



Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 2007

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.”

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

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

FINANCIAL HIGHLIGHTS

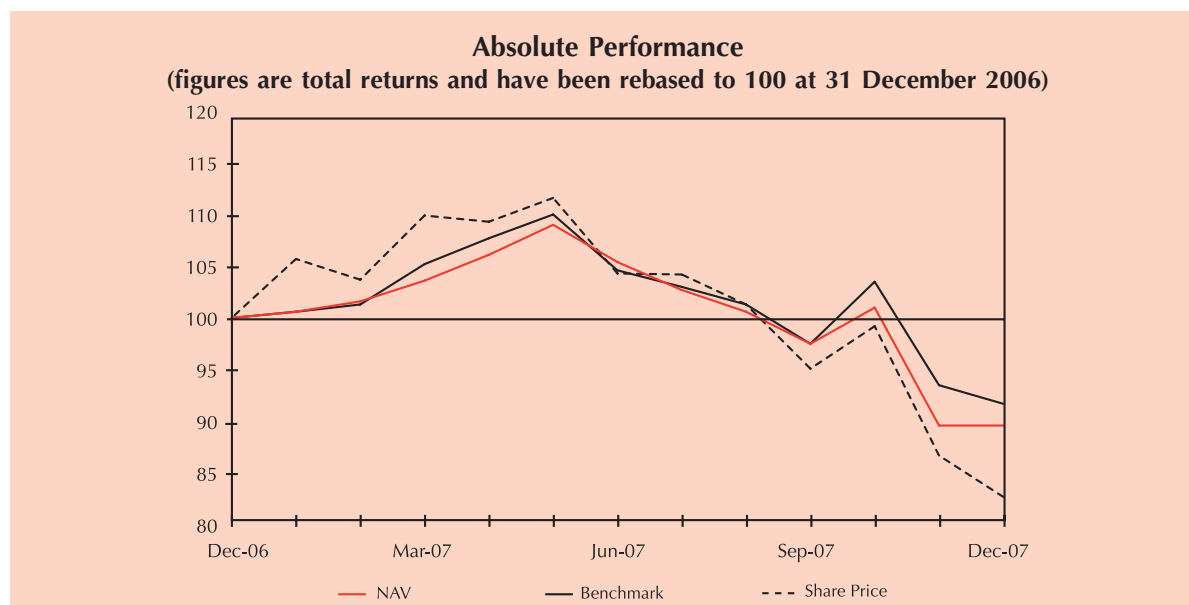
Year to 31 December 2007

ASCoT Net Asset Value (total return)	-10.4%
Hoare Govett Smaller Companies Index (Excl. Investment Companies) (total return)	-8.3%
ASCoT Ordinary Share Price (with net dividends reinvested)	-17.3%

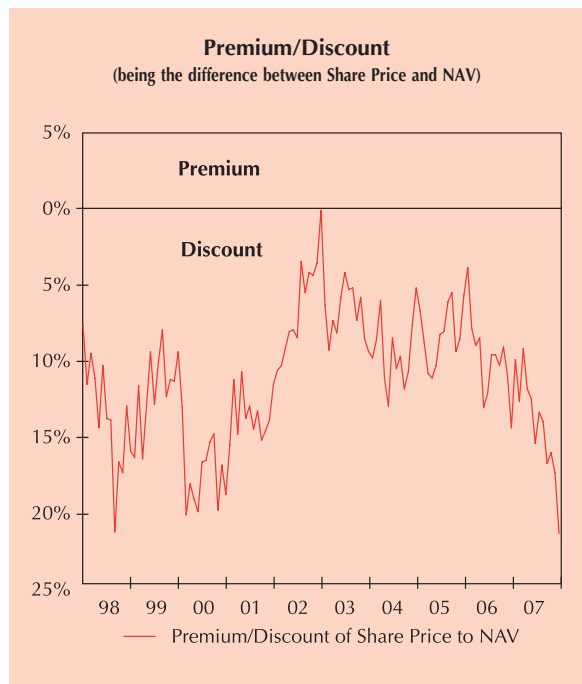
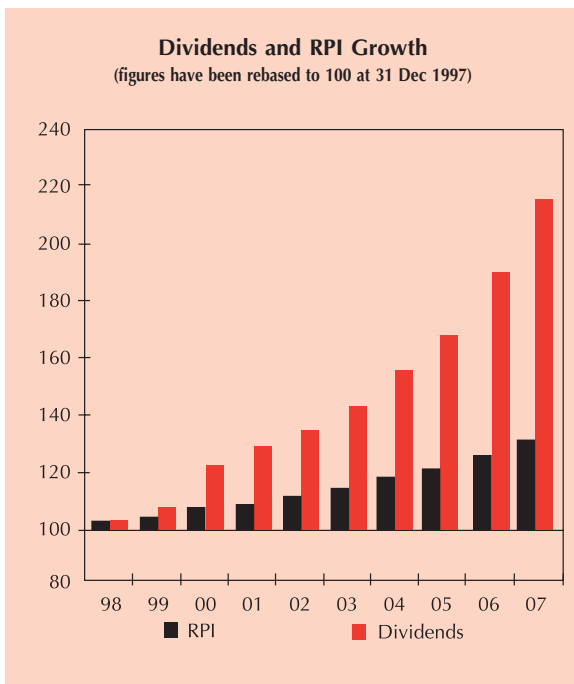
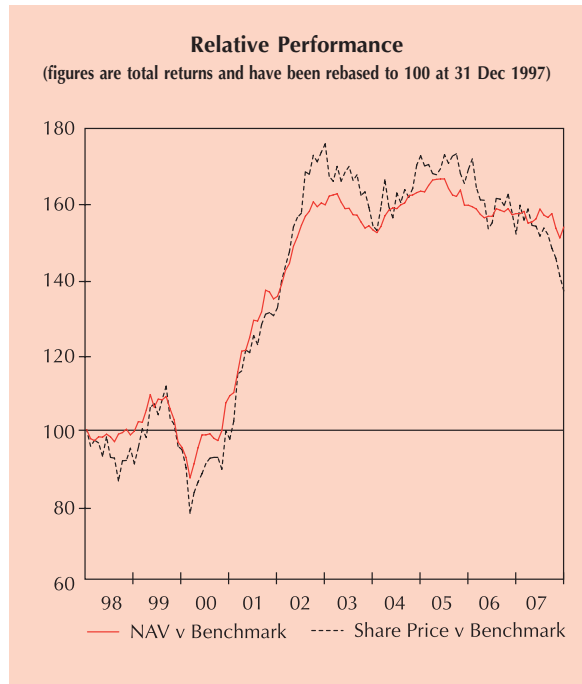
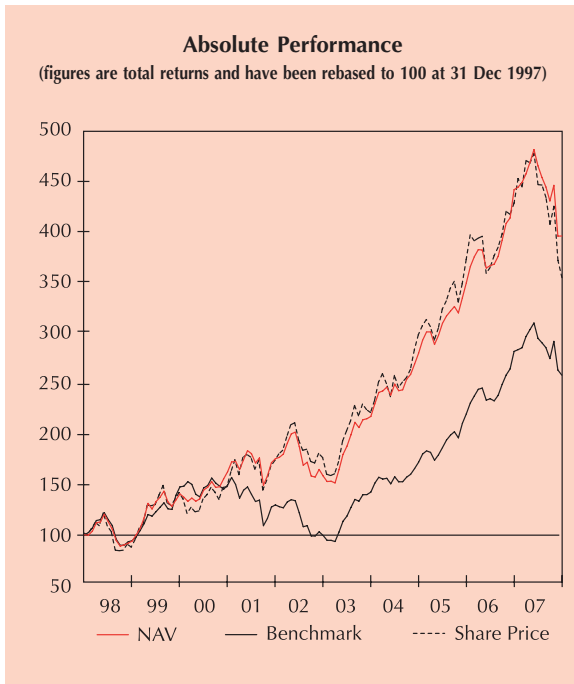
	As at 31 December 2007	As at 31 December 2006	% Change
Shareholders' Funds	£735.0m	£833.3m	-11.8
Market Capitalisation	£580.0m	£714.4m	-18.8
Ordinary Share net asset value	743.87p	843.37p	-11.8
Ordinary Share price	587.0p	723.0p	-18.8
Ordinary Share discount	21.1%	14.3%	n/a
Revenue per Ordinary Share	18.38p	16.40p	+12.1
Dividends per Ordinary Share	15.20p	13.40p	+13.4
Total expense ratio	0.86%	0.97%	n/a
Portfolio turnover	36.4%	34.3%	n/a

	As at 31 December 2007	As at 31 December 2006
Total return per Ordinary Share		
Revenue	18.38p	16.40p
Capital	(104.03p)	159.81p
Total	<u>(85.65p)</u>	<u>176.21p</u>

ONE YEAR PERFORMANCE



TEN YEAR INVESTMENT RECORD



COMPANY SUMMARY

INTRODUCTION

Aberforth Smaller Companies Trust plc (ASCoT) is an Investment Trust whose shares are traded on the London Stock Exchange. As at 31 December 2007, it is the largest trust, based on net assets, within its sub sector of UK Smaller Company Investment Trusts.

OBJECTIVE

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

The Company's performance is measured against the total return of the Hoare Govett Smaller Companies Index (Excluding Investment Companies).

Further details regarding the benchmark, investment policy and approach can be found in the Business Review contained in the Directors' Report on pages 22 to 27.

MANAGEMENT FIRM

Aberforth Partners LLP are contracted as the investment managers and secretaries to the Company. Both of these contracts can be terminated by either party at any time by giving six months' notice of termination. Further information can be found on page 23. Aberforth Partners LLP manage £1.9 billion invested in small UK quoted companies. Further information on the firm is set out on page 8.

SHARE CAPITAL

At 31 December 2007 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.

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 23.

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).

CHAIRMAN'S STATEMENT

REVIEW OF 2007 PERFORMANCE

The year to 31 December 2007 was difficult for small company share prices. As a result of this, Aberforth Smaller Companies Trust plc (ASCoT) produced a negative total return of 10.4%, compared with a negative total return of 8.3% for 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 positive total return of 5.3%. In each of the last three Annual Reports, your Board and Managers have been cautious about extrapolating previous years' excellent returns. This caution has been proven correct. Your Managers' Report provides insight into ASCoT's performance as well as that of small and large companies.

GEARING

ASCoT's policy has always been to remain as near to fully invested as possible. While our caution did not and will not alter that policy, this caution has, at least, prevented us from any material gearing of ASCoT in the recent past. ASCoT's gearing position is reviewed regularly by your Board and Managers and a borrowing facility remains available to ASCoT.

