



Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 2009

Investment Objective

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

Contents

Financial Highlights	1
Ten Year Investment Record	2
Company Summary	3
Chairman’s Statement	4
Aberforth Partners LLP – Information	6
Managers’ Report	7
Portfolio Information	12
Thirty Largest Investments	14
Investment Portfolio	15
Long-Term Record	18
Directors	20
Directors’ Report	21
Corporate Governance Report	28
Directors’ Remuneration Report	32
Directors’ Responsibility Statement	34
Independent Auditors’ Report	35
Income Statement	36
Reconciliation of Movements in Shareholders’ Funds	37
Balance Sheet	38
Cash Flow Statement	39
Notes to the Financial Statements	40
Shareholder Information	52
Notice of the Annual General Meeting	54
Corporate Information	inside back cover

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 2009

	%
Net Asset Value (total return)	+44.4
RBS Hoare Govett Smaller Companies Index (Excl. Investment Companies) (total return)	+60.7
Ordinary Share Price (with net dividends reinvested)	+59.2

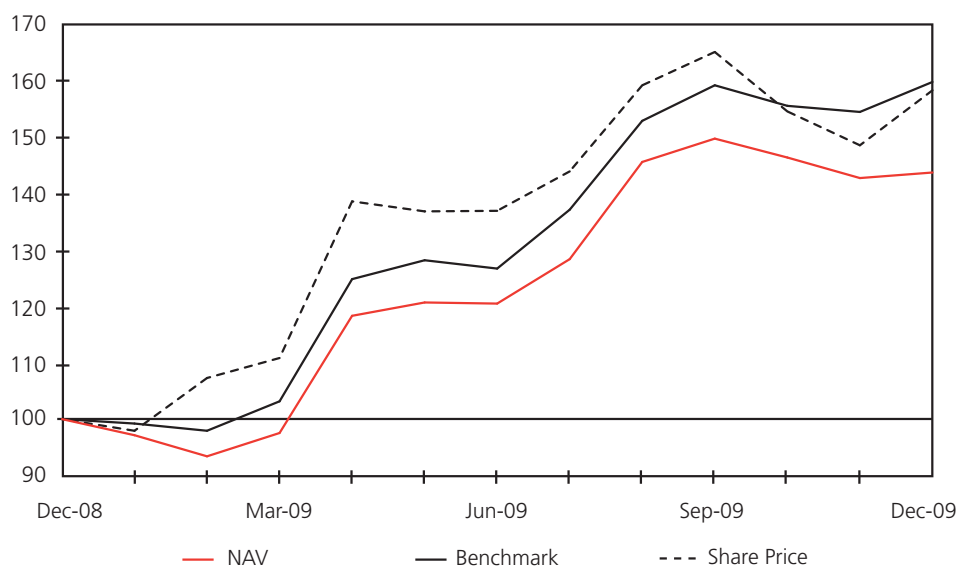
	As at 31 December 2009	As at 31 December 2008	% Change
Shareholders' Funds	£586.9m	£424.1m	+38.4
Market Capitalisation	£517.3m	£340.4m	+52.0
Actual gearing employed	107.7%	109.5%	n/a
Ordinary Share net asset value	605.90p	437.68p	+38.4
Ordinary Share price	534.00p	351.25p	+52.0
Ordinary Share discount	11.9%	19.7%	n/a
Revenue per Ordinary Share	17.35p	22.75p	-23.7
Dividends per Ordinary Share	19.00p	19.00p	0.0
Total expense ratio	0.85%	0.94%	n/a
Portfolio turnover	42.0%	32.1%	n/a

	31 December 2009	31 December 2008
Total return per Ordinary Share		
Revenue	17.35p	22.75p
Capital	169.84p	(313.12p)
Total	187.19p	(290.37p)

One Year Performance

Absolute Performance

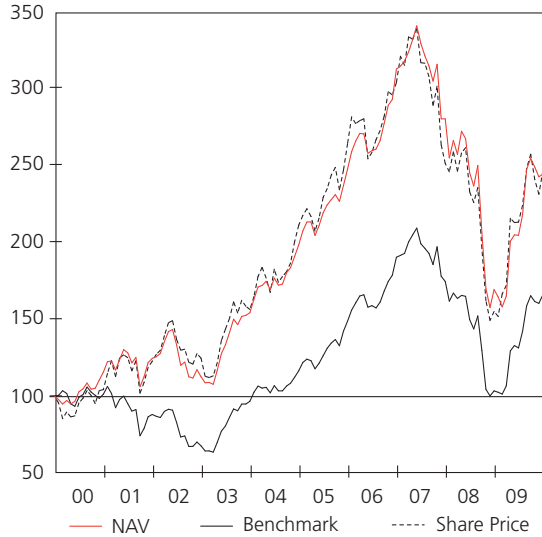
(figures are total returns and have been rebased to 100 at 31 December 2008)



