return on ordinary activities	2011 £'000	2010 £'000
UK corporation tax charge for the year (see below)	—	—
Irrecoverable overseas taxation suffered	13	10
Total tax charge for the year	13	10

Factors affecting current tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for a large company (26%).

The differences are explained below:

	2011 £'000	2010 £'000
Total returns on ordinary activities before tax	(93,765)	151,027
Notional corporation tax at 26.5% (2010 — 28%)	(24,856)	42,288
Non-taxable UK dividends	(6,938)	(5,563)
Non-taxable overseas dividend income	(20)	(172)
Expenses not deductible for tax purposes	656	885
Expenses for which no relief has been taken	2,004	2,041
Capital returns (not subject to corporation tax)	29,154	(39,479)
UK corporation tax charge for the year	—	—
Irrecoverable overseas taxation suffered	13	10
Total tax charge for the year	13	10

The Company has not recognised a potential asset for deferred tax of £16,750,000 (2010: £14,936,000) in respect of unutilised management expenses because it is unlikely that there will be suitable taxable profits from which the future reversal of a deferred tax asset may be deducted.

Notes to the Financial Statements

7 Dividends

	2011 £'000	2010 £'000
Amounts recognised as distributions to equity holders in the period:		
Second interim dividend for the year ended 31 December 2010 of 13.00p (2009: 13.0p) paid on 26 February 2011	**12,528**	12,592
First interim dividend for the year ended 31 December 2011 of 6.45p (2010: 6.0p) paid on 26 August 2011	**6,216**	5,812
	18,744	18,404
Amounts not recognised in the period:		
Second interim dividend for the year ended 31 December 2011 of 14.30p (2010: second interim dividend of 13.0p) payable on 24 February 2012	**13,748**	12,528

The second interim dividend has not been included as a liability in these financial statements.

We also set out below the total dividends payable in respect of the financial year, which form the basis on which the revenue retention requirements of Section 1158 of the Corporation Tax Act 2010 are considered.

	2011 £'000	2010 £'000
Revenue available for distribution by way of dividends for the year	**23,247**	17,512
First interim dividend for the year ended 31 December 2011 of 6.45p (2010: 6.0p)	**6,216**	5,812
Second interim dividend for the year ended 31 December 2011 of 14.30p (2010: second interim dividend of 13.0p)	**13,748**	12,528
	19,964	18,340

8 Returns per Ordinary Share

The returns per Ordinary Share are based on:

(i) a numerator being the Returns attributable to equity shareholders of:

	2011 Total £'000	2010 Total £'000
Attributable to Ordinary Shareholders	**(93,778)**	151,017

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

	2011	2010
Weighted average number of shares in issue during the year	**96,345,381**	96,685,671

Notes to the Financial Statements

9 Investments

	2011 UK Listed £'000	2010 UK Listed £'000
Investments at fair value through profit or loss		
Opening book cost	**732,160**	690,061
Opening fair value adjustment	**36,794**	(57,675)
Opening valuation	**768,954**	632,386
Movements in the period:		
Purchases at cost	**235,402**	248,049
Sales – proceeds	**(224,438)**	(252,477)
– gains/(losses) on sales	**69,356**	46,527
Movement in fair value adjustment	**(179,371)**	94,469
Closing valuation	**669,903**	768,954
Closing book cost	**812,480**	732,160
Closing fair value adjustment	**(142,577)**	36,794
Closing valuation (all investments are in ordinary shares (unless otherwise stated) listed on the London Stock Exchange)	**669,903**	768,954
Net gains on sales	**69,356**	46,527
Movement in fair value	**(179,371)**	94,469
(Losses)/gains on investments	**(110,015)**	140,996

10 Debtors

	2011 £'000	2010 £'000
Amounts due from brokers	**—**	515
Investment income receivable	**2,514**	1,038
Taxation recoverable	**27**	25
Other debtors	**37**	42
	2,578	1,620

11 Creditors: Amounts falling due within one year

	2011 £'000	2010 £'000
Amounts due to brokers	**1,137**	2,137
Bank debt facility (see note 12)	**—**	51,750
Less: Unamortised costs	**—**	(139)
Amounts due in respect of purchase of own Ordinary Shares	**376**	—
Other creditors	**144**	105
	1,657	53,853

12 Creditors: Amounts falling due after more than one year

	2011 £'000	2010 £'000
Bank debt facility (see note 11)	**68,000**	—
Less: Unamortised costs	**(116)**	—
	67,884	—

Notes to the Financial Statements

Borrowing facilities

On 4 May 2011, the Company entered into a new unsecured £100 million Facilities Agreement with The Royal Bank of Scotland plc. A 0.15% arrangement fee was paid on entering into the agreement and is being amortised over the expected life of the facility. Under the facility, all funds drawn down attract interest at a margin of 1.35% over LIBOR. A non-utilisation fee is also payable on any undrawn element, at a rate equivalent to 40% of the level of margin.