DIVIDENDS

Following a review of ASCoT's dividend payment policy, your Board concluded that the payment of a second interim dividend, in lieu of a final dividend, enables the dividend to be paid to Shareholders earlier than in previous years. Therefore, your Board is pleased to declare a second interim dividend of 10.5p per share, which produces total dividends for the year of 15.2p per share representing an increase of 13.4% on the total for the previous year.

This is a larger increase than your Board would have declared in the absence of the positive outcome to the VAT legal challenge (described in more detail later in my Statement) and therefore defers, for an excellent reason, the rebalancing of the relative weight of the first and second interim dividends alluded to in my Interim Statement.

The second interim dividend of 10.5p per share will be paid on 21 February 2008 to Shareholders on the register at the close of business on 1 February 2008. The last date for submission of Forms of Election for those Shareholders wishing to participate in ASCoT's Dividend Reinvestment Plan (DRiP) is 31 January 2008. Details of the DRiP are available from Aberforth Partners LLP on request or from their website, www.aberforth.co.uk.

The underlying growth in dividends from ASCoT's portfolio has been good. However, the year's earnings have been enhanced by approximately 1.89p per share as a result of the VAT situation mentioned above and more fully explained below. This comprised 1.44p per share in respect of past years' expected repayment of VAT and 0.45p per share in respect of 2007 (a combination of VAT paid in 2007 being recoverable and some management fees not incurring VAT in the year). Future years' earnings will be higher than would otherwise have been the case as VAT is no longer charged on ASCoT's management fee.

VALUE ADDED TAX (VAT)

In 2004, the Association of Investment Companies (AIC), together with JPMorgan Claverhouse Investment Trust plc (Claverhouse), brought a case against HM Revenue and Customs (HMRC) to challenge the imposition of VAT on management fees paid by investment trust companies. The case was referred to the European Court of Justice and its judgment was delivered in June 2007 supporting the Claverhouse and AIC position. HMRC announced its decision to withdraw its appeal in November 2007. Your Board congratulates the AIC and Claverhouse on this outcome. We are pleased that agreement has already been reached with your Managers that will secure recovery of all the VAT paid by ASCoT since

CHAIRMAN'S STATEMENT

2001 subject to the appropriate refund of VAT by HMRC to Aberforth Partners LLP. In this regard, ASCoT's net assets include £4.7m (4.75p per share), being the estimated repayment of all VAT paid on investment management fees since 1 January 2001 including VAT previously offset by your Managers. Certain VAT paid in relation to earlier periods may also be recoverable pending the outcome of further legal appeals although the relevant amounts have not been recognised at this stage.

CONTINUATION VOTE

ASCoT has no fixed duration. However, in accordance with its Articles of Association, an ordinary resolution will be proposed at the forthcoming Annual General Meeting (and at every third subsequent Annual General Meeting) that ASCoT continues. If this resolution is not passed, your Board will prepare and submit proposals to reconstruct ASCoT appropriately. If these proposals are not approved, Shareholders will have the opportunity of passing an ordinary resolution requiring ASCoT to be wound up. Such Continuation Votes have been held in 1996, 1999, 2002 and 2005, and all have been passed by overwhelming majorities.

The table on page 20 of these Report and Accounts sets out in detail the performance of ASCoT in each of its 17 years existence. ASCoT's long term record is outstanding having produced since inception in 1990 a compound annual total return in net asset value of 16.0%, compared with the 11.7% produced by the Hoare Govett Smaller Companies Index (Excluding Investment Companies). However, since the last Continuation Vote three years ago, ASCoT's net asset value has generated a compound annual total return of 12.2%, compared with 14.5% generated by ASCoT's investment benchmark. This underperformance has been made worse for Shareholders because the discount at which ASCoT's shares have traded relative to its net asset value has widened.

Your Board recommends that Shareholders vote in favour of ASCoT's continuation and your Directors intend to do so in respect of their beneficial holdings. In doing so, your Board is mindful of the facts that small companies have recently performed poorly compared with large companies and that your Managers' "value" investment style has been out of favour. The consistent application of this "value" investment style by your Managers, the seven partners of Aberforth Partners LLP (five of whom are the founding partners), has served your Company very well over the longer term but no single investment style performs well in all economic and stockmarket conditions. It is clear that the investment styles of "growth" and "momentum" have performed better than "value" over these last three years, and especially so recently. Your Board therefore concludes that ASCoT's underperformance is more to do with investment style rather than any other factors. Some Shareholders may recall that ASCoT underperformed in 1997, 1998, and 1999 as investors increasingly shunned "value" investments into the turn of the Millennium. In each of the following three years ASCoT produced excellent relative returns so history shows that no style or set of conditions lasts indefinitely. It matters more to remain consistent so that when the environment changes, as it surely will, the greatest possible investment performance may be obtained. Your Board believes your Managers will provide that in due course.

SHARE BUY BACK AUTHORITY AND TREASURY SHARES

At the Annual General Meeting in February 2007, the authority to purchase up to 14.99% of ASCoT's Ordinary Shares was renewed. No Ordinary 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 4 March 2008. 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.

As already noted, ASCoT's discount has widened over the last three years. Your Board has always had as the principal objective of any buy back of Ordinary Shares, "to seek to sustain as low a discount as seems possible". Constant monitoring of ASCoT's discount relative to other UK Smaller Companies specialist

CHAIRMAN'S STATEMENT

investment trusts has suggested that, even over the periods mentioned, ASCoT's discount has typically been amongst the narrowest of its peer group and that many of these peers who have bought shares in have nevertheless experienced wide discounts and in most cases wider than ASCoT's. Merely buying in shares therefore has not resulted in sustaining low discounts in what has clearly been an "out of favour" investment trust sub sector. Given this, your Board has been reluctant, so far, to buy back Ordinary Shares under current market conditions. Suffice to say, however, that your Board stands ready to use ASCoT's buy back authority if and when it believes that a sustained and positive effect on the discount would result.

SUMMARY AND OUTLOOK

I summarised last year: "There will, sooner or later, be more testing stockmarket conditions than those ASCoT has enjoyed these last four years." I also noted in each of my last two years' Statements that cheap and abundant debt was causing asset prices to rise, fuelling M&A activity, and that this could not go on forever. We now endure tougher times but (investment) history demonstrates that just as good times end so do tough times. However, it is impossible to gauge their length and depth. Your Board believes the vast majority of ASCoT's Shareholders are long term investors, understanding of investment cycles and appreciative of your Managers' consistency. We strongly recommend Shareholders should confirm this belief by supporting the Continuation Vote.

David R Shaw
Chairman
23 January 2008

DIRECTORS AND CORPORATE INFORMATION

DIRECTORS

D R Shaw, (59) 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, (63) (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 a Director, and previously 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, (63) 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 retirement 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. He also sits on the Board of a number of private companies.

J E G Cran, (56) ACMA (appointed 17 July 2001 and is a Member of the Audit and Management Engagement Committee)

Edward Cran was Chief Executive of Cattles plc, a company involved in the consumer credit business, until his retirement in May 2001. He joined the Board of Cattles plc in 1990 prior to which he held various senior positions in the credit industry.

Professor P R Marsh, (60) (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, (60) (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

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

REGISTERED OFFICE AND COMPANY NUMBER

14 Melville Street
Edinburgh EH3 7NS
Registered in Scotland No. 126524

REGISTRARS

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Tel: 0870 162 3131
Website: www.capitaregistrars.com

BANKERS

Bank of Scotland
38 St Andrew Square
Edinburgh EH2 2YR

CUSTODIAN

The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

AUDITORS

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

SOLICITORS AND SPONSORS

Dickson Minto W.S.
16 Charlotte Square
Edinburgh EH2 4DF

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 £1.9 billion (as at 31 December 2007). The firm is wholly owned by seven partners – five founding partners and two additional partners, all of whom are investment managers. 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 (41) 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; Food Producers; 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 (50) 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; Chemicals; 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 (37) 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 (48) 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; 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 (58) 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 (50) BCom (Hons), CDipAF – David was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – 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 (44) – 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; and Pharmaceuticals & Biotechnology. Previously he was with Ivory & Sime for 11 years where latterly he managed portfolios in Asia. Prior to that he managed portfolios with the objective of capital growth from smaller companies in the UK and internationally.

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

MANAGERS' REPORT

PERFORMANCE

Following very good gains in each of the previous four years, small UK quoted companies decreased in value in 2007: the total return of ASCoT's investment benchmark, the Hoare Govett Smaller Companies Index (Excluding Investment Companies) (HGSC (XIC)), was -8.3%. Large companies proved more resilient, with the FTSE All-Share Index achieving a rise of 5.3%. ASCoT's net asset value total return of -10.4% was below that of its benchmark. The reasons for this under-performance are set out in the 'Investment Performance' section below.

The 13.6 percentage point gap between the performance of large and small companies makes 2007 the worst relative year for ASCoT's asset class since 1998. In common with that year, 2007 witnessed remarkable turmoil in the financial markets. Back then, financial crises in emerging markets culminated in the failure of LTCM, the hedge-fund. Within the last 12 months, we have witnessed credit and liquidity crunches that have taken place not on the periphery of the financial system but at the heart of the Western economies. While small UK quoted companies have considerably less direct exposure than the bank-dominated large caps to fall-out from the sub-prime fiasco, their share prices have certainly been affected by a rising tide of risk aversion.

INVESTMENT BACKGROUND

The credit crunch of 2007 cannot be dismissed as solely a phenomenon of the financial markets. Its roots are tangled in the travails of the US housing market, which for several years had been buoyed by cheap money and the loose lending standards of sub-prime mortgages. Indications of strain were evident at this time last year, when housing construction activity had already started to slow markedly. However, it was only in 2007 that losses from sub-prime lending started to be felt in the credit markets.

The impact of these losses was exacerbated both by the layers of leverage inherent in the system and by a break-down in trust along the chain of financial institutions involved in the dissemination of sub-prime risks. Trends such as securitisation meant that credit risks were not confined to the balance sheets of banks, though this is certainly not to say that the banks escaped unscathed. Aggravating the problem was the proliferation of derivative structures – such as collateralised debt obligations and structured investment vehicles – that were designed to spread risk but that have ultimately complicated the identification of where liability really does lie. Adding more uncertainty is the phasing of disclosure by the holders of the various debt instruments: the process of marking their prices to a prevailing market rate has been tortuously slow, owing partly to the difficulty of establishing a market price in the absence of willing buyers.

This uncertainty meant that pain was not confined to the riskiest tranches of sub-prime risk. The consequent contagion ensured that prices fell and yields moved up across the spectrum of mortgage related credit risk. Indeed, spreads expanded in other classes of debt, with the corporate bond and leveraged loan market also affected. Compounding the Autumn's *de facto* monetary tightening was a breakdown in trust between the banks themselves, evident in a sharp rise in interbank rates (LIBOR), which also form the basis for much corporate lending.

