Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 2008

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."

Contents

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

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

Financial Highlights
Year to 31 December 2008

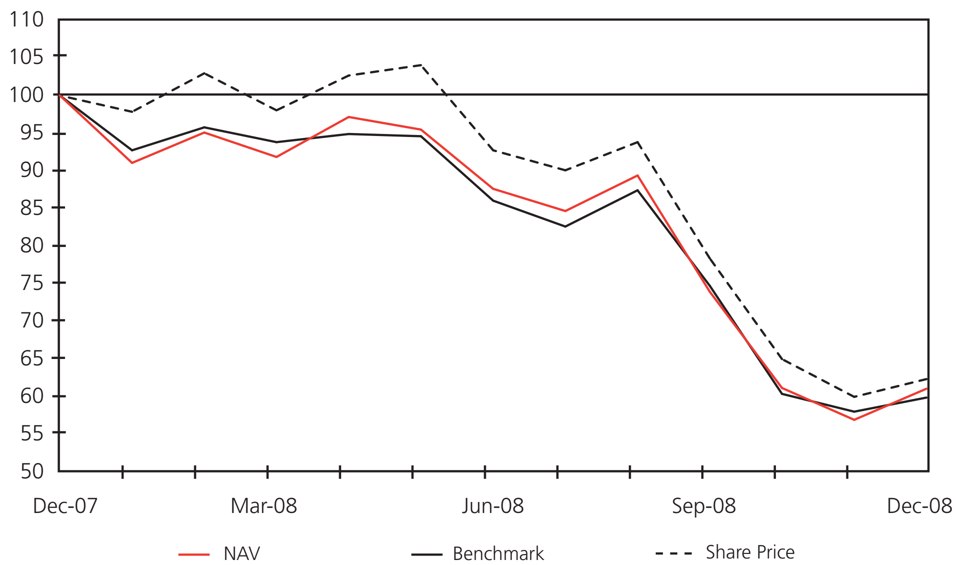
	%
ASCoT Net Asset Value (total return)	–39.6
Hoare Govett Smaller Companies Index (Excl. Investment Companies) (total return)	–40.8
ASCoT Ordinary Share Price (with net dividends reinvested)	–38.3

	As at 31 December 2008	As at 31 December 2007	% Change
Shareholders' Funds	**£424.1m**	£735.0m	–42.3
Market Capitalisation	**£340.4m**	£580.0m	–41.3
Ordinary Share net asset value	**437.68p**	743.87p	–41.2
Ordinary Share price	**351.25p**	587.0p	–40.2
Ordinary Share discount	**19.7%**	21.1%	n/a
Revenue per Ordinary Share	**22.75p**	18.38p	+23.8
Dividends per Ordinary Share	**19.00p**	15.20p	+25.0
Total expense ratio	**0.94%**	0.86%	n/a
Portfolio turnover	**32.1%**	36.4%	n/a

	31 December 2008	31 December 2007
Total return per Ordinary Share		
Revenue	22.75p	18.38p
Capital	(313.12p)	(104.03p)
Total	(290.37p)	(85.65p)

One Year Performance

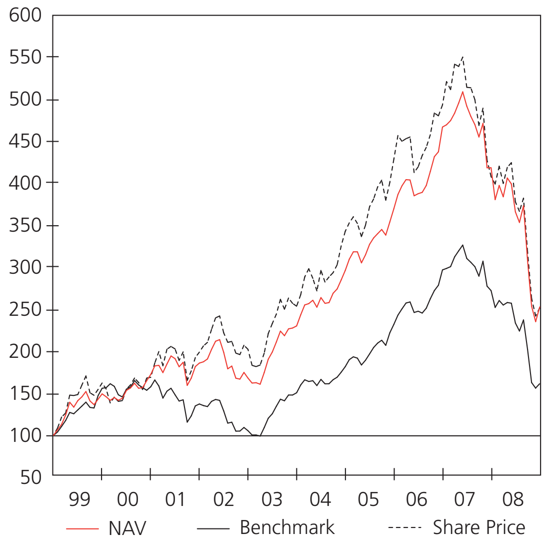
Absolute Performance
(figures are total returns and have been rebased to 100 at 31 December 2007)



Ten Year Investment Record

Absolute Performance

(figures are total returns and have been rebased to 100 at 31 Dec 1998)

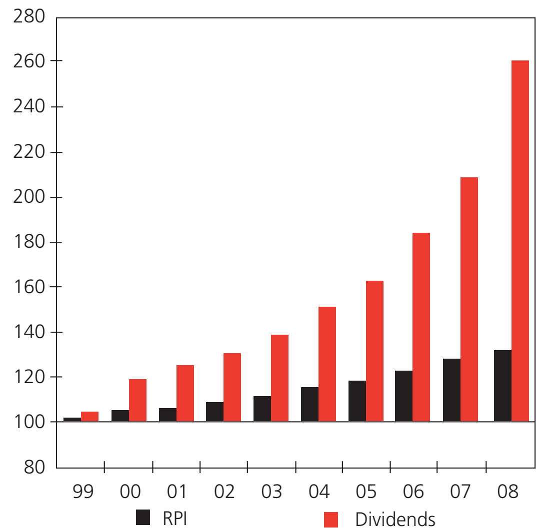


Relative Performance

(figures are total returns and have been rebased to 100 at 31 Dec 1998)

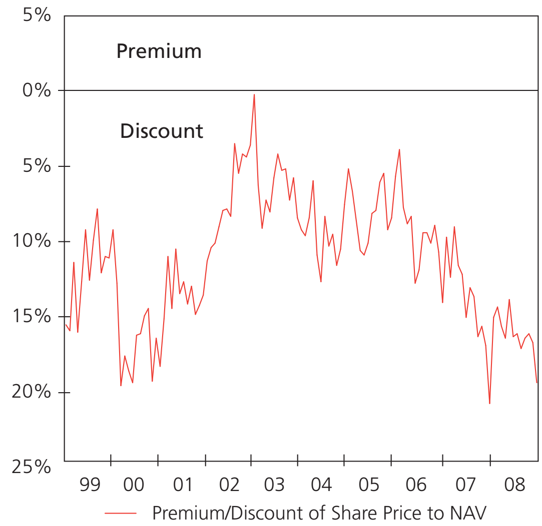
Dividends and RPI Growth

(figures have been rebased to 100 at 31 Dec 1998)



Premium Discount

(being the difference between Share Price and NAV)



Company Summary

Introduction

Aberforth Smaller Companies Trust plc (ASCoT) is an Investment Trust whose shares are traded on the London Stock Exchange. As at 31 December 2008, 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 21 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 pages 22 and 23. Aberforth Partners LLP manage £1.0 billion invested in small UK quoted companies. Further information on the firm is set out on page 6.

Share Capital

At 31 December 2008 the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 96,900,000 were issued and fully paid. During the year 1,909,788 shares were bought in and cancelled.

Wind-Up Date

The Company has no fixed duration. However, in accordance with the Articles of Association, an ordinary resolution will be proposed at the 2011 Annual General Meeting (and at every third subsequent Annual General Meeting) that the Company continues to manage its affairs as an investment trust.

ISA Status

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

AIC

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

Chairman's Statement

Review of 2008 Performance

Last year I reflected on how difficult 2007 had been for small company share prices. The year to 31 December 2008 has proved even more challenging with the obvious stresses in the financial system generating a sharp slow down in the global economy. Global equity markets have fallen significantly. Reflecting this, Aberforth Smaller Companies Trust plc (ASCoT) produced a negative total return of 39.6%, compared with a negative total return of 40.8% for the Hoare Govett Smaller Companies Index (Excluding Investment Companies), your Company's investment benchmark. Larger companies, as represented by the FTSE All-Share Index, registered a negative total return of 29.9%.

Your Managers' Report provides greater insight into ASCoT's performance, including that of small and large companies.

Gearing

In my Half Yearly Report I commented on the significant and rapid adjustment to valuations that had taken place between the stock market peak (around May 2007 for small companies) and the middle of 2008. At that time your Managers had begun to employ a modest level of borrowing to gear the portfolio, ever conscious that timing "the bottom" of the market with accuracy is near impossible. Although valuations have continued to decline since the decision was made, your Board and Managers believe that the introduction of gearing will be beneficial in the longer term.

At the year end the level of gearing was 109.5%. Your Board and Managers review the level of gearing regularly and, whilst subject to many factors, it is likely that gearing will increase slowly from its current level.

Dividends

Your Board is pleased to declare a second interim dividend, in effect a final dividend, of 13.0 pence per share, which produces total dividends for the year of 19.0 pence per share representing an increase of 25.0% on the total for the previous year.

The increase year-on-year reflects good underlying growth in dividends from ASCoT's portfolio particularly in the first half of the year; the beneficial impact of gearing on the revenue account; and the non-recurring recovery of VAT and associated interest.

It is very unlikely that dividend growth from the portfolio in 2009 will be as good as it has been in the past year. The near term outlook for corporate dividends is increasingly challenging. Indeed, many financial commentators are of the view that, in aggregate, UK dividends will fall in 2009.

In this context, the Board does have a degree of flexibility given the level of the Company's revenue reserves which, after adjusting for payment of the second interim dividend, amount to 26.9 pence per share.

The second interim dividend of 13.0 pence per share will be paid on 27 February 2009 to Shareholders on the register at the close of business on 6 February 2009. The last date for submission of Forms of Election for those Shareholders wishing to participate in ASCoT's Dividend Reinvestment Plan (DRiP) is 6 February 2009. Details of the DRiP are available from Aberforth Partners LLP on request or from their website, www.aberforth.co.uk.

Value Added Tax (VAT)

Shareholders will recall from previous reports that VAT is no longer imposed on management fees and that your Board had reached agreement with your Managers for recovery of all VAT paid by ASCoT since 2001 plus any sums recovered by your Managers from HMRC in relation to earlier periods.

As reported in the Half Yearly Report, a total of £6.4 million has been received in the last two years, comprising £5.4 million of VAT plus associated interest of £1.0 million. This represents a very satisfactory outcome to date for Shareholders.

Any further recovery is subject to various legal cases, the outcome and timing of which remain uncertain at this stage. Whilst ASCoT is not directly involved in these cases, your Managers continue to monitor developments in this regard.

Chairman's Statement

Continuation Vote

At the Annual General Meeting held on 4 March 2008, Shareholders passed all the resolutions. Of particular note was the resolution, proposed every three years, that ASCoT should continue as an investment trust.

Share Buy Back Authority and Treasury Shares

At the same Annual General Meeting, the authority to buy-in up to 14.99% of ASCoT's Ordinary Shares was renewed. Under that authority 1,909,788 shares have been bought in to the end of December at a total cost of £11.1 million. All shares bought in have been cancelled rather than held in treasury. Shares bought in to date have enhanced ASCoT's net asset value by approximately £2.2 million by virtue of the weighted average discount on purchases being 16.2%.

Your Board will be seeking a renewal of this authority at the Annual General Meeting to be held on 4 March 2009. Your Board keeps under careful review the circumstances under which the buy-in authority is used in the context of its overall objective of seeking to sustain a low discount. It is your Board's policy to cancel, rather than hold in treasury, any such shares.