Ten Year Investment Record

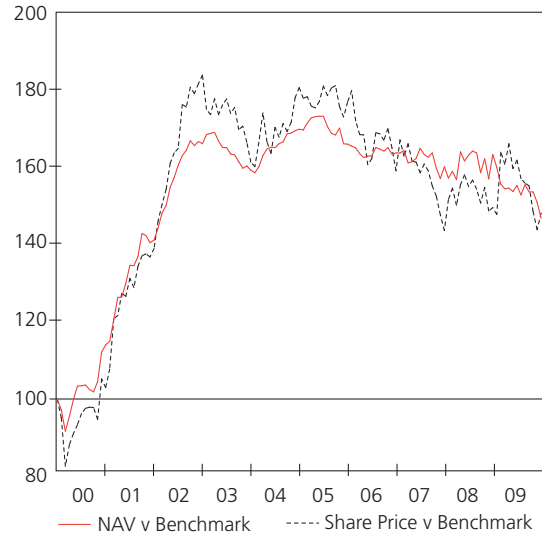
Absolute Performance

(figures are total returns and have been rebased to 100 at 31 Dec 1999)



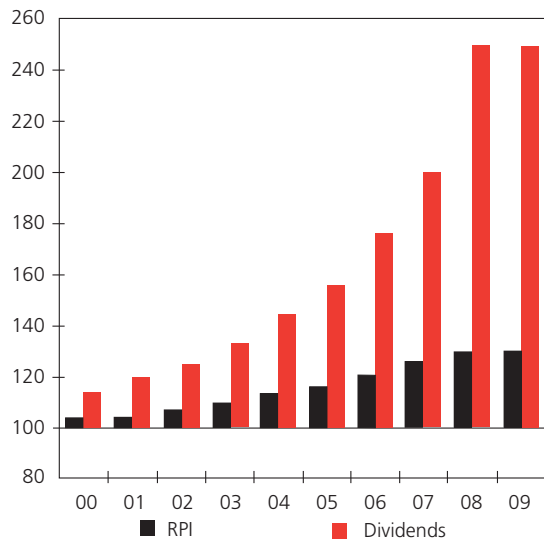
Relative Performance

(figures are total returns and have been rebased to 100 at 31 Dec 1999)



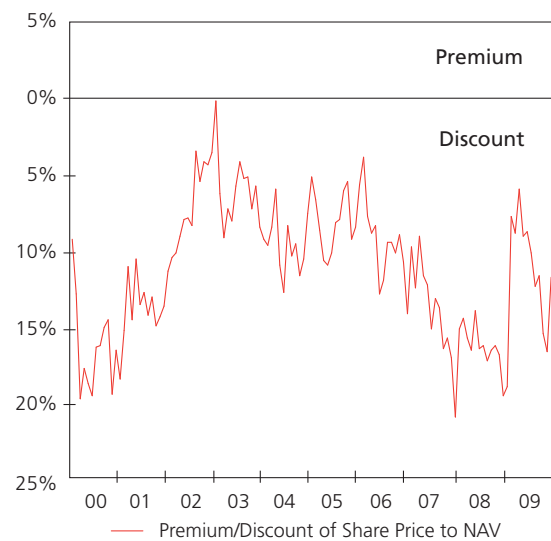
Dividends and RPI Growth

(figures have been rebased to 100 at 31 Dec 1999)



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 2009, it is the largest trust, based on net assets, within its sub-sector of UK Smaller Company Investment Trusts.

Objective

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

Further details regarding the benchmark, investment policy and approach can be found in the Business Review contained in the Directors' Report on pages 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 £1.4 billion invested in small UK quoted companies. Further information on the firm is set out on page 6.

Share Capital

At 31 December 2009 the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 96,867,000 were issued and fully paid. During the year 33,000 shares were bought in and cancelled.

Wind-Up Date

The Company has no fixed duration. However, in accordance with the Articles of Association, an ordinary resolution will be proposed at the 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 2009 Performance

As noted in my Half Yearly Statement, the first three months of 2009 remained challenging for equity investors as the turmoil afflicting global economies towards the end of 2008 showed no signs of abating. However, stock markets then rallied strongly as economies stabilised in response to unprecedented monetary and fiscal stimulus, and as investors' appetite for risk returned.

Against this background, ASCoT's net asset value total return for the full year was 44.4%, the third best in its history. This was well ahead of the 30.1% total return of large companies, as represented by the FTSE All-Share Index, but was some way behind the 60.7% total return of the RBS Hoare Govett Smaller Companies Index (Excluding Investment Companies), ASCoT's investment benchmark.