The main covenant under the facility requires that, every month, total borrowings shall not exceed 30% of the Company's total gross assets (excluding all creditors). There were no breaches of the covenants during the year. As at 31 December 2011, total borrowings represented 10.1% of total gross assets (excluding all creditors). The current facility is due to expire on 2 May 2014.

13 Share Capital

	2011 No. of Shares	2011 £'000	2010 No. of Shares	2010 £'000
Authorised:				
Ordinary Shares of 1p	**333,299,254**	**3,333**	333,299,254	3,333
Allotted, issued and fully paid:				
Ordinary Shares of 1p	**96,138,792**	**961**	96,366,792	964

During the year, the Company bought in and cancelled 228,000 shares (2010: 500,208) at a total cost of £1,176,000 (2010: £2,746,000). No further shares have been bought back for cancellation between 31 December 2011 and 25 January 2012.

14 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	TOTAL £'000
At 31 December 2009	969	19	186,025	362,796	37,113	586,922
Net gains on sale of investments	—	—	—	46,527	—	46,527
Movement in fair value adjustment	—	—	—	94,469	—	94,469
Cost of investment transactions	—	—	—	(3,159)	—	(3,159)
Management fees charged to capital	—	—	—	(3,005)	—	(3,005)
Finance costs charged to capital	—	—	—	(1,327)	—	(1,327)
Revenue return attributable to equity shareholders	—	—	—	—	17,512	17,512
Equity dividends paid	—	—	—	—	(18,404)	(18,404)
Purchase of Ordinary Shares	(5)	5	(2,746)	—	—	(2,746)
At 31 December 2010	**964**	**24**	**183,279**	**496,301**	**36,221**	**716,789**
Net gains on sale of investments	—	—	—	69,356	—	69,356
Movement in fair value adjustment	—	—	—	(179,371)	—	(179,371)
Cost of investment transactions	—	—	—	(2,475)	—	(2,475)
Management fees charged to capital	—	—	—	(3,508)	—	(3,508)
Finance costs charged to capital	—	—	—	(1,027)	—	(1,027)
Revenue return attributable to equity shareholders	—	—	—	—	23,247	23,247
Equity dividends paid	—	—	—	—	(18,744)	(18,744)
Purchase of Ordinary Shares	(3)	3	(1,176)	—	—	(1,176)
At 31 December 2011	**961**	**27**	**182,103**	**379,276**	**40,724**	**603,091**

Notes to the Financial Statements

15 Net asset value per share

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

	Net asset value per share attributable		Net assets attributable	
	2011 pence	2010 pence	**2011 £'000**	2010 £'000
Ordinary Shares	**627.31**	743.81	**603,091**	716,789

Net asset value per Ordinary Share is based on net assets of £603,091,000 (2010: £716,789,000), and on 96,138,792 (2010: 96,366,792) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

16 Gross cash flows

	2011 £'000	2010 £'000
Returns on investments and servicing of finance		
Interest/non-utilisation costs on bank debt facility	**(1,434)**	(1,739)
Bank debt facility fee (see note 12)	**(150)**	—
	(1,584)	(1,739)
Capital expenditure and financial investment		
Payments to acquire investments	**(238,064)**	(248,066)
Receipts from sales of investments	**224,277**	251,430
	(13,787)	3,364

17 Analysis of changes in net debt

	Net debt at 1 January 2011 £'000	Cash flow £'000	Other non-cash movements £'000	Net debt at 31 December 2011 £'000
Cash at bank	68	83	—	151
Bank debt facility	(51,750)	(16,250)	—	(68,000)
Bank debt facility fee (see note 12)	139	150	(173)	116
	(51,543)	(16,017)	(173)	(67,733)

18 Financial instruments and risk management

The Company's financial instruments comprise its investment portfolio (see pages 12 to 13), cash balances, bank debt facilities, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. Bank debt facilities are utilised when the Managers believe it is in the interest of the Company to financially gear the portfolio. Note 1 sets out the accounting policies, including criteria for recognition and the basis of measurement applied for significant financial instruments excluding cash at bank which is carried at fair value. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The main risks that the Company faces arising from its financial instruments are:

(i) *interest rate risk*, being the risk that the interest receivable/payable and the market value of investment holdings may fluctuate because of changes in market interest rates;

(ii) *liquidity risk* is the risk that the Company will encounter difficulty raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial instruments quickly at their fair values or from the inability to generate cash inflows as required;

Notes to the Financial Statements

18 Financial instruments *(continued)*

(iii) *credit risk* is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and

(iv) *market price risk*, being the risk that the market value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movement.