Summary and Outlook

2008 has been a very difficult year for UK smaller companies with a steep decline in the level of their share prices. If ever a reminder was needed that equity investment requires a long term perspective it has been given to us in this last year. Whilst it would be folly to suggest that there is no further pain to come, your Managers are of the view that UK small company equities currently represent attractive value. Your Board remains confident that the Managers' experience and consistency of approach will benefit the Company in these difficult times.

David R Shaw
Chairman
27 January 2009

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 £1.0 billion (as at 31 December 2008). The firm is wholly owned by seven partners – six investment managers (including four founding partners), and Alan Waite, who is responsible for the firm's administration. David Warnock, a founding partner, retired on 31 December 2008. The six investment managers work as a team managing the Company's portfolio on a collegiate basis. The founding partners have been managing the portfolio since the Company's inception in December 1990. The partners each have a personal investment in the Company. The biographical details of the investment managers are as follows:

Andrew P Bamford (42) 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; Industrial Transportation; and a proportion of Support Services. Previously he was with Edinburgh Fund Managers for 7 years, latterly as Deputy Head of UK Small Companies, with specific responsibility for institutional clients. Prior to joining Edinburgh Fund Managers he was a senior investment analyst with General Accident for 2 years supporting the head of UK Smaller Companies. Before joining General Accident, he was a Chartered Accountant with Price Waterhouse.

John M Evans (51) 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; Industrial Metals & Mining; Household Goods & Home Construction; 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 (38) 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; Software & Computer Services; and a proportion of Support Services. Previously he was with Baillie Gifford for 10 years where he managed portfolios invested in small companies both in Continental Europe and in the UK.

Richard M J Newbery (49) BA (Hons) – Richard was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Alternative Energy; Electronic & Electrical Equipment; Beverages; Food & Drug Retailers; Food Producers; Forestry & Paper; General Industrials; 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 (59) 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 Financial Services. Previously he was with Ivory & Sime for 22 years, the last two of which were as Managing Director. He was a Director of US Smaller Companies Investment Trust plc and served as a member of the Executive Committee of the Association of Investment Companies.

Alistair J Whyte (45) – Alistair was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Aerospace & Defence; Health Care Equipment & Services; Media; Oil & Gas Producers; Oil Equipment & Services; 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

The total return of ASCoT's benchmark, the HGSC (XIC), was negative 40.8% in 2008. This was the second worst result in nominal terms over the index's 54 year history. The FTSE All-Share performed less poorly but nevertheless experienced a negative total return of 29.9%. Against this background of extremely weak equity markets, ASCoT's modest gearing position proved unhelpful: its total return was negative 39.6%, slightly ahead of the benchmark. The performance at the investment portfolio level, after costs but excluding the effect of the gearing, was better, with a decline of 37.8%.

Recent stockmarket weakness has been so severe that the FTSE All-Share has now registered a total return of just 12.4% *cumulatively* over the past ten years, a negative outcome in real terms. Small companies have performed rather more respectably, with a 61.5% return over the same period, while ASCoT's total return has been 153.4%.

Investment Background

Last year's horrible performance from equities was not confined to the UK. Stockmarkets around the world declined precipitously, with 50% drops not uncommon in both established and emerging markets. Nor was the weakness of these returns confined to equities: any asset class perceived as risky suffered in 2008 as the credit markets moved from crunch to crisis. By default, as it were, government debt has been the beneficiary of such extreme risk aversion: in the US, treasury bill yields have at times dropped below zero and ten year government bonds ended the year yielding close to 2%. And, of course, bank deposits were caught up in the maelstrom: at certain points through the year, equities certainly looked a less risky proposition.

After the relative calm of the first half of the year, the credit crisis intensified in the third quarter. The process of de-leveraging, which started over a year ago when US subprime problems were exposed, gathered pace and was punctuated by large downward lurches. Of these, the most spectacular and deep-reaching was the failure of Lehman, which brought home the reality of counterparty risk. The reluctance or inability of the banks to make new loans was obvious in extended spreads between LIBOR and base rates. The consequent dearth of funding compromised what has become known as the 'shadow-banking system', which is the complex of hedge funds, prime brokers, money market funds and securitisation markets that facilitated the build-up of debt in Western economies over recent years. The forced unwinding of leveraged investment positions has intensified the cycle of de-leveraging that is at the heart of the credit crisis.

Meanwhile, real economic conditions deteriorated through the year, to the extent that recession is with us, whether officially as in the US and Germany or *de facto* as in the UK. Housing has been the principal transmission mechanism of credit market problems to the real economy. On both sides of the Atlantic, falling house prices, together with the difficulty in securing new mortgage financing, have tempered consumers' willingness to spend, while rampant commodity prices earlier in the year eroded disposable income. Additional pressure is coming from rising unemployment, with many large redundancy programmes making the headlines towards the end of the year as businesses, particularly those close to the troubled automotive industry, adjusted to the environment of weaker demand.

Importantly, however, some relief was forthcoming later in the year from the remarkable reversal in fortune for commodities. Built on hopes that the emerging world could decouple from Western economies and continue to grow through internally generated demand, the prices of commodities, together with the share prices of the companies exploiting them, reached extravagant levels earlier in the year. These hopes were undermined as it became clear that the ructions in credit markets would feed back to affect real economic activity and that the 'China phenomenon' depended substantially on Western, predominantly American, spending. The extraordinary journey of the oil price, which rose by almost 51% in the first half before plummeting to end 54% down for the year, is illustrative of the wider commodity arena.

With the bursting of this latest bubble, the concern about stagflation that was so prevalent less than six months ago has vanished. Expectations for inflation have hurtled downwards: at the end of June, the difference between ten year conventional and index linked gilt yields – a proxy for anticipated inflation – was over 4%; by the end of the year, this had dropped to almost 1.5%. Similar movements are observable in the US and European bond markets. With the stagflationary chimaera exposed, financial markets are again confronted by deflation, with which they last flirted six years ago. The Bank of England's November inflation report introduced the prospect of CPI inflation dropping into negative territory at some time in 2009, having been running at over 5% in the third quarter, as the commodities boom works its way out of the system. So, the Chancellor may be receiving more letters in 2009, albeit rather different in tone.

Relenting inflationary pressures have afforded monetary authorities, even the ECB, the excuse to cut interest rates, though, given the disinflationary nature of the de-leveraging process and of recession itself, such an excuse was hardly required. In December, the Fed took US rates to zero. Meanwhile, UK base rates ended the year at 2% and early in 2009 were cut again to 1.5%, their lowest level since the foundation of the Bank of England. It is worth remembering that at the half year futures markets were anticipating a rise by the year end from the then prevailing level of 5%. As interest rates approach zero, other remedial measures have been deployed by monetary and fiscal authorities. Echoing Ben Bernanke's speeches back in 2002, these unconventional steps include public ownership of swathes of the financial system and the extension of the range of collateral accepted by the central banks. Most significantly, as the year drew to a close the Fed confirmed that it had embraced 'quantitative easing', which is the expansion of the central bank's balance sheet and thus of money supply. The newly printed money is to be used to purchase government debt together with mortgage and other consumer loans. These various actions have had some success in bringing interbank rates to levels more consistent with prevailing base rates, though they have yet to filter through the extended credit market.

Such measures nevertheless risk encountering the phenomenon of 'pushing on a string': deluged by cheap money, banks may opt to repair balance sheets rather than lend; similarly, consumers may prefer saving over spending. In order to deal with this conflict of individual rationality and the collective 'good', governments are stepping up to play their part, with half an eye to the political capital apparently available from playing 'my TARP's bigger than yours'. In the UK, a combination of partial or full nationalisations, tax cuts and a commitment to government spending programmes has seen projections for public sector borrowing rise to around 8% of GDP over the next year or so. The consequent probability of rising gilt issuance must exert an upwards drag on gilt yields, though this has so far been overwhelmed by the flight to safety. So far, the more tangible effects of the UK's difficult economic circumstances have been sterling's falls of 26% and 23% against the dollar and euro respectively over the course of 2008.

Investment Performance

Against this background of stress in the real economy, dysfunctional credit markets and general risk aversion, the share prices of small companies struggled. As already noted, the HGSC (XIC)'s total return of negative 40.8% was the second worst since its inception in 1955. With the FTSE All-Share's 29.9% decline, large companies fared relatively well: a much greater exposure than their smaller peers to the high-profile casualties in banks and commodities was offset by the benefit of higher weightings in resilient parts of the market such as utilities and pharmaceutical companies.

The subsequent paragraphs, together with the table, provide an analysis of ASCoT's relative performance.

- The weakness within the small company universe was widespread: the HGSC (XIC) entered 2008 with 509 constituents; of those, only 68 managed a positive total return in 2008. In order to achieve this feat, it helped to be on the receiving end of M&A activity: 34 of these companies received bids, mostly in the first half of the year before credit markets seized up in the third quarter. ASCoT, which entered the year with 100 companies in its portfolio, had holdings in 18 of the 68 companies noted above. Benefiting from active management, it had holdings in another nine companies that achieved a positive total return. As described in greater detail below, ASCoT did well from M&A activity.

Performance Attribution Analysis

For the 12 months to 31 December 2008	Basis Points
Stock selection	23
Sector selection	350
Attributable to the portfolio of investments (calculated on a mid-price basis)	373
Impact of mid-price to bid-price	(32)
Purchase of Ordinary Shares	29
Cash/gearing	(186)
Management fee charged (net of the VAT refund)	(59)
Other expenses	(7)
Total attribution based on bid-prices	**118**

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 = –39.65%; Benchmark Index = –40.83%; difference is 1.18% being 118 basis points).