The Managers' Report provides greater insight into ASCoT's net asset value performance compared with the benchmark index. In particular, your Board understands the relatively cautious positioning of the portfolio coming into 2009. Many companies in the investment benchmark were confronted by a combination of profits reduced by recessionary conditions and highly geared balance sheets. Dividends suffered and the equity value of these companies was perilously close to being dictated by their lenders. Positioned to avoid these exposures, the portfolio was out of step with the stock market's subsequent rally, which was helped by investors' willingness to refinance indebted businesses through numerous rights issues.

Gearing

I commented last year that timing "the bottom" of the market with certainty was near impossible. Employing bank borrowing to gear the portfolio has, however, been helpful during 2009 as the market recovered.

As reported in my Half Yearly Statement, your Board negotiated terms in July 2009 on a new two year committed facility of £75 million, which replaced the previous arrangement.

At the year-end approximately £48 million of this facility was utilised. Your Board reviews the level of gearing regularly with the Managers and is comfortable that ASCoT has access to sufficient liquidity for both investment purposes and also to fund share buybacks as and when appropriate.

Share Buy Back Authority

At the Annual General Meeting in March 2009, the authority to buy-in up to 14.99% of ASCoT's Ordinary Shares was renewed. Under that authority 33,000 shares have been bought in to the end of December at a total cost of £0.2 million. All shares bought in have been cancelled rather than held in treasury.

Your Board will be seeking a renewal of this authority at the Annual General Meeting to be held on 3 March 2010. The 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 will remain the policy to cancel, rather than hold in treasury, any such shares.

Dividends

Your Board is pleased to declare a second interim dividend, in effect a final dividend, of 13 pence per share. This results in total dividends for the year of 19 pence per share, which is the same as the previous year, and delivers a yield of 3.6% on the year-end share price of 534 pence.

Reflecting the impact of the severe economic downturn and exacerbated by the credit crunch, portfolio dividend income for the year is approximately 20% lower than that recorded the previous year. As the Managers' Report explains, this was nevertheless a considerably better outcome than that experienced by the benchmark. Whilst the worst is hopefully behind us, a further modest decline in dividend income in 2010 would not be a surprise.

In this context, your Board does have a degree of flexibility on dividends given the level of ASCoT's revenue reserves which, after adjusting for payment of the second interim dividend, amount to 25.3 pence per share. Your Board is aware of the importance of the income component of the total return from equities over the long term.

Chairman's Statement

The second interim dividend of 13.0 pence per share will be paid on 26 February 2010 to Shareholders on the register at the close of business on 5 February 2010. The last date for submission of Forms of Election for those Shareholders wishing to participate in ASCoT's Dividend Reinvestment Plan (DRiP) is 5 February 2010. Details of the DRiP are available from Aberforth Partners LLP on request or on their website, www.aberforth.co.uk.

Alternative Investment Fund Managers Directive (AIFMD)

The AIFMD is draft legislation, currently being debated in Europe, which will regulate the managers of "alternative investment funds". As currently drafted, UK investment trust companies fall within its scope. Certain of the draft proposals could have far reaching consequences for ASCoT and the whole of the investment trust industry in the UK. Your Board and Managers, as well as the Association of Investment Companies and others, have actively engaged in lobbying relevant parties to highlight the potential issues and seek changes to the draft. The outcome remains far from certain and it is unlikely that the Directive will be finalised before summer 2010.

Summary

Overall, 2009 has been a vintage year for the share prices of UK smaller companies. However, this performance has to be viewed in context of the steep declines suffered during the previous two years, with the benchmark index at the end of 2009 still some 21% below its peak reached in the second quarter of 2007. Accordingly, the Managers are of the view that UK small company equities remain attractive from a value perspective despite recent gains. As is their style, they have constructed the portfolio mindful of the short term risks of recovery, with stock selection based around sound fundamentals. Your Board remains confident that the Managers' experience and this consistency of approach will benefit ASCoT over the long term.

Finally, and as announced in my Half Yearly Statement, I retire from the Board at the Annual General Meeting in March 2010, when Professor Paul Marsh will take over the role of Chairman. It has been my privilege to serve on the Board for fifteen years and to have held the Chair for five of these. As a shareholder, I will be following the fortunes of the Company closely in my retirement. In this regard, Paul and his colleagues on the Board have my full confidence and very best wishes.

David R Shaw
Chairman
26 January 2010

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 £1.4 billion (as at 31 December 2009). 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. 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 (43) 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 (52) 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 (39) 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 (50) 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 (60) 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 (46) – 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

In ASCoT's nineteen year history, 2009 ranks as both the best year of absolute performance from the HGSC (XIC) and the worst year of relative performance for ASCoT. Whereas the benchmark's total return was 60.7%, ASCoT produced a return of 44.4%. This was nevertheless its third best ever annual return in absolute terms. Large companies meanwhile performed less well, though the 30.1% total return from the FTSE All-Share stands out in its own historical context.

The following paragraphs explain the strong performance of the benchmark in 2009 before moving on to address the relative returns from ASCoT.