The Company's financial instruments are all denominated in sterling and therefore the Company is not directly exposed to any significant currency risk. However, it is recognised that most investee companies, whilst listed in the UK, will be exposed to global economic conditions and currency fluctuations.

(i) Interest rate risk

When the Company decides to hold cash balances, all balances are held on variable rate bank accounts yielding rates of interest linked to bank base rate which at 31 December 2011 was 0.5% (2010: 0.5%). The Company's policy is to hold cash in variable rate bank accounts and not usually to invest in fixed rate securities. The Company's investment portfolio is not directly exposed to interest rate risk.

The Company has a bank debt facility of £100,000,000 of which £68,000,000 was drawn down as at 31 December 2011 (2010: debt facility of £75,000,000, of which £51,750,000 was drawn down as at 31 December 2010). Further details of this facility can be found in Note 12.

If LIBOR and the bank base rate had increased by 1%, the impact on the profit or loss and therefore Shareholders' equity would have been negative £680,000 (2010: negative £518,000). If LIBOR and the bank base rate had decreased by 0.5%, the impact on the profit or loss and therefore Shareholders' equity would have been a positive £340,000 (2010: positive £259,000). There would be no direct impact on the portfolio valuation. The calculations are based on the cash balances as at the respective balance sheet dates and are not representative of the year as a whole and assume all other variables remain constant.

(ii) Liquidity risk

The Company's assets comprise mainly readily realisable equity securities which, if necessary, can be sold to meet any funding requirements though short term funding flexibility can typically be achieved through the use of bank debt facilities. The Company's current liabilities all have a remaining contractual maturity of less than three months with the exception of the bank debt facility. Further details of this facility can be found in Note 12.

(iii) Credit risk

The Company invests in UK equities traded on the London Stock Exchange and investment transactions are carried out with a large number of FSA regulated brokers with trades typically undertaken on a delivery versus payment basis and on a short settlement period.

Cash at bank is held with reputable banks with acceptable external credit ratings.

The investment portfolio assets of the Company are held by The Northern Trust Company, the Company's custodian, in a segregated account. In the event of the bankruptcy or insolvency of Northern Trust the Company's rights with respect to the securities held by the custodian may be delayed or limited. The Board monitors the Company's risk by reviewing Northern Trust's internal control report.

(iv) Market price risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the investment managers in pursuance of the investment objective. No derivative or hedging instruments are currently utilised to specifically manage market price risk. Further information on the investment portfolio is set out in the Managers' Report on pages 7 to 11. It is not the Managers' policy to use derivatives to manage portfolio risk.

If the investment portfolio valuation fell by 20% at 31 December 2011, the impact on the profit or loss and therefore Shareholders' equity would have been negative £134.0m (2010: negative £153.8m). If the investment portfolio valuation rose by 20% at 31 December 2011, the impact on the profit or loss and therefore Shareholders' equity would have been positive £134.0m (2010: £153.8m). The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole and assume all other variables remain constant.

As at 31 December 2011, all of the Company's financial instruments (excluding loans) were included in the balance sheet at fair value. The fair value approximately equates to the book value. The investment portfolio consisted of listed investments valued at their bid price, which represents fair value. Any cash balances, which are held in variable rate bank accounts, can be withdrawn on demand with no penalty.