Managers' Report

- The negative returns from equities in 2008 clearly formed an unfavourable backdrop for a geared investment trust. A precise quantification of the drag to ASCoT's relative performance from its gearing is given in the 'Cash/gearing' line in the preceding table. From a very short term viewpoint, the utilisation of even a modest amount of debt may be considered ill-timed. However, your Managers contend that decision should be assessed over a longer period of time and within the context of their value investment philosophy. By the late second quarter, small companies' valuations were already at levels that appeared attractive in relation to their own history, to large companies and to bonds. At that stage, your Managers were already anticipating a decline in earnings, consistent with a recession, but believed that much of this had already been built into valuations. However, through the second half of the year, the fundamental outlook has seen further deterioration and prices have adjusted further. The valuations now on offer are examined in detail in the 'Investment Outlook' section of this report.
- Stock selection made a small positive contribution, though this was overshadowed by a strong showing from sector selection to produce ASCoT's overall out-performance at the portfolio level. Your Managers have not given up on their fundamentally driven, bottom-up approach to investment! Behind the contribution from sector selection was a large under-weight position in the commodities sectors (Industrial Metals, Mining and Oil & Gas), which performed extremely poorly. Within the small company universe, the constituents of these sectors are typically involved in exploration and development of resources and, consequently, seldom generate cash. This positioning was motivated less by an insight into the commodities prices themselves, which would have been a top-down consideration, than by the lofty valuations of the individual stocks on offer within these sectors. These stocks were frequently priced for an improbable rate of exploration success, on top of some potentially heroic assumptions about the underlying commodity price. So, this positioning is essentially driven by bottom-up considerations, although the attribution calculation drags most of the benefit into sector selection.
- At the interim stage, the portfolio's bias to businesses with overseas profit streams was noted. This proved advantageous, but the benefit was substantially confined to the first half. Through the third quarter, the logic was undermined as it became clear that the implications of the credit crisis were not confined to the US and UK: the global economy, if not entering recession, is at least undergoing a meaningful deceleration. The problems facing the capital goods arena were highlighted by a spate of trading statements from companies around the world that warned of an extremely sharp contraction in demand in the fourth quarter. From the portfolio's point of view, the valuations of its capital goods holdings in many cases appear already to be discounting a sharp decline in profits. However, at the margin, your Managers have been tilting the portfolio back towards the domestic economy, adding to holdings in the Media, Household Goods, Construction & Materials and General Retailers sectors. Behind this shift, which has been undertaken tentatively, are the low valuations of businesses within these sectors together with a contention that these businesses will be among the first to see a pick-up in profitability, when the recovery comes.
- In a diversified collection of small companies, it is inevitable that during recession some will see their profitability decline to a level that will challenge banking covenants. Reflecting this risk, the portfolio retains the bias to companies with strong balance sheets that was noted in the interim report. This defensive positioning, which is influenced by the parlous state of the credit markets, has been beneficial to ASCoT's performance and remains very much in place: 34% of the portfolio is invested in companies with net cash on their balance sheets; at the other extreme, 9% of the portfolio sits in companies whose net debt to EBITDA ratios exceed three times. Where net debt is a feature, the current emphasis is on the tenure of funding from the banks, rather than the interest rate margin payable over LIBOR. Margins have been rising extravagantly as banks seek to restore their own profitability: 100 basis points a year ago might now be 300 basis points. The alternative to accepting these new terms would be worse for shareholders.

- As already noted, M&A activity was prevalent in the first half of the year but tailed off substantially in the second. The credit markets in effect closed during the third quarter and those companies with sufficiently strong balance sheets to contemplate acquisitions are often being discouraged from doing so for the time being by investors, your Managers included. Therefore, with rescue rights issues becoming common, de-equitisation, which describes the replacement of equity financing with debt financing and which has provided an underpinning to UK equity valuations in recent years, has run out of steam. ASCoT benefited from the completion of nine bids for its holdings over the year, though all those were completed before October's turmoil. Exit valuations were on the whole high, typically over 15x EV/EBIT, though trended downwards as the year wore on. Two holdings received bids in the second half; these had yet to complete at the year end. As an indication of the change in attitudes, ten companies within the portfolio received approaches through the year but subsequently saw the talks ended.
- As described in the 'Investment Outlook' section of this report, your Managers believe that dividend yield will make a crucial contribution to forthcoming equity returns. Despite last year's deteriorating trading environment and rising uncertainty, the dividend payments from ASCoT's investments were robust. Of ASCoT's 93 holdings at the year end, it was the policy of 15 not to pay a dividend, while another two had started paying a dividend only in 2008, rendering year on year comparisons meaningless. Of the remaining 76, nine cut their dividends, a further seven held them unchanged and 60 reported increases. The median company within the 76 raised its dividend payment by 10%. This rate of growth is considerably ahead of that achieved by UK equities over the longer term and given present economic challenges is extremely unlikely to be sustained in 2009. 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

Coming out of a year of wrenching declines in equity prices, it is difficult but necessary to take a step back in order to survey the opportunity base with a degree of objectivity. The easiest observation to make is that the de-leveraging process has to continue and that the present recession is, regrettably, an essential part of it. Trading conditions are therefore set to worsen in 2009, and it will take time for banks to repair their balance sheets and pass on the benefit of lower interest rates to the private sector. Despite the fillip of a weak sterling, profits will therefore fall. A decline of at least 40% is not out of the question, which would put the present downturn roughly on a par with that of the early 1990s.

Gloomier scenarios are being painted by some commentators, with a replay of the 1930s depression sometimes cited. Given the extraordinary breadth and depth of remedial actions taken by monetary and fiscal authorities, your Managers suspect that a re-run of the deflationary 1930s is unlikely. However, this is not to say that policy errors have not been made: for example, a different sleuth of bears reckons that the extreme monetary easing is foisting a substantial inflation problem in the future, which would conveniently erode the present burden of debt and ask serious questions of currently very low government bond yields. At the very least, it would seem sensible to expect lower returns on equity in the future in an environment of scarcer debt funding, greater regulation and, eventually, higher taxes.

Profits probably commenced their decline in the second half of 2008. It will in all likelihood not fit conveniently into one calendar year, so it makes sense to plan for a trough in profitability some time in 2010. Meetings with company management teams can throw little light on the timing of the inevitable recovery. Instead, the focus has to be on attempting to assess whether the businesses will be around to benefit from the upturn. Scope to cut costs and balance sheet resilience, preferably to the extent of having net cash, are therefore crucial.

Also important is the concept of being 'paid to wait'. Given the uncertain duration of the downturn, investors can be rewarded for their faith in a company through the consistent payment of a dividend. Dividend yields have accounted for the majority of the real return from UK equities of around 5.1% over the long term. High yields presently abound in the small company universe, with the average from the HGSC (XIC) being 5.9%, the first time that it has exceeded the yield on ten year gilts since 1974. Some of these yields will prove illusory as cuts to underlying dividends are made. It is a focus for your Managers at the current time to minimise the effects of such reductions, and to persuade company boards that cuts motivated by fashion, or by the argument that the market expects double-digit yields to be cut, are unacceptable.

The historic yield from ASCoT's portfolio at the year end was 5.3%. In planning for 2009, your Managers have anticipated a number of dividend cuts. Importantly, the portfolio is not reliant on a small number of particularly high yielding companies to generate its income: double-digit yielders on a forecast basis account for less than 4% of the portfolio, while 38% is invested in companies with forecast yields between 2.5% and 5%. Another 15% of ASCoT's portfolio is represented by companies that do not currently pay a dividend. With the top ten income contributors accounting for less than 30% of total forecast income for 2009, your Managers are hopeful that ASCoT's dividend experience may prove relatively resilient in what will be a very difficult year.

Equity market valuations are presently very low against government bonds and against their own history. The FTSE All-Share ended 2008 valued on a yield of 4.5% and a PE of 7.3x. Valuations in the small company world are more extreme. At 6.4x, the historic PE ratio is back to the levels of the early 1980s. The average PE over the last 30 years, a period covering two other recessions, has been almost 13x. So, profits could halve and equities would still look reasonably valued against their history. The other dimension to take into account is recovery: the stockmarket will anticipate a pick-up before profits themselves start to grow. Thus it can take stocks to high multiples of depressed historic earnings. A relevant example is 1993, when the HGSC (XIC) rose by almost 42%, moving the historic PE up to over 18x, despite earnings continuing to fall in that year.

Characteristics	31 December 2008 ASCoT	31 December 2008 Benchmark	31 December 2007 ASCoT	31 December 2007 Benchmark
Number of Companies	**93**	**495**	100	509
Weighted Average Market Capitalisation	**£259m**	**£442m**	£439m	£577m
Price Earnings Ratio (Historic)	**6.0x**	**6.4x**	13.1x	11.7x
Net Dividend Yield (Historic)	**5.3%**	**5.9%**	2.6%	2.9%
Dividend Cover (Historic)	**3.1x**	**2.6x**	2.9x	2.9x

As the table above demonstrates, the portfolio offers better value than the HGSC (XIC). Perhaps the most notable aspect of its valuation is that it could quite easily have been brought down further had your Managers not chosen to eschew a grouping of often sizeable companies within the benchmark that trade on exceptionally low multiples, driven by high levels of debt and substantial defined benefit pension schemes. At some point it will be appropriate to embrace these highly geared businesses, but with the trading environment still under pressure it seems appropriate not to pursue both operational and financial gearing. Another indication of value within the portfolio comes from its average EV/EBIT multiple, a measure used in the context of corporate activity. At 5.6x, it is at a significant discount to the multiples of around 15x at which deals were being done earlier in the year. To be fair such levels of valuation may be considered an aberration, born of an M&A culture that had become too reliant on cheap and freely available debt. Nevertheless, the portfolio stands at a significant discount to the longer run average of around 10x that has been more typical over ASCoT's lifetime. So, when the M&A market opens again, your Managers are confident that ASCoT can benefit.

To state the obvious, to a value investor at least, the probability of securing a good return from equities over the medium term is increased when starting from depressed valuations. Your Managers are thus optimistic on the basis of prevailing valuations but acknowledge that stockmarkets can overshoot in either direction. Therefore, the duration of the present bear market is tough to call. That said, sentiment can turn remarkably swiftly once there is the whiff of recovery in the air. Timing that change in sentiment to the month or even the quarter requires a large dose of luck. Accordingly, given the characteristics of the small company universe, it is necessary to start positioning the portfolio early. This pragmatism was an important motivation in ASCoT's decision to deploy a modest amount of gearing earlier in the year and, indeed, in

Managers' Report

the more recent cautious reorientation of the portfolio to domestic cyclical sectors. There is, however, a balance to be struck. Strong balance sheets and a conservatively structured income profile afford ASCoT resilience, which allows it to look beyond the short term and be in a position to benefit from the upturn when it comes.

Aberforth Partners LLP
Managers
27 January 2009

Portfolio Information

Summary of Material Portfolio Changes

For the year ended 31 December 2008

Purchases		Cost £'000	Sales		Proceeds £'000
Bodycote	+	11,798	Thomas Cook Group	Ø	14,066
CSR		9,078	Ultra Electronics Holdings	Ø	13,649
Hampson Industries		8,706	MITIE Group	Ø	13,426
Chaucer Holdings	+	7,745	Nord Anglia Education	Ø	11,468
Keller	+	7,601	VT Group	Ø	11,448
Talvivaara Mining Company	+	7,549	NSB Retail Systems	Ø	10,459
Bateman Litwin	+	6,923	Zetex	Ø	9,372
Dunelm Group	+	6,693	Foseco	Ø	8,056
Holidaybreak		6,667	ClinPhone	Ø	7,820
Bellway	+	6,496	Northgate Information Solutions	Ø	7,746
Phoenix IT Group		6,318	Acambis	Ø	7,454
Collins Stewart		5,728	Premier Oil	Ø	7,290
Headlam Group		5,476	Highway Insurance Holdings	Ø	7,285
Robert Wiseman Dairies		4,915	Britvic	Ø	5,931
Melrose Resources		4,895	Spirax-Sarco Engineering		5,230
Domino Printing Sciences		4,487	Shanks Group		4,884
Luminar Group Holdings		4,169	Helphire Group	Ø	4,785
Record	+	4,156	Greggs		3,755
Cranswick		4,137	New Britain Palm Oil	Ø	3,452
International Ferro Metals		4,102	Melrose	Ø	3,301
Other Purchases		133,439	Other Sales		37,130
Total for the year		**261,078**	Total for the year		**198,007**

The summary of material portfolio changes shows the 20 largest aggregate purchases and sales including transaction costs. Portfolio turnover for the year was 32.1% (2007: 36.4%)

\+ Indicates a company which is a new holding.

