Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 2006

INVESTMENT OBJECTIVE

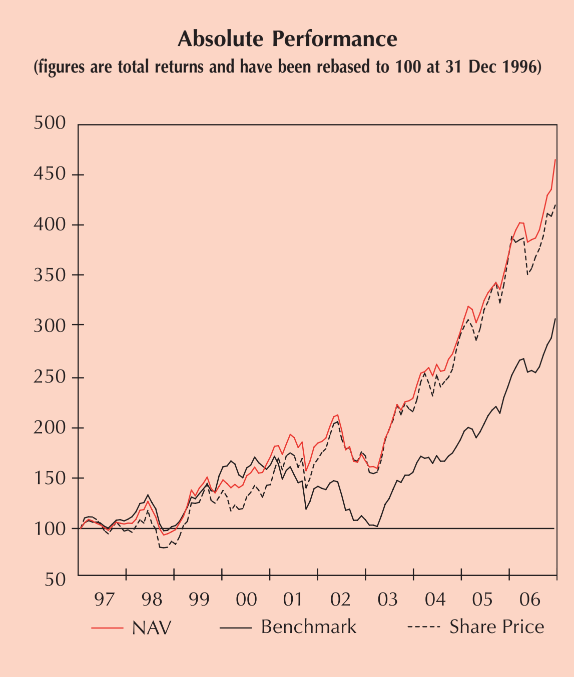
"The investment objective of Aberforth Smaller Companies Trust plc (ASCoT) is to achieve a net asset value total return (with dividends reinvested) greater than on the Hoare Govett Smaller Companies Index (Excluding Investment Companies) over the long term by investing in a diversified portfolio of small UK quoted companies."

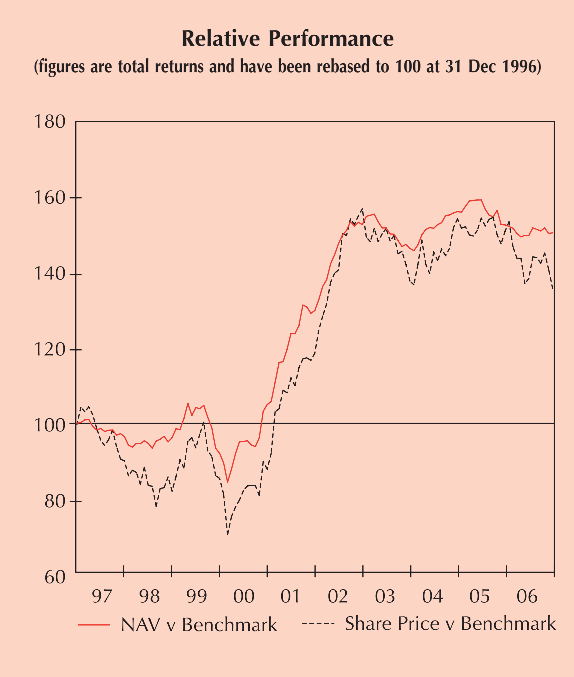
CONTENTS

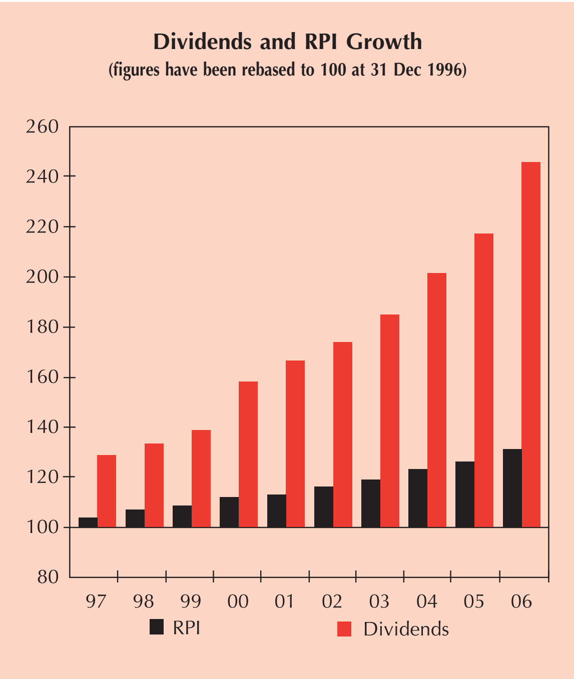
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.
If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 immediately.

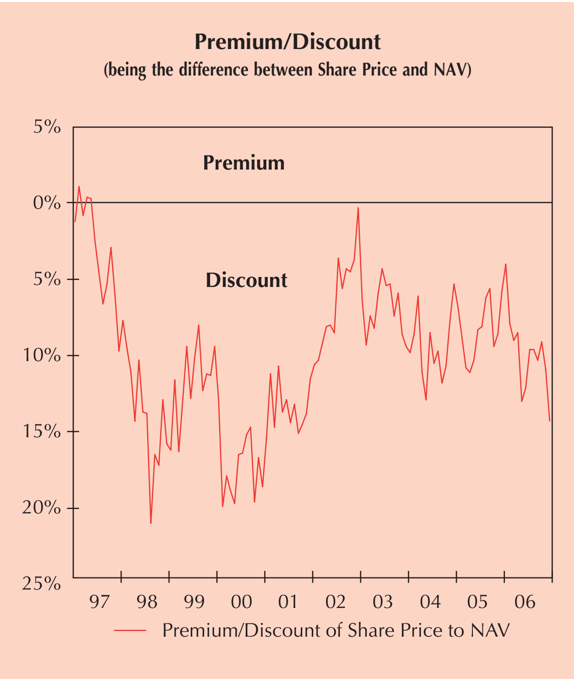
If you have sold or otherwise transferred all of your ordinary shares in Aberforth Smaller Companies Trust plc, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer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

TEN YEAR INVESTMENT RECORD



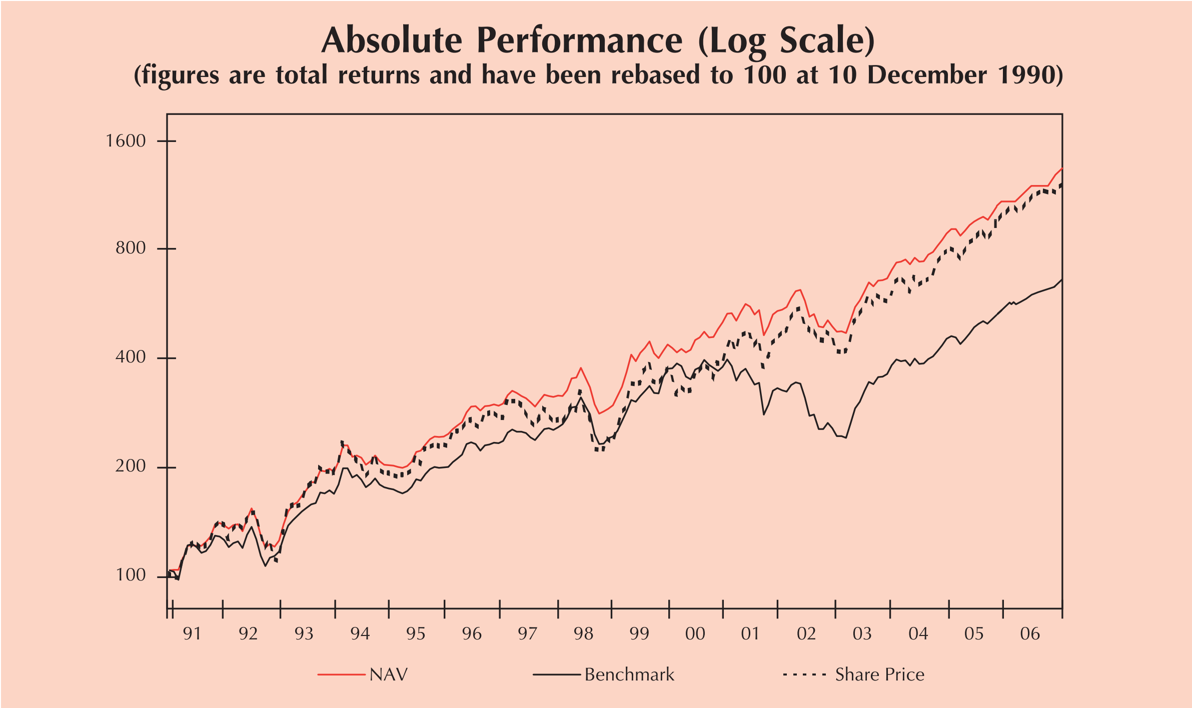






COMPANY SUMMARY

PERFORMANCE SINCE INCEPTION ON 10 DECEMBER 1990



INVESTMENT UNIVERSE AND BENCHMARK INDEX

ASCoT's portfolio normally consists of investments in over 80 individual companies drawn from its investment universe – being companies which would form the constituents of the Hoare Govett Smaller Companies Index (Excluding Investment Companies) (HGSC (XIC)).

The Company's performance is measured against the total return on the HGSC (XIC). This comprises the bottom 10% of all UK quoted companies by market value which at 1 January 2007 consisted of some 505 companies, the largest market capitalisation of which was £1,104 million and the aggregate market capitalisation of which was £144 billion.

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 and further information can be found on page 23. Aberforth Partners LLP manage £2.3 billion invested in small UK quoted companies and further information on the firm is set out on page 7.

COMPANY SUMMARY

SHAREHOLDERS' FUNDS AND MARKET CAPITALISATION

At 31 December 2006	Ordinary Shares
Shareholders' Funds	£833.3m
Market Capitalisation	£714.4m

CAPITAL STRUCTURE

At 31 December 2006, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 98,809,788 were issued and fully paid. There were no changes during the year.

At 31 December 2006, the Company was not geared and had no debt outstanding. The Company does, however, have a bank debt facility of £80 million which the Company can use as gearing at any time.

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 2008 Annual General Meeting (and at every third subsequent Annual General Meeting) that the Company continues to manage its affairs as an investment trust. Further details are set out on page 22.

ISA STATUS

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

PEP STATUS

The Company's Ordinary Shares qualify for investment in a Personal Equity Plan and the Company intends to maintain this qualification.

AIC

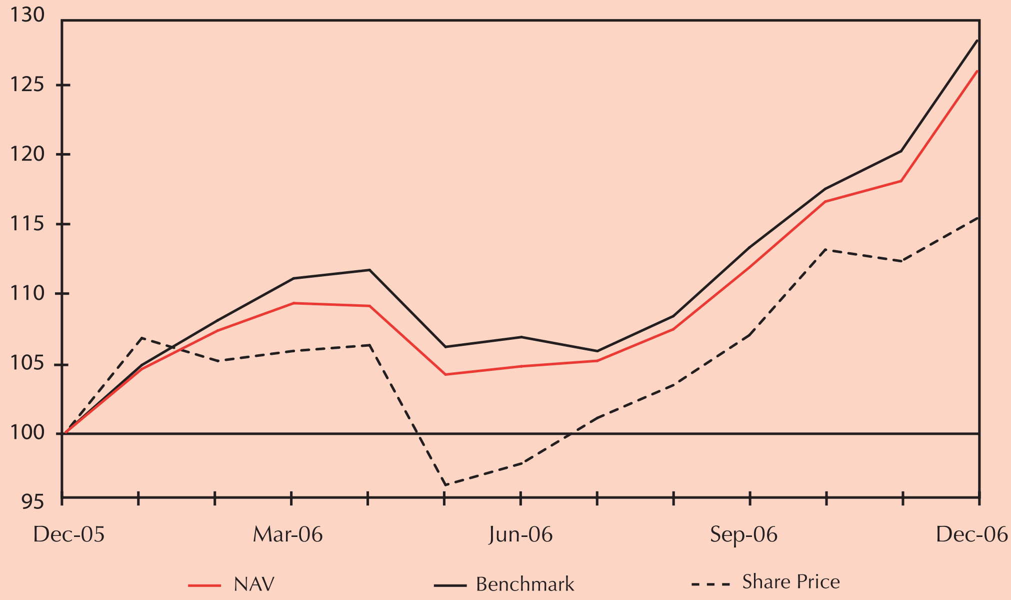
The Company is a member of The Association of Investment Companies (AIC).