18 Financial instruments *(continued)*

Contractual maturity analysis for financial instruments
As at 31 December 2011

(All in £'000)	Due or due not later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Current Assets:						
Cash at bank	151	—	—	—	—	151
Investment income receivable	2,351	163	—	—	—	2,514
Amounts due from brokers	—	—	—	—	—	—
Other debtors	6	11	47	—	—	64
Total current assets	2,508	174	47	—	—	2,729
Liabilities:						
Bank debt facility	—	—	—	68,000	—	68,000
Unamortised costs	—	—	—	(116)	—	(116)
Amounts due to brokers	1,137	—	—	—	—	1,137
Other creditors	411	109	—	—	—	520
Total liabilities	1,548	109	—	67,884	—	69,541
Net liquidity of continuing operations	960	65	47	(67,884)	—	(66,812)

Contractual maturity analysis for financial instruments
As at 31 December 2010

(All in £'000)	Due or due not later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Cash at bank	68	—	—	—	—	68
Investment income receivable	885	153	—	—	—	1,038
Amounts due from brokers	515	—	—	—	—	515
Other debtors	6	12	37	12	—	67
Total current assets	1,474	165	37	12	—	1,688
Liabilities:						
Bank debt facility	—	—	51,750	—	—	51,750
Unamortised costs	—	—	(139)	—	—	(139)
Amounts due to brokers	2,137	—	—	—	—	2,137
Other creditors	84	21	—	—	—	105
Total liabilities	2,221	21	51,611	—	—	53,853
Net liquidity of continuing operations	(747)	144	(51,574)	12	—	(52,165)

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2011

(All in £'000)	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Bank debt facility	—	382	1,155	70,045	—	71,582
Amounts due to brokers	—	1,137	—	—	—	1,137
Other creditors	—	520	—	—	—	520
	—	2,039	1,155	70,045	—	73,239

Notes to the Financial Statements

18 Financial instruments *(continued)*

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2010

(All in £'000)	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Bank debt facility	—	323	52,141	—	—	52,464
Amounts due to brokers	—	2,137	—	—	—	2,137
Other creditors	—	71	—	—	—	71
	—	2,531	52,141	—	—	54,672

Capital Management Policies and Procedures

The Company's capital management objectives are:

– to ensure that the Company will be able to continue as a going concern; and
– to support the Company's objective.

This is achieved through the appropriate balance of equity capital and gearing. Further details can be found in the Business Review.

19 Financial instruments measured at fair value

Description	Level 1 £'000	Level 2 £'000	Level 3 £'000	2011 Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2010 Total £'000
Investments	**669,903**	**—**	**—**	**669,903**	768,954	—	—	768,954

Level 1 reflects financial instruments quoted in an active market.

Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables includes only data from observable markets.

Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data.

20 Contingencies, guarantees, financial commitments and contingent assets

The Company had no contingencies, guarantees or financial commitments as at 31 December 2011 (2010: nil). The Company may be able to recover further amounts of VAT charged on investment management fees in respect of the period from 1996 to 2000. However, the Board considers that currently there are too many uncertainties to recognise any amounts potentially recoverable from HM Revenue & Customs.

Shareholder Information

Shareholder register enquiries

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

Shareholder Services Department, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA. Tel: 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open 8.30 am to 5.30 pm Monday to Friday). Fax: 01484 600 911. Email: shareholder.services@capitaregistrars.com. Website: www.capitaregistrars.com

Payment of dividends

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's registrars, whose address is given above, to pay them directly into a bank account; tax vouchers are then mailed to Shareholders separately. This method also avoids the risk of dividend cheques being delayed or lost in the post. The Company also operates a Dividend Re-investment Plan to allow Shareholders to use their cash dividends to buy shares easily and at a low cost via the Company's registrars from whom the necessary forms are available.

Sources of further information

The prices of the Ordinary Shares are quoted daily in the Financial Times, The Herald, The Telegraph and The Scotsman. The price, together with the Net Asset Values and other financial data, can be found on the TrustNet website at www.trustnet.com. Other websites containing useful information on the Company are www.FT.com and www.theaic.co.uk. Company performance and other relevant information are available on the Managers' website at www.aberforth.co.uk and are updated monthly.

How to invest

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

Security Codes	SEDOL	Bloomberg	Reuters
Ordinary Shares of 1p	0006655	ASL LN	ASL.L

AIC

The Company is a member of The Association of Investment Companies which produces a detailed Monthly Information Service on the majority of investment trusts. This can be obtained by contacting The Association of Investment Companies, 9th Floor, 24 Chiswell Street, London EC1Y 4YY Website: www.theaic.co.uk; Tel: 020 7282-5555.

Shareholder Information

Financial Calendar

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

Glossary Terms

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

"Total Expense Ratio" is the total annual operating costs (net of any tax relief), excluding interest costs and transaction costs, divided by the average Shareholders' funds (calculated per AIC guidelines).

"Gearing" represents total investments divided by Shareholders' Funds.

"Market Capitalisation" of a Company is calculated by multiplying the stockmarket price per Ordinary Share by the total number of Ordinary Shares in issue.