Ø Indicates a company which has been disposed of completely.

Portfolio Information

FTSE Industry Classification Exposure Analysis

Sector	31 December 2007 HGSC (XIC) Index[1] Weight %	31 December 2007 Portfolio Weight %	31 December 2007 Portfolio Valuation £'000	Net[2] Purchases/ (Sales) £'000	Net Appreciation/ (Depreciation) £'000	31 December 2008 Portfolio Valuation £'000	31 December 2008 Portfolio Weight %	31 December 2008 HGSC (XIC) Index[1] Weight %
Oil & Gas	*4*	*2*	11,389	2,975	(9,959)	**4,405**	1	7
Basic Materials	*5*	*1*	4,290	13,802	(11,501)	**6,591**	1	6
Industrials	*30*	*40*	285,504	8,670	(126,798)	**167,376**	36	30
Consumer Goods	*8*	5	39,121	9,046	(13,908)	**34,259**	7	8
Health Care	*5*	4	31,448	(2,370)	1,517	**30,595**	7	4
Consumer Services	*17*	*20*	141,359	11,307	(63,421)	**89,245**	19	19
Telecommunications	*1*	1	6,983	1,192	(5,998)	**2,177**	1	1
Utilities	–	–	–	–	–	–	–	–
Financials	*23*	14	98,837	16,980	(39,253)	**76,564**	16	19
Technology	*7*	13	92,035	(5,918)	(32,902)	**53,215**	12	6
	100	100	710,966	55,684	(302,223)	464,427	100	*100*

1 This reflects the rebalanced index as at 1 January 2009.
2 This includes transaction costs and special dividends that have been treated as a return of capital.

FTSE Index Classification Exposure Analysis

Index Classification	31 December 2007 No. of Companies	31 December 2007 Portfolio Valuation £'000	31 December 2007 Portfolio Weight %	31 December 2007 HGSC (XIC) Index[1] Weight %	31 December 2008 No. of Companies	31 December 2008 Portfolio Valuation £'000	31 December 2008 Portfolio Weight %	31 December 2008 HGSC (XIC) Index[1] Weight %
FTSE 100	1	14,651	2	–	–	–	–	–
FTSE 250	24	277,324	39	67	30	218,427	47	*76*
FTSE SmallCap	54	368,664	52	27	42	202,868	44	*18*
FTSE Fledgling	20	47,967	7	3	17	29,491	6	*2*
Other	1	2,360	–	3	4	13,641	3	*4*
	100	710,966	100	*100*	93	464,427	100	*100*

1 This reflects the rebalanced index as at 1 January 2009.

Thirty Largest Investments

No.	Company	Value as at 31 December 2008 £'000	% of Total Net Assets	Business Activity
1	Hiscox	18,065	4.3	Insurance
2	Greggs	16,836	4.0	Retailer of sandwiches, savouries and other bakery products
3	Hampson Industries	16,496	3.9	Aerospace and automotive
4	Robert Wiseman Dairies	11,919	2.8	Processing and distribution of milk
5	Beazley Group	11,696	2.8	Insurance
6	e2v technologies	11,607	2.7	Manufacture of electronic components and sub-systems
7	Domino Printing Sciences	11,454	2.7	Manufacture of industrial printing equipment
8	BSS Group	11,144	2.6	Distribution of plumbing supplies & tools
9	Brown (N.) Group	9,874	2.3	Home shopping catalogue retailer
10	RPC Group	9,325	2.2	Manufacture of rigid plastic packaging
	Top Ten Investments	**128,416**	**30.3**	
11	Spectris	9,210	2.2	Manufacture of precision instrumentation and controls
12	Delta	9,133	2.2	Galvanising, manganese products and industrial supplies
13	Wilmington Group	9,040	2.1	B2B publishing and training
14	Spirax-Sarco Engineering	8,795	2.1	Engineering
15	Interserve	8,745	2.1	Facilities, project & equipment services
16	Phoenix IT Group	8,662	2.0	IT services
17	Axis-Shield	8,433	2.0	in-vitro diagnostic testing
18	Halfords Group	8,388	2.0	Retailer of auto, leisure and cycling products
19	Anite	8,080	1.9	Software and related services
20	CSR	7,544	1.8	Fabless semiconductors
	Top Twenty Investments	**214,446**	**50.7**	
21	Kofax	7,383	1.7	Software and related services
22	Bellway	7,377	1.7	Housebuilder
23	RM	7,352	1.7	IT services for schools
24	Keller Group	7,274	1.7	Ground and foundation engineer
25	Headlam Group	6,759	1.6	Distribution of floorcoverings
26	Collins Stewart	6,647	1.6	Stockbroker and private client fund manager
27	Holidaybreak	6,569	1.6	Holiday, travel and educational services
28	Evolution Group	6,474	1.5	Stockbroker and private client fund manager
29	Communisis	6,341	1.5	Marketing communication services
30	Shanks Group	6,089	1.4	Waste management
	Top Thirty Investments	**282,711**	**66.7**	
	Other Investments (63)	181,716	42.8	
	Total Investments	**464,427**	**109.5**	
	Net Current Liabilities	(40,312)	(9.5)	
	Total Net Assets	**424,115**	**100.0**	

List of Investments

Holding	Security	31 December 2008 Value £'000	% of Total Net Assets	% of HGSC (XIC) Index[1]
Oil & Gas Producers		**3,056**	**0.7**	**5.5**
1,625,570	Melrose Resources	3,056	0.7	
Oil Equipment & Services		**1,349**	**0.3**	**1.2**
7,100,801	Bateman Litwin[2]	1,349	0.3	
Alternative Energy		**–**	**–**	**0.5**
Chemicals		**3,326**	**0.8**	**1.6**
8,989,380	Elementis	3,326	0.8	
Forestry & Paper		**–**	**–**	**0.8**
Industrial Metals & Mining		**3,265**	**0.8**	**0.7**
4,532,300	International Ferro Metals	714	0.2	
2,143,900	Talvivaara Mining Company	2,551	0.6	
Mining		**–**	**–**	**2.4**
Construction & Materials		**15,653**	**3.7**	**1.8**
1,337,022	Clarke (T.)	1,471	0.3	
12,318,400	Galliford Try	3,757	0.9	
1,265,077	Keller Group	7,274	1.7	
9,846,700	Low & Bonar	3,151	0.8	
Aerospace & Defence		**26,056**	**6.1**	**2.1**
16,054,262	Hampson Industries	16,496	3.9	
10,037,713	Senior	3,915	0.9	
2,257,925	UMECO	5,645	1.3	
General Industrials		**12,723**	**3.0**	**0.9**
1,887,900	British Polythene Industries	3,398	0.8	
5,534,200	RPC Group	9,325	2.2	
Electronic & Electrical Equipment		**39,605**	**9.3**	**3.6**
3,174,600	Abacus Group	1,682	0.4	
2,826,515	Dialight	3,109	0.7	
5,642,150	Domino Printing Sciences	11,454	2.7	
5,607,016	e2v technologies	11,607	2.7	
1,476,400	Laird Group	2,012	0.5	
4,164,380	Raymarine	531	0.1	
1,721,508	Spectris	9,210	2.2	
Industrial Engineering		**30,903**	**7.4**	**5.5**
3,368,036	Bodycote	4,143	1.0	
3,637,052	Castings	5,274	1.2	
11,137,834	Delta	9,133	2.2	
3,273,100	Renold	818	0.2	
968,620	Spirax-Sarco Engineering	8,795	2.1	
1,175,900	Vitec Group (The)	2,740	0.7	
Industrial Transportation		**4,756**	**1.1**	**1.9**
2,664,600	Wincanton	4,756	1.1	
Support Services		**37,680**	**8.8**	**14.6**
2,158,300	Acal	1,838	0.4	
4,457,400	BSS Group	11,144	2.6	
14,248,600	Communisis	6,341	1.5	
3,848,100	Interserve	8,745	2.1	
4,075,500	office2office	2,567	0.6	
1,931,300	Regus	956	0.2	
5,625,249	Shanks Group	6,089	1.4	
Automobiles & Parts		**–**	**–**	**0.8**
Beverages		**–**	**–**	**0.9**

List of Investments

		31 December 2008		
Holding	Security	Value £'000	% of Total Net Assets	% of HGSC (XIC) Index[1]
Food Producers		15,970	3.8	2.2
692,500	Cranswick	4,051	1.0	
3,999,644	Robert Wiseman Dairies	11,919	2.8	
Household Goods & Home Construction		18,289	4.3	3.2
1,232,545	Bellway	7,377	1.7	
3,280,826	Headlam Group	6,759	1.6	
3,519,770	McBride	4,153	1.0	
Leisure Goods		–	–	0.2
Personal Goods		–	–	0.8
Tobacco		–	–	0.0
Health Care Equipment & Services		6,270	1.5	1.1
2,924,191	Biocompatibles International	3,743	0.9	
2,383,400	Corin Group	1,168	0.3	
6,795,300	Nestor Healthcare Group	1,359	0.3	
Pharmaceuticals & Biotechnology		24,325	5.8	2.9
13,751,300	Ark Therapeutics Group	5,294	1.3	
4,000,700	Asterand	580	0.1	
2,811,057	Axis-Shield	8,433	2.0	
4,151,400	ProStrakan Group	3,612	0.9	
15,675,700	Source BioScience	705	0.2	
11,344,283	Vectura Group	5,701	1.3	
Food & Drug Retailers		16,836	4.0	0.5
501,060	Greggs	16,836	4.0	
General Retailers		28,425	6.7	7.1
4,858,042	Brown (N.) Group	9,874	2.3	
4,380,027	Dunelm Group	5,475	1.3	
3,448,112	Halfords Group	8,388	2.0	
2,678,581	JD Sports Fashion	4,688	1.1	
Media		27,311	6.4	3.3
2,088,750	4imprint Group	3,130	` 0.7	
8,293,094	Centaur Media	2,903	0.7	
2,326,520	Chime Communications	1,163	0.3	
1,042,100	Euromoney Institutional Investor	2,290	0.5	
21,361,400	Future	3,792	0.9	
20,803,798	Huntsworth	4,993	1.2	
6,746,200	Wilmington Group	9,040	2.1	
Travel & Leisure		16,673	4.0	8.3
161,800	Air Partner	715	0.2	
3,443,600	Holidaybreak	6,569	1.6	
2,367,100	Luminar Group Holdings	3,089	0.7	
2,043,454	Punch Taverns	1,185	0.3	
4,115,115	Sportech	2,510	0.6	
1,211,400	William Hill	2,605	0.6	
Fixed Line Telecommunications		2,177	0.5	0.8
16,746,900	KCOM Group	2,177	0.5	
Electricity		–	–	0.0
Gas, Water & Multiutilities		–	–	0.0
Banks		–	–	0.0
Nonlife Insurance		34,189	8.1	2.0
8,647,989	Beazley Group	11,696	2.8	
8,945,328	Chaucer Holdings	4,428	1.0	
5,329,000	Hiscox	18,065	4.3	