With much of the US economy – specifically the consumer and corporate sectors – facing a higher market-imposed cost of borrowing, there has been a clear risk that the turmoil in the financial markets spills back into the real economy. This potential reflexivity was evident in movements in government bond yields: 10 year US treasury yields dropped from 5% at the end of June to end the year at 4%, as expectations for real economic growth were revised downwards and the appetite for low risk assets rose. The means of transmission from the financial sphere back into the real economy would appear to be the housing market, which had itself been inflated by the dubious lending practices that fostered the sub-prime bubble. The Case-Shiller national index shows US house prices to have fallen by 4.5% year on year in the third quarter. Statistics abound to suggest that the US housing market has not experienced such tough conditions for 20 years. With consumer confidence thus challenged, there has been speculation about a US recession some time in 2008.

MANAGERS' REPORT

On the other hand inflation has not proved sufficiently alarming to get in the way of 100 basis points of cuts in interest rates. The US economy also has dollar weakness working in its favour. The dollar slid by a further 10% against the euro in 2007 to bring its effective devaluation since late 2000 to 43%. This movement represents a substantial boost to the competitiveness of US businesses, which has now started to be reflected in a declining current account deficit as exports grow. And, to the extent that a weaker consumer sector in 2008 puts pressure on imports, the current account may see further 'improvement'. Thus, one of the pieces would appear to be in place for a rebalancing of the global economy, which has been so reliant on the US as the 'consumer of last resort' in recent years.

But this solution to the global imbalances puts pressure on other economies, in particular the Euro-block, which has had to shoulder further euro strength. The UK sits somewhere in the middle, with a further appreciation against the dollar in 2007 offset by a fall of 9% against the euro. The UK shares several of the challenges that are presently confronting the US economy, but lacks, as yet, the stimulus of a meaningful devaluation. The British banking sector has seen its balance sheets weakened by US sub-prime losses and has also had perhaps the highest profile casualty of the credit market turmoil in Northern Rock. While Northern Rock had limited exposure to sub-prime debt, its reliance on wholesale funding rendered it vulnerable to the credit crunch, as the credit contagion reduced the availability of funding and pushed up its cost. As one of the more aggressive mortgage lenders in recent years, Northern Rock may also serve to highlight the vulnerability of the UK economy to the housing market.

According to the HBOS survey, UK house prices declined for three consecutive months from September to November, to bring the annual rate of growth down from 11% mid year to 5% in December. The vulnerability to further falls is brought out by the historical context: over the last 10 years, UK house prices have risen by a cumulative 189% against 116% in the US. Additional pressure is likely to be forthcoming in 2008, with mortgage applications down sharply and many fixed rate mortgages due to reset closer to market rates. Talk therefore abounds of a slowdown similar to that of the early 1990s.

The Bank of England has responded with a 25 basis point cut in base rates, but at 5.5% rates are still 50 basis points higher than at the start of 2007. The scope to act has been constrained by inflationary pressures. While the rate of increase in the CPI has fallen back from the April levels that prompted a letter from Mervyn King to the Chancellor, it ended the year on the wrong side of the target 2% rate. Oil, whose price rose by 50% over the year, has been joined by food price rises as an underlying inflationary threat. Nevertheless, the futures market, which in the mid year had been discounting interest rates of over 6.25% by June 2008, is looking for a cut of at least 25 basis points. This may, however, prove inadequate to offset mounting pressures on the economy. Moreover, transmission of monetary stimulus to the consumer and corporate sectors might be inhibited by the banks' imperative to rebuild their balance sheets. So, as things stand today, a repetition of 2005's solitary and quickly reversed cut in interest rates looks unlikely. Rather a series of cuts seems more probable, though with the precise phasing influenced by the path of inflation.

INVESTMENT PERFORMANCE

Given the stresses in the credit markets and the impact on banks' balance sheets of sub-prime losses, it is perhaps surprising that the FTSE All-Share, with its 15% weighting in the Bank sector, should have out-performed the HGSC (XIC), which had no exposure to that sector. However, offsetting this, large companies boast relatively big weightings in Oil & Gas Producers, which proved resilient in 2007, and Mining, which was spectacular as momentum built on the back of takeover speculation and Far Eastern demand for commodities. These two sectors account for 27% of the FTSE All-Share against 4% of the HGSC (XIC).

In rationalising the weakness of the HGSC (XIC), divergent sector weightings can therefore prove helpful. The other important influence must be the classic perception of smaller companies as higher risk than their larger peers, even though the experience of Northern Rock might reasonably be thought to undermine this

MANAGERS' REPORT

argument. Nevertheless, events of 1998 suggest that small companies tend to perform relatively poorly in times of financial stress and heightened uncertainty: over the four months to the end of September 1998, the HGSC (XIC) fell by 26.5% but the FTSE All-Share was down by 15.5%.

Your Managers would usually expect ASCoT to fare relatively well in such circumstances of absolute declines in its benchmark index. However, while ASCoT started the year well and was ahead of the HGSC (XIC) at the interim stage, the second half proved more challenging. The following paragraphs explain ASCoT's 2.1 percentage point under-performance over 2007.

- Size can be an important issue even within the confines of the HGSC (XIC). It was a negative influence in 2007 for ASCoT. With a total return of 65%, the strongest part of the UK stockmarket since the end of 2004 has been the FTSE 250. The corresponding figures for the FTSE All-Share and the FTSE SmallCap are 50% and 20%. The HGSC (XIC), which includes all of the FTSE SmallCap and 141 members of the FTSE 250, has thus seen a valuation gap open up between its mid cap and its small cap constituents. For your Managers, with their value investment philosophy, this disparity represented an opportunity to recycle capital from the relatively expensive mid caps in the HGSC (XIC) to its smaller denizens: at the end of the year, mid caps represented 38% of ASCoT's portfolio against 67% of the HGSC (XIC). However, given the continued strong performance of the FTSE 250, this positioning has so far proved inappropriate and hindered relative returns in 2007. Stripping out this size effect offers some reassurance about underlying stock picking. Analysis of last year's performance shows that ASCoT's mid cap holdings out-performed the mid cap component of the benchmark and that the small cap holdings out-performed the small cap component.
- Consistent adherence to the value investment discipline has served ASCoT and its shareholders well over the long term. However, the stockmarket's appetite for value waxes and wanes. Indeed, analysis conducted by Citigroup on its universe of small and mid cap companies suggests that 2007 witnessed a return to favour of growth stocks. This may be rationalised by rising expectations of tougher trading conditions in 2008: whereas the buoyant economy of recent years has benefited all companies, growth may be in shorter supply going forward and it can be argued that genuine growth should merit a re-rating. Your Managers would certainly not disagree with the notion of paying up for sustainable growth. However, consistent with their commitment to value investing, they believe that few growth companies actually live up to the expectations implicit in their often heady valuations and are as a consequence reluctant to expose ASCoT's portfolio to such situations.

Performance Attribution Analysis 12 Months to 31 December 2007

	Basis Points
Stock selection	(349)
Sector selection	170
Attributable to the portfolio of investments (calculated on a mid-price basis)	(179)
Impact of mid-price to bid-price	(8)
Cash	24
Management fee charged (net of the VAT refund due)	(35)
Other expenses	(7)
Total attribution based on bid-prices	(205)

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 = -10.38%; Benchmark Index = -8.33%; difference is -2.05% being -205 basis points).

MANAGERS' REPORT

- The table above analyses ASCoT's relative performance in total return terms. At the portfolio level, ASCoT was behind its benchmark by 179 basis points. Within this, sector selection was positive (i.e. either a higher exposure than the benchmark's to those sectors that performed well or a lower exposure to those that performed poorly). The main feature of sector selection was the portfolio's positioning in Real Estate, which was 5.3 percentage points lower than that of the benchmark at the start of the year. This proved advantageous since Real Estate fell by 43% over 2007. This was in marked contrast to 2006, when excitement about REITs legislation in the UK and cheap debt combined to push valuations of quoted property companies to extravagant and unsustainable levels. Thus, while your Managers' fundamental concerns about Real Estate were unhelpful in 2006, they have been fully vindicated in 2007 – timing the stockmarket's mood swings is not easy.
- Out-weighing the positive impact from sector selection was a weak contribution from stock selection (i.e. the effect of the relative performance of the portfolio's investments in a sector against that sector's benchmark return). At work here were two issues. The first concerns stocks that your Managers chose to own. Within a portfolio of 100 stocks over any twelve month period, there will inevitably be several stocks that encounter trading difficulties and as a consequence experience share price falls. Last year was no exception. Two of the larger impacts came from companies that felt the indirect effects of the credit crunch. Weaker than expected profits took these companies into breach of their banking covenants. A year earlier, the banks and therefore the stockmarket may have been more forgiving but, given the pressure on the banks' own balance sheets, a more severe reaction was experienced. However, the portfolio as a whole retains the bias, noted in the interim report, to companies with strong balance sheets, positioning that your Managers believe will prove assistive in the coming year.

The second issue affecting stock selection were the stocks that were not held. Last year the HGSC (XIC) was buoyed by strong performances from an unusually narrow band of stocks. The twenty companies that made the largest positive contributions to the benchmark's performance enjoyed a remarkable average total return of 60%. Without these companies, the HGSC (XIC) would have been down by 14% rather than the actual 8.3%. However, only five of these companies had valuations that were consistent with your Managers' value investment style. The rest were companies that in many cases had strong underlying businesses but whose share prices had, in general, acquired a momentum of their own. Indeed, of the five companies held, two were sold during the year as they were re-rated to levels that your Managers considered unsustainable.

- Despite the travails of the credit market, de-equitisation, a term that describes the trend of recent years to replace equity financing with debt financing, remained a feature of the UK stockmarket in 2007. Within the large company world, de-equitisation had been dominated by the share buy-backs of giants such as BP, but in 2007 large companies also experienced an increase in M&A activity. Most notably, private equity felt sufficiently confident to acquire Alliance Boots, although the transaction was completed before the Autumn's deterioration in the credit markets. However, given the sclerosis in the debt markets, this deal probably marked the high-point of private equity's ambition at least for the time being. That said, deals within the small cap universe should be more digestible by private equity. Trade buyers, with the promise of synergies to offset higher borrowing costs, remained active through the year. In total, 38 companies within the HGSC (XIC) were acquired in 2007, down from 52 in the previous year, but this should be viewed in the context of a considerably more uncertain period for financial markets. ASCoT itself benefited from the completion of five deals within its portfolio. On top of these, three other holdings at the end of the year had received bids and a further holding had been sold after the announcement but before the completion of the bid process. Your Managers take comfort from the continuing levels of corporate activity – over the years corporate transactions have proved a fruitful means of value realisation for ASCoT's portfolio, especially when the stockmarket's appetite for small companies wanes.