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

"Net Asset Value Total Return" represents the theoretical return on Shareholders' funds per share assuming that net dividends (gross dividends prior to 2 July 1997) paid to Shareholders were reinvested in the Net Asset Value at the time the shares were quoted ex-dividend.

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

Notice of the Annual General Meeting

Notice is hereby given that the Twenty-first Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 7 March 2012 at 6.30 p.m. for the following purposes:

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

1. That the Report and Accounts for the year to 31 December 2011 be adopted.
2. That Prof P R Marsh be re-elected as a Director.
3. That Mr H N Buchan be re-elected as a Director.
4. That Mr D J Jeffcoat be re-elected as a Director.
5. That Prof W S Nimmo be re-elected as a Director.
6. That Mr R Rae be elected as a Director.
7. That the Directors' Remuneration Report for the year ended 31 December 2011 be approved.
8. That Ernst & Young LLP be re-appointed as Auditor and that the Directors be authorised to determine their remuneration.

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

9. That pursuant to and in accordance with its Articles of Association, the Company be and it is hereby authorised in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares of 1p each in the capital of the Company ("Shares"), provided that:

   (a) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the issued share capital of the Company on the date on which this resolution is passed;

   (b) the minimum price which may be paid for a Share shall be 1p being the nominal value of a Share;

   (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be the higher of (i) 5% above the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out;

   (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 July 2013 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2013, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiry of such authority and may make a purchase of Shares pursuant to any such contract.

By Order of the Board

Aberforth Partners LLP, *Secretaries*

25 January 2012

Notes to the Notice of the Annual General Meeting

1. **Attending the Annual General Meeting in person**
   A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and, vote on his/her behalf. Such a proxy need not also be a member of the Company.

2. **Appointment of Proxy**
   A Form of Proxy for use by Shareholders is enclosed. Completion of the Form of Proxy will not prevent a Shareholder from attending the meeting and voting in person. To register your vote electronically, log on to the registrar's web site at www.capitashareportal.com and follow the instructions on screen. You will require your investor code. CREST users should note they can lodge their proxy votes for the meeting through the CREST proxy voting system. For further instructions users should refer to the CREST User Manual. Any CREST personal members or other CREST sponsored members and other CREST members who have appointed a voting service provider(s) should contact their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID R055) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

   You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the Registrars of the Company. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

   To be valid the proxy form must be completed and lodged, together with the power of attorney or any authority (if any) under which it is signed, or a notarially certified copy of such power of authority, with the Registrars of the Company no later than 48 hours (excluding non-working days) before the time set for the meeting, or any adjourned meeting.

3. **Entitlement to attend and vote**
   To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6.30 p.m. on 5 March 2012 (or, if the Annual General Meeting is adjourned, at 6.30 p.m. on the day two days (excluding non working days) prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

4. **Questions and Answers**
   Pursuant to section 319A of the Companies Act 2006, the Company must provide an answer to any question which is put by a member attending the AGM relating to the business being considered, except if a response would not be in the interest of the Company or for the good order of the meeting or if to do so would involve the disclosure of confidential information. The Company may however elect to provide an answer to a question, within a reasonable period of days after the conclusion of the AGM.

5. **Total Voting Rights**
   As at 25 January 2012, the latest practicable date prior to publication of this document, the Company had 96,138,792 Ordinary Shares in issue with a total of 96,138,792 voting rights.

6. **Shareholder disclosure obligations**
   Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

7. **Information on the Company's website**
   In accordance with section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Managers' website www.aberforth.co.uk

8. **Nominated Persons**
   Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between such person and the shareholder nominating such person, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise such right, the Nominated Person may, under any such agreement, have a right to give instructions to the registered shareholder as to the exercise of voting rights.

9. **Audit concerns**
   The members of the Company may require the Company (without payment) to publish, on its website, a statement (which is also to be passed to the auditor) setting out any matter relating to the audit of the Company's accounts, including the auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the registered address of the Company.

10. **Documents available for inspection**
    The Directors' letters of appointment and a copy of the articles of association of the Company will be available for inspection for 15 minutes prior to the Annual General Meeting and during the meeting.

Corporate Information

Investment Managers and Secretaries
Aberforth Partners LLP
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Edinburgh EH3 7NS
Tel: 0131 220 0733
Email: enquiries@aberforth.co.uk
Website: www.aberforth.co.uk

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Registered in Scotland No. 126524

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