List of Investments

Holding	Security	31 December 2008 Value £'000	% of Total Net Assets	% of HGSC (XIC) Index[1]
Life Insurance		**4,831**	**1.1**	**1.4**
3,097,000	Hansard Global	4,831	1.1	
Real Estate Investment & Services		**7,446**	**1.7**	**2.8**
2,305,200	Grainger	3,118	0.7	
3,086,112	Unite Group	4,328	1.0	
Real Estate Investment Trusts		**–**	**–**	**3.2**
Financial Services		**30,098**	**7.0**	**9.5**
5,858,200	Brewin Dolphin Holdings	6,063	1.4	
1,451,630	Charles Stanley Group	2,540	0.6	
11,712,532	Collins Stewart	6,647	1.6	
7,528,100	Evolution Group	6,474	1.5	
4,527,375	Henderson Group	2,637	0.6	
3,965,620	Paragon Group of Companies	2,181	0.5	
5,008,162	Record	3,556	0.8	
Software & Computer Services		**42,133**	**9.9**	**4.5**
29,927,723	Anite	8,080	1.9	
8,270,153	Intec Telecom Systems	2,192	0.5	
5,350,309	Kofax	7,383	1.7	
2,718,200	Macro 4	3,615	0.9	
9,706,126	Microgen	4,174	1.0	
6,181,700	Morse	397	0.1	
3,479,857	Parity Group	278	0.1	
5,148,466	Phoenix IT Group	8,662	2.0	
4,383,000	RM	7,352	1.7	
Technology Hardware & Equipment		**11,082**	**2.7**	**1.4**
4,450,500	CSR	7,544	1.8	
6,363,721	Filtronic	1,495	0.4	
11,351,000	Trafficmaster	2,043	0.5	
Investments as shown in the Balance Sheet		**464,427**	**109.5**	**100.0**
Net Current Liabilities		(40,312)	(9.5)	–
Total Net Assets		**424,115**	**100.0**	**100.0**

All investments are in ordinary shares and have a full listing on the London Stock Exchange unless otherwise stated.

[1] This reflects the rebalanced index as at 1 January 2009.

[2] 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 2008	-39.6	-40.8	-38.3
1 year to 31 December 2007	-10.4	-8.3	-17.3
1 year to 31 December 2006	26.3	28.0	15.0
1 year to 31 December 2005	24.9	27.8	25.1
1 year to 31 December 2004	28.7	20.7	35.2
1 year to 31 December 2003	37.1	43.0	25.4
1 year to 31 December 2002	-9.7	-23.3	1.7
1 year to 31 December 2001	7.9	-13.0	17.7
1 year to 31 December 2000	15.6	1.2	4.2
1 year to 31 December 1999	49.5	56.2	62.5
1 year to 31 December 1998	-6.1	-5.7	-14.2
1 year to 31 December 1997	5.3	9.2	-1.4
1 year to 31 December 1996	22.3	18.7	20.5
1 year to 31 December 1995	23.2	16.1	21.0
1 year to 31 December 1994	-2.6	-3.1	-7.0
1 year to 31 December 1993	50.9	41.6	57.6
1 year to 31 December 1992	2.8	6.4	3.4
1 year to 31 December 1991	32.1	18.3	29.4

	Compound Annual Returns (%)			Cumulative Returns (%)		
Periods to 31 December 2008	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years from 31 December 2006	-26.5	-26.4	-28.6	-45.9	-45.8	-49.0
3 years from 31 December 2005	-11.9	-11.4	-16.3	-31.7	-30.6	-41.4
4 years from 31 December 2004	-3.9	-2.9	-7.4	-14.7	-11.3	-26.6
5 years from 31 December 2003	1.9	1.4	-0.2	9.8	7.1	-0.8
6 years from 31 December 2002	7.1	7.4	3.7	50.6	53.2	24.4
7 years from 31 December 2001	4.5	2.3	3.4	36.0	17.5	26.5
8 years from 31 December 2000	4.9	0.3	5.1	46.7	2.2	49.0
9 years from 31 December 1999	6.0	0.4	5.0	69.5	3.4	55.2
10 years from 31 December 1998	9.7	4.9	9.7	153.4	61.5	152.3
11 years from 31 December 1997	8.2	3.9	7.3	137.9	52.2	116.4
12 years from 31 December 1996	8.0	4.3	6.5	150.5	66.2	113.3
13 years from 31 December 1995	9.0	5.4	7.5	206.3	97.3	157.1
14 years from 31 December 1994	10.0	6.1	8.4	277.4	129.1	211.1
15 years from 31 December 1993	9.1	5.5	7.3	267.5	122.1	189.4
16 years from 31 December 1992	11.3	7.4	9.9	454.7	214.4	356.2
17 years from 31 December 1991	10.8	7.4	9.6	470.4	234.5	371.7
18 years from 31 December 1990	11.9	7.9	10.6	653.5	295.8	510.6
18.1 years from inception on 10 December 1990	11.9	7.9	10.4	655.9	292.5	498.4

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[5] £m	Borrowings £m	Equity Shareholders' funds £m	Net asset Value per Share[1] p	Share Price p	Discount[3] %
2008	**465.3**	**41.2**	**424.1**	**437.7**	**351.25**	**19.7**
2007	735.0	—	735.0	743.9	587.00	21.1
2006	833.3	—	833.3	843.4	723.00	14.3
2005	671.2	—	671.2	679.3	640.00	5.8
2004[3]	547.2	—	547.2	553.7	522.00	5.7
2003[4]	431.5	—	431.5	436.7	395.75	9.4
2002	275.9	—	275.9	326.3	325.25	0.3
2001	315.3	—	315.3	371.6	328.75	11.5
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

1 The calculation of Net Asset Value per Share is explained in the Shareholder Information section on page 52. This represents the Fully Diluted Net Asset Value prior to 1 April 2003.

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

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

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

5 Total assets less liabilities excluding borrowings.

Ten Year Revenue Summary

Year to 31 December	Available for Ordinary Shareholders £'000	Revenue per Ordinary Share[1] p	Dividends per Ordinary Share net p	Total expense ratio[2] %
2008	**22,223**	**22.75**	**19.00**	**0.94**
2007	18,158	18.38	15.20	0.86
2006	16,209	16.40	13.40	0.97
2005	14,325	14.50	11.85	0.99
2004[4]	13,085	13.24	11.00	0.99
2003[5]	10,026	11.59	10.10	0.98
2002	8,855	10.57	9.50	1.04
2001	9,134	10.93	9.10	0.98
2000	8,716	10.48	8.65	1.00
1999	8,045	9.72	7.60	1.00
1998	7,237	8.75	7.30	1.09

Gearing Ratio

Actual gearing[3] %
109.5
96.7
96.2
98.3
97.0
96.3
99.1
96.8
95.1
104.9
114.6

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

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

3 Total investments divided by Shareholders' funds. 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 and Corporate Information

Directors

D R Shaw, (60) CA (Chairman, appointed as a director on 14 October 1994)
David Shaw is Chairman and was previously Chief Executive of Bridgepoint Capital, a leading european mid corporate private equity firm. He also sits on the Board of a number of private companies including acting as Chairman of the charity Dyslexia Scotland.

H N Buchan, (64) (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, Templeton Emerging Markets Investment 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, (64) CA (appointed 17 July 2001 and is Chairman of the Audit and Management Engagement Committee)
Marco Chiappelli joined the regional newspaper company, Johnston Press plc, in 1974 as Company Secretary and was Finance Director from 1980 until his retiral in July 2001. Before joining Johnston Press he was an Audit Manager with Alexander Sloan & Co. He is a former Chairman of the Board of Governors of St Margaret's School, Edinburgh, Limited and of the Group of Scottish Finance Directors. He was previously a Director of Scottish Radio Holdings plc. He also sits on the Board of a number of private companies.

J E G Cran, (57) ACMA (appointed 17 July 2001 and is a Member of the Audit and Management Engagement Committee)
Edward Cran was Chief Executive of Cattles plc, a company involved in the consumer credit business, until his retiral in May 2001. He joined the Board of Cattles plc in 1990 prior to which he held various senior positions in the credit industry.

Professor P R Marsh, (61) (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/The Royal Bank of Scotland at London Business School.

Professor W S Nimmo, (61) (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
14 Melville Street
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: 0871 664 0300 (calls cost 10p per minute plus network extras)
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

Directors' Report

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year to 31 December 2008.

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 2009 (the date of the last annual index rebalancing) was £911 million, although this limit will change owing to movements in the stockmarket. The aggregate market capitalisation of the index as at 1 January 2009 was £92 billion and includes 495 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 7 to 17.

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

The Company has a bank debt facility of £80 million which the Company can use at any time. As at 31 December 2008, the Company has drawn down £41.2 million under the facility. Further information can be found in Note 11.

Directors' Report

Corporate Structure, Governance and Regulation

The Company is an investment company as defined with the meaning of Part 23 of the Companies Act 2006 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 in 2011 (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 2007. 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 £16,131 (excluding VAT) per quarter during 2008. 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 2008, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 96,900,000 were issued and fully paid. During the year, 1,909,788 shares (with a nominal value of £19,097.88) were bought back (1.9% of the Company's issued share capital) and cancelled at a total cost of £11,113,000. No shares are held in treasury. Subject to the requirement that purchases by the Company of its own shares will be made only at a level that enhances the net asset value (NAV), the principal objective of any such purchase will be to seek to sustain as low a discount between the Company's NAV and share price as seems possible. Accordingly, it is the Board's intention to continue to use the share purchase facility within guidelines established from time to time by the Board.

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 £283,604,000 (2007 – loss of £84,625,000). The net asset value per ordinary share at 31 December 2008 was 437.68p (2007 – 743.87p).

Your Board is pleased to declare a second interim dividend, in lieu of a final dividend, of 13.0p, which produces total dividends for the year of 19.0p representing an increase of 25.0% on the total for the previous year. The second interim dividend of 13.0p per share will be paid on 27 February 2009 to Shareholders on the register at the close of business on 6 February 2009.

	£'000	£'000
Revenue return for the year available for dividends		22,223
Dividends in respect of the revenue available:		
First interim dividend of 6.00p per Ordinary Share paid 21 August 2008	5,814	
Second interim dividend of 13.0p per Ordinary Share payable 27 February 2009 to Shareholders on the Register at close of business on 6 February 2009	12,597	18,411
		3,812

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 8, 18 and 19.

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.

(vi) Gearing risk – in rising markets, the effect of borrowings would be beneficial but in falling markets the gearing effect would adversely affect returns to Shareholders.