MANAGERS' REPORT

Last year was again good for dividends, a somewhat less exciting form of de-equitisation, though nevertheless important for equity returns over the longer term. Of ASCoT's 100 holdings at the year end, it was the policy of 21 not to pay a dividend, while another six had only started paying a dividend in 2007, rendering year on year comparisons meaningless. Of the remaining 73, three cut their dividends, a further eight held them unchanged and 62 reported increases. The median company within the 73 raised its dividend payment by 10%. This rate of growth is considerably ahead of that achieved by UK equities over the longer term and hints at the confidence with which management teams view their business prospects in 2008, notwithstanding the likelihood of greater macro economic challenges. It should be noted that the 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.

INVESTMENT OUTLOOK

Investors in small UK quoted companies are confronted by a conundrum. Company results reported in 2007 were in general good and management teams – to judge by their outlook statements, their purchases of shares and dividend increases – tend towards optimism about the year ahead. On the other hand, the unresolved turmoil of the credit markets combines with deteriorating fundamentals in the wider economy to cast doubt on this rosy outcome. Given the pressures on the housing market, a so far minor currency stimulus compared with that of the US, and the relatively recent monetary response by the Bank of England that will take some months to filter through to the economy, it would seem prudent to anticipate a slowdown. This, though, need not mean outright recession, with a period of subnormal economic growth perhaps more likely. Such a scenario would clearly pose difficulties for the many retailers and building companies within the HGSC (XIC) that are reliant on the fortunes of the domestic economy. Large companies, however, face their own challenges, with tremendous uncertainty still hanging over the banking sector.

On the basis of historic PE ratios, small companies have moved to a 3% discount to their larger peers, having begun the year at a 29% premium. Adjustment for the divergent sector exposures noted earlier would imply a larger discount. An element of this erosion was due to the under-performance of small companies. However, also at work was a superior rate of earnings growth from small companies, one of the core attractions of the asset class. They are presently expected to generate a superior rate of growth again in 2008. This is plausible, though the outcome will inevitably be influenced by the fortunes of the banks.

Characteristics	31 December 2007		31 December 2006	
	ASCoT	Benchmark	ASCoT	Benchmark
Number of Companies	100	509	113	505
Weighted Average Market Capitalisation	£439m	£577m	£450m	£570m
Price Earnings Ratio (Historic)	13.1x	11.7x	18.9x	18.5x
Net Dividend Yield (Historic)	2.6%	2.9%	2.2%	2.0%
Dividend Cover (Historic)	2.9x	2.9x	2.4x	2.8x

The table above shows that, on the basis of historic PE ratios, ASCoT's portfolio was valued on a premium to the benchmark at the year end. This is not without precedent, having occurred at four previous year ends over ASCoT's lifetime. At work is your Managers' caution about a probable deterioration in trading conditions during 2008. This affects the aggregate PE of the portfolio in two ways. First, the portfolio has been biased towards companies with strong balance sheets, often with net cash: 38 of the 100 companies in the portfolio at the year end had net cash on their balance sheets. Given the comparatively low return available from cash, this strategy inflates the stated average PE ratio of the portfolio. Second, your Managers have chosen to avoid businesses in several sectors whose profitability is particularly exposed to the economic cycle. The stockmarket tends to value such companies on low multiples of historic earnings, in anticipation of a drop in future earnings.

MANAGERS' REPORT

The price falls experienced by the asset class in the final quarter of 2007 were frequently severe and indiscriminate. They left many benchmark constituents, particularly towards the smaller end of the spectrum, on extremely low valuations that have not been evident for some years. It would thus seem that, if we are experiencing a cyclical de-rating of small companies, a significant portion of that process may already have taken place for a large number of companies within the benchmark. While some of these companies will inevitably feel the effects of a more difficult economic environment, should it indeed be forthcoming, your Managers consider that, consistent with previous cycles, some represent excellent opportunities. Indeed, your Managers are optimistic that these opportunities will provide the basis for a recovery in ASCoT's relative performance as and when the stockmarket's flirtation with growth and momentum ends. As always, the precise timing is difficult to call, but in the meantime the task is to ensure that ASCoT's resources are appropriately directed to those companies about which your Managers, through their value investment disciplines, have conviction.

Aberforth Partners LLP
Managers
 23 January 2008

PORTFOLIO INFORMATION

SUMMARY OF MATERIAL PORTFOLIO CHANGES

12 Months to 31 December 2007					
Purchases			Sales		
		Cost £'000			Proceeds £'000
Thomas Cook Group	+	19,780	Abbot Group	Ø	21,980
Collins Stewart	+	14,986	ITE Group	Ø	20,793
CSR		11,657	Croda International	Ø	15,295
VT Group	+	11,330	Spirent Communications	Ø	13,898
Helphire Group	+	10,631	Restaurant Group	Ø	12,306
Hampson Industries		10,251	Laird Group	Ø	12,195
Abbot Group		9,908	Carillion	Ø	11,831
Galliford Try	+	9,368	Catlin Group	Ø	10,265
Premier Oil		8,266	Game Group	Ø	10,007
Wincanton		7,477	Mapeley	Ø	9,615
Hiscox		7,374	Alpha Airports Group	Ø	9,250
Paragon Group of Companies	+	6,684	Domestic & General Group	Ø	8,969
Lookers	+	6,123	Foseco		8,349
Raymarine		5,931	Huntleigh Technology	Ø	7,344
Future	+	5,829	Headlam Group		7,078
Robert Wiseman Dairies		5,684	Johnson Service Group	Ø	6,720
Elementis	+	5,414	Sondex	Ø	6,388
Heywood Williams Group		5,197	Premier Oil		6,348
Unite Group		4,716	Computacenter	Ø	6,305
Hansard Global		4,662	Brown (N.) Group		6,265
Other Purchases		140,703	Other Sales		89,536
Total for the year		311,971	Total for the year		300,737

The summary of material portfolio changes shows the 20 largest aggregate purchases and sales including transaction costs. Portfolio turnover for the year was 36.4% (2006: 34.3%)

+ Indicates a company which is a new holding.
 Ø Indicates a company which has been disposed of completely.

PORTFOLIO INFORMATION – continued

FTSE INDUSTRY CLASSIFICATION EXPOSURE ANALYSIS

	← 31 December 2006 →					← 31 December 2007 →			
	<i>Index Weight</i>	<i>Portfolio</i>		<i>Net² Purchases/</i>	<i>Net Appreciation/</i>	<i>Portfolio</i>		<i>Index Weight</i>	
Sector	%	%	Valuation £'000	(Sales) £'000	(Depreciation) £'000	Valuation £'000	Weight %	%	
Oil & Gas	5	2	19,828	(15,026)	6,587	11,389	1	4	
Basic Materials	4	3	22,753	(5,741)	(2,631)	14,381	2	5	
Industrials	32	34	282,249	16,899	(19,311)	279,837	39	30	
Consumer Goods	7	5	44,919	(1,362)	(4,436)	39,121	5	8	
Health Care	5	5	45,312	7,227	(21,091)	31,448	4	5	
Consumer Services	16	22	178,583	(17,607)	(24,041)	136,935	19	17	
Telecommunications	1	1	5,230	3,640	(1,887)	6,983	1	1	
Utilities	–	–	–	–	–	–	–	–	
Financials	22	13	107,610	16,780	(25,553)	98,837	14	23	
Technology	8	12	94,986	5,547	(8,498)	92,035	13	7	
Liquidity available for investment ¹	<i>n/a</i>	3	22,820	<i>n/a</i>	<i>n/a</i>	13,680	2	<i>n/a</i>	
	100	100	824,290	10,357	(100,861)	724,646	100	100	

¹ This represents net current assets less the second interim dividend.
² This includes transaction costs and special dividends that have been treated as a return of capital.

FTSE INDEX CLASSIFICATION EXPOSURE ANALYSIS

	31 December 2006				31 December 2007			
	Index Classification	<i>Portfolio</i>		<i>Index Weight</i>	<i>Portfolio</i>		<i>Index Weight</i>	
No. of Companies		Valuation £'000	Weight %	%	No. of Companies	Valuation £'000	Weight %	%
FTSE 100	–	–	–	–	1	14,651	2	–
FTSE 250	34	343,741	42	59	24	277,324	38	67
FTSE SmallCap	67	427,675	52	35	54	368,664	51	27
FTSE Fledgling	10	28,618	3	3	20	47,967	7	3
Other	2	1,436	–	3	1	2,360	–	3
Liquidity available for investment ¹	<i>n/a</i>	22,820	3	<i>n/a</i>	<i>n/a</i>	13,680	2	<i>n/a</i>
	113	824,290	100	100	100	724,646	100	100

¹ This represents net current assets less the second interim dividend.

THIRTY LARGEST INVESTMENTS

As at 31 December 2007

No.	Company	Valuation as at 31 December 2007 £'000	% of Total Net Assets	Business Activity
1	Greggs	24,139	3.3	Retailer of sandwiches, savouries and other bakery products
2	Shanks Group	17,032	2.3	Waste management
3	MITIE Group	16,859	2.3	Facilities, engineering and property services
4	Interserve	16,251	2.2	Facilities, project and equipment services
5	Ultra Electronics Holdings	15,241	2.1	Defence electronics and aerospace
6	Hampson Industries	14,972	2.0	Aerospace and automotives
7	Robert Wiseman Dairies	14,863	2.0	Processing and distribution of milk
8	Thomas Cook Group	14,651	2.0	Tour operator
9	BSS Group	14,585	2.0	Distribution of plumbing supplies and tools
10	Hiscox	14,340	2.0	Insurance
Top Ten Investments		162,933	22.2	
11	Holidaybreak	13,829	1.9	Travel and education services
12	Huntsworth	12,874	1.7	Public relations
13	VT Group	12,727	1.7	Support services and shipbuilding
14	Senior	12,273	1.7	Automotive and aerospace engineering
15	Wilmington Group	11,970	1.6	B2B publishing and training
16	Beazley Group	11,793	1.6	Insurance
17	Domino Printing Sciences	11,637	1.6	Manufacture of industrial printing equipment
18	UMECO	11,531	1.6	Aerospace, defence and automotive
19	Anite	11,423	1.5	Software and related services
20	RPC Group	11,055	1.5	Manufacture of plastic containers and devices
Top Twenty Investments		284,045	38.6	
21	CSR	10,805	1.5	Bluetooth semiconductors
22	Wincanton	10,677	1.4	Logistics
23	Low & Bonar	10,556	1.4	Manufacture of industrial textiles
24	Spirax-Sarco Engineering	10,430	1.4	Engineering
25	e2v technologies	10,370	1.4	Manufacture of electronic components and sub-systems
26	NSB Retail Systems	10,252	1.4	Software for retailers
27	Collins Stewart	10,238	1.4	Stockbroker and private client fund manager
28	Premier Oil	10,163	1.4	Oil exploration and production
29	Delta	10,091	1.4	Galvanising, manganese products and industrial supplies
30	Evolution Group	9,963	1.4	Stockbroker and private client fund manager
Top Thirty Investments		387,590	52.7	
Other Investments (70)		323,376	44.0	
Total Investments		710,966	96.7	
Net Current Assets		24,055	3.3	
Total Net Assets		735,021	100.0	

LIST OF INVESTMENTS

As at 31 December 2007

		31 December 2007		
	Holding Security	Value £'000	% of Total Net Assets	% of HGSC (XIC) Index
Oil & Gas Producers		11,389	1.6	2.3
	429,541 Melrose Resources	1,226	0.2	
	778,800 Premier Oil	10,163	1.4	
Oil Equipment, Services & Distribution		0	0.0	2.0
Chemicals		14,381	2.0	1.7
	9,090,982 Delta	10,091	1.4	
	5,644,617 Elementis	4,290	0.6	
Industrial Metals		0	0.0	0.9
Mining		0	0.0	2.0
Construction & Materials		22,440	3.0	3.3
	2,089,700 Clarke (T.)	3,553	0.5	
	5,811,300 Galliford Try	5,840	0.8	
	5,535,650 Heywood Williams Group	2,491	0.3	
	8,870,700 Low & Bonar	10,556	1.4	
Aerospace & Defence		54,471	7.4	1.4
	9,721,820 Hampson Industries	14,972	2.0	
	1,112,500 Ultra Electronics Holdings	15,241	2.1	
	1,839,088 UMECO	11,531	1.6	
	1,845,833 VT Group	12,727	1.7	
General Industrials		15,520	2.1	0.9
	1,764,850 British Polythene Industries	4,465	0.6	
	5,239,500 RPC Group	11,055	1.5	
Electronic & Electrical Equipment		46,897	6.4	4.3
	3,174,600 Abacus Group	1,968	0.3	
	2,542,415 Dialight	3,210	0.4	
	3,948,200 Domino Printing Sciences	11,637	1.6	
	4,090,650 e2v technologies	10,370	1.4	
	1,130,300 Oxford Instruments	2,215	0.3	
	3,153,734 Raymarine	8,823	1.2	
	1,285,000 Spectris	8,674	1.2	
Industrial Engineering		46,669	6.4	4.3
	2,874,652 Castings	8,567	1.2	
	2,766,552 Foseco	7,829	1.1	
	2,160,400 Renold	1,966	0.3	
	10,512,267 Senior	12,273	1.7	
	1,187,942 Spirax-Sarco Engineering	10,430	1.4	
	957,900 The Vitec Group	5,604	0.7	
Industrial Transportation		10,677	1.4	3.1
	2,885,600 Wincanton	10,677	1.4	
Support Services		83,163	11.3	12.6
	2,158,300 4imprint Group	4,425	0.6	
	1,874,050 Acal	2,849	0.4	
	3,761,500 BSS Group	14,585	2.0	
	10,995,900 Communisis	7,862	1.1	
	3,444,800 Interserve	16,251	2.2	
	5,962,600 MITIE Group	16,859	2.3	
	2,808,800 office2office	3,300	0.4	
	7,486,600 Shanks Group	17,032	2.3	
Automobiles & Parts		0	0.0	0.1

LIST OF INVESTMENTS

As at 31 December 2007

		31 December 2007		
		Value £'000	% of Total Net Assets	% of HGSC (XIC) Index
Beverages		8,640	1.2	0.7
2,511,500	Britvic	8,640	1.2	
Food Producers		18,557	2.5	2.5
156,900	Cranswick	1,334	0.2	
629,328	New Britain Palm Oil	2,360	0.3	
2,727,244	Robert Wiseman Dairies	14,863	2.0	
Household Goods		11,925	1.6	2.3
1,736,073	Headlam Group	7,500	1.0	
4,059,367	McBride	4,425	0.6	
Leisure Goods		0	0.0	0.4
Personal Goods		0	0.0	1.6
Health Care Equipment & Services		9,024	1.2	2.5
2,601,500	Biocompatibles International	3,200	0.4	
5,499,600	ClinPhone	2,640	0.4	
7,580,300	Nestor Healthcare Group	2,577	0.3	
316,600	Whatman	607	0.1	
Pharmaceuticals & Biotechnology		22,424	3.1	2.5
2,620,300	Acambis	3,099	0.4	
2,328,800	Alizyme	1,339	0.2	
9,168,241	Ark Therapeutics Group	8,526	1.2	
4,000,700	Asterand	210	0.0	
1,831,718	Axis-Shield	4,396	0.6	
12,700,000	Medical Solutions	889	0.1	
6,437,973	Vectura Group	3,461	0.5	
8,130,544	Vernalis	504	0.1	
Food & Drug Retailers		24,139	3.3	0.4
513,592	Greggs	24,139	3.3	
General Retailers		39,817	5.4	7.1
2,329,900	Blacks Leisure Group	4,217	0.6	
3,628,342	Brown (N.) Group	8,590	1.2	
3,228,000	Halfords Group	9,741	1.3	
2,220,281	John David Group (The)	7,704	1.0	
3,290,603	Lookers	3,710	0.5	
2,319,700	Nord Anglia Education	4,941	0.7	
982,600	ScS Upholstery	914	0.1	
Media		37,115	5.1	4.6
5,114,200	Centaur Media	4,756	0.7	
9,229,700	Chime Communications	3,323	0.5	
13,308,500	Future	4,192	0.6	
14,384,598	Huntsworth	12,874	1.7	
5,754,900	Wilmington Group	11,970	1.6	
Travel & Leisure		35,863	4.9	4.6
2,033,700	Holidaybreak	13,829	1.9	
989,000	Luminar Group Holdings	4,253	0.6	
2,416,900	Regent Inns	489	0.1	
2,654,510	Sportech	2,641	0.3	
5,195,300	Thomas Cook Group	14,651	2.0	

LIST OF INVESTMENTS

As at 31 December 2007

		31 December 2007		
		Value £'000	% of Total Net Assets	% of HGSC (XIC) Index
Fixed Line Telecommunications		6,983	0.9	1.3
12,992,300	KCOM Group	6,983	0.9	
Utilities		0	0.0	0.0
Banks		0	0.0	0.2
Nonlife Insurance		33,183	4.5	4.4
7,246,370	Beazley Group	11,793	1.6	
9,791,772	Highway Insurance Holdings	7,050	0.9	
5,027,000	Hiscox	14,340	2.0	
Life Insurance		5,743	0.8	0.4
2,002,900	Hansard Global	5,743	0.8	
Real Estate		18,669	2.5	7.7
2,472,500	Grainger	8,586	1.2	
1,768,100	Minerva	2,347	0.3	
2,232,626	Unite Group	7,736	1.0	
General Financial		41,242	5.6	10.4
5,121,300	Brewin Dolphin Holdings	8,450	1.1	
725,330	Charles Stanley Group	1,937	0.3	
5,917,800	Collins Stewart	10,238	1.4	
8,233,929	Evolution Group	9,963	1.4	
2,493,500	Helphire Group	8,908	1.2	
1,303,200	Paragon Group of Companies	1,746	0.2	
Software & Computer Services		66,051	9.0	5.5
21,655,480	Anite	11,423	1.5	
5,157,509	Dicom Group	9,000	1.2	
4,396,600	Intec Telecom Systems	1,945	0.3	
2,297,600	Macro 4	3,286	0.5	
7,572,026	Microgen	3,407	0.5	
8,153,500	Northgate Information Solutions	7,522	1.0	
27,522,700	NSB Retail Systems	10,252	1.4	
3,479,857	Parity	1,844	0.2	
2,854,052	Phoenix IT Group	8,848	1.2	
3,946,500	RM	8,524	1.2	
Technology Hardware & Equipment		25,984	3.5	2.0
1,809,900	CSR	10,805	1.5	
4,205,421	Filtronic	7,381	1.0	
6,635,800	Trafficmaster	2,605	0.3	
10,933,684	Zetex	5,193	0.7	
Investments as shown in the Balance Sheet		710,966	96.7	100.0
Net Current Assets		24,055	3.3	0.0
Total Net Assets		735,021	100.0	100.0

All investments are in ordinary shares and have a full listing on the London Stock Exchange. No investments are listed on the Alternative Investment Market (AIM).

LONG-TERM RECORD

HISTORIC TOTAL RETURNS

Period	Discrete Annual Returns (%)		
	NAV ¹	Index ²	Share Price ³
1 year to 31 December 2007	-10.4	-8.3	-17.3
1 year to 31 December 2006	26.3	28.0	15.0
1 year to 31 December 2005	24.9	27.8	25.1
1 year to 31 December 2004	28.7	20.7	35.2
1 year to 31 December 2003	37.1	43.0	25.4
1 year to 31 December 2002	-9.7	-23.3	1.7
1 year to 31 December 2001	7.9	-13.0	17.7
1 year to 31 December 2000	15.6	1.2	4.2
1 year to 31 December 1999	49.5	56.2	62.5
1 year to 31 December 1998	-6.1	-5.7	-14.2
1 year to 31 December 1997	5.3	9.2	-1.4
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

Periods to 31 December 2007	Compound Annual Returns (%)			Cumulative Returns (%)		
	NAV ¹	Index ²	Share Price ³	NAV ¹	Index ²	Share Price ³
2 years from 31 December 2005	6.4	8.3	-2.5	13.2	17.4	-4.9
3 years from 31 December 2004	12.2	14.5	6.0	41.4	50.0	19.0
4 years from 31 December 2003	16.1	16.0	12.6	82.0	81.0	60.9
5 years from 31 December 2002	20.1	21.0	15.1	149.5	158.8	101.8
6 years from 31 December 2001	14.5	12.1	12.7	125.4	98.6	105.2
7 years from 31 December 2000	13.5	8.1	13.4	143.1	72.7	141.7
8 years from 31 December 1999	13.8	7.2	12.2	180.9	74.8	151.8
9 years from 31 December 1998	17.3	11.8	16.9	319.8	172.9	309.2
10 years from 31 December 1997	14.7	9.9	13.4	294.2	157.2	251.0
11 years from 31 December 1996	13.8	9.8	11.9	315.1	180.9	246.0
12 years from 31 December 1995	14.5	10.6	12.6	407.5	233.5	317.0
13 years from 31 December 1994	15.1	11.0	13.3	525.3	287.3	404.6
14 years from 31 December 1993	13.8	9.9	11.7	508.9	275.3	369.4
15 years from 31 December 1992	15.9	11.8	14.3	819.1	431.4	639.9
16 years from 31 December 1991	15.1	11.4	13.6	845.2	465.4	665.1
17 years from 31 December 1990	16.0	11.8	14.4	1,148.5	569.0	890.4
17.1 years from inception on 10 December 1990	16.0	11.7	14.3	1,152.5	563.3	870.6

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

² Represents capital appreciation/(depreciation) on the 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 %
2007	735.0	—	735.0	743.9	587.00	21.1
2006	833.3	—	833.3	843.4	723.00	14.3
2005	671.2	—	671.2	679.3	640.00	5.8
2004 ³	547.2	—	547.2	553.7	522.00	5.7
2003 ⁴	431.5	—	431.5	436.7	395.75	9.4
2002	275.9	—	275.9	326.3	325.25	0.3
2001	315.3	—	315.3	371.6	328.75	11.5
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

¹ The calculation of Net Asset Value per Share is explained in the Shareholder Information section on page 51. This represents the Fully Diluted Net Asset Value prior to 1 April 2003.

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

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

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

TEN YEAR REVENUE SUMMARY

GEARING RATIO

Year to 31 December	Available for Ordinary Shareholders £'000	Revenue per Ordinary Share ¹ p	Dividends per Ordinary Share net p	Total expense ratio ² %	Actual gearing ³ %
2007	18,158	18.38	15.20	0.86	96.7
2006	16,209	16.40	13.40	0.97	96.2
2005	14,325	14.50	11.85	0.99	98.3
2004 ⁴	13,085	13.24	11.00	0.99	97.0
2003 ⁵	10,026	11.59	10.10	0.98	96.3
2002	8,855	10.57	9.50	1.04	99.1
2001	9,134	10.93	9.10	0.98	96.8
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

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) to average Shareholders' funds (calculated per AIC guidelines). 2007 figure excludes VAT on the investment management fee although earlier years have not been restated.

³ Total investments divided by Shareholders' funds. From inception until October 1998 the Company used gearing largely to help mitigate the dilutive 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.

DIRECTORS' REPORT

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year to 31 December 2007.

BUSINESS REVIEW

INVESTMENT OBJECTIVE

The 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) over the long term.

INVESTMENT POLICY

The Company aims to achieve its objective and to diversify risk by investing in over 80 small UK quoted companies. Small companies are those having a market capitalisation, at time of purchase, equal to or lower than the largest company in the bottom 10% of the main UK equity market or companies in the Hoare Govett Smaller Companies Index (Excluding Investment Companies). The upper market capitalisation limit to this index at 1 January 2008 (the date of the last annual index rebalancing) was £1,099 million, although this limit will change owing to movements in the stockmarket. The aggregate market capitalisation of the index as at 1 January 2008 was £142 billion and includes 509 companies.

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

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

The Company's policy towards companies quoted on the Alternative Investment Market (AIM) generally precludes investment except in the circumstances where either an investee company moves from the "Full List" to AIM (so as to avoid being a forced seller) or where a company quoted on AIM has committed to move from AIM to the "Full List" (so as to enable investment before a full listing is obtained). The Company does not invest in any unquoted securities or securities issued by investment trusts or investment companies.

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

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

A detailed analysis of the investment portfolio is contained in the Managers' Report and Portfolio Information contained on pages 9 to 19.

INVESTMENT STRATEGY AND STYLE

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

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

DEBT FACILITY

At 31 December 2007, 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

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 so 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 Annual General Meeting to be held on 4 March 2008 (and, if passed, at every third subsequent Annual General Meeting) that the Company continues to manage its affairs as an investment trust.

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

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 2006. 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, provide investment management, administration and company secretarial services to the Company. These services can be terminated by either party at any time by giving six months' notice of termination. Compensation fees would be payable in respect of this six month period only if termination were to occur sooner. Aberforth Partners LLP 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 £15,469 (excluding VAT) per quarter during 2007. The secretarial fee is adjusted annually in line with the Retail Prices Index and is subject to VAT which is currently irrecoverable by the Company.

DIRECTORS' REPORT

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

CAPITAL STRUCTURE AND SHARE BUY-BACKS

At 31 December 2007, 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 and no shares are held in treasury. Subject to the requirement that purchases by the Company of its own shares will be made only at a level that enhances the net asset value (NAV), the principal objective of any such purchase will be to seek to sustain as low a discount between the Company's NAV and share price as seems possible. Accordingly, it is the Board's intention to use the share purchase facility within guidelines established from time to time by the Board.

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

RETURN AND DIVIDENDS

The total return attributable to Shareholders for the year amounted to a loss of £84,625,000 (2006 – profit of £174,113,000). The net asset value per ordinary share at 31 December 2007 was 743.87p (2006 – 843.37p).

Following a review of the dividend payment policy, the Board concluded that the payment of a second interim dividend, in lieu of a final dividend, allowed the dividend to be paid earlier than in previous years. Therefore, your Board is pleased to declare a second interim dividend of 10.5p, which produces total dividends for the year of 15.2p representing an increase of 13.4% on the total for the previous year. The second interim dividend of 10.5p per share will be paid on 21 February 2008 to Shareholders on the register at the close of business on 1 February 2008.

	£'000	£'000
Revenue return for the year available for dividends		18,158
Dividends in respect of the revenue available:		
First interim dividend of 4.70p per Ordinary Share paid 23 August 2007	4,644	
Second interim dividend of 10.5p per Ordinary Share payable 21 February 2008 to Shareholders on the Register at close of business on 1 February 2008	10,375	15,019
		<u>3,139</u>

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 11, 20 and 21.

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

DIRECTORS' REPORT

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 key risks faced by the Company. This process was in operation during the year and continues in place up to the date of this report.

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.

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. 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.
- (iv) Regulatory risk – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's share price listing, financial penalties or a qualified audit report. 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 rules and regulations.
- (v) Operational/Financial risk – failure of the Managers' accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring, or potentially lead to the misappropriation of assets. 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.

DIRECTORS' REPORT

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 2007 and their interests in the Shares of the Company as at that date were as follows:

Directors	Nature of Interest	Ordinary Shares	
		2007	2006
D R Shaw	Beneficial	37,000	25,000
H N Buchan	Beneficial	19,474	19,474
M L A Chiappelli	Beneficial	25,000	25,000
J E G Cran	Beneficial	28,473	27,137
Prof P R Marsh	Beneficial	25,000	15,000
Prof W S Nimmo	Beneficial	25,656	16,444

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2007 and 23 January 2008.

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 4 March 2008. All Directors offer themselves for re-election and biographical details for each are shown on page 7.

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 2009. The price paid for Shares will not be less than the nominal value of 1p per Share and the maximum price shall be the higher of (i) 105% of the average of the middle market quotations for the Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out. Any Shares

DIRECTORS' REPORT

purchased under the authority will be automatically cancelled, rather than being held in treasury, thereby reducing the Company's issued share capital. There are no outstanding options/warrants to subscribe for equity shares in the capital of the Company.

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

Directors' Recommendation

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

SUBSTANTIAL SHARE INTERESTS

The Board has been informed of the following substantial interests in the voting rights of the Company, which total 98,809,788 votes, as at 23 January 2008.

Interested person	Percentage of Voting Rights Held
Newton Investment Management Limited	6.95
Rathbone Brothers plc	5.30
Deutsche Bank AB (including Tilney Investment Management)	5.25
Barclays plc (including discretionary investment management)	5.20
Legal & General Investment Management	4.09

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 (2006 – £nil).

By Order of the Board
Aberforth Partners LLP, *Secretaries*
14 Melville Street, Edinburgh EH3 7NS
23 January 2008

CORPORATE GOVERNANCE REPORT

INTRODUCTION

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, 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-ambles 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 matters 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 with its benchmark index. The Directors also review several key areas including the Company's investment activity over the quarter relative to its investment policy; the stockmarket environment; the revenue and balance sheet position; gearing; performance in relation to comparable investment trusts; share price discount (both absolute levels and volatility); 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.

CORPORATE GOVERNANCE REPORT

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, five Board meetings and three Audit and Management Engagement Committee meetings were held.

Director	Board of Directors		Audit and Management Engagement Committee	
	Held	Attended	Held	Attended
D R Shaw, <i>Chairman</i>	5	5	–	–
H N Buchan	5	5	3	3
M L A Chiappelli ¹	5	5	3	3
J E G Cran	5	5	3	3
Prof P R Marsh	5	5	–	–
Prof W S Nimmo	5	5	–	–

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 nor 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 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 Directors' letters of appointment are available for inspection on request.

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.

All Directors have access to the advice and services of the company secretarial services provided by Aberforth Partners LLP, who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

APPOINTMENTS TO THE BOARD

The Board conducts an annual review of its composition having regard to the present and future needs of the Company, and the Board's structure, including the balance of expertise and skills brought by individual Directors and their length of service, where continuity and experience can add significantly to the strength of the Board. 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.

CORPORATE GOVERNANCE REPORT

RE-ELECTION OF DIRECTORS

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 the performance of the Board 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. In line with the Board's policy, each Director retires at the Annual General Meeting (AGM) to be held on 4 March 2008. Messrs Shaw, Buchan, Chiappelli, Cran, Prof Marsh and Prof Nimmo, whose biographical details are shown on page 7, being eligible, offer themselves for re-election.

The Board believes that each Director continues to be effective, bringing a wealth of knowledge and experience to the Board and recommends the re-election of each director to Shareholders.

RELATIONS WITH SHAREHOLDERS

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 7 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 has overall responsibility 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

CORPORATE GOVERNANCE REPORT

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.

Representatives of the auditors attend the Committee meeting at which the Annual Report and Accounts are considered.

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

SOCIAL, ENVIRONMENTAL AND ETHICAL ISSUES 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 long term. The Directors, through the Company's Managers, also encourage investee companies to adhere to best practice in the area of Corporate Governance and Socially Responsible Investment (SRI). The Board and the Managers support the Statement of Principles of the Institutional Shareholders Committee which set out the responsibilities of institutional shareholders and agents.

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

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

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

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

DIRECTORS' REMUNERATION REPORT

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

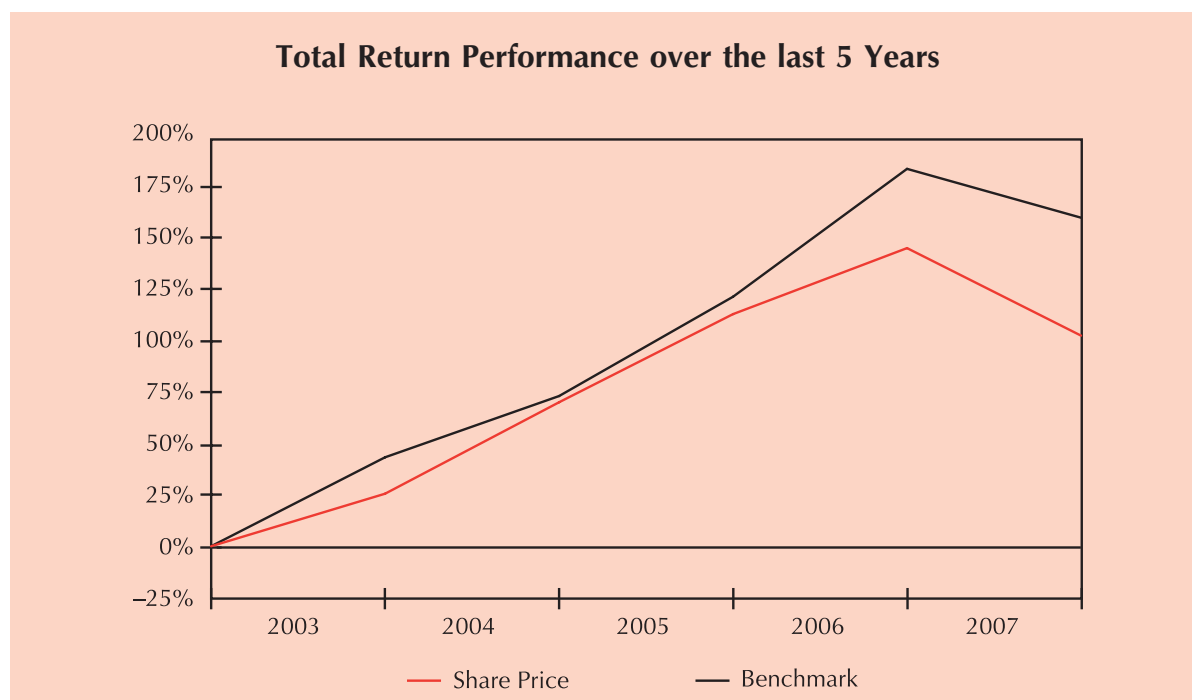
The following Directors held office during the year:

Director	Date of Appointment	Date of Retirement	Date of Letter of Appointment	Unexpired Term
D R Shaw, <i>Chairman</i>	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	Fees
	2007	2006
	£	£
D R Shaw, <i>Chairman</i> (with effect from 23 February 2005)	25,125	24,000
H N Buchan, <i>Member of the Audit and Management Engagement Committee</i>	17,500	16,000
M L A Chiappelli, <i>Chairman of the Audit and Management Engagement Committee</i>	21,000	18,500
J E G Cran, <i>Member of the Audit and Management Engagement Committee</i>	17,500	16,000
Prof P R Marsh	16,750	16,000
Prof W S Nimmo	16,750	16,000
	<u>114,625</u>	<u>106,500</u>

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 23 January 2008 and signed on its behalf by David 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 Directors confirm that, to the best of their knowledge, the financial statements:

- have been prepared on a going concern basis and appropriate accounting policies have been used and consistently applied;
- have been prepared in accordance with applicable UK accounting standards;
- have been prepared based on judgements and estimates that are reasonable and prudent; and
- give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company.

The Business Review, together with the Chairman's Statement and the Managers' Report, provide a fair review of the Company's performance and position, including the principal risks.

On behalf of the Board

David R Shaw

Chairman

23 January 2008

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 2007, 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).

INDEPENDENT AUDITORS' REPORT

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.

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, Financial Highlights, Ten Year Investment Record, Company Summary, Chairman's Statement, Directors and Corporate Information, Aberforth Partners LLP – Information, 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 2007 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
23 January 2008

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 2007

	Note	2007			2006		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	9	—	(97,686)	(97,686)	—	163,032	163,032
Investment income	2	19,477	877	20,354	18,290	2,261	20,551
Other income	2	273	—	273	817	—	817
Investment management fee	3	(1,094)	(1,823)	(2,917)	(2,496)	(4,159)	(6,655)
Other expenses	4	(438)	(4,052)	(4,490)	(402)	(3,230)	(3,632)
Net return before finance costs and tax		18,218	(102,684)	(84,466)	16,209	157,904	174,113
Finance costs	6	(60)	(99)	(159)	—	—	—
Return on ordinary activities before tax		18,158	(102,783)	(84,625)	16,209	157,904	174,113
Tax on ordinary activities	5	—	—	—	—	—	—
Return attributable to equity shareholders		18,158	(102,783)	(84,625)	16,209	157,904	174,113
Returns per ordinary share	8	18.38p	(104.03p)	(85.65p)	16.40p	159.81p	176.21p

The Board declared on 23 January 2008 a second interim dividend of 10.50p per Ordinary Share (2006 final dividend of 9.15p) and the total payable will be £10,375,000 (2006 — £9,041,000). The Board also declared on 18 July 2007 a first interim dividend of 4.70p per Ordinary Share (2006 interim dividend of — 4.25p) and the total paid was £4,644,000 (2006 — £4,199,000).

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 2007

	Share capital £'000	Special reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2006	988	197,305	367,212	239,622	28,204	833,331
Return on ordinary activities after taxation	—	—	106,537	(209,320)	18,158	(84,625)
Equity dividends paid	—	—	—	—	(13,685)	(13,685)
Balance as at 31 December 2007	988	197,305	473,749	30,302	32,677	735,021

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

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.

The accompanying notes form an integral part of this statement.

BALANCE SHEET

As at 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets:			
Investments at fair value through profit or loss	9	<u>710,966</u>	<u>801,470</u>
Current assets			
Debtors	10	6,354	1,369
Cash at bank		<u>18,018</u>	<u>30,554</u>
		24,372	31,923
Creditors (amounts falling due within one year)	11	<u>(317)</u>	<u>(62)</u>
Net current assets		<u>24,055</u>	<u>31,861</u>
TOTAL NET ASSETS		<u>735,021</u>	<u>833,331</u>
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	473,749	367,212
Capital reserve—unrealised	13	30,302	239,622
Revenue reserve	13	<u>32,677</u>	<u>28,204</u>
TOTAL SHAREHOLDERS' FUNDS		<u>735,021</u>	<u>833,331</u>
NET ASSET VALUE PER SHARE	14	743.87p	843.37p

Approved and authorised for issue by the Board of Directors on 23 January 2008 and signed on its behalf by David R Shaw, *Chairman*

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

CASH FLOW STATEMENT

For the year ended 31 December 2007

		2007	2006
		£'000	£'000
	Note		
Net cash inflow from operating activities		12,296	14,197
Returns on investments and servicing of finance		(152)	—
Capital expenditure and financial investment	15	(10,995)	18,046
		<hr/>	<hr/>
		1,149	32,243
Equity dividends paid	7	(13,685)	(11,956)
		<hr/>	<hr/>
		(12,536)	20,287
Financing		—	—
(Decrease)/increase in cash	16	(12,536)	20,287
		<hr/>	<hr/>
Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities			
Net return before finance costs and taxation		(84,466)	174,113
Losses/(gains) on investments		97,686	(163,032)
Expenses incurred in acquiring or disposing of investments		4,052	3,230
Increase in debtors		(4,985)	(115)
Increase in other creditors		9	1
		<hr/>	<hr/>
Net cash inflow from operating activities		12,296	14,197
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the year	16	(12,536)	20,287
		<hr/>	<hr/>
Change in Net Funds	16	(12,536)	20,287
Opening Net Funds	16	30,554	10,267
		<hr/>	<hr/>
Closing Net Funds	16	18,018	30,554
		<hr/>	<hr/>

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 ("UK GAAP") and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies" issued in December 2005.

(b) Investments

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

(f) 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.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES *(continued)*

(g) Special reserve

This reserve may be treated as distributable profits for all purposes, excluding the payment of dividends.

(h) Taxation

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

2 INCOME

	2007 £'000	2006 £'000
Income from investments (UK listed)		
Franked investment income (net)	18,715	17,806
Other investment income	762	484
	<u>19,477</u>	<u>18,290</u>
Other income		
Deposit interest	258	797
Underwriting/placing commission	15	20
	<u>273</u>	<u>817</u>
Total income	<u>19,750</u>	<u>19,107</u>
Total income comprises:		
Dividends	19,477	18,290
Interest	258	797
Other income	15	20
	<u>19,750</u>	<u>19,107</u>

During the year the Company also received special dividends totalling £877,000 (2006 – £2,261,000) 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

	2007			2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	2,516	4,194	6,710	2,124	3,540	5,664
VAT paid thereon	336	560	896	372	619	991
VAT recoverable	(1,758)	(2,931)	(4,689)	—	—	—
Total	<u>1,094</u>	<u>1,823</u>	<u>2,917</u>	<u>2,496</u>	<u>4,159</u>	<u>6,655</u>

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.

The VAT recoverable above represents the expected repayment of all VAT paid on investment management fees since 1 January 2001 following (i) HMRC's announcement of its decision to withdraw their appeal on the JPMorgan Fleming Claverhouse case and (ii) agreement having been reached between the Company and its Managers that ASCoT will receive a refund of all VAT paid on investment management fees since 1 January 2001 (including all VAT previously offset by the managers). The refund will be made upon receipt by the Managers of the relevant refund from HMRC. Certain VAT paid in relation to earlier periods may also be recoverable pending the outcome of further legal appeals.

4 OTHER EXPENSES

	2007 £'000	2006 £'000
The following expenses have been charged to revenue:		
Directors' fees (refer to Directors' Remuneration Report)	115	107
Secretarial services	73	70
Registrars fees	52	44
AIC fees	48	50
Custody and other bank charges	43	36
Directors and Officers liability insurance	11	11
Auditors' fee—for audit services (recurring)	18	13
—for non-audit services (recurring)	1	1
Other expenses	77	70
	<u>438</u>	<u>402</u>
The following expenses have been charged to capital:		
Expenses incurred in acquiring or disposing of investments classified as fair value through profit or loss	<u>4,052</u>	<u>3,230</u>

NOTES TO THE ACCOUNTS

4 OTHER EXPENSES (continued)

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

	2007 £'000	2006 £'000
Analysis of total purchases		
Purchase consideration before expenses	309,179	242,169
Commissions	1,400	1,101
Taxes	1,392	1,093
Total acquisition expenses	2,792	2,194
Total purchases	311,971	244,363
Analysis of total sales		
Sales consideration before expenses	301,997	263,291
Commissions	1,260	1,036
Total disposal expenses	1,260	1,036
Total sales net of expenses	300,737	262,255

5 TAXATION

Analysis of tax charged on return on ordinary activities

	2007 £'000	2006 £'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:

	2007 £'000	2006 £'000
Returns on ordinary activities before tax	18,158	16,209
Notional corporation tax at 30%	5,447	4,863
Non-taxable UK dividends	(5,615)	(5,342)
Tax losses for which no relief has been taken	168	479
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 £37,409,000 (2006: £34,924,000).

6 FINANCE COSTS

	2007			2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest on bank overdraft	60	99	159	—	—	—

NOTES TO THE ACCOUNTS

7 DIVIDENDS

	2007 £'000	2006 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2006 of 9.15p (2005: 7.85p) paid on 7 March 2007	9,041	7,757
First interim dividend for the year ended 31 December 2007 of 4.70p (2006: 4.25p) paid on 23 August 2007	4,644	4,199
	<u>13,685</u>	<u>11,956</u>
Amounts not recognised in the period:		
Second interim dividend for the year ended 31 December 2007 of 10.5p (2006: final dividend of 9.15p) payable on 21 February 2008	10,375	9,041

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

We also set out below the total dividends payable in respect of the financial year, which is the basis on which the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered.

	2007 £'000	2006 £'000
Revenue available for distribution by way of dividends for the year	18,158	16,209
First interim dividend for the year ended 31 December 2007 of 4.70p (2006: 4.25p)	4,644	4,199
Second interim dividend for the year ended 31 December 2007 of 10.5p (2006: final dividend of 9.15p)	10,375	9,041
	<u>15,019</u>	<u>13,240</u>

8 RETURNS PER ORDINARY SHARE

The returns per Ordinary Share are based on:

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

	2007 Total £'000	2006 Total £'000
Attributable to Ordinary Shareholders	(84,625)	174,113

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

	2007	2006
Weighted average number of shares in issue during the year	<u>98,809,788</u>	<u>98,809,788</u>

NOTES TO THE ACCOUNTS

9 INVESTMENTS

	2007 UK Listed £'000	2006 UK Listed £'000
Investments at fair value through profit or loss		
Opening book cost	561,848	497,118
Opening unrealised appreciation	239,622	162,442
Opening valuation	801,470	659,560
Movements in the period:		
Purchases at cost	309,179	242,169
Sales – proceeds	(301,997)	(263,291)
– realised gains on sales	111,634	85,852
Movement in unrealised appreciation	(209,320)	77,180
Closing valuation	710,966	801,470
Closing book cost	680,664	561,848
Closing unrealised appreciation	30,302	239,622
Closing valuation (all investments are in ordinary shares quoted in the UK)	710,966	801,470
Realised net gains on sales	111,634	85,852
Movement in unrealised appreciation	(209,320)	77,180
(Losses)/gains on investments	(97,686)	163,032

10 DEBTORS

	2007 £'000	2006 £'000
Investment income receivable	1,617	1,304
VAT recoverable from the Managers (refer to Note 3)	4,689	—
Other debtors	48	65
	6,354	1,369

NOTES TO THE ACCOUNTS

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £'000	2006 £'000
Amounts due to brokers	239	—
Other creditors	78	62
	<u>317</u>	<u>62</u>

12 SHARE CAPITAL

	2007		2006	
	No. of Shares	£'000	No. of Shares	£'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 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	<u>988</u>	<u>197,305</u>	<u>367,212</u>	<u>239,622</u>	<u>28,204</u>	<u>833,331</u>
Receipt of special dividends taken to capital	—	—	877	—	—	877
Net gains on sale of investments	—	—	111,634	—	—	111,634
Decrease in unrealised appreciation	—	—	—	(209,320)	—	(209,320)
Cost of investment transactions	—	—	(4,052)	—	—	(4,052)
Management fees charged to capital	—	—	(1,823)	—	—	(1,823)
Interest expense charged to capital	—	—	(99)	—	—	(99)
Revenue return attributable to equity shareholders	—	—	—	—	18,158	18,158
Equity dividends paid	—	—	—	—	(13,685)	(13,685)
At 31 December 2007	<u>988</u>	<u>197,305</u>	<u>473,749</u>	<u>30,302</u>	<u>32,677</u>	<u>735,021</u>

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

NOTES TO THE ACCOUNTS

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	
	2007 pence	2006 pence	2007 £'000	2006 £'000
Ordinary Shares	743.87	843.37	735,021	833,331

Net asset value per Ordinary Share is based on net assets of £735,021,000 (2006: £833,331,000), and on 98,809,788 (2006: 98,809,788) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

15 GROSS CASH FLOWS

	2007 £'000	2006 £'000
Capital expenditure and financial investment		
Payments to acquire investments	(311,732)	(244,363)
Receipts from sales of investments	300,737	262,409
	(10,995)	18,046

16 ANALYSIS OF CHANGES IN NET FUNDS

	Net funds at 1 Jan 2007 £'000	Cash flow £'000	Net funds at 31 Dec 2007 £'000
Cash at bank	30,554	(12,536)	18,018

17 FINANCIAL INSTRUMENTS

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 rate 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 price 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, credit risk and liquidity risk are not significant. Short term funding flexibility can be achieved through the use of the bank debt facility. Fair value risk is covered under market price risk.

The Company's financial instruments are all denominated in sterling, therefore, currency risk arising from exchange rate fluctuations have no direct effect on profit or loss, or Shareholders' funds.

NOTES TO THE ACCOUNTS

17 FINANCIAL INSTRUMENTS *(continued)*

(i) Cash flow interest rate risk

The Company has a bank debt facility of £80,000,000 of which £nil was utilised at 31 December 2007 (2006: total facilities £80,000,000 of which £nil were utilised as at 31 December 2006). The interest rate on amounts utilised is variable at 0.6% (2006: 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 2007 was 5.5% (2006: 5.0%). 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.

If the bank base rate had increased by 0.5%, the impact on the profit or loss would have been a positive £90,000 (2006: £153,000). If the bank base rate had decreased by 0.5%, the impact on the profit or loss would have been a negative £90,000 (2006: negative £153,000). The calculations are based on the cash balances as at the respective balance sheet dates and are not representative of the year as a whole.

(ii) Market price risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the investment managers in pursuance of the investment objective. No derivative or hedging instruments are currently utilised to specifically manage market price risk. Further information on the investment portfolio is set out in the Managers' Report on pages 9 to 14, which is not subject to audit. It is not the Managers' policy to use derivatives to manage portfolio risk.

If the investment portfolio valuation fell by 10% at 31 December 2007, the impact on the profit or loss would have been negative £71.0m (2006: negative £80.1m). If the investment portfolio valuation rose by 10% at 31 December 2007, the impact on the profit or loss would have been positive £71.0m (2006: £80.1m). The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole.

The Company held the following categories of financial instruments, all of which are included in the balance sheet at fair value, at 31 December 2007:

Classification of financial instruments

	2007		2006	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
Assets at fair value through profit or loss				
Investment portfolio	710,966	710,966	801,470	801,470
Cash at bank	18,018	18,018	30,554	30,554
Loans and Receivables				
Investment income receivable	1,617	1,617	1,304	1,304
Other debtors	4,737	4,737	65	65
Other creditors	(317)	(317)	(62)	(62)
	<u>735,021</u>	<u>735,021</u>	<u>833,331</u>	<u>833,331</u>

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.

NOTES TO THE ACCOUNTS

17 FINANCIAL INSTRUMENTS (continued)

Contractual maturity analysis for financial instruments

	Due or due not later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Current Assets:						
Investment income receivable	1,301	316	—	—	—	1,617
VAT Recoverable	4,689	—	—	—	—	4,689
Other debtors	—	7	41	—	—	48
Cash at bank	18,018	—	—	—	—	18,018
Total current assets	24,008	323	41	—	—	24,372
Current Liabilities:						
Other creditors	49	29	—	—	—	78
Amounts due to brokers	239	—	—	—	—	239
Total current liabilities	288	29	—	—	—	317
Net liquidity of continuing operations	23,720	294	41	—	—	24,055

Cash flows payable under financial liabilities by remaining contractual maturities

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Other creditors	—	78	—	—	—	78
Amounts due to brokers	—	239	—	—	—	239
	—	317	—	—	—	317

18 CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

Contingencies, guarantees or financial commitments of the Company as at 31 December 2007, which have not been accrued, were as follows:

	2007 £'000	2006 £'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.

Security Codes	Ordinary Shares of 1p	SEDOL 0-006-655	Bloomberg ASL LN	Reuters ASL.L
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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	<i>First Interim</i>	
	Ex-dividend Payable	July/August September
	<i>Second Interim</i>	
	Ex-dividend Payable	January/February February
Interim Report	Published	July
Annual Report and Accounts	Published	January
Annual General Meeting		March
Publication of Net Asset Values		Weekly (via the Managers' website) Monthly (as weekly and also via AIC)
Website Content Update		Weekly/Monthly

GLOSSARY 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.

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

“Gearing” represents total investments divided by Shareholders' Funds.

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

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

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

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

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Eighteenth Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 4 March 2008 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 2007 be adopted.
2. That Mr D R Shaw be re-elected as a Director.
3. That Mr H N Buchan be re-elected as a Director.
4. That Mr M L A Chiappelli be re-elected as a Director.
5. That Mr J E G Cran be re-elected as a Director.
6. That Prof P R Marsh be re-elected as a Director.
7. That Prof W S Nimmo be re-elected as a Director.
8. That the Directors' Remuneration Report for the year ended 31 December 2007 be approved.
9. That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.
10. That the Company continues to manage its affairs as an investment trust (as defined in Section 842 of the Income and Corporation Taxes Act 1988).

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 the higher of (i) 5% above the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out;
 - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 July 2009 or, if earlier, at the Annual General Meeting of the Company to be held in 2009, 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
23 January 2008

NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING

1. *A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and, on a poll, vote on his/her behalf. Such a proxy need not also be a member of the Company.*
2. *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.*

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

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

3. *Members who have general queries about the Meeting should contact the Secretaries in writing. You may not use any electronic address provided either in this notice of annual general meeting or any related documents (including the proxy form), to communicate with the Company for any purposes other than those expressly stated.*
4. *As at 23 January 2008, the latest practicable date prior to publication of this document, the Company had 98,809,788 Ordinary Shares in issue with a total of 98,809,788 voting rights.*
5. *No Director has a contract of service with the Company. The Directors' letters of appointment will be available for inspection for 15 minutes prior to the Annual General Meeting and during the meeting.*