YEAR'S SUMMARY
Year to 31 December 2006

Total Returns

ASCoT Net Asset Value (with net dividends reinvested)	**26.3%**
Benchmark Index	**28.0%**
ASCoT Ordinary Share Price (with net dividends reinvested)	**15.0%**

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 December 2005)



YEAR'S SUMMARY
Year to 31 December 2006

	As at 31 December 2006	As at 31 December 2005	% Change
Shareholders' Funds	**£833.3m**	£671.2m	24.2
Market Capitalisation	**£714.4m**	£632.4m	13.0
Ordinary Share net asset value	**843.37p**	679.26p	24.2
Benchmark Index (capital only)	**4,453.88**	3,571.01	24.7
Ordinary Share price	**723.0p**	640.0p	13.0
Revenue per Ordinary Share	**16.40p**	14.50p	13.1
Dividends per Ordinary Share	**13.40p**	11.85p	13.1
Expense ratio	**0.97%**	0.99%	n/a
Portfolio turnover	**34.3%**	34.2%	n/a
Ordinary Share discount[2]	**14.3%**	5.8%	n/a

Year's high and low (on month end values)	**Year to 31 December 2006**		Year to 31 December 2005	
	High	**Low**	High	Low
Ordinary Share net asset value	**843.4p**	**699.7p**	684.6p[1]	551.2p[1]
Ordinary Share price	**723.0p**	**609.0p**	640.0p	505.5p
Ordinary Share discount[2]	**4.0%**	**14.3%**	5.6%	11.1%

[1] Investments valued at mid market prices.

[2] Discount calculated on net asset value including current year revenues.

Total return per Ordinary Share	**Year to 31 December 2006**	Year to 31 December 2005
Revenue	**16.40p**	14.50p
Capital	**159.81p**	122.27p
Total	**176.21p**	136.77p

DIRECTORS AND CORPORATE INFORMATION

DIRECTORS

D R Shaw, (58) CA (Chairman, appointed as a director on 14 October 1994)

David Shaw is Chairman and was previously Chief Executive of Bridgepoint Capital Limited (formerly known as NatWest Equity Partners) since 1989. During this period and currently he also sits on the Board of a number of unlisted companies in which clients managed by Bridgepoint Capital Limited are major investors.

H N Buchan, (62) (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 Personal Assets Trust plc, Standard Life European Private Equity Trust plc, The Scottish Investment Trust plc and is Chairman of JPMorgan American Investment Trust plc. He is also Chairman of The Association of Investment Companies. In August 2000, he became a Director of Aberforth Split Level Trust plc which was placed into members' voluntary liquidation on 10 November 2003 under a scheme of reconstruction. From 1969 until his retirement in 2000 he was an investment trust analyst with Wood Mackenzie & Co and its successor firms.

M L A Chiappelli, (62) CA (appointed 17 July 2001 and is Chairman of the Audit and Management Engagement Committee)

Marco Chiappelli joined the regional newspaper company, Johnston Press plc, in 1974 as Company Secretary and was Finance Director from 1980 until his retiral in July 2001. Before joining Johnston Press he was an Audit Manager with Alexander Sloan & Co. He is currently Chairman of the Board of Governors of St Margaret's School, Edinburgh, Limited and is a former Chairman of the Group of Scottish Finance Directors and previously a Director of Scottish Radio Holdings plc.

J E G Cran, (55) 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 retiral in May 2001. He joined the Board of Cattles plc in 1990 prior to which he held various senior positions in the credit industry.

Professor P R Marsh, (59) (appointed 16 July 2004)

Paul Marsh is Emeritus Professor of Finance at London Business School. Within London Business School, Paul has been Deputy Principal, Faculty Dean, Chair of the Finance area, Associate Dean Finance Programmes and an elected Governor. Paul has advised on several public enquiries, and was previously a Director of Majedie Investments plc (until 2006) and M&G Group (until 1999). Paul co-designed the FTSE 100 Index and the Hoare Govett Smaller Companies Index, produced for ABN AMRO at London Business School.

Professor W S Nimmo, (59) (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.

CORPORATE INFORMATION

INVESTMENT MANAGERS AND SECRETARIES
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CUSTODIAN
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London E14 5NT

AUDITORS
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SOLICITORS AND SPONSORS
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ABERFORTH PARTNERS LLP – INFORMATION

Aberforth Partners LLP (the ''firm'') act as 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 £2.3 billion (as at 31 December 2006). The firm is wholly owned by eight partners – five founding partners and two additional partners, all of whom are investment managers and an eighth partner, Gordon R Young, who is responsible for the firm's administration. The seven 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 (40) 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 – Technology Hardware & Equipment; Travel & Leisure; Health Care Equipment & Services; and Industrial Transportation. 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.

John M Evans (49) MA (Hons) – John was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Automobiles & Parts; Construction & Materials; Household Goods; Leisure Goods; Personal Goods; Fixed Line Telecom; Electricity; Gas, Water & Multiutilities; and Mining. Previously he was with Ivory & Sime for 11 years where he was latterly responsible for the management of portfolios whose objectives were income and capital growth from UK equities.

Euan R Macdonald (36) 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 and Software & Computer 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.

Richard M J Newbery (47) BA (Hons) – Richard was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Electronic & Electrical Equipment; Beverages; Food & Drug Retailers; Food Producers; and General Retailers. 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 (57) FCCA – David was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Nonlife Insurance; Life Assurance; Real Estate; and General Financial. 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.

David Warnock (49) BCom (Hons), CDipAF – David was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Chemicals; Forestry & Paper; General Industrials; and Support Services. Previously he was with Ivory & Sime for 4 years and had responsibility for the management of investment trusts whose objectives were capital and income growth from equities on a global basis. Prior to joining Ivory & Sime, he was with 3i for 7 years in both Scotland and the USA.

Alistair J Whyte (43) – Alistair was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Aerospace & Defence; 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**

CHAIRMAN'S STATEMENT

REVIEW OF 2006 PERFORMANCE

Aberforth Smaller Companies Trust plc (ASCoT) achieved a total return of 26.3% for the year to 31 December 2006, which compares with a total return of 28.0% from the Hoare Govett Smaller Companies Index (Excluding Investment Companies), your Company's investment benchmark. ASCoT has therefore under-performed its benchmark for the year. Larger companies, as represented by the FTSE All-Share Index, registered a total return of 16.8%. Many commentators had forecast that the stockmarket returns from larger companies would surpass smaller companies in 2006, which clearly has not been the case. As in each of the last two Annual Reports, your Board and Managers are cautious about extrapolating recent years' significant returns.

This is the fourth consecutive year of small companies out-performing larger companies and of outstanding absolute returns. This four year ''run'' has produced compound annual total returns for ASCoT of 29.2%, for the investment benchmark of 29.6%, and for larger companies of 18.1%. By comparison, the previous three years of this millennium (to the end of 2002) witnessed a much better relative performance from ASCoT when its compound annual returns were *plus* 4.0%, the benchmark's were *minus* 12.3%, and larger companies' were *minus* 14.2%. Taken together, the seven years to the end of 2006 would seem to suggest that ASCoT's relative performance is better when stockmarkets are less buoyant. This fits well, intuitively, with your Managers' value investment style, though they are reluctant to concede this correlation.

GEARING

It is worth emphasising that ASCoT's policy has always been to remain as near to fully invested as possible and our caution has not and will not alter that policy. With the benefit of hindsight, ASCoT might have gone beyond being fully invested and made use of debt facilities; to have employed gearing during the last four years would have enhanced returns to Shareholders. However, our continuing cautious stance means that we do not envisage gearing ASCoT currently. This position is regularly reviewed by your Board and Managers.

DIVIDENDS

Your Board is pleased to recommend a final dividend of 9.15p, which produces total dividends for the year of 13.40p representing an increase of 13.1% on the total for the previous year. Subject to Shareholders' approval, the final dividend of 9.15p per share will be paid on 7 March 2007 to Shareholders on the register at the close of business on 9 February 2007. ASCoT operates a Dividend Reinvestment Plan; the relevant documentation is available from Aberforth Partners LLP on request, or from their website www.aberforth.co.uk, for those Shareholders who wish to participate in the plan and are not already doing so.

Your Board believes this 13.1% increase in dividends is an excellent performance and reflects the overall health of ASCoT's portfolio. Indeed, to the extent that dividend growth drives share price performance over time, there is no doubt that some of the stockmarket's recent strength has been fundamentally supported by dividend growth, itself a function of good earnings performance and strong cash flow. However, in addition, the stockmarket's rating of that dividend stream has risen i.e. the yield has fallen. While dividend growth may continue to be attractive for some time, it is harder to envisage the rise in capital values continuing to exceed dividend growth.

CORPORATE GOVERNANCE: BUSINESS REVIEW

During 2005, the Companies Act 1985 was amended to introduce the requirement for companies to incorporate a ''business review'' within the Directors' Report. The review, which can be found on pages 22 to 25, provides further analysis of ASCoT's business, its performance during the year, principal risks and key performance indicators.

CHAIRMAN'S STATEMENT

SHARE BUY BACK AUTHORITY AND TREASURY SHARES

At the Annual General Meeting in March 2006, the authority to purchase up to 14.99% of ASCoT's Ordinary Shares was renewed. No Shares were purchased during the year. Your Board will be seeking a renewal of this authority at the Annual General Meeting to be held on 1 March 2007. Your Board has established, and keeps under careful review, the circumstances under which such authority may be utilised. Should these arise, ASCoT will seek to purchase Ordinary Shares and it is your Board's current policy to cancel, rather than hold in treasury, any such shares.

SUMMARY AND OUTLOOK

There will, sooner or later, be more testing stockmarket conditions than those ASCoT has enjoyed these last four years. I noted last year that ''cheap and abundant debt is causing asset prices to rise and fuelling M&A activity'' and I believe I could do worse than repeat this, whilst adding that this cannot go on forever. Eventually, valuations rise to a level that prohibits debt funded M&A and it seems very likely we are nearer that point than we were last year. Whilst this may read as lacking conviction, it reflects the facts that economic conditions remain reasonable, M&A activity seems to be unabated, and therefore returns could well continue to surprise on the upside for sometime yet. Whatever emerges, your Board is confident that your Managers' experience and consistency of approach will stand your Company in good stead in the long term.

David R Shaw
Chairman
22 January 2007

MANAGERS' REPORT

PERFORMANCE

Small UK quoted companies enjoyed a fourth consecutive year of outstanding absolute and relative returns. Having risen by 43.0% in 2003, 20.7% in 2004 and 27.8% in 2005, the Hoare Govett Smaller Companies Index (Excluding Investment Companies) achieved a total return of 28.0% in 2006. This was substantially ahead of the FTSE All-Share Index's 16.8% and, indeed, the average returns enjoyed by UK equities over the longer term. ASCoT shared in this buoyancy, though its 26.3% total return fell short of its benchmark's.

The UK's pattern of strong absolute returns in local currencies and small company out-performance was mirrored by other major stockmarkets. On a constant currency basis, however, a different picture emerges. Though broadly unchanged against the euro, sterling appreciated by 15% against the US dollar. In sterling terms, therefore, the capital only return from the S&P 500 Index was actually slightly negative.

INVESTMENT BACKGROUND

The HGSC (XIC)'s 28.0% return was not achieved smoothly. In common with the FTSE All-Share Index and other indices around the world, the benchmark wobbled between early May and early June, falling by 11.6% before recovering strongly through the second half. That bout of risk aversion, though the most severe in 2006, was not an isolated incident. In their reading of the likely interplay of inflation, real economic growth and interest rates, financial markets on several occasions flirted with the notion that US interest rates might fall in 2007, only to be jilted as inflationary pressures from rampant commodity prices or dollar weakness refused to abate.

Looking for now beyond these short term fluctuations, familiar imbalances in the global economy persist and retain their relevance for the investment background. These imbalances moved to centre stage in the wake of the brief US recession in 2001. Encouraged by low interest rates, the US consumer ran down savings and borrowed to spend. This spending sustained economic growth not just in the US but also globally. It was directed towards the cheap goods and services produced by the economies of East Asia and China in particular. As this relationship developed, the US consumer became more indebted and the US current account deficit swelled to well over 6% of GDP. The final stage in this symbiotic system was the recycling of Asian current account surpluses into perceived high return assets, including US government bonds. In this activity, the East Asian economies were joined by oil exporting countries, which enjoyed a substantial windfall from the quadrupling of the oil price between the end of 2001 and the middle of 2006.

It might be tempting to adopt a puritanical stance at this point and admonish the American consumer for his profligacy. However, the fostering of these imbalances has probably resulted in a more buoyant global economy today than would otherwise have been the case. While a less lopsided world might appeal, its attainment would not be without risk. In particular, alternative sources of demand would be required should challenges arise for the US consumer.

Although the 24% drop in the oil price since its mid year peak has relieved some pressure, several such challenges emerged last year. In response to or in anticipation of ongoing inflationary pressures, the cost of borrowing continued to rise, with the Fed funds rate increased four times in early 2006 to end the year at 5.25%. There is evidence that this has affected the housing market, which previously played an important role in fuelling consumer spending through refinancing. Construction activity slowed markedly towards the end of 2006, with new starts down by over 25% year-on-year. Moreover, Americans' recent fondness for UK-style variable rate mortgages has accelerated the transmission of higher interest rates to the consumer. Finally, the dollar's weakness should at the margin undermine the purchasing power of the US consumer.

These headwinds have given rise to concerns that the American economy might next year slow more quickly than previously expected or even enter recession. Apparent confirmation for this bearish outlook comes from the shape of the US yield curve, with long term bond yields sitting below short term yields. This inversion of the yield curve, which intensified through 2006, has historically proved a useful indicator of an imminent recession. Within this context, it may be possible to rationalise financial markets' obsession last year with whether inflationary pressures would relent sufficiently to allow renewed monetary stimulus from lower interest rates in 2007.

Meanwhile, to judge by the resilience of sterling, the UK remains a haven of relative calm, despite sharing with the US several structural challenges such as a large current account deficit, an indebted consumer sector and an inverted yield curve. Inflationary pressures also remain an issue, with data released in December revealing that the CPI at both the headline and core levels was rising more than expected. Although consumer spending eased, the housing market was reinvigorated after its pause for breath in early 2005: the Halifax survey suggested that house prices rose by 10% last year. As the year drew to a close, therefore, speculation intensified that further monetary tightening, following 2006's increase in interest rates from 4.5% to 5.0%, might prove necessary. Perhaps the currency markets are indicating a greater probability that the Bank of England's monetary policy committee will successfully deal with inflation than their American counterparts.

INVESTMENT PERFORMANCE

As already noted, the setback in May and June meant that the HGSC (XIC)'s 28.0% total return was not secured in a smooth fashion. ASCoT's absolute return followed a similar profile, but its relative return was almost a mirror image. As history indicates, your Managers' value investment disciplines often prove out of step with the mood of the market. These periods have tended to coincide with exuberant stockmarket conditions and can persist for several quarters. The first four months of 2006 sustained the bullish outlook that held sway in much of 2005 and saw ASCoT return 9.2% against its benchmark's 11.6%. However, the increased risk aversion in the mid year served to dampen some of the exuberance and proved to be a turning point in ASCoT's relative fortunes: its 15.6% return over the eight months to the end of the year exceeded the HGSC (XIC)'s 14.8%.

Clearly, however, this upturn was insufficient to recover earlier lost ground. The following paragraphs are intended to throw some light on the influences on ASCoT's performance.

- Of the major indices that measure the performance of UK equities, the HGSC (XIC)'s 28.0% return in 2006 was bettered only by the FTSE 250 (XIC), which was up by 32.1% in total return terms. Indeed, medium sized companies have been the sweet-spot within the UK stockmarket's recovery over the past four years, producing a cumulative total return of 197% against 94% for the FTSE All-Share. This out-performance reflects higher levels of corporate activity and the lure of different industrial exposures from the FTSE 100, which remains dominated by 15 very large companies that account for half of the total market capitalisation of the FTSE All-Share and that are concentrated in the banking, oil, pharmaceutical and telecoms industries. Crucially, ASCoT's benchmark overlaps with the FTSE 250 and thus shares in its performance. The HGSC (XIC)'s definition – the lowest tenth by market capitalisation of the main UK equity market – means that 59% of its total value at the end of 2006 was made up of constituents of the FTSE 250.

  With the alternative small company benchmark, the FTSE SmallCap Index, having returned 133% over the past four years against 182% for the HGSC (XIC), ASCoT's choice of benchmark has served it well. However, as its mid cap constituents have re-rated, your Managers have gradually re-oriented the portfolio towards smaller companies. Four years ago, FTSE 250 companies accounted for 54% of ASCoT's portfolio and for 61% of the benchmark. However, at the end of 2006, ASCoT's exposure to FTSE 250 companies had been managed down to 43%, against 59% for the benchmark.

  This general theme of strong returns from small and mid cap companies does not extend to AIM, a market into which ASCoT has not ventured. Following a modest 4.8% total return in 2005, the FTSE AIM All-Share inched 1.5% higher last year. AIM has struggled over recent years with the laws of supply and demand, having experienced significant net equity issuance in contrast to the net withdrawals, i.e. de-equitisation, on the main market. It has also been hampered by greater exposure to early-stage commodities companies and on-line gaming businesses.

Performance Attribution Analysis
12 Months to 31 December 2006

	Basis Points
Stock Selection	**325**
Sector Selection	**(315)**
Attributable to the portfolio of investments (calculated on a mid-price basis)	**10**
Impact of mid-price to bid-price	**21**
Cash	**(98)**
Management Fee (including VAT) charged	**(99)**
Other expenses	**(6)**
Total Attribution based on bid-prices	**(172)**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the net asset value and the Benchmark Index (i.e. net asset value = 26.29%; Benchmark Index = 28.01%; difference is –1.72% being –172 basis points).

- The table above analyses ASCoT's relative performance in total return terms. At the portfolio level, ASCoT was ahead of the benchmark by ten basis points. This figure was the net of a large negative contribution from sector selection (i.e. either a lower exposure than the benchmark to those sectors that performed well or a higher exposure to those that performed poorly) and a slightly larger positive from stock selection (i.e. the portfolio's investments in a sector performed well against that sector's benchmark return). Regular readers of these reports will appreciate that this degree of disparity between the attributions to stock and sector selection is unusual.

  The good stock selection was broadly spread. Of the 28 sectors in which ASCoT's portfolio was invested during 2006, 16 generated a positive attribution. In 2005's report, reference was made to a higher incidence of profit warnings, specifically to nine stocks that reduced absolute performance by more than 20 basis points. Last year, that number, through good luck and good judgement, fell back to four.

  Sector selection has clearly been less favourable. Before proceeding with an explanation, it is worth reiterating that ASCoT's sector weightings are not predetermined; rather, they are the outcome of the analysis of individual businesses: if your Managers cannot identify any attractively valued companies in a particular sector, they will not commit your capital to that sector.

  On this basis, ASCoT entered 2006 cumulatively 10.5% points below the benchmark's 19.6% weight in four sectors: Oil & Gas Producers, Mining, Real Estate and General Financials. In the case of the two resources sectors, your Managers were concerned that 2005's extraordinary appreciation in the price of oil and other commodities had been more than fairly reflected in the valuations of many constituent companies, companies that frequently relied on highly speculative exploration programmes. Meanwhile, caution with regard to the two financials sectors was founded upon their reliance on the historically low cost of debt, which, in the case of property, had driven yields down to levels that appeared difficult to justify without a meaningful pick-up in rental growth. Despite these misgivings, all four sectors succeeded in outstripping the performance of the benchmark as a whole. With no significant fundamental improvement discernible, and consistent with their value style, your Managers reacted by making further reductions. ASCoT entered 2007 13.5% points below the benchmark's 22.2% weighting in these sectors.

  There must clearly be offsetting over-weight positions. Ironically, the most important of these are the TMT (technology, media and telecom) sectors, the very area of the market to which ASCoT had so little exposure seven years ago. The portfolio began 2007 with a weighting in TMT 5.5% points higher than the HGSC (XIC)'s 13.6%. This simply reflected the availability of a number of attractively valued businesses within what had become relatively unfashionable sectors of the stockmarket. Contrarianism is a regular feature of your Managers' investment style. In the short term, it incurs the risk of running against the prevailing mood of the market and, indeed, TMT exposure contributed negatively in terms of sector selection last year. However, this was more than offset at the stock selection level and your Managers are optimistic that further gains can be made either as the stockmarket rediscovers some of its appetite for TMT or through continued takeover activity.

- De-equitisation, a term coined by Citigroup, has featured regularly in your Managers' recent reports. In the broadest sense, it describes the replacement of equity financing with debt financing that has characterised the UK stockmarket over the past three years. It takes several forms, from high profile cash takeovers to more prosaic share buy-back programmes. It is particularly important for ASCoT because, although large companies accounted for the majority of the net £56bn of equity retired from the UK market in 2006, its impact in proportion to the overall size of the HGSC (XIC) was greater.

  Last year, 52 companies in the benchmark were taken over, equivalent to roughly 9% of the 583 constituents at the start of the year. ASCoT experienced a similar hit-rate, with ten portfolio companies acquired during the year, and also benefited from real or rumoured bid activity affecting several other holdings. As was the case in the previous two years, private equity firms were eclipsed by other corporates, the latter being the successful acquirers in nine of ASCoT's ten completed deals. Three other holdings made substantial returns of capital, while a further eight engaged in share buy-back programmes.

- As quoted companies' appreciation of de-equitisation has grown over recent years – manifest in a greater willingness to fund acquisitions with debt and make share buy-backs – dividend payments have also received renewed focus. This trend is even spreading to the TMT arena: only two of the portfolio's dozen holdings in the Software & Computer Services sector persist in eschewing dividend payments, down from four last year. These developments are consistent with the historically high rates of return on capital that the UK corporate sector is currently enjoying. ASCoT benefited accordingly.

  Of its 113 holdings at the year end, it was the policy of 18 not to pay a dividend, while another 11 had been listed for less than two years, rendering comparisons meaningless. Of the remaining 84, six cut their dividends, a further seven held them unchanged and 71 reported increases. The median company within the 84 raised its dividend by 10%, considerably ahead of the rate of growth achieved by UK equities over the longer term. Although this median figure does not necessarily reflect ASCoT's actual receipts, since the portfolio is actively managed and a specific rate of dividend growth is not targeted, the analysis does indicate the underlying health of a cross-section of ASCoT's investment universe.

INVESTMENT OUTLOOK

The unbalanced world has been good for equities. Businesses' revenues have been boosted by an upswing in overall demand that has lasted for four years. Meanwhile, though challenged by rising utility bills and raw material prices, costs have benefited from the opportunity to source goods and services more cheaply from emerging economies. Furthermore, the persistency of low interest rates in much of the developed world, which were required to stimulate the recovery in demand, has created the de-equitisation phenomenon, allowing companies to replace expensive equity financing with cheap debt and promoting takeover activity.

A transition to a rebalanced global economy, while inevitable and probably ultimately desirable, will not be achieved painlessly and without risk. Last year gave some indications that such a transition may be underway, in particular the still untamed inflationary pressures, the weakening dollar and the threat of a slowdown – or even recession – in the US economy. It is not clear that other sources of demand, whether Europe or the emerging economies, are yet sufficient to take up the strain should the US consumer indeed pause for breath.

However, equity markets, judging by their performance last year, appear at ease with these risks. And why should they not be at ease? Experience suggests that it is dangerous to bet against the US consumer – perhaps the Fed will have sufficient scope in 2007 to cut interest rates, thus simultaneously reinvigorating the consumer sector, prolonging de-equitisation and sustaining leveraged investment activity. Your Managers remain less inclined to overlook the risks.

While these big picture issues can seem rather remote from the world of small UK quoted companies, it is important to bear in mind that ASCoT's investments are competing in a global context not just against overseas businesses for their profits, but also against a myriad of asset classes for the attention of investors. Large companies, one such asset class to which small companies are commonly compared, are trading on a historic price earnings ratio of 14.3x, as gauged by the FTSE All-Share Index. Against this, the attraction of small companies, which the table shows to be valued on 18.5x historic earnings, would appear limited.

However, these overall index valuation measures tend to be skewed by radically different underlying sector exposures, with the FTSE All-Share Index benefiting from its large weighting in lowly rated banks and integrated oil companies, and the HGSC (XIC) suffering from its weighting in highly valued property and oil exploration businesses. These are, however, precisely the areas of the small company universe that your Managers' value investment disciplines have led them to avoid, a decision that has yet to benefit ASCoT's relative performance.

	31 December 2006		31 December 2005	
Characteristics	**ASCoT**	**Benchmark**	ASCoT	Benchmark
Number of Companies	**113**	**505**	117	583
Weighted Average Market Capitalisation	**£450m**	**£570m**	£406m	£486m
Price Earnings Ratio (Historic)	**18.9x**	**18.5x**	16.2x	19.0x
Net Dividend Yield (Historic)	**2.2%**	**2.0%**	2.3%	2.2%
Dividend Cover (Historic)	**2.4x**	**2.8x**	2.7x	2.4x

As the table reveals, the average historic price earnings ratio of ASCoT's portfolio of 113 companies was slightly higher than the benchmark's at the end of 2006. This state of affairs is not without precedent, having occurred at three previous year-ends over ASCoT's lifetime. Your Managers believe that it does not betray any compromise of their investment philosophy. Rather, it reflects the following factors: a more cautious calculation of earnings particularly within the Real Estate sector; a portfolio of companies that your Managers consider to have lower financial gearing than the average for the benchmark; and a frequently contrarian approach, which can involve taking holdings in businesses that, following an operational mishap, are valued on exaggerated multiples of depressed historic earnings. In attempting to look through such distortions, it can be helpful to focus on the more robust dividend numbers: some reassurance may be drawn from the fact that the average yield of ASCoT's portfolio continues to exceed that of the benchmark.

Accordingly, moving into 2007, your Managers are optimistic that the underlying value inherent in ASCoT's portfolio of businesses can provide the basis for superior relative performance. The outcome will, however, be influenced by sector weightings: the portfolio retains a lower exposure than the benchmark to the resources and financial sectors, and a high exposure to TMT. While your Managers consider that this positioning remains appropriate, the precise timing of its vindication is tougher to call. However ASCoT fares in relative terms, it would seem prudent not to expect a fifth consecutive year of absolute returns in excess of 20% from small UK quoted companies.

Aberforth Partners LLP
Managers
22 January 2007

PORTFOLIO INFORMATION

Summary of Material Portfolio Changes

12 Months to 31 December 2006

Purchases		Cost £'000	Sales		Proceeds £'000
Evolution Group	+	8,100	Bodycote International	Ø	12,288
Delta	+	7,749	Vardy (Reg)	Ø	11,914
Domino Printing Sciences	+	7,534	Virgin Mobile Holdings (UK)	Ø	11,784
Hiscox	+	7,083	Forth Ports	Ø	10,670
Low & Bonar	+	6,995	Derwent Valley Holdings	Ø	10,431
Foseco		6,480	Bovis Homes Group	Ø	9,849
Minerva	+	6,252	Venture Production	Ø	9,226
Spirent Communications		6,160	First Technology	Ø	9,084
Greggs		6,114	Amlin	Ø	9,022
Spectris	+	5,944	RPS Group	Ø	8,540
Mapeley		5,863	Carillion		8,342
Huntleigh Technology	+	5,596	Atkins (WS)	Ø	7,207
NSB Retail Systems		5,386	TTP Communications	Ø	6,945
Kingston Communications (Hull)	+	5,013	Psion	Ø	6,280
Ark Therapeutics Group	+	4,929	London Merchant Securities	Ø	5,989
CSR	+	4,519	Richmond Foods	Ø	5,909
Halfords Group		4,483	Restaurant Group		5,562
Britvic	+	3,916	Abbot Group		5,464
Phoenix IT Group		3,799	Go-Ahead Group	Ø	5,332
Axis-Shield	+	3,775	Wellington Underwriting	Ø	5,249
Other Purchases		128,673	Other Sales		97,168
Total for the year		**244,363**	Total for the year		**262,255**

The summary of material portfolio changes shows the 20 largest aggregate purchases and sales including transaction costs. Portfolio turnover for the year was 34.3% (2005: 34.2%)

\+ Indicates a company which is a new holding.

Ø Indicates a company which has been disposed of completely.

FTSE Industry Classification Exposure Analysis

Sector	*Index Weight %* (31 December 2005)	Portfolio Weight % (31 December 2005)	Portfolio Valuation £'000 (31 December 2005)	Net[2] Purchases/ (Sales) £'000	Net Appreciation/ (Depreciation) £'000	**Portfolio Valuation £'000** (31 December 2006)	**Portfolio Weight %** (31 December 2006)	***Index Weight %*** (31 December 2006)
Oil & Gas	*4*	4	26,257	(15,740)	9,311	**19,828**	**2**	***5***
Basic Materials	*3*	2	15,138	2,466	5,149	**22,753**	**3**	***4***
Industrials	*31*	38	252,175	(21,105)	51,179	**282,249**	**34**	***32***
Consumer Goods	*9*	5	36,198	(7,518)	16,239	**44,919**	**5**	***7***
Health Care	*4*	2	12,057	33,190	65	**45,312**	**5**	***5***
Consumer Services	*19*	23	152,131	(14,127)	40,579	**178,583**	**22**	***16***
Telecommunications	*2*	2	14,431	(9,211)	10	**5,230**	**1**	***1***
Utilities	–	–	–	–	–	**–**	**–**	***–***
Financials	*20*	13	83,014	(5,363)	29,959	**107,610**	**13**	***22***
Technology	*8*	10	68,159	17,255	9,572	**94,986**	**12**	***8***
Liquidity available for investment[1]	*n/a*	1	3,857	n/a	n/a	**22,820**	**3**	***n/a***
	100	100	663,417	(20,153)	162,063	**824,290**	**100**	***100***

[1] This represents net current assets less the proposed final dividend.
[2] This includes transaction costs and special dividends which have been treated as a return of capital.

THIRTY LARGEST INVESTMENTS
As at 31 December 2006

No.	Company	Valuation as at 31 December 2006 £'000	% of Total Net Assets	Business Activity
1	Greggs	22,252	2.7	Retailer of sandwiches, savouries and other bakery products
2	ITE Group	21,731	2.6	Trade exhibitions
3	Holidaybreak	19,523	2.3	Holiday company
4	BSS Group	19,053	2.3	Distribution of plumbing supplies
5	Headlam Group	18,216	2.2	Distribution of floorcoverings
6	Grainger Trust	17,184	2.1	Property
7	Shanks Group	16,588	2.0	Waste management
8	Brown (N.) Group	16,131	1.9	Home shopping catalogue retailer
9	Interserve	13,948	1.7	Support services
10	Huntsworth	13,659	1.6	Public relations
	Top Ten Investments	**178,285**	**21.4**	
11	RPC Group	13,358	1.6	Manufacture of rigid plastic containers
12	Croda International	13,263	1.6	Manufacture of naturally based intermediates for personal care and other products
13	MITIE Group	12,929	1.6	Support and building services
14	Johnson Service Group	12,585	1.5	Workwear rental and sourcing, workplace services and drycleaning
15	Spirent Communications	12,444	1.5	Telecommunication test equipment
16	Carillion	12,169	1.5	Construction and facilities management
17	Ultra Electronics Holdings	12,093	1.5	Defence electronics and aerospace
18	Anite Group	11,853	1.4	Software and related services
19	e2v technologies	11,674	1.4	Manufacture of electronic components and sub-systems
20	Restaurant Group	11,003	1.3	Restaurants
	Top Twenty Investments	**301,656**	**36.3**	
21	Catlin Group	10,923	1.3	Insurance
22	Nestor Healthcare Group	10,878	1.3	Healthcare services
23	Halfords Group	10,424	1.3	Retailer of auto, leisure and cycling products
24	Spirax-Sarco Engineering	10,393	1.2	Engineering
25	Centaur Media	10,174	1.2	B2B publishing
26	Mapeley	9,989	1.2	Property
27	Wilmington Group	9,936	1.2	B2B publishing and training
28	Delta	9,490	1.1	Galvanising, manganese products and industrial supplies
29	Brewin Dolphin Holdings	9,423	1.1	Private client stockbroker
30	Foseco	9,377	1.1	Products for the castings industry
	Top Thirty Investments	**402,663**	**48.3**	
	Other Investments (83)	398,807	47.9	
	Total Investments	**801,470**	**96.2**	
	Net Current Assets	31,861	3.8	
	Total Net Assets	**833,331**	**100.0**	

LIST OF INVESTMENTS

As at 31 December 2006

Holding	Security	Value £'000 (31 December 2006)	% of Total Net Assets (31 December 2006)	% of HGSC (XIC) Index (31 December 2006)
Oil & Gas Producers		**6,912**	**0.8**	**3.0**
558,747	Premier Oil	6,912	0.8	
Oil Equipment & Services		**12,916**	**1.5**	**1.8**
2,189,908	Abbot Group	6,964	0.8	
1,847,000	Sondex	5,952	0.7	
Chemicals		**22,753**	**2.7**	**1.8**
2,292,700	Croda International	13,263	1.6	
5,978,000	Delta	9,490	1.1	
Mining		**0**	**0.0**	**1.8**
Construction & Materials		**27,749**	**3.4**	**3.2**
3,067,206	Carillion	12,169	1.5	
1,001,200	Clarke (T.)	1,985	0.3	
249,500	Heywood Williams Group	267	0.0	
6,282,100	Low & Bonar	8,057	1.0	
1,486,814	Marshalls	5,271	0.6	
Aerospace & Defence		**28,409**	**3.5**	**1.7**
302,000	Chemring Group	4,772	0.6	
2,213,120	Hampson Industries	3,209	0.4	
1,112,500	Ultra Electronics Holdings	12,093	1.5	
1,792,488	UMECO	8,335	1.0	
General Industrials		**19,785**	**2.4**	**0.8**
1,460,700	British Polythene Industries	6,427	0.8	
5,300,600	RPC Group	13,358	1.6	
Electronic & Electrical Equipment		**56,570**	**6.8**	**4.5**
2,181,500	Abacus Group	4,058	0.5	
1,988,715	Dialight	4,967	0.6	
2,778,100	Domino Printing Sciences	8,897	1.1	
2,995,300	e2v technologies	11,674	1.4	
1,819,894	Laird Group	7,516	0.9	
2,172,000	Oxford Instruments	5,435	0.7	
1,442,500	Raymarine	6,783	0.8	
924,100	Spectris	7,240	0.8	
Industrial Engineering		**39,279**	**4.6**	**4.5**
2,575,300	Castings	6,702	0.8	
4,778,300	Foseco	9,377	1.1	
1,953,100	Renold	2,148	0.2	
8,852,740	Senior	5,644	0.7	
1,039,342	Spirax-Sarco Engineering	10,393	1.2	
957,900	The Vitec Group	5,015	0.6	
Industrial Transportation		**8,101**	**1.0**	**2.8**
7,647,900	Alpha Airports Group	5,354	0.7	
815,700	Wincanton	2,747	0.3	
Support Services		**102,356**	**12.3**	**14.3**
1,218,900	4imprint Group	5,970	0.7	
1,198,200	Acal	4,916	0.6	
4,418,000	BSS Group	19,053	2.3	
6,224,000	Communisis	5,213	0.6	
172,500	Diploma	1,509	0.2	
3,478,300	Interserve	13,948	1.7	
3,601,000	Johnson Service Group	12,585	1.5	
5,224,000	MITIE Group	12,929	1.6	
2,437,500	office2office	5,801	0.7	
1,281,200	Scott Wilson Group	3,844	0.4	
7,275,400	Shanks Group	16,588	2.0	

LIST OF INVESTMENTS
As at 31 December 2006

Holding	Security	31 December 2006 Value £'000	% of Total Net Assets	% of HGSC (XIC) Index
Automobiles & Parts		**0**	**0.0**	**0.2**
Beverages		**4,368**	**0.5**	**0.6**
15,500	Barr (A.G.)	177	0.0	
1,440,100	Britvic	4,191	0.5	
Food Producers		**13,002**	**1.6**	**2.5**
517,200	Cranswick	4,657	0.6	
1,482,300	Robert Wiseman Dairies	8,345	1.0	
Household Goods		**27,549**	**3.3**	**1.6**
2,962,023	Headlam Group	18,216	2.2	
1,778,400	McBride	3,472	0.4	
820,300	Redrow	5,861	0.7	
Leisure Goods		**0**	**0.0**	**0.7**
Personal Goods		**0**	**0.0**	**1.2**
Health Care Equipment & Services		**22,560**	**2.7**	**2.2**
2,041,900	Biocompatibles International	2,363	0.3	
994,600	ClinPhone	1,939	0.2	
1,530,100	Huntleigh Technology	7,287	0.9	
6,475,000	Nestor Healthcare Group	10,878	1.3	
1,095,500	Pinnacle Staffing Group	93	0.0	
Pharmaceuticals & Biotechnology		**22,752**	**2.7**	**2.4**
1,908,700	Acambis	1,966	0.2	
2,328,800	Alizyme	1,979	0.2	
5,209,332	Ark Therapeutics Group	4,819	0.6	
4,000,700	Asterand	240	0.0	
1,224,718	Axis-Shield	3,334	0.4	
9,785,900	Innovata	2,471	0.3	
12,700,000	Medical Solutions	826	0.1	
3,814,000	Protherics	2,822	0.4	
7,041,244	Vernalis	4,295	0.5	
Food & Drug Retailers		**22,252**	**2.7**	**0.4**
517,492	Greggs	22,252	2.7	
General Retailers		**53,544**	**6.5**	**7.9**
2,075,500	Blacks Leisure Group	8,250	1.0	
5,720,100	Brown (N.) Group	16,131	1.9	
6,103,400	Game Group	6,866	0.8	
2,840,200	Halfords Group	10,424	1.3	
1,766,181	John David Group (The)	5,475	0.7	
1,571,900	Nord Anglia Education	4,118	0.5	
447,100	ScS Upholstery	2,280	0.3	
Media		**60,274**	**7.1**	**3.7**
50,100	Bloomsbury Publishing	126	0.0	
7,339,300	Centaur Media	10,174	1.2	
8,527,900	Chime Communications	4,648	0.5	
13,831,498	Huntsworth	13,659	1.6	
12,561,311	ITE Group	21,731	2.6	
4,250,600	Wilmington Group	9,936	1.2	
Travel & Leisure		**42,513**	**5.1**	**4.2**
2,547,050	Holidaybreak	19,523	2.3	
1,237,400	Luminar	9,021	1.1	
3,332,200	Regent Inns	2,966	0.4	
3,575,400	Restaurant Group	11,003	1.3	

LIST OF INVESTMENTS

As at 31 December 2006

Holding	Security	Value £'000 (31 December 2006)	% of Total Net Assets	% of HGSC (XIC) Index
Fixed Line Telecommunications		**5,230**	**0.6**	**1.4**
7,340,700	Kingston Communications (Hull)	5,230	0.6	
Utilities		**0**	**0.0**	**0.1**
Nonlife Insurance		**40,629**	**4.9**	**4.4**
6,731,100	Beazley Group	9,188	1.1	
2,129,247	Catlin Group	10,923	1.3	
641,000	Domestic & General Group	7,942	1.0	
7,489,600	Highway Insurance Holdings	5,842	0.7	
2,411,600	Hiscox	6,734	0.8	
Life Insurance		**1,343**	**0.2**	**0.4**
426,300	Hansard Global	1,343	0.2	
Real Estate		**41,953**	**5.1**	**10.5**
2,472,500	Grainger Trust	17,184	2.1	
251,600	Mapeley	9,989	1.2	
2,322,800	Minerva	9,338	1.1	
1,004,139	Unite Group	5,442	0.7	
General Financial		**23,685**	**2.8**	**6.9**
5,121,300	Brewin Dolphin Holdings	9,423	1.1	
6,364,282	Evolution Group	8,178	1.0	
4,161,680	Henderson Group	5,733	0.7	
29,400	Rathbone Brothers	351	0.0	
Software & Computer Services		**65,708**	**7.9**	**6.5**
2,885,000	Alphameric	1,370	0.2	
14,678,100	Anite Group	11,853	1.4	
2,558,583	Computacenter	6,838	0.8	
3,000,103	Dicom Group	6,908	0.8	
2,128,100	Macro 4	4,469	0.5	
1,143,200	Micro Focus International	2,369	0.3	
6,380,300	Microgen	3,382	0.4	
6,690,200	Northgate Information Solutions	5,754	0.7	
23,606,700	NSB Retail Systems	8,026	1.0	
3,479,857	Parity	2,679	0.3	
2,394,400	Phoenix IT Group	7,297	0.9	
2,461,500	RM	4,763	0.6	
Technology Hardware & Equipment		**29,278**	**3.5**	**2.0**
684,900	CSR	4,453	0.6	
3,401,721	Filtronic	6,208	0.7	
21,928,000	Spirent Communications	12,444	1.5	
9,645,184	Zetex	6,173	0.7	
Investments as shown in the Balance Sheet		**801,470**	**96.2**	**100.0**
Net Current Assets		31,861	3.8	0.0
Total Net Assets		**833,331**	**100.0**	**100.0**

All investments are in ordinary shares

LONG-TERM RECORD

HISTORIC TOTAL RETURNS

Period	Discrete Annual Returns (%) NAV[1]	Index[2]	Share Price[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
1 year to 31 December 1996	22.3	18.7	20.5
1 year to 31 December 1995	23.2	16.1	21.0
1 year to 31 December 1994	-2.6	-3.1	-7.0
1 year to 31 December 1993	50.9	41.6	57.6
1 year to 31 December 1992	2.8	6.4	3.4
1 year to 31 December 1991	32.1	18.3	29.4

	Compound Annual Returns (%)			Cumulative Returns (%)		
Periods to 31 December 2006	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years from 31 December 2004	25.6	27.9	20.0	57.7	63.6	43.9
3 years from 31 December 2003	26.6	25.4	24.8	103.1	97.4	94.6
4 years from 31 December 2002	29.2	29.6	25.0	178.4	182.4	144.1
5 years from 31 December 2001	20.3	16.7	19.9	151.5	116.6	148.2
6 years from 31 December 2000	18.1	11.1	19.6	171.2	88.4	192.3
7 years from 31 December 1999	17.7	9.7	17.2	213.4	90.6	204.5
8 years from 31 December 1998	21.3	14.6	22.1	368.5	197.7	394.9
9 years from 31 December 1997	17.9	12.1	17.4	339.8	180.6	324.5
10 years from 31 December 1996	16.6	11.9	15.4	363.2	206.5	318.4
11 years from 31 December 1995	17.1	12.5	15.8	466.3	263.8	404.3
12 years from 31 December 1994	17.6	12.8	16.3	597.7	322.4	510.2
13 years from 31 December 1993	15.9	11.5	14.3	579.4	309.4	467.7
14 years from 31 December 1992	18.1	13.4	16.9	925.5	479.6	794.8
15 years from 31 December 1991	17.0	12.9	16.0	954.6	516.7	825.4
16 years from 31 December 1990	17.9	13.2	16.8	1,293.1	629.8	1,097.8
16.1 years from inception on 10 December 1990	17.8	13.1	16.1	1,297.5	623.6	1,073.8

[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 on the 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 £m	Borrowings £m	Equity Shareholders' funds £m	Net Asset Value per Share[1] p	Share Price p	Discount[2] %
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
2000	300.9	—	300.9	352.7	287.00	18.6
1999	280.6	14.2	266.4	313.0	283.50	9.4
1998	205.3	22.3	183.0	214.4	180.50	15.8
1997	227.6	16.6	211.0	235.7	217.50	7.7
1996[5]	222.6	14.4	208.2	231.2	228.50	1.2

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 financial statements.
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 In 1996 the Company raised £64,743,000 (net of expenses) through a ''C'' Share issue.

TEN YEAR REVENUE SUMMARY

GEARING RATIO

Year to 31 December	Available for Ordinary Shareholders £'000	Revenue per Ordinary Share net[1] p	Dividends per Ordinary Share net p	Expense ratio[2] %	Actual gearing[3] %
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
2000	8,716	10.48	8.65	1.00	95.1
1999	8,045	9.72	7.60	1.00	104.9
1998	7,237	8.75	7.30	1.09	114.6
1997	7,385	8.97	7.05	1.08	108.0
1996[6,7]	5,447	7.61	5.50	1.16	107.9

1 The calculation of earnings 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-realised) against average Shareholders' funds (calculated per AIC guidelines).
3 Total investments divided by Shareholders' funds. From inception until October 1998 the Company used gearing largely to help mitigate the dilutionary effect of the Warrants that were in issue.
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.
6 In 1996 the Company raised £64,743,000 (net of expenses) through a ''C'' share issue.
7 In relation to the year to 31 December 1996 and due to an accounting policy change to allocate both management and interest expenses on the basis of 37.5% to the Revenue Account and 62.5% to Capital Reserves, the Company also paid a Special Dividend of 0.60p per Ordinary Share.

DIRECTORS’ REPORT

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year to 31 December 2006.

BUSINESS REVIEW

INTRODUCTION

During 2005, the Companies Act 1985 was amended to introduce the requirement for companies to incorporate a ‘‘business review’’ within the Directors’ Report for financial years beginning on or after 1 April 2005. The following review is designed to provide Shareholders with a fuller insight into the operations of the Company.

INVESTMENT OBJECTIVE AND STYLE

The investment objective of ASCoT is to achieve a net asset value total return (with dividends reinvested) greater than on the Hoare Govett Smaller Companies Index (Excluding Investment Companies) (HGSC (XIC)) over the long term by investing in a diversified portfolio of small UK quoted companies.

Aberforth Partners LLP act as Managers and Secretaries to the Company. The Company aims to achieve its objective by investing in securities of companies which are or which would be constituents of the Hoare Govett Smaller Companies Index (Excluding Investment 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 Hoare Govett Smaller Companies Index (Excluding Investment Companies). The upper market capitalisation limit to this index at 1 January 2007 (the date of the last annual index rebalancing) was £1,104 million. This market capitalisation limit will change from time to time owing to movements in the stockmarket. The portfolio is diversified and will normally consist of investments in over 80 individual companies. In seeking investments the Managers’ approach will be fundamental in nature involving regular contact with the management of prospective and existing investments, in conjunction with rigorous financial analysis of these companies. 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 Board believes that small UK quoted companies continue to provide opportunities for capital growth over the long term. Any material changes to the Company’s investment objective will be subject to Shareholder approval.

CORPORATE STRUCTURE, GOVERNANCE AND REGULATION

The Company is an investment company as defined in Section 266 of the Companies Act 1985 and manages its affairs as to qualify as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 (Section 842). 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 2008 Annual General Meeting (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.

DIRECTORS' REPORT

INVESTMENT TRUST STATUS

The Company is exempt from corporation tax on capital profits, provided it complies with Section 842. In summary, Section 842 requires 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, under Section 842, up to 31 December 2005. 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 seek approval under Section 842 each year.

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 only be payable in respect of this six month period if termination were to occur sooner. Aberforth Partners LLP receive 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 £14,892 (excluding VAT) per quarter during 2006. The secretarial fee is adjusted annually in line with the Retail Prices Index. Both these fees are subject to VAT which is currently irrecoverable by the Company.

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 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, GEARING AND SHARE BUY-BACKS

At 31 December 2006, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 98,809,788 were issued and fully paid. There were no changes in the year. Subject to the requirement that purchases by the Company of its own shares will only be made 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 use the share purchase facility within guidelines established from time to time by the Board.

At 31 December 2006, the Company was not geared and had no debt outstanding. The Company does, however, have a bank debt facility of £80 million which the Company can use as gearing at any time.

DIRECTORS' REPORT

RETURN AND DIVIDENDS

The total return attributable to Shareholders for the year amounted to £174,113,000 (2005 – £135,135,000). The net asset value per ordinary share at 31 December 2006 was 843.37p (2005 – 679.26p).

Your Board is pleased to recommend a final dividend of 9.15p, which produces total dividends for the year of 13.40p representing an increase of 13.1% on the total for the previous year. Subject to Shareholders' approval, the final dividend of 9.15p per share will be paid on 7 March 2007 to Shareholders on the register at the close of business on 9 February 2007.

	£'000	**£'000**
Revenue return for the year available for dividends		16,209
Dividends in respect of the revenue available:		
Interim dividend of 4.25p per Ordinary Share paid 1 September 2006	4,199	
Proposed final dividend of 9.15p per Ordinary Share payable 7 March 2007 to Shareholders on the Register at close of business on 9 February 2007	9,041	13,240
		2,969

KEY PERFORMANCE INDICATORS

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

(i) Net asset value total return

(ii) Share price total return

(iii) Performance attribution

(iv) Share price discount

(v) Revenue and dividend position

A record of these measures is shown on pages 12, 20 and 21.

In addition to the above, the Board considers the performance of the Company against its benchmark and 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.

PRINCIPAL RISKS AND RISK MANAGEMENT

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

The Board believes that the Company has a relatively low risk profile in the context of the investment trust industry. This belief arises from the fact that the Company has a simple capital structure; invests only in small UK quoted companies; has never been exposed to derivatives and does not presently intend any such exposure; and outsources all the main operational activities to recognised, well-established firms. 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 Board believes the Company's portfolio is diversified. In addition, since returns from small and large companies are not perfectly correlated, there is an opportunity for investors to reduce risk by holding portfolios of both small and large companies together.

DIRECTORS' REPORT

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 17 to the Accounts. Additional risks faced by the Company, together with the approach taken by the Board towards them, have been summarised as follows:

(i) Investment objective – is to achieve a net asset value total return (with dividends reinvested) greater than on the Hoare Govett Smaller Companies Index (Excluding Investment Companies) over the long term by investing in a diversified portfolio of small UK quoted companies. The performance of the investment portfolio will often 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 Corporate Governance Report provides additional information regarding the various areas considered by the Board.

(ii) Investment policy – a risk facing the Company is inappropriate sector and stock selection leading to underperformance relative to the benchmark. The Managers have a clearly defined investment philosophy and manage a diversified portfolio. Furthermore, performance against the benchmark and the peer group is regularly monitored by the Board. The Company may also be affected by events or developments in the economic environment generally, for example inflation or deflation, recession and movements in interest rates.

(iii) Share price discount – investment trust shares tend to trade at discounts to their underlying net asset values. As mentioned above, the Company has a share buy back policy and, if utilised, this may help to minimise the level of discount.

(iv) Regulatory risk – breach of regulatory rules could lead to suspension of the Company's share price listing, financial penalties or a qualified audit report. Breach of Section 842 could lead to the Company being subject to capital gains tax. The Board receives quarterly compliance reports from the Secretaries to monitor compliance with regulations.

(v) Operational/Financial risk – failure of the Managers' accounting systems or that 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. The Board reviews regular reports on the internal controls of the Managers and other key third party providers.

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

OTHER MATTERS

GOING CONCERN

After making enquiries, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future notwithstanding the Resolution on the Company's continuance as detailed above. For this reason, they continue to adopt the going concern basis in preparing the accounts.

DIRECTORS

The Directors who held office at 31 December 2006 and their interests in the Shares of the Company as at that date were as follows:

		Ordinary Shares	
Directors	**Nature of Interest**	**2006**	2005
D R Shaw	Beneficial	25,000	20,000
H N Buchan	Beneficial	19,474	14,330
M L A Chiappelli	Beneficial	25,000	20,000
J E G Cran	Beneficial	27,137	26,659
Prof P R Marsh	Beneficial	15,000	10,000
Prof W S Nimmo	Beneficial	16,444	11,800

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2006 and 22 January 2007.

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 recently 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.

As stated in the separate Corporate Governance Report, the Board wishes to go beyond the minimum requirements of the Company's Articles of Association, the AIC and The Combined Code by having all Directors seek re-election every year. Therefore, all Directors retire at the Annual General Meeting to be held on 1 March 2007. All Directors offer themselves for re-election and biographical details for each are shown on page 6.

ELECTRONIC VOTING

Your Board is again pleased to offer electronic proxy voting, including CREST voting capabilities, in connection with the forthcoming Annual General Meeting. You may therefore complete the enclosed form of proxy and return it to Capita Registrars, the Company's registrar, or alternatively, you may register your vote on-line by visiting the Capita Registrars' website at www.capitaregistrars.com. In order to register your vote on-line, you will need to enter your name, postal code and ICV code which is given on the form of proxy. If you are a member of CREST, you may register the appointment of a proxy by using the CREST electronic appointment service. For further details refer to the CREST manual. Completion of a form of proxy or the appointment of a proxy electronically will not stop you attending the meeting and voting in person should you so wish.

ANNUAL GENERAL MEETING

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 Annual General Meeting. Resolution 11, as set out in the Notice of the Annual General Meeting, seeks renewal of such authority until the Annual General Meeting in 2008. The price paid for Shares will not be less than the nominal value of 1p per Share nor more than 105% of the average of the middle market quotations for the Shares for the five business days immediately preceding the date of purchase. 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.

SUBSTANTIAL SHARE INTERESTS

The Board has been informed of the following substantial interests in the issued share capital of the Company as at 22 January 2007.

Interested person	Percentage Held
Newton Investment Management Limited	8.6
Barclays PLC	5.6
Legal & General Investment Management	3.3

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.

FINANCIAL INSTRUMENTS

The Company's financial instruments comprise its investment portfolio, cash balances, overdrafts, 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 17 to the accounts.

AUDITORS

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

DISCLOSURE OF INFORMATION TO AUDITORS

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 Auditors are 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 Auditors are aware of that information.

DONATIONS

The Company did not make any political or charitable donations during the year (2005 – £nil).

By Order of the Board
Aberforth Partners LLP, *Secretaries*
14 Melville Street, Edinburgh EH3 7NS
22 January 2007

CORPORATE GOVERNANCE REPORT

The Board is committed to achieving 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 Section 1 of The Combined Code published in July 2003, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

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 Combined Code). The Board considers that this provides more relevant information to shareholders, whilst meeting the Board's obligations under The Combined Code and paragraph 9.8.6 of the Listing Rules.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of The Combined Code, except as set out below.

The Combined 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 in the pre-amble to The Combined Code, the Board considers that these provisions are not relevant to the Company as it is an externally managed investment company.

This 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 the Annual Report. The Board is always available to discuss corporate governance issues with Shareholders.

THE BOARD

It is the responsibility of the Board to ensure that there is 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 six non-executive Directors of which Mr Shaw acts as Chairman. 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. 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 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 at regular intervals to enable the Directors to monitor compliance with the investment objective and the investment performance of the Company compared to 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) and relevant industry issues. The Board also receives regular reports from the Managers analysing and commenting on the composition of the Company's share register and monitors significant changes to shareholders.

The Board also holds an annual strategy session to consider, amongst other matters, the Company's objective and investment focus and style.

The following table sets out the number of Directors' meetings (including Committee meetings) held during the financial year and the number of meetings attended by each Director (whilst a Director or Committee member). During the financial year, four Board meetings and three Audit and Management Engagement Committee meetings were held.

Director	Board of Directors Held	Board of Directors Attended	Audit and Management Engagement Committee Held	Audit and Management Engagement Committee Attended
D R Shaw, *Chairman*	4	3	–	–
H N Buchan	4	4	3	3
M L A Chiappelli[1]	4	4	3	3
J E G Cran	4	4	3	3
Prof P R Marsh	4	4	–	–
Prof W S Nimmo	4	4	–	–

[1] Chairman of the Audit and Management Engagement Committee.

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 or a senior independent director although Mr. Chiappelli, as 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 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. If it is deemed appropriate to make new appointments, any gaps in skills or expertise are taken into account in the search process. Potential directors are then invited to meet the members of the Board prior to a decision on their appointment being made by the Board as a whole. To date, the Board has not found it necessary to appoint external search consultants nor use open advertising.

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 Shaw has sat on the Board for more than nine years. The Board has decided to go beyond the minimum requirements of the Articles of Association and the AIC Code by having all Directors retire at each AGM and, if appropriate, seek re-election.

The Board undertakes a formal annual self-assessment of its collective performance on a range of issues including the Board's role, processes and interaction with the Managers. The Directors also evaluate collectively the performance of each Director 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 Mr. Chiappelli as Chairman of the Audit and Management Engagement Committee. 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. In line with the Board's policy, each Director retires at the Annual General Meeting (AGM) to be held on 1 March 2007. Messrs Shaw, Buchan, Chiappelli, Cran, Prof Marsh and Prof Nimmo, whose biographical details are shown on page 6, being eligible, offer themselves for re-election.

All Directors are entitled to receive appropriate training when required. 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.

The Directors' letters of appointment are available for inspection on request.

RELATIONS WITH SHAREHOLDERS

The Company was formed to, and continues to, invest in a portfolio of small UK quoted companies. The Board believes that regular contact with shareholders is essential. 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 for discussion with any shareholder. In addition, the Managers also publish the Net Asset Value on a weekly basis and a monthly factsheet. The Directors may be contacted through the Secretaries whose details are shown on page 6 or through the Chairman's email address which is david.shaw@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.

ACCOUNTABILITY AND INTERNAL CONTROL

The Company reports formally to shareholders twice a year by way of the Annual Report and Accounts and the Interim Report. As mentioned above, the Managers meet major shareholders regularly to update them and in addition Company performance and other relevant information is available on the Managers' website at www.aberforth.co.uk.

The Company applies the revised guidance published in October 2005 by The Institute of Chartered Accountants in England and Wales in respect of The Combined Code's sections on Internal Control (commonly known as the Turnbull Guidance on Internal Control).

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. 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 mis-statement or loss. These controls aim to ensure that the assets of the Company are safeguarded, that proper accounting records are maintained and that 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. This was in operation during the year and continues in place up to the date of this report. At least once a year the Directors formally review the effectiveness of the Company's system of internal control. This process principally comprises the Audit Committee receiving and examining reports from the firms to which services are subcontracted, detailing the internal control objectives and procedures adopted by each firm. Each report has been reviewed by the respective firm's auditors. The Audit Committee then submits a detailed report on its findings to the Board. The Directors have not identified any significant problems 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, chaired by Mr Chiappelli, who is a Chartered Accountant. There is a range of recent and relevant financial experience amongst the members of the Committee. This Committee, of which Messrs Buchan and Cran are also members, specifically considers the accounting policies of, and financial reporting by the Company, the Company's key risks, the internal control principles adopted and the relationship with the Company's auditors including making recommendations to the Board on the appointment, reappointment or removal and remuneration of the auditors. In addition, it reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors, with particular regard to non-audit fees. Such fees amounted to £1,000 and related to the provision of taxation services. The Committee considers that these services are not a threat to objectivity and independence of the conduct of the audit. Furthermore, non-audit work requires the prior approval of the Committee.

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 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.

The Committee operates within terms of reference which 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 AND VOTING POLICY

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 Managers' primary objective is to deliver investment returns greater than the return on the Company's benchmark index, the HGSC (XIC), over the longer 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.

The Board has also given discretionary voting powers to the Managers. Aberforth Partners LLP exercises these voting rights on every resolution which 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 Schedule 7A to the Companies Act 1985. 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 Auditors to audit certain elements of this report. These elements are described below as ''audited''. The Auditors' opinion is included in the report on pages 34 and 35.

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 Board'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. It is the Company's policy to appoint non-executive Directors for an initial period of three years.

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

Directors do not have contracts of service with the Company nor are any such contracts proposed. However, each Director entered into a letter of appointment with the Company for an initial period of service. 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.

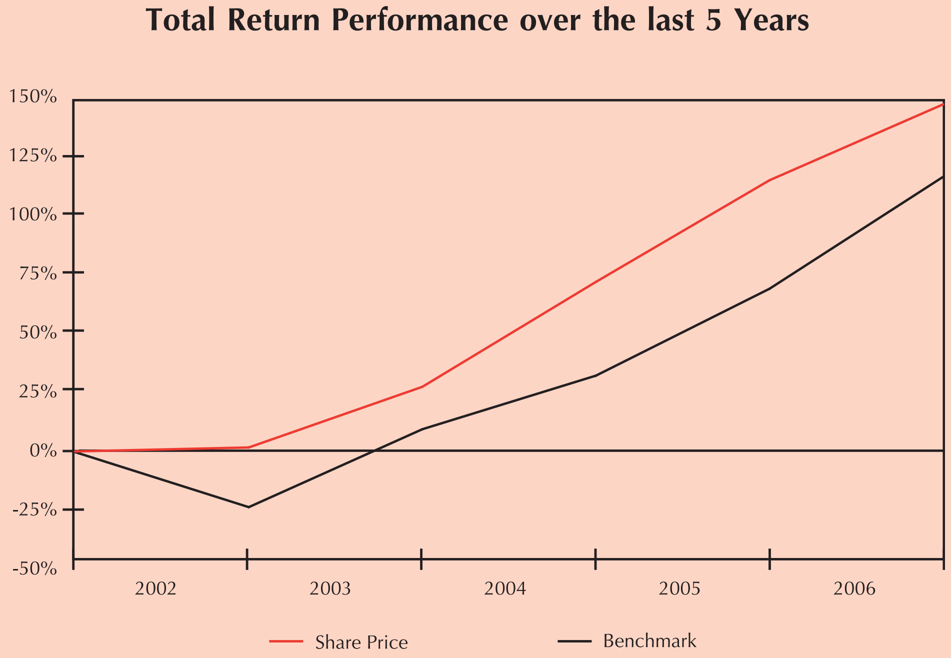
The following Directors held office during the year:

Director	**Date of Appointment**	**Date of Retirement**	**Date of Letter of Appointment**	**Unexpired Term**
D R Shaw, *Chairman*	14 October 1994	—	29 April 2003	1 year
H N Buchan	11 November 2003	—	11 November 2003	1 year
M L A Chiappelli	17 July 2001	—	29 April 2003	1 year
J E G Cran	17 July 2001	—	29 April 2003	1 year
Prof P R Marsh	16 July 2004	—	16 July 2004	1 year
Prof W S Nimmo	16 July 2004	—	16 July 2004	1 year

SHARE PRICE PERFORMANCE

The graph below compares the performance of the Company's share price against the 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.

DIRECTORS' REMUNERATION REPORT



DIRECTORS' FEES (AUDITED)

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

	Fees 2006 £	Fees 2005 £
D R Shaw, *Chairman* (with effect from 23 February 2005)	**24,000**	22,024
W Y Hughes (*Chairman* – retired on 23 February 2005)	**—**	3,440
H N Buchan	**16,000**	15,500
M L A Chiappelli, *Chairman of the Audit and Management Engagement Committee*	**18,500**	18,000
J E G Cran	**16,000**	15,500
Prof P R Marsh	**16,000**	15,500
Prof W S Nimmo	**16,000**	15,500
	106,500	105,464

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 32 to 33 was approved by the Board on 22 January 2007 and signed on its behalf by D R Shaw, *Chairman*.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required by law to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the net return for that period. The Directors are also required to prepare a Directors' Remuneration Report.

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

The financial statements have been prepared on a going concern basis and appropriate accounting policies have been used and consistently applied. Reasonable and prudent judgements and estimates have been used in the preparation of the financial statements and applicable UK accounting standards have been followed.

INDEPENDENT AUDITORS' 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 2006, which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by 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 Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Directors' Responsibility Statement.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we required for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

INDEPENDENT AUDITORS' REPORT

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Investment Objective, Ten Year Investment Record, Company Summary, Year's Summary, Directors and Corporate Information, Aberforth Partners – Information, Chairman's Statement, Managers' Report, Portfolio Information, Thirty Largest Investments, List of Investments, Long Term Record, Directors' Report, Corporate Governance Report, unaudited part of the Directors' Remuneration Report, Shareholder Information and Notice of Annual General Meeting. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its net return for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP
Registered Auditor
Edinburgh
22 January 2007

Notes:

1. 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 Auditors of Aberforth Smaller Companies Trust plc does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. 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 2006

		2006			2005		
		Revenue	**Capital**	**Total**	Revenue	Capital	Total
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Gains on investments	9	**—**	**163,032**	**163,032**	—	122,586	122,586
Investment income	2	**18,290**	**2,261**	**20,551**	16,182	4,238	20,420
Other income	2	**817**	**—**	**817**	612	—	612
Investment management fee	3	**(2,496)**	**(4,159)**	**(6,655)**	(2,083)	(3,472)	(5,555)
Other expenses	4	**(402)**	**(3,230)**	**(3,632)**	(386)	(2,542)	(2,928)
Net return before finance costs and tax		**16,209**	**157,904**	**174,113**	14,325	120,810	135,135
Finance costs	6	**—**	**—**	**—**	—	—	—
Return on ordinary activities before tax		**16,209**	**157,904**	**174,113**	14,325	120,810	135,135
Tax on ordinary activities	5	**—**	**—**	**—**	—	—	—
Return attributable to equity shareholders		**16,209**	**157,904**	**174,113**	14,325	120,810	135,135
Returns per ordinary share	8	**16.40p**	**159.81p**	**176.21p**	14.50p	122.27p	136.77p

The Board declared on 22 January 2007 a proposed final dividend of 9.15p per Ordinary Share (31 December 2005 — 7.85p) and the total payable will be £9,041,000 (31 December 2005 — £7,757,000). The Board also declared on 20 July 2006 an interim dividend of 4.25p per Ordinary Share (30 June 2005 — 4p) and the total paid was £4,199,000 (30 June 2005 — £3,952,000).

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 2006

	Share capital £'000	Special reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2005	**988**	**197,305**	**286,488**	**162,442**	**23,951**	**671,174**
Return on ordinary activities after taxation	—	—	80,724	77,180	16,209	174,113
Equity dividends paid	—	—	—	—	(11,956)	(11,956)
Balance as at 31 December 2006	**988**	**197,305**	**367,212**	**239,622**	**28,204**	**833,331**

For the year ended 31 December 2005

	Share capital £'000	Special reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2004	988	197,305	216,436	111,684	20,742	547,155
Return on ordinary activities after taxation	—	—	70,052	50,758	14,325	135,135
Equity dividends paid	—	—	—	—	(11,116)	(11,116)
Balance as at 31 December 2005	988	197,305	286,488	162,442	23,951	671,174

The movements in the capital reserve – realised, the capital reserve – unrealised and the revenue reserve represent the profit and loss of the Company and the equity dividends paid.

BALANCE SHEET
As at 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets: investments			
Investments at fair value through profit or loss	9	**801,470**	659,560
Current assets			
Debtors	10	**1,369**	1,408
Cash at bank		**30,554**	10,267
		31,923	11,675
Creditors (amounts falling due within one year)	11	**(62)**	(61)
Net current assets		**31,861**	11,614
TOTAL NET ASSETS		**833,331**	671,174
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital:			
Ordinary Shares	12	**988**	988
Reserves:			
Special reserve	13	**197,305**	197,305
Capital reserve–realised	13	**367,212**	286,488
Capital reserve–unrealised	13	**239,622**	162,442
Revenue reserve	13	**28,204**	23,951
TOTAL SHAREHOLDERS' FUNDS		**833,331**	671,174
NET ASSET VALUE PER SHARE	14	**843.37p**	679.26p

Approved and authorised for issue by the Board of Directors on 22 January 2007 and signed on its behalf by D R Shaw, *Chairman*

The accompanying notes form an integral part of this balance sheet.

CASH FLOW STATEMENT
For the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Net cash inflow from operating activities		**14,197**	15,066
Returns on investments and servicing of finance		**—**	—
Capital expenditure and financial investment	15	**18,046**	(8,061)
		32,243	7,005
Equity dividends paid	7	**(11,956)**	(11,116)
		20,287	(4,111)
Financing		**—**	—
Increase/(decrease) in cash	16	**20,287**	(4,111)

Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

		2006 £'000	2005 £'000
Net return before finance costs and taxation		**174,113**	135,135
Gains on investments		**(163,032)**	(122,586)
Expenses incurred in acquiring or disposing of investments		**3,230**	2,542
Increase in debtors		**(115)**	(35)
Increase in other creditors		**1**	10
Net cash inflow from operating activities		**14,197**	15,066

Reconciliation of net cash flow to movement in net funds

	Note	2006 £'000	2005 £'000
Increase/(decrease) in cash in the year	16	**20,287**	(4,111)
Change in Net Funds	16	**20,287**	(4,111)
Opening Net Funds	16	**10,267**	14,378
Closing Net Funds	16	**30,554**	10,267

The accompanying notes form an integral part of this statement.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

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

(a) Basis of accounting

The accounts have been prepared in accordance with UK generally accepted accounting practice (''UKGAAP'') and the AIC's Statement of Recommended Practice ''Financial Statements of Investment Trust Companies'' issued in 2005.

(b) Investments

The Company's investments have been categorised as ''financial assets at fair value through profit or loss''. 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 net realisable 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-realised.

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. 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-realised 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-realised 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

Finance 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-realised and 37.5% to revenue account, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES (*continued*)

(f) 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 only being recognised 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.

(g) Capital reserves

Capital reserve–realised.

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- 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.

Capital reserve–unrealised.

The following are accounted for in this reserve:

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

2 INCOME

	2006	2005
	£'000	£'000
Income from investments (UK listed)		
Franked investment income (net)	**17,806**	16,135
Unfranked investment income	**—**	47
Other investment income	**484**	—
	18,290	16,182
Other income		
Deposit interest	**797**	585
Underwriting commission	**20**	27
	817	612
Total income	**19,107**	16,794
Total income comprises:		
Dividends	**18,290**	16,135
Interest	**797**	632
Other income	**20**	27
	19,107	16,794

During the year the Company also received special dividends totalling £2,261,000 (2005 – £4,238,000) which have been considered as a return of capital by the investee companies and have been credited to Capital Reserves. Those special dividends paid by investee companies which are considered to be a return on capital to shareholders, are credited to Revenue.

NOTES TO THE ACCOUNTS

3 INVESTMENT MANAGEMENT FEE

	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
Investment management fee	**2,124**	**3,540**	**5,664**	1,773	2,955	4,728
Irrecoverable VAT thereon	**372**	**619**	**991**	310	517	827
Total	**2,496**	**4,159**	**6,655**	2,083	3,472	5,555

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. In addition to the investment management fee, above, the Company also obtains secretarial services from Aberforth Partners LLP. The fee for the secretarial services is shown with other expenses in Note 4.

4 OTHER EXPENSES

	2006 £'000	2005 £'000
The following expenses have been charged to revenue:		
Secretarial services	**70**	68
Directors' fees (Refer to Directors' Remuneration Report)	**107**	105
AIC fees	**50**	60
Custody and other bank charges	**36**	21
Directors and Officers liability insurance	**11**	7
Auditors' fee–for audit services (recurring)	**13**	11
–for audit services (non-recurring)	**—**	5
–for non-audit services (recurring)	**1**	1
Other expenses	**114**	108
	402	386
The following expenses have been charged to capital:		
Expenses incurred in acquiring or disposing of investments classified as fair value through profit or loss	**3,230**	2,542

4 OTHER EXPENSES *(continued)*

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

	2006 £'000	2005 £'000
Analysis of total purchases		
Purchase consideration before expenses	**242,169**	207,941
Commissions	**1,101**	979
Taxes	**1,093**	952
Total acquisition expenses	**2,194**	1,931
Total purchases	**244,363**	209,872
Analysis of total sales		
Sales consideration before expenses	**263,291**	201,884
Commissions	**1,036**	611
Total disposal expenses	**1,036**	611
Total sales net of expenses	**262,255**	201,273

5 TAXATION

Analysis of tax charged on return on ordinary activities	2006 £'000	2005 £'000
Total current tax charge for the year (see below)	**—**	—
Total deferred tax	**—**	—
Total tax charge for the year	**—**	—

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 (30%).

The differences are explained below:

	2006	2005
Returns on ordinary activities before tax	**16,209**	14,325
Notional corporation tax at 30%	**4,863**	4,298
Non-taxable UK dividends	**(5,342)**	(4,841)
Tax losses for which no relief has been taken	**479**	543
Total current tax charge for the year	**—**	—

The Company has not recognised an asset for deferred tax on the 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. The Company has unutilised management expenses and loan relationship losses for taxation purposes of £34,924,000 (2005: £29,167,000).

6 FINANCE COSTS

No interest was payable during the year (2005 — £nil).

NOTES TO THE ACCOUNTS

7 DIVIDENDS

	2006 £'000	2005 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2005 of 7.85p (2004: 7.25p) paid on 4 March 2006	**7,757**	7,164
Interim dividend for the year ended 31 December 2006 of 4.25p (2005: 4.0p) paid on 2 September 2006	**4,199**	3,952
	11,956	11,116
Proposed final dividend for the year ended 31 December 2006 of 9.15p (2005: 7.85p) payable on 7 March 2007	**9,041**	7,757

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and 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 is the basis on which the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered.

	2006 £'000	2005 £'000
Revenue available for distribution by way of dividends for the year	**16,209**	14,325
Interim dividend for the year ended 31 December 2006 of 4.25p (2005: 4.0p)	**4,199**	3,952
Proposed final dividend for the year ended 31 December 2006 of 9.15p (2005: 7.85p)	**9,041**	7,757
	13,240	11,709

8 RETURNS PER ORDINARY SHARE

The returns per Ordinary Share are based on:

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

	2006 Total £'000	2005 Total £'000
Attributable to Ordinary Shareholders	**174,113**	135,135

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

	2006	2005
Weighted average number of shares in issue during the year	**98,809,788**	98,809,788

9 INVESTMENTS

	2006 UK Listed £'000	2005 UK Listed £'000
Investments at fair value through profit or loss		
Opening book cost	**497,118**	419,233
Opening unrealised appreciation	**162,442**	111,684
Opening valuation	**659,560**	530,917
Movements in the period:		
Purchases at cost	**242,169**	207,941
Sales – proceeds	**(263,291)**	(201,884)
– realised gains on sales	**85,852**	71,828
Movement in unrealised appreciation	**77,180**	50,758
Closing valuation	**801,470**	659,560
Closing book cost	**561,848**	497,118
Closing unrealised appreciation	**239,622**	162,442
Closing valuation (all investments are in ordinary shares quoted in the UK)	**801,470**	659,560
Realised net gains on sales	**85,852**	71,828
Movement in unrealised appreciation	**77,180**	50,758
Gains on investments	**163,032**	122,586

10 DEBTORS

	2006 £'000	2005 £'000
Amounts due from brokers	**—**	154
Investment income receivable	**1,304**	1,219
Other debtors	**65**	35
	1,369	1,408

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £'000	2005 £'000
Other creditors	**62**	61

12 SHARE CAPITAL

	2006 No. of Shares	2006 £'000	2005 No. of Shares	2005 £'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	**98,809,788**	**988**	98,809,788	988

13 CAPITAL AND RESERVES

	Share capital £'000	Special reserve £'000	Capital reserve-realised £'000	Capital reserve-unrealised £'000	Revenue reserve £'000	TOTAL £'000
At 31 December 2004	**988**	**197,305**	**216,436**	**111,684**	**20,742**	**547,155**
Receipt of special dividends taken to capital	—	—	4,238	—	—	4,238
Net gains on sale of investments	—	—	71,828	—	—	71,828
Increase of unrealised appreciation	—	—	—	50,758	—	50,758
Cost of investment transactions	—	—	(2,542)	—	—	(2,542)
Management fees charged to capital	—	—	(3,472)	—	—	(3,472)
Revenue return attributable to equity shareholders	—	—	—	—	14,325	14,325
Equity dividends paid	—	—	—	—	(11,116)	(11,116)
At 31 December 2005	**988**	**197,305**	**286,488**	**162,442**	**23,951**	**671,174**
Receipt of special dividends taken to capital	—	—	2,261	—	—	2,261
Net gains on sale of investments	—	—	85,852	—	—	85,852
Increase of unrealised appreciation	—	—	—	77,180	—	77,180
Cost of investment transactions	—	—	(3,230)	—	—	(3,230)
Management fees charged to capital	—	—	(4,159)	—	—	(4,159)
Revenue return attributable to equity shareholders	—	—	—	—	16,209	16,209
Equity dividends paid	—	—	—	—	(11,956)	(11,956)
At 31 December 2006	**988**	**197,305**	**367,212**	**239,622**	**28,204**	**833,331**

The revenue reserve represents the only reserve from which dividends can be funded.

14 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	
	2006 pence	2005 pence	**2006 £'000**	2005 £'000
Ordinary Shares	**843.37**	679.26	**833,331**	671,174

Net asset value per Ordinary Share is based on net assets of £833,331,000 (2005: £671,174,000), and on 98,809,788 (2005: 98,809,788) Ordinary Shares, being the number of Ordinary Share in issue at the year-end.

15 GROSS CASH FLOWS

	2006 £'000	2005 £'000
Capital expenditure and financial investment		
Payments to acquire investments	**(244,363)**	(209,872)
Receipts from sales of investments	**262,409**	201,811
	18,046	(8,061)

16 ANALYSIS OF CHANGES IN NET FUNDS

	Net funds at 1 Jan 2006 £'000	**Cash flow £'000**	**Net funds at 31 Dec 2006 £'000**
Cash at bank	**10,267**	**20,287**	**30,554**

17 FINANCIAL INSTRUMENTS—FRS 25 DISCLOSURES

The Company's financial instruments comprise its investment portfolio (see note 9 and pages 16 to 19), cash balances, overdrafts, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. Overdrafts 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) cash flow interest rates risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates; and

(ii) market prices risk, being the risk that the 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.

Since the Company invests in UK equities traded on the London Stock Exchange, currency risk, credit risk and liquidity risk are not significant. Fair value risk is covered under market price risk.

17 FINANCIAL INSTRUMENTS—FRS 25 DISCLOSURES *(continued)*

(i) Cash flow interest rates risk

The Company has a bank debt facility of £80,000,000 of which £nil was utilised at 31 December 2006 (2005: total facilities £80,000,000 of which £nil were utilised as at 31 December 2005). The interest rate on amounts utilised is variable at 0.6% (2005: 0.6%) over base rate with no arrangement or non-utilisation fees payable. The debt may be repaid by the Company at any time without penalty but the lender cannot withdraw the facilities without providing at least 364 days' notice at all times.

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 2006 was 5.00% (2005: 4.50%). 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.

(ii) Market prices 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. Further information on the investment portfolio is set out in the Managers' Report on pages 10 to 14, which is not subject to audit. It is not the Managers' policy to use derivatives to manage portfolio risk.

The Company held the following categories of financial instruments at 31 December 2006:

	2006		2005	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Financial Instruments				
Investment Portfolio	**801,470**	**801,470**	659,560	659,560
Cash at bank	**30,554**	**30,554**	10,267	10,267

The investment portfolio consists of listed investments valued at their bid price, which represents fair value. Cash, which is held in variable rate bank accounts, can be withdrawn on demand with no penalty. The fair value disclosures above exclude short-term debtors and creditors. These are carried at their fair value.

18 CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

Contingencies, guarantees or financial commitments of the Company as at 31 December 2006, which have not been accrued, were as follows:

	2006 £'000	2005 £'000
Placing and open offer commitments, payable within one month	**1,297**	—

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: 0870 162 3131. 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 is 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.

		SEDOL	**Bloomberg**	**Reuters**
Security Codes	Ordinary Shares of 1p	0-006-655	ASL LN	ASL.L

ELECTRONIC PROXY VOTING

You may register your vote on-line by visiting the Capita Registrars' website at www.capitaregistrars.com. In order to register your vote on-line, you will need to enter your name, postal code and investor code which is given on the form of proxy. If you are a member of CREST, you may register the appointment of a proxy by using the CREST electronic appointment service. For further details refer to the CREST manual. Completion of a form of proxy or the appointment of a proxy electronically will not stop you attending the meeting and voting in person should you so wish.

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	*Interim* Ex-dividend Payable	 July/August September
	Final Ex-dividend Payable	 January/February March
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 OF TECHNICAL 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.

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

"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 ANNUAL GENERAL MEETING

Notice is hereby given that the Seventeenth Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 1 March 2007 at 6.15 pm 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 2006 be adopted.
2. That the payment of the final dividend of 9.15p per Ordinary Share be approved.
3. That Mr D R Shaw be re-elected as a Director.
4. That Mr H N Buchan be re-elected as a Director.
5. That Mr M L A Chiappelli be re-elected as a Director.
6. That Mr J E G Cran be re-elected as a Director.
7. That Prof P R Marsh be re-elected as a Director.
8. That Prof W S Nimmo be re-elected as a Director.
9. That the Directors' Remuneration Report for the year ended 31 December 2006 be approved.
10. That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

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

11. That pursuant to and in accordance with its Articles of Association, the Company be and it is hereby authorised in accordance with section 166 of the Companies Act 1985 (the ''Act'') to make market purchases (within the meaning of section 163(3) 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 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
    (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 July 2008 or, if earlier, at the Annual General Meeting of the Company to be held in 2008, 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*
14 Melville Street, Edinburgh EH3 7NS

22 January 2007

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The final dividend, if approved, will be paid on 7 March 2007 to Shareholders on the Register at 9 February 2007.

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not also be a member of the Company.

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.capitaregistrars.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 sponsored members should contact their CREST sponsor.

No Director has a contract of service with the Company. The Directors' letter of appointment will be available for inspection for 15 minutes prior to the Annual General Meeting and during the meeting.