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

Other Matters

Going Concern

After making enquiries, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Directors' Report

Directors

The Directors who held office at 31 December 2008 and their interests in the Shares of the Company as at that date were as follows:

Directors	Nature of Interest	Ordinary Shares 2008	2007
D R Shaw	Beneficial	**37,000**	37,000
H N Buchan	Beneficial	**19,474**	19,474
M L A Chiappelli	Beneficial	**29,173**	25,000
J E G Cran	Beneficial	**29,245**	28,473
Prof P R Marsh	Beneficial	**25,000**	25,000
Prof W S Nimmo	Beneficial	**25,656**	25,656

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2008 and 27 January 2009.

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 2009. All Directors offer themselves for re-election and biographical details for each are shown on page 20.

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 online, 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 – Special Resolutions

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 10, as set out in the Notice of the Annual General Meeting, seeks renewal of such authority until the Annual General Meeting in 2010. The price paid for Shares will not be less than the nominal value of 1p per Share and the maximum price shall be the higher of (i) 105% of the average of the middle market quotations for the Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out. Any Shares purchased under the authority will be automatically cancelled, rather than being held in treasury, thereby reducing the Company's issued share capital. There are no outstanding options/warrants to subscribe for equity shares in the capital of the Company.

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

Amendment to the Articles of Association

Over the past year, and since the articles of association (the "Articles") of the Company were last updated, company law in the United Kingdom has undergone major reform through the coming into force of parts of the Companies Act 2006 (the "2006 Act"). Accordingly, the Board considers it prudent to replace the Company's existing articles of association with new articles which take account of these developments (the "New Articles").

Directors' Report

The 2006 Act is being brought into force in stages, beginning in January 2007, with full implementation scheduled by October 2009. At this year's AGM, the Company proposes to adopt provisions which reflect changes in the law brought about by the 2006 Act in respect of, amongst other things, electronic communications, notice periods for meetings, proxy voting and directors' conflicts of interest.

A copy of the New Articles will be available for inspection at Royal London House, 22/25 Finsbury Square, London, EC2A 1DX and the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of the notice of the AGM (the "Notice") until the conclusion of the Annual General Meeting.

A summary of the material changes proposed to be brought about by the adoption of the New Articles is set out in the Appendix to the Notice.

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

Substantial Share Interests

The Board has been informed of interests in 3% or more of the voting rights of the Company, which total 96,900,000 votes, as at 27 January 2009.

Interested person	Percentage of Voting Rights Held
Lloyds Banking Group plc (including discretionary investment management)	5.61
Rathbone Brothers plc	5.41
Barclays plc (including discretionary investment management)	5.30
Newton Investment Management Limited	5.01
Legal & General Investment Management	4.17
Rensburg Sheppards Investment Management	3.18

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, debt facilities, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The main risks that the Company faces arising from its financial instruments are disclosed in Note 17 to the accounts.

Section 992 of the Companies Act 2006

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

- The Company's capital structure and voting rights are summarised on page 23.
- Details of the substantial shareholders in the Company are listed above.
- The rules concerning the appointment and replacement of directors, are contained in the Company's Articles of Association and are discussed on pages 29 and 30.
- Amendment of the Company's Articles of Association and powers to issue on a non pre-emptive basis or buy back the Company's shares require a special resolution to be passed by shareholders.
- There are: no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that might affect its control following a takeover bid.
- There are no agreements between the Company and its Directors concerning compensation for loss of office.

Directors' Report

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.

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 (2007 – £nil).

By Order of the Board
Aberforth Partners LLP, Secretaries
14 Melville Street, Edinburgh EH3 7NS
27 January 2009

Corporate Governance Report

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. The UK Listing Authority requires all listed companies to detail how they have applied the principles set out in Section 1 of The Combined Code on Corporate Governance ("The Combined Code") issued by the Financial Reporting Council and last updated in June 2008.

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 AIC Code can be obtained from the AIC's website at www.theaic.co.uk.

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

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

The Combined Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For reasons set out in the AIC Guide, and in the pre-amble to The Combined Code, the Board considers that these provisions are not relevant to the Company as it is an externally managed investment company.

This report outlines how the principles and recommendations of the AIC Code were applied, unless otherwise stated, throughout the financial year. The Directors are also aware that there are many other published guidelines relating to corporate governance and, whilst these receive due consideration, the Board does not consider it appropriate to address them individually in this 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).

Director	Board of Directors Held	Board of Directors Attended	Audit and Management Engagement Committee Held	Audit and Management Engagement Committee Attended	Specific Committee Held	Specific Committee Attended
D R Shaw, Chairman	5	5	–	–	–	–
H N Buchan	5	5	3	3	1	1
M L A Chiappelli[1]	5	5	3	3	1	1
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.

Training and advice

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's 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.

Directors' and Officers' Liability Insurance

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

Appointments to the Board

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

Board performance and re-appointment of Directors

The Board undertakes a formal annual self-assessment of its collective performance on a range of issues including the Board's role, 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 2009. Messrs Shaw, Buchan, Chiappelli, Cran, Prof Marsh and Prof Nimmo, whose biographical details are shown on page 20, 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 6 or through the Chairman's email address which is david.shaw@aberforth.co.uk.

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

Accountability and Internal Control

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

Audit and Management Engagement Committee

The Directors have appointed an Audit and Management Engagement Committee, chaired by Mr Chiappelli, a Chartered Accountant. There is a range of recent and relevant financial experience amongst the members of the Committee. This Committee, of which Messrs Buchan and Cran are also members, specifically considers the accounting policies of, and financial reporting by the Company, the

Company's key risks, the internal control principles adopted and the relationship with the Company's auditors including making recommendations to the Board on the appointment, reappointment or removal, and the terms of appointment, including 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 £5,000 and related to the provision of taxation services and other advice. 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 and the Board places reliance on the Managers and its other contractors to ensure that they operate effective internal controls.

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

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.

Voting Policy

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

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

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of 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 page 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

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

The following Directors held office during the year:

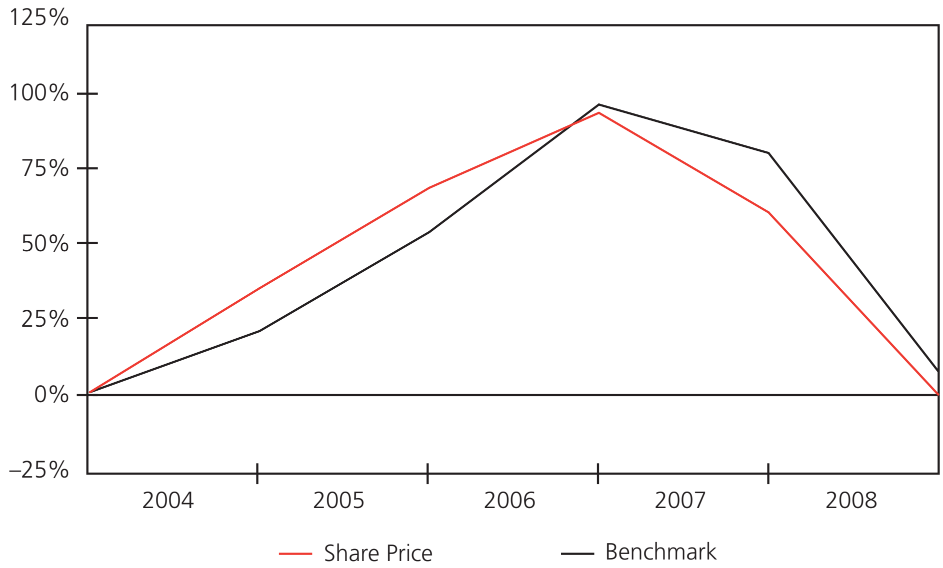
Director	Date of Appointment	Date of Retirement	Date of Letter of Appointment	Unexpired Term
D R Shaw, *Chairman*	14 October 1994	—	29 April 2003	1 year
H N Buchan	11 November 2003	—	11 November 2003	1 year
M L A Chiappelli	17 July 2001	—	29 April 2003	1 year
J E G Cran	17July 2001	—	29 April 2003	1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

Total Return Performance over last 5 Years



Directors' Fees (Audited)

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

	Fees 2008 £	Fees 2007 £
D R Shaw, *Chairman*	**26,250**	25,125
H N Buchan, *Member of the Audit and Management Engagement Committee*	**18,500**	17,500
M L A Chiappelli, *Chairman of the Audit and Management Engagement Committee*	**22,000**	21,000
J E G Cran, *Member of the Audit and Management Engagement Committee*	**18,500**	17,500
Prof P R Marsh	**17,500**	16,750
Prof W S Nimmo	**17,500**	16,750
	120,250	114,625

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 27 January 2009 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. The Directors are also required to prepare a Directors' Report, Business Review, Directors' Remuneration Report and Corporate Governance Statement.

In preparing those financial statements, the Directors are required to:

- select appropriate accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- prepare the financial statements on a going concern basis.

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

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company, and for maintaining adequate systems of internal control, which enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report is published on www.aberforth.co.uk, which is the website maintained by the Company's Manager. The work undertaken by the Auditors does not involve consideration of the maintenance and integrity of the website 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 website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Declaration

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

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

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

On behalf of the Board
David R Shaw
Chairman
27 January 2009

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 2008, which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited. This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we required for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 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, Aberforth Partners LLP – Information, Managers' Report, Portfolio Information, Thirty Largest Investments, List of Investments, Long Term Record, Directors and Corporate Information, Directors' Report, Corporate Governance Report, unaudited part of the Directors' Remuneration Report, Directors' Responsibility Statement, Shareholder Information and Notice of Annual General Meeting. We consider the implications for our report if we become aware of any apparent misstatements 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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements 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 2008 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

27 January 2009

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 2008

	Note	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Losses on investments	9	—	(306,730)	(306,730)	—	(97,686)	(97,686)
Investment income	2	23,684	7,387	31,071	19,477	877	20,354
Other income	2	1,206	—	1,206	273	—	273
Investment management fee	3	(1,636)	(2,727)	(4,363)	(1,094)	(1,823)	(2,917)
Other expenses	4	(489)	(2,880)	(3,369)	(438)	(4,052)	(4,490)
Net return before finance costs and tax		22,765	(304,950)	(282,185)	18,218	(102,684)	(84,466)
Finance costs	6	(526)	(877)	(1,403)	(60)	(99)	(159)
Return on ordinary activities before tax		22,239	(305,827)	(283,588)	18,158	(102,783)	(84,625)
Tax on ordinary activities	5	(16)	—	(16)	—	—	—
Return attributable to equity shareholders		22,223	(305,827)	(283,604)	18,158	(102,783)	(84,625)
Returns per ordinary share	8	22.75p	(313.12p)	(290.37p)	18.38p	(104.03p)	(85.65p)

The Board declared on 27 January 2009 a second interim dividend of 13.00p per Ordinary Share (2007 — 10.5p). The Board also declared on 18 July 2008 a first interim dividend of 6.00p per Ordinary Share (2007 — 4.70p).