Small companies

The HGSC (XIC)'s rise in 2009 has to be viewed against the background of the previous year's substantial decline of 40.8%: over the two year period the total return from the benchmark has been -4.9%. Entering 2009, the market was confronted by a recession that was exacerbated by an unprecedented credit crunch – descent into depression was a widespread concern. Risk aversion, reflected in equity valuations and stretched credit market spreads, was at extreme levels in the wake of Lehman's collapse. Governments and central banks were in the middle of unleashing substantial fiscal and monetary stimuli, which went on to enter the uncharted territory of quantitative easing. The climate of uncertainty persisted for much of the first quarter and was reflected in company results that were characterised by deep cost cutting and sharp reductions in dividends.

However, in mid March, small company share prices hit their lows for the year, from which they went on to bounce by 73%. This recovery has been based on improving fundamentals. The global economy has bottomed and subsequently started to pick up. A majority of major economies have now exited recession, with the UK, as yet, a notable exception. As the year progressed, businesses saw destocking come to an end and the start of tentative restocking in the latter part of the year. Sustainable demand levels remain unclear, but the combination of restocking and sharply reduced cost bases promises a period of good profits growth moving into 2010.

At the same time, the extreme risk aversion of 2008 has eased. Important in this regard have been the conventional and unconventional activities of central banks to influence the cost of borrowing. Notwithstanding the banks' focus on repairing their own balance sheets, this has filtered through financial markets, bringing many spreads in the credit markets back to levels that prevailed before the failure of Lehman. Waning risk aversion has also been evident in equity markets, which have been led upwards by smaller companies and emerging markets, traditionally considered to be at the riskier end of equity investment. Though more powerful, the risk rally of 2009 is thus reminiscent of 2003, when the markets bounced strongly on recovery from the US's mini-recession at the start of the decade.

A catalyst for this rediscovered appetite for risk was the preparedness of equity investors to finance the substantial volume of rights issues and placings from highly geared companies. Within the small company universe, this flood of re-equitisation started at the end of January, when valuations were at levels that suggested many UK businesses could go under. While the banks often retain rather too much influence, the removal of the risk of imminent failure added longevity to the equity of these geared companies and justified a re-rating from what were extremely low valuations of historical earnings.

Indeed, the historically low valuations that characterised the small cap universe are perhaps the most important way to understand the strong rally enjoyed by the benchmark. The HGSC (XIC) came into 2009 valued on a historical PE of 6.4x and a yield of 5.9%, on both measures the cheapest over ASCoT's history. Clearly, a proportion of this apparent cheapness was justified by the sharp drops in earnings and dividends that companies went on to report as the year progressed: the lowest *historical* PEs were certainly to be found among those companies that were characterised by the unpleasant cocktail of falling profits, high debts and pension fund deficits. However, with the benefit of hindsight, it is clear that these low valuations were overplaying the risk of descent into depression. The subsequent stabilisation and even improvement in economic and credit conditions have therefore provided the basis of a powerful re-rating that took the historical PE up to 11.2x and the yield down to 2.7% by the end of the year.

ASCoT's relative performance

An understanding of the mechanics of the benchmark, the HGSC (XIC), is a useful starting place for an explanation of ASCoT's relative performance. The HGSC (XIC) comprises those companies that make up the bottom 10% of the market capitalisation of the total UK market, excluding AIM. At the end of 2009, this definition resulted in a ceiling of £1.188bn: in other words, any company with a market capitalisation of £1.188bn or less at 31 December 2009 is a member of the HGSC (XIC) in 2010. The benchmark is

Managers' Report

rebalanced just once a year, on 1 January. Ordinarily, this rebalancing exercise is rather low key, with turnover of perhaps half a dozen companies. In 2009 it was not ordinary: 40 companies were relegated to the rebalanced HGSC (XIC). As described in the interim report, these companies represented a quarter of the benchmark by value at the start of the year and together enjoyed a total return of 80% in 2009.

However, the typical 'fallen star' exemplified those characteristics that were shunned in 2008: high debts, falling profits, significant pension deficits and reduced dividends. So, in aggregate, the share prices of this group of 40 companies fell by almost two thirds in 2008, which was, of course, what cut them down to a size that meant inclusion in 2009's benchmark. Your managers simulate a rebalanced HGSC (XIC) through the year, so it was not the case that they were suddenly overwhelmed on 1 January by the surprise inclusion of 40 new companies: the analytical work on these businesses was conducted through the second half of 2008.

Rather, the relevance of the 'fallen stars' to ASCoT's relative performance is their typical characteristics previously described: with equity capital encumbered by substantial debts and pension deficits, this was a riskier than average group of companies. In contrast, the portfolio came into 2009 with a defensive orientation: the two strong themes detailed in last year's annual report were those of robust balance sheets and 'being paid to wait' by a sustainable dividend yield through a downturn of uncertain duration. While each proved advantageous in 2008, neither helped in 2009: the more rewarding strategy would have been to pursue those companies that combined cut dividends and high levels of debt. Thus, your managers were too risk averse for the investment climate that developed through 2009.

The irony here is that your managers had been investing in anticipation of a recovery in share prices for some time. In the second half of 2008, the portfolio was cautiously reoriented towards domestic cyclical sectors and, in May 2008, ASCoT started to take on gearing for only the third time in its history. At that point, your managers judged that small company valuations were already at a level that discounted recession, but preferred to reflect this in gearing at the trust level across a well diversified portfolio of small companies, rather than exposing capital to individual highly geared businesses. That judgement was temporarily called into question by the collapse of Lehman and the consequent intensification of the credit crunch. However, given the rebound in share prices, the decision to gear has proved beneficial in 2009, as is demonstrated in the table below.

For the year ended 31 December 2009	Basis Points
Stock selection	(1,806)
Sector selection	(212)
<hr/>	
Attributable to the portfolio of investments (calculated on a mid-price basis)	(2,018)
Impact of mid-price to bid-price	82
Purchase of Ordinary Shares	1
Cash/gearing	401
Management fee	(91)
Other expenses	(10)
Total attribution based on bid-prices	(1,635)

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 = +44.38%; Benchmark Index = +60.73%; difference is -16.35% being -1,635 basis points).

But if it has not been the stabilisation and subsequent improvement in economic fundamentals, what has surprised your managers? The short duration of the downturn and the speed of return to the investment behaviours that prevailed before the credit crunch have been startling.

- During the UK's last recession, in the early 1990s, small company earnings fell for three consecutive years. In the present downturn, if analysts are correct, the period of earnings contraction may be confined to just 18 months, despite the accompanying credit crunch. This itself would be a remarkable outturn. However, extrapolating from this, the equity valuations of a number of cyclical businesses are already discounting a rapid return to previous peak levels of profitability. This seems improbable in view of the structural challenges, principally significant levels of debt, faced by many economies.

Managers' Report

- The equity issues that have resuscitated a number of distressed small company equities, including a large portion of the 'fallen stars', have not necessarily provided a long term cure. The banks and pension fund trustees frequently remain very influential, though this influence on the value due to equity holders might not become manifest until the debt facility next comes up for renewal, or until the outcome of the next triennial pension review is revealed.
- The investment strategies that were popular up into the first half of 2008 but that suffered in the second half of that year have returned to favour more quickly than expected. In particular, commodities have enjoyed a strong revival, as have businesses exposed to China's secular growth story. There is evidence that these may be benefiting from a return of carry trade activity, i.e. borrowing in currencies with low interest rates such as the dollar and investing in riskier, higher-yielding assets. This plays to concerns that an element of the monetary authorities' largesse is being diverted directly into asset markets rather than being passed on through the banking system.

General caution about the speed, rather than the reality, of recovery is therefore an important factor in understanding ASCoT's relative performance. This is reflected in the table above, which shows negative contributions from both stock and sector selection: your managers' risk aversion limited the amount of capital exposed to those stocks, and indeed sectors, where highly geared balance sheets were a feature. Below this over-arching theme, there were other influences at work that provide more colour on the relative performance.

- The portfolio contained many stocks that performed well in 2009. At the end of the year, there were 87 holdings but, over the course of the twelve months, positions were taken in 118 companies. Of those, 43 out-performed, out of which 15 more than doubled. However, of the doublers, none sat within the top ten holdings at the start of the year. This in part reflects the speed with which the market's mood changed in the first quarter in 2009. But it is also clear that relative performance could have been enhanced by better capital allocation: attractively valued businesses were identified but could have been pushed further up the portfolio. On the other hand, any stock that suffered an absolute fall in price had a significant impact on relative returns against a benchmark that rose by 60.7%. Four holdings combined sharp share price declines with top ten positions within the portfolio at the start of the year. These four thus had a substantial impact on returns. Two of them were constituents of the Nonlife Insurance sector, which is addressed in the following paragraph.
- The negative impact from Sector Selection can be accounted for by Nonlife Insurance, with the contributions from other sectors offsetting each other. The portfolio was over-weight in Nonlife Insurance, with three holdings at the start of the year. The sector had performed very well in 2008, actually managing to rise by 15%. However, what were considered positive attributes in 2008 – high sustainable dividend yields, low price to book valuations and little exposure to the general economic cycle – came to be perceived as handicaps in 2009 as the market rediscovered its appetite for risk. The sector therefore under-performed by a wide margin in 2009, with a return of –7%. This has left its constituents offering some of the most attractive valuations within the HGSC (XIC), which argues for maintaining a meaningful exposure to the sector in expectation of another change in the stockmarket's sentiment.
- Before the onset of the credit crunch and recession, the UK stockmarket benefited from the phenomenon of de-equitisation: the stock of quoted equity capital shrank between 2003 and 2007 as new issuance was out-weighted by share buybacks, dividends and takeover activity boosted by the highly leveraged techniques of private equity. This provided technical support to equity valuations, particularly in the small company universe. However, de-equitisation went into reverse in 2008 as the banks started their rights issues. This new trend of re-equitisation continued in 2009, with small companies contributing to substantial equity issuance: almost a fifth of the HGSC (XIC)'s constituents issued new equity that was equivalent to at least a tenth of their outstanding equity capital at the start of the year. As already described, the willingness of shareholders to support these funding exercises made an important contribution to the ensuing rally in share prices. The discounts of the placing price to the prevailing market were typically wide and, from the portfolio's point of view, could provide good opportunities to establish a holding, *as long as* the new equity provided sufficient comfort against remaining debt covenants. In all, the portfolio participated in 23 equity issues, using six of those as the opportunity to acquire an initial position in the underlying business.

Managers' Report

While equity issuance exploded, M&A activity dropped sharply, running at around one third of its average over the past ten years. This reflected caution in the face of recession on the part of company boards and the difficulty in securing debt funding as banks sought to repair their balance sheets. Reflecting your managers' value investment philosophy, the portfolio has historically benefited disproportionately from M&A and indeed had holdings in three of the 14 companies in the HGSC (XIC) that were acquired in 2009. A return to normal levels of activity in 2010 would be beneficial. There are numerous indications that this might be the case, with corporate transactions already picking up in the US and with UK assets, by virtue of lower valuations and the weakness of sterling, looking vulnerable.

- In terms of dividends, the portfolio out-performed the benchmark. As noted in the interim report, the current recession has been considerably worse for dividends than was the previous downturn. At work have been not only the understandable pressures of recession and troubled lenders, but also the frustrating influences of fashion and weak advice. Large companies, whose dividends in aggregate escaped unscathed from the recession of the early 1990s, have seen a decline of roughly 20% in the present downturn, substantially reflecting the problems of the banking sector. The experience for small companies is also worse than last time: the drop of 35-40% over the last 18 months compares with a fall of 20-25%, spread over a three year period, in the early 1990s.

ASCoT found some protection in its focus on being 'paid to wait' for the upturn. It nevertheless experienced a decline in income of approximately 20%. With the benchmark's dividends having fallen further, the portfolio's historical yield relative to that of the HGSC (XIC) moved up steadily to end the year at a 20% premium. This is close to its highest level over ASCoT's history. Your managers believe that over longer time periods, such a yield advantage will benefit the portfolio's absolute and relative returns. Importantly, it has not been secured by sacrificing quality. Implied dividend cover rose sharply through the second half to its highest ever level, ending the year at 3.9x. This compares with a nineteen year average cover of 2.4x. The income profile is not dependent on very high yielding stocks whose prospects of dividend growth might be considered to be limited, with 83% of the portfolio invested in companies yielding less than 5%.

Indeed, 19% of the portfolio at the year end consisted of companies with no yield, around half of which may be considered structural nil yielders, i.e. companies whose business models do not support dividend payments. The other half can be classified as cyclical nil yielders, i.e. businesses whose profits have suffered in recession and are currently unable to pay. Moving forward, an important dynamic will be the return of these cyclical nil yielders to the dividend register as recovery continues. Other things being equal, this ought to provide a boost to dividend growth across the portfolio, and indeed the small cap market, in the medium term. However, whilst this is encouraging for the medium term, it is not unlikely that a further modest decline in dividend income in 2010 may occur.

Looking forward

From a macro economic perspective, it is difficult to muster a lot of optimism at the current time about the world's developed economies. Policymakers have thus far done a good job in staving off the risk of the recession spiralling into depression. However, the measures required to achieve this have essentially been an exercise in moving lumps of debt from the private to the public sector. The burden of structurally high levels of debt therefore persists and this has to be worked down over time. It is reasonable to expect this to place a limit on economic growth over the medium term. This is particularly relevant to the UK, where the next government will have to embrace public spending cuts and where the savings rate among consumers is heading upwards.

With interest rates and government bond yields at their present low levels, financing high public borrowing is not too demanding. However, there are threats. Government bond yields have been held down for the time being by purchases by central banks and, as the year drew to a close, the gilt market weakened as fears built about the UK's fiscal position. Moreover, scope for monetary policy error lingers. Thus far, rhetoric from the central banks is hinting at a bias to keeping rates 'lower for longer' in order to reduce the perceived risk of mistakes made in the 1930s depression. This, however, has reignited concerns about resurgent inflationary pressure and focused attention on exit strategies from the current phase of loose monetary policy. Peering into 2010, it is safe to state that the financial markets' focus of concerns will continue to oscillate between inflation and deflation.

Managers' Report

But there are offsetting factors, principally the increasing contribution to global economic growth of emerging markets and the relative health of the corporate sector. Recoveries from recession over the past couple of decades have typically been led by the US consumer, who has responded in Pavlovian fashion to interest rate reductions. However, with the US consumer at last in retrenchment mode and the current account deficit narrowing, the present recovery has been substantially powered by China and other emerging markets. And within China, the incremental growth has come not from the export sector, which is in any case highly dependent on the US consumer, but on internally generated demand. It would no doubt be better if this demand originated from the private sector rather than from the state, but the key issue is the fact of an alternative and autonomous source of growth that eases the process of adjustment within developed economies.

Meanwhile, in the wake of recession and credit crunch, the corporate sector in both the UK and US is in surprisingly good shape. Contributing to this have been the substantial equity issuance seen through 2009, reduced capital expenditure budgets, and the rapidity with which management teams reacted to the downturn with cost reductions. The strain has been taken by labour, with unemployment rates rising to multi year highs in several economies. While this dynamic curbs the enthusiasm of consumers to spend, it is consistent with a recovery that might be led initially by profits and then by capital expenditure. With ample spare capacity, such a scenario might also offer some comfort regarding inflation.

This relative strength of the corporate sector is evident in the substantial opportunity base that is the HGSC (XIC), where trading conditions for many businesses have stabilised and, boosted by tentative restocking, are starting to pick up. This improvement is reflected in the strong returns from small companies in 2009 and, as the table below demonstrates, has precipitated a substantial re-rating: historical PEs moved from 6.4x to 11.2x over the course of the year.

Characteristics	31 December 2009		31 December 2008	
	ASCoT	Benchmark	ASCoT	Benchmark
Number of Companies	87	448	93	495
Weighted Average Market Capitalisation	£368m	£619m	£259m	£442m
Price Earnings Ratio (Historic)	8.1x	11.2x	6.0x	6.4x
Net Dividend Yield (Historic)	3.2%	2.7%	5.3%	5.9%
Dividend Cover (Historic)	3.9x	3.3x	3.1x	2.6x

Despite this re-rating, small companies remain at the cheap end of their valuation range over ASCoT's history. The average historical PE over the past 19 years has been 14x and, in the recovery phase of the recession in the early 1990s, it moved up to 18x. While the structural issues besetting the UK economy may prevent a return to this level of valuation, there would nevertheless appear to be plenty of scope for further re-rating on the assumption that the recovery is sustained.

Valuations within ASCoT's portfolio are lower. The historical PE moved up through 2009, from 6.0x to 8.1x, but not as sharply as that of the benchmark, reflecting the lower return and also a more resilient earnings performance from the portfolio. On both an absolute and relative basis, the portfolio is offering what is approaching its best value over ASCoT's history. Crucially, in your managers' opinion, this has not been facilitated by a deterioration in quality. The portfolio retains its bias to companies with strong balance sheets, with just under a third invested in businesses with net cash. Such financial strength affords these companies flexibility to invest, which might reasonably prove a competitive advantage at a time when banks still appear reluctant to lend to indebted businesses. Another indication of quality might be the relative resilience of the portfolio's income performance, which has helped its yield move from a 10% discount to that of the HGSC (XIC) at the start of the year to a 20% premium, while retaining a higher dividend cover.

While not being complacent about the challenges facing the domestic and global economies, the availability of well financed and attractively valued businesses, such as those that make up the portfolio,

Managers' Report

argues strongly for ASCoT to maintain its gearing. However, the gearing is employed on a tactical rather than structural basis and it will be withdrawn when absolute valuations within the portfolio move closer to more appropriate levels. The closure of these value gaps, enhanced by the gearing, should be the basis for an improvement in ASCoT's relative performance. The precise timing is as difficult as ever to call, but some comfort may be drawn from ASCoT's history: your managers' value investment style has led to phases of weak relative returns in previous bull markets but returns have improved as the adjustment in risk appetites comes to an end.

Aberforth Partners LLP
Managers
 26 January 2010

Portfolio Information

Summary of Material Portfolio Changes

For the year ended 31 December 2009

Purchases		Cost £'000	Sales		Proceeds £'000
Micro Focus International	+	11,693	Hiscox	∅	15,705
RPS Group	+	10,388	William Hill	∅	13,466
National Express Group	+	10,338	CSR		12,227
William Hill		10,156	Halfords Group	∅	11,678
Game Group	+	9,831	Axis-Shield	∅	10,549
Redrow	+	9,777	BSS Group		9,322
Punch Taverns		8,836	Interserve	∅	8,946
Bellway		8,569	Spirax-Sarco Engineering	∅	8,924
Pace	+	8,010	Henderson Group		7,518
Regus		7,525	Talvivaara Mining Company	∅	7,377
F&C Asset Management	+	6,550	Venture Production		6,198
St. Modwen Properties	+	6,049	Robert Wiseman Dairies		5,865
Shanks Group		6,037	Senior	∅	5,847
Hansteen Holdings	+	5,660	Delta		5,370
Debenhams	+	5,644	Grainger Trust	∅	5,228
Beazley		5,109	Wincanton	∅	4,632
e2v technologies		5,004	Inchcape		4,588
Galliford Try		4,858	Cranswick	∅	4,539
JKX Oil & Gas	+	4,665	Greggs		4,276
Lookers	+	4,424	McBride	∅	4,077
Other Purchases		87,732	Other Sales		79,335
Total for the year		236,855	Total for the year		235,667

The summary of material portfolio changes shows the 20 largest aggregate purchases and sales including transaction costs. Portfolio turnover for the year was 42.0% (2008: 32.1%)

+ Indicates a company which is a new holding.

∅ Indicates a company which has been disposed of completely.

Portfolio Information

FTSE Industry Classification Exposure Analysis

Sector	← 31 December 2008 →				Net ² Purchases/ (Sales) £'000	← 31 December 2009 →			
	HGSC (XIC) Index Weight %	Portfolio Weight %	Valuation £'000	Net Appreciation/ (Depreciation) £'000		Portfolio Valuation £'000	Weight %	HGSC (XIC) Index ¹ Weight %	
Oil & Gas	7	1	4,405	5,143	4,127	13,675	2	5	
Basic Materials	6	1	6,591	(8,432)	6,703	4,862	1	5	
Industrials	30	36	167,376	(7,904)	22,499	181,971	29	28	
Consumer Goods	8	7	34,259	(3,477)	18,252	49,034	8	9	
Health Care	4	7	30,595	(2,598)	5,679	33,676	5	4	
Consumer Services	19	19	89,245	12,235	43,722	145,202	23	22	
Telecommunications	1	1	2,177	2,370	7,438	11,985	2	1	
Utilities	–	–	–	–	–	–	–	–	
Financials	19	16	76,564	993	19,097	96,654	15	19	
Technology	6	12	53,215	1,675	40,437	95,327	15	7	
	100	100	464,427	5	167,954	632,386	100	100	

¹ This reflects the rebalanced index as at 1 January 2010.

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 2008				HGSC (XIC) Index Weight %	31 December 2009			
	← Portfolio → No. of Companies	Valuation £'000	Weight %	Weight %		← Portfolio → No. of Companies	Valuation £'000	Weight %	Weight %
FTSE 100	–	–	–	–	–	–	–	–	
FTSE 250	30	218,427	47	67	32	315,197	50	74	
FTSE SmallCap	42	202,868	44	27	39	246,481	39	19	
FTSE Fledgling	17	29,491	6	3	12	39,658	6	2	
Other	4	13,641	3	3	4	31,050	5	5	
	93	464,427	100	100	87	632,386	100	100	

¹ This reflects the rebalanced index as at 1 January 2010.

Thirty Largest Investments

No.	Company	Value as at 31 December 2009 £'000	% of Total Net Assets	Business Activity
1	Bellway	19,445	3.3	Housebuilder
2	Greggs	17,178	2.9	Retailer of sandwiches, savouries and other bakery products
3	Domino Printing Sciences	15,930	2.7	Manufacture of industrial printing equipment
4	Micro Focus International	15,754	2.7	Software
5	Spectris	15,674	2.7	Manufacture of precision instrumentation and controls
6	JD Sports Fashion	14,565	2.5	Retailer of sports and leisurewear
7	Dunelm Group	14,505	2.5	Homewares retailer
8	Beazley	14,296	2.4	Lloyds insurer
9	RPC Group	13,686	2.3	Manufacture of rigid plastic packaging
10	Robert Wiseman Dairies	13,524	2.3	Processing and distribution of milk
Top Ten Investments		154,557	26.3	
11	Huntsworth	13,340	2.3	International public relations
12	Unite Group	12,791	2.2	Property
13	RPS Group	12,384	2.1	Consulting
14	Phoenix IT Group	12,372	2.1	IT services
15	KCOM Group	11,985	2.0	Telecommunications services
16	National Express Group	11,881	2.0	Bus and coach services
17	Evolution Group	11,544	2.0	Stockbroker and private client fund manager
18	Regus	11,040	1.9	Serviced offices
19	e2v technologies	10,974	1.9	Manufacture of electronic components and sub-systems
20	Bodycote	9,788	1.7	Industrial heat treatment
Top Twenty Investments		272,656	46.5	
21	Keller Group	9,590	1.6	Ground and foundation engineer
22	Vectura Group	9,322	1.6	Inhaled pharmaceuticals
23	Collins Stewart	9,300	1.6	Stockbroker and private client fund manager
24	Brown (N.) Group	9,203	1.6	Home shopping catalogue retailer
25	Pace	9,036	1.5	Design and sourcing of set top boxes
26	Intec Telecom Systems	