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 2008

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2007	**988**	**—**	**197,305**	**504,051**	**32,677**	**735,021**
Return on ordinary activities after taxation	—	—	—	(305,827)	22,223	(283,604)
Equity dividends paid	—	—	—	—	(16,189)	(16,189)
Purchase of Ordinary Shares	(19)	19	(11,113)	—	—	(11,113)
Balance as at 31 December 2008	**969**	**19**	**186,192**	**198,224**	**38,711**	**424,115**

For the year ended 31 December 2007

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2006	988	—	197,305	606,834	28,204	833,331
Return on ordinary activities after taxation	—	—	—	(102,783)	18,158	(84,625)
Equity dividends paid	—	—	—	—	(13,685)	(13,685)
Balance as at 31 December 2007	988	—	197,305	504,051	32,677	735,021

The movements in the capital reserve 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 2008

	Note	2008 £'000	2007 £'000
Fixed assets:			
Investments at fair value through profit or loss	9	**464,427**	710,966
Current assets			
Debtors	10	**2,278**	6,354
Cash at bank		—	18,018
		2,278	24,372
Creditors (amounts falling due within one year)	11	**(42,590)**	(317)
Net current (liabilities)/assets		**(40,312)**	24,055
TOTAL NET ASSETS		**424,115**	735,021
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital:			
Ordinary Shares	12	**969**	988
Reserves:			
Capital redemption reserve	13	**19**	—
Special reserve	13	**186,192**	197,305
Capital reserve	13	**198,224**	504,051
Revenue reserve	13	**38,711**	32,677
TOTAL SHAREHOLDERS' FUNDS		**424,115**	735,021
NET ASSET VALUE PER SHARE	14	**437.68p**	743.87p

Approved and authorised for issue by the Board of Directors on 27 January 2009 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 2008

	Note	2008 £'000	2007 £'000
Net cash inflow from operating activities		31,520	12,296
Taxation	5	(16)	—
Returns on investments and servicing of finance		(1,381)	(152)
Capital expenditure and financial investment	15	(62,013)	(10,995)
		(31,890)	1,149
Equity dividends paid	7	(16,189)	(13,685)
		(48,079)	(12,536)
Financing			
Purchase of Ordinary Shares	12	(11,113)	—
Decrease in cash	16	(59,192)	(12,536)

Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities			
Net return before finance costs and taxation		(282,185)	(84,466)
Losses on investments		306,730	97,686
Expenses incurred in acquiring or disposing of investments		2,880	4,052
Decrease/(increase) in debtors		4,076	(4,985)
Increase in other creditors		19	9
Net cash inflow from operating activities		31,520	12,296

Reconciliation of net cash flow to movement in net funds			
Decrease in cash in the year	16	(59,192)	(12,536)
Change in Net Funds	16	(59,192)	(12,536)
Opening Net Funds	16	18,018	30,554
Closing Net Funds	16	(41,174)	18,018

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

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 and Venture Capital Trusts" issued in January 2009.

(b) Investments

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

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

(e) Finance costs

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 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 reserve

The following are accounted for in this reserve:

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

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. The cost of purchasing Ordinary Shares for cancellation is accounted for in this reserve.

(h) Capital redemption reserve
The nominal value of Ordinary Shares bought back for cancellation is added to this reserve.

(i) 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

	2008 £'000	2007 £'000
Income from investments (UK listed)		
Franked investment income (net)	**23,262**	18,715
Other investment income	**422**	762
	23,684	19,477
Other income		
Deposit interest	**167**	258
Interest recovered from HMRC (see Note 3)	**985**	—
Underwriting/placing commission	**54**	15
	1,206	273
Total income	**24,890**	19,750
Total income comprises:		
Dividends	**23,684**	19,477
Interest	**167**	258
Interest recovered from HMRC (see Note 3)	**985**	—
Underwriting/placing commission	**54**	15
	24,890	19,750

During the year the Company also received special dividends totalling £7,387,000 (2007 – £877,000) which have been considered as a return of capital by the investee companies and have been credited to Capital Reserve. 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

	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Investment management fee	**1,901**	**3,170**	**5,071**	2,516	4,194	6,710
VAT paid thereon	**—**	**—**	**—**	336	560	896
VAT recovered	**(265)**	**(443)**	**(708)**	(1,758)	(2,931)	(4,689)
Total	**1,636**	**2,727**	**4,363**	1,094	1,823	2,917

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 2008 VAT recovered above represents the repayment of VAT paid on investment management fees from 1991 to 1996. The 2007 VAT recovered above represents the repayment of all VAT paid on investment management fees since 1 January 2001. Associated interest recovered from HMRC is detailed in Note 2. Certain VAT paid in relation to earlier periods may also be recoverable pending the outcome of further legal appeals.

4 Other Expenses

	2008 £'000	2007 £'000
The following expenses have been charged to revenue:		
Directors' fees (refer to Directors' Remuneration Report)	**120**	115
Secretarial services	**76**	73
Registrars fees	**59**	52
AIC fees	**39**	48
Custody and other bank charges	**31**	43
Directors and Officers liability insurance	**10**	11
Auditors' fee–for audit services: recurring	**18**	18
–for non-audit services: recurring – taxation services	**2**	1
–for non-audit services: non-recurring (advisory)	**3**	–
Legal fees	**21**	6
Other expenses	**110**	71
	489	438
The following expenses have been charged to capital:		
Expenses incurred in acquiring or disposing of investments classified as fair value through profit or loss	**2,880**	4,052

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.

	2008 £'000	2007 £'000
Analysis of total purchases		
Purchase consideration before expenses	**258,819**	309,179
Commissions	**1,093**	1,400
Taxes	**1,166**	1,392
Total acquisition expenses	**2,259**	2,792
Total purchases	**261,078**	311,971
Analysis of total sales		
Sales consideration before expenses	**198,628**	301,997
Total disposal expenses – commissions	**621**	1,260
Total sales net of expenses	**198,007**	300,737

5 Taxation

Analysis of tax charged on return on ordinary activities	2008 £'000	2007 £'000
Total current tax charge for the year (see below)	**—**	—
Overseas taxation suffered	**16**	—
Total deferred tax	**—**	—
Total tax charge for the year	**16**	—

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 (28.5%).

The differences are explained below:

Returns on ordinary activities before tax	**22,239**	18,158
Notional corporation tax at 28.5% (2007 — 30%)	**6,338**	5,447
Non-taxable UK dividends	**(6,630)**	(5,615)
Tax losses for which no relief has been taken	**292**	168
Overseas taxation suffered	**16**	—
Total current tax charge for the year	**16**	—

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 £41,996,000 (2007: £37,409,000).

6 Finance Costs

	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Interest on bank debt facility	**526**	**877**	**1,403**	60	99	159

7 Dividends

	2008 £'000	2007 £'000
Amounts recognised as distributions to equity holders in the period:		
Second interim dividend for the year ended 31 December 2007 of 10.50p (2006: 9.15p) paid on 21 February 2008	**10,375**	9,041
First interim dividend for the year ended 31 December 2008 of 6.00p (2007: 4.70p) paid on 21 August 2008	**5,814**	4,644
	16,189	13,685
Amounts not recognised in the period:		
Second interim dividend for the year ended 31 December 2008 of 13.00p (2007: final dividend of 10.50p) payable on 27 February 2009	**12,597**	10,375

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

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

	2008 £'000	2007 £'000
Revenue available for distribution by way of dividends for the year	**22,223**	18,158
First interim dividend for the year ended 31 December 2008 of 6.00p (2007: 4.70p)	**5,814**	4,644
Second interim dividend for the year ended 31 December 2008 of 13.00p (2007: final dividend of 10.50p)	**12,597**	10,375
	18,411	15,019

8 Returns per Ordinary Share

The returns per Ordinary Share are based on:

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

	2008 Total £'000	2007 Total £'000
Attributable to Ordinary Shareholders	**(283,604)**	(84,625)

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

	2008	2007
Weighted average number of shares in issue during the year	**97,670,037**	98,809,788

9 Investments

	2008 UK Listed £'000	2007 UK Listed £'000
Investments at fair value through profit or loss		
Opening book cost	**680,664**	561,848
Opening fair value adjustment	**30,302**	239,622
Opening valuation	**710,966**	801,470
Movements in the period:		
Purchases at cost	**258,819**	309,179
Sales – proceeds	**(198,628)**	(301,997)
– realised (losses)/gains on sales	**(9,027)**	111,634
Decrease in fair value adjustment	**(297,703)**	(209,320)
Closing valuation	**464,427**	710,966
Closing book cost	**731,828**	680,664
Closing fair value adjustment	**(267,401)**	30,302
Closing valuation (all investments are in ordinary shares quoted in the UK)	**464,427**	710,966
Realised net (losses)/gains on sales	**(9,027)**	111,634
Decrease in fair value	**(297,703)**	(209,320)
Losses on investments	**(306,730)**	(97,686)

10 Debtors

	2008 £'000	2007 £'000
Investment income receivable	**2,233**	1,617
VAT recoverable from the Managers (refer to Note 3)	**—**	4,689
Other debtors	**45**	48
	2,278	6,354

Notes to the Accounts

11 Creditors: Amounts falling due within one year

	2008 £'000	2007 £'000
Amounts due to brokers	**1,297**	239
Bank debt facility	**41,174**	—
Other creditors	**119**	78
	42,590	317

Borrowing facilities

With effect from 1 August 2008, the Company entered into an unsecured £80 million Facilities Agreement with Bank of Scotland plc. Under the facility, £5 million may be drawn down attracting interest at a variable margin over bank base rate and the remaining £75 million attracts interest at a variable margin over LIBOR (overnight or a period determined by the Company). The level of margin is determined by reference to the level of gearing and can range from 0.75%-0.90%. A non-utilisation fee is also payable on any undrawn element, at a rate equivalent to 50% of the level of margin.

The main covenant under the facility requires that, on 31 December each year, total creditors (including amounts due under this facility) shall not exceed 50% of the Company's investments. As at 31 December 2008, total creditors represented 9.2% of the Company's investments.

The current facility is due to expire on 30 October 2009.

12 Share Capital

	2008 No. of Shares	2008 £'000	2007 No. of Shares	2007 £'000
Authorised:				
Ordinary Shares of 1p	**333,299,254**	**3,333**	333,299,254	3,333
Allotted, issued and fully paid:				
Ordinary Shares of 1p	**96,900,000**	**969**	98,809,788	988

During the year, the Company bought in and cancelled 1,909,788 shares (2007: nil) at a total cost of £11,113,000 (2007: nil). No further shares have been bought back for cancellation between 31 December 2008 and 29 January 2009.

13 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	TOTAL £'000
At 31 December 2006	988	—	197,305	606,834	28,204	833,331
Receipt of special dividends taken to capital	—	—	—	877	—	877
Net gains on sale of investments	—	—	—	111,634	—	111,634
Decrease in fair value	—	—	—	(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	988	—	197,305	504,051	32,677	735,021
Receipt of special dividends taken to capital	—	—	—	**7,387**	—	**7,387**
Net losses on sale of investments	—	—	—	**(9,027)**	—	**(9,027)**
Decrease in fair value	—	—	—	**(297,703)**	—	**(297,703)**
Cost of investment transactions	—	—	—	**(2,880)**	—	**(2,880)**
Management fees charged to capital	—	—	—	**(2,727)**	—	**(2,727)**
Interest expense charged to capital	—	—	—	**(877)**	—	**(877)**
Revenue return attributable to equity shareholders	—	—	—	—	**22,223**	**22,223**
Equity dividends paid	—	—	—	—	**(16,189)**	**(16,189)**
Purchase of Ordinary Shares	**(19)**	**19**	**(11,113)**	—	—	**(11,113)**
At 31 December 2008	**969**	**19**	**186,192**	**198,224**	**38,711**	**424,115**

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

14 Net asset value per share

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

	Net asset value per share attributable		Net assets attributable	
	2008 pence	2007 pence	**2008 £'000**	2007 £'000
Ordinary Shares	**437.68**	743.87	**424,115**	735,021

Net asset value per Ordinary Share is based on net assets of £424,115,000 (2007: £735,021,000), and on 96,900,000 (2007: 98,809,788) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

15 Gross cash flows

	2008 £'000	2007 £'000
Capital expenditure and financial investment		
Payments to acquire investments	**(260,020)**	(311,732)
Receipts from sales of investments	**198,007**	300,737
	(62,013)	(10,995)

16 Analysis of changes in net funds

	Net funds at 1 Jan 2008 £'000	Cash flow £'000	Net funds at 31 Dec 2008 £'000
Cash at bank	18,018	(18,018)	—
Bank debt facility	—	(41,174)	(41,174
	18,018	(59,192)	(41,174)

17 Financial instruments and risk management

The Company's financial instruments comprise its investment portfolio (see pages 15 to 17), cash balances, bank debt facilities, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. Bank debt facilities are utilised when the Managers believe it is in the interest of the Company to financially gear the portfolio. Note 1 sets out the accounting policies, including criteria for recognition and the basis of measurement applied for significant financial instruments excluding cash at bank which is carried at fair value. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

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

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

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

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

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

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

(i) Interest rate risk

When the Company decides to hold cash balances, all balances are held on variable rate bank accounts yielding rates of interest linked to bank base rate which at 31 December 2008 was 2% (2007: 5.5%). The Company's policy is to hold cash in variable rate bank accounts and not usually to invest in fixed rate securities. The Company's investment portfolio is not directly exposed to interest rate risk.

The Company has a bank debt facility of £80,000,000 of which £41,174,000 was utilised as at 31 December 2008 (2007: debt facility of £80,000,000, none of which was utilised as at 31 December 2007). Further details of this facility can be found in Note 11.

If the bank base rate had increased by 1%, the impact on the profit or loss would have been a negative £412,000 (2007: positive £180,000). If the bank base rate had decreased by 1%, the impact on the profit or loss would have been a positive £412,000 (2007: negative £180,000). 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 and assume all other variables remain constant.

17 Financial instruments *(continued)*

(ii) Liquidity risk

The Company's assets comprise mainly readily realisable equity securities which, if necessary, can be sold to meet any funding requirements though short term funding flexibility can typically be achieved through the use of bank debt facilities. The Company's current liabilities all have a remaining contractual maturity of less than three months with the exception of the Bank of Scotland facility. Further details of this facility can be found in Note 11.

(iii) Credit risk

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

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

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

(iv) Market price risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the investment managers in pursuance of the investment objective. No derivative or hedging instruments are currently utilised to specifically manage market price risk. Further information on the investment portfolio is set out in the Managers' Report on pages 7 to 12. It is not the Managers' policy to use derivatives to manage portfolio risk.

If the investment portfolio valuation fell by 20% at 31 December 2008, the impact on the profit or loss would have been negative £92.9m (2007: negative £142.0m). If the investment portfolio valuation rose by 20% at 31 December 2008, the impact on the profit or loss would have been positive £92.9m (2007: £142.0m). The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole and assume all other variables remain constant.

As at 31 December 2008, all of the Company's financial instruments were included in the balance sheet at fair value. The book value and fair value were the same. The investment portfolio consisted of listed investments valued at their bid price, which represents fair value. Any cash balances, which are held in variable rate bank accounts, can be withdrawn on demand with no penalty.

Contractual maturity analysis for financial instruments
As at 31 December 2008

(All in £'000)	Due or due not later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Current Assets:						
Investment income receivable	1,821	412	—	—	—	2,233
Other debtors	7	12	26	—	—	45
Total current assets	1,828	424	26	—	—	2,278
Current Liabilities:						
Bank debt facility	—	—	41,174	—	—	41,174
Other creditors	84	35	—	—	—	119
Amounts due to brokers	1,297	—	—	—	—	1,297
Total current liabilities	1,381	35	41,174	—	—	42,590
Net liquidity of continuing operations	447	389	(41,148)	—	—	(40,312)

17 Financial instruments *(continued)*

Contractual maturity analysis for financial instruments
As at 31 December 2007

(All in £'000)	Due or due not later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Current Assets:						
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
As at 31 December 2008

(All in £'000)	**On demand**	**Due within 3 months**	**Due between 3 and 12 months**	**Due between 1 and 5 years**	**Due after 5 years**	**Total**
Bank debt facility	—	**327**	**41,948**	—	—	**42,275**
Other creditors	—	**119**	—	—	—	**119**
Amounts due to brokers	—	**1,297**	—	—	—	**1,297**
	—	**1,743**	**41,948**	—	—	**43,691**

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2007

(All in £'000)	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Other creditors	—	78	—	—	—	78
Amounts due to brokers	—	239	—	—	—	239
	—	317	—	—	—	317

Capital Management Policies and Procedures

The Company's capital management objectives are:

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

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

18 Contingencies, guarantees, financial commitments and contingent assets

The Company had no contingencies, guarantees or financial commitments as at 31 December 2008 (2007: nil). The Company may be able to recover further amounts of VAT charged on investment management fees in respect of the period from 1997 to 2000. However, the Board considers that currently there are too many uncertainties to recognise any amounts potentially recoverable from HM Revenue & Customs.

Shareholder Information

Shareholder register enquiries

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

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

Payment of dividends

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

Sources of further information

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

How to invest

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

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

Electronic proxy voting

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

AIC

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

Shareholder Information

Financial Calendar

Results	For the half year to 30 June announced	July
	For the full year to 31 December announced	January
Ordinary Share Dividends	*First Interim*	
	Ex-dividend	July/August
	Payable	September
	Second Interim	
	Ex-dividend	January/February
	Payable	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 Nineteenth Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 4 March 2009 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 2008 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 2008 be approved.
9. That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

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

10. 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 103(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 2010 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2010, 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.
11. That the draft regulations produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to the entire exclusion of, the existing articles of association of the Company.

By Order of the Board

Aberforth Partners LLP, *Secretaries*
14 Melville Street, Edinburgh EH3 7NS

27 January 2009

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 any authority (if any) under which it is signed, or a notarially certified copy of such power of authority, with the Registrars of the Company no later than 48 hours 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. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate member has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that member at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representative who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of the procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.

5. As at 27 January 2009, the latest practicable date prior to publication of this document, the Company had 96,900,000 Ordinary Shares in issue with a total of 96,900,000 voting rights.

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

7. The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the auditors report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100.

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

Appendix to the Notice of AGM

Summary of the proposed material changes to the Articles of Association of the Company

The principal changes which would arise from the adoption of the New Articles are set out below.

Electronic and web communication

Provisions of the 2006 Act which came into force in January 2007 enable companies to communicate with members by electronic means and/or website communication. The New Articles contain a number of provisions designed to maximise the Company's ability to use electronic systems, including websites, for communication with Shareholders.

The New Articles give the directors the discretion to use electronic communication to distribute notices of meetings, annual reports, accounts and summary financial statements. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when relevant documents or information are placed on the website and a member can always request a hard copy version of the document or information.

Form of resolutions and convening meetings

The existing Articles contain provisions referring to "extraordinary" resolutions and "extraordinary" general meetings. These concepts have been abolished under the 2006 Act with effect from 1 October 2007. Meetings of shareholders other than annual general meetings are referred to simply as general meetings. Any resolution requiring a 75 per cent. majority will be a "special" resolution.

The provisions of the existing Articles dealing with the convening of general meetings and annual general meetings and the length of notice required to convene such meetings are amended in the New Articles to conform to the new provisions of the 2006 Act. In particular, general meetings to consider special resolutions can now be convened on 14 clear days' notice whereas previously 21 clear days' notice was required. The annual general meeting of the Company still requires 21 clear days' notice.

Proxies

Under the 2006 Act, proxies are entitled to vote on a show of hands, whereas under the existing Articles proxies are only entitled to vote on a poll. The time limits for the appointment of proxies have also been altered by the 2006 Act so weekends and bank holidays can be excluded for the purposes of the timing for delivery of proxies. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to different shares held by the shareholder. The New Articles reflect these changes.

Directors' Fees

It is proposed to increase the aggregate maximum amount per annum that the Directors may be paid, out of funds of the Company, by way of fees for their services as Directors from £125,000 to £200,000.

Conflicts of interest

The New Articles reflect the new provisions of the 2006 Act in relation to directors' conflicts of interests which came into force on 1 October 2008.

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company, an advisor to the Company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, insofar as the articles of association contain a provision to this effect. The 2006

Act also allows articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

There are safeguards in the New Articles which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and second, in taking the decision, the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles contain provisions relating to confidential information, attendance at board meetings and the availability of board papers to protect a director being in breach of duty if a conflict of interest or a potential conflict of interest arises.

It is proposed that the New Articles will contain provisions giving the directors authority to approve situations involving directors' conflicts of interest and to allow conflicts of interest to be dealt with by the Board.

Periodic retirement

The Combined Code on Corporate Governance recommends that directors must submit themselves for election by Shareholders at the first annual general meeting after their appointment and to re-election thereafter at intervals of no more than three years. The New Articles reflect these provisions.

Stock

The existing Articles provide that the Company may by ordinary resolution convert any fully paid shares into stock. The 2006 Act abolishes the power to convert shares into stock but allows a company that currently has stock to re-convert this stock back into paid up shares of any nominal value by means of an ordinary resolution. The 2006 Act removes the current requirement for a company's articles to permit re-conversion, but a company wishing to re-convert its stock will still have to pass an ordinary resolution in advance authorising it to do so. The New Articles reflect the provisions of the 2006 Act.

Indemnity of Officers and Insurance

The Existing Articles already provide for the Company to indemnify any director or other officer of the Company subject to applicable law. The New Articles take advantage of the new wording in the 2006 Act relating to directors' indemnities, to the extent applicable to the Company, and reflect the current market standard provisions which have evolved since the existing indemnity provisions were adopted.

Requirements for registration of transfer and refusal to transfer

The 2006 Act introduces a new requirement for companies to register transfers or to provide the transferee with reasons for refusal as soon as possible. The New Articles reflect this new requirement.

CREST and the Uncertificated Securities Regulations

The New Articles reflect the Uncertificated Securities Regulations 2001 and the 2006 Act provisions by permitting shareholders holding uncertificated shares to appoint, instruct, amend and revoke proxy appointments using the CREST system.

Articles that duplicate statutory provisions

Certain other provisions in the current Articles which replicate provisions contained in companies legislation are amended to bring them into line with the 2006 Act.

sterling greenaways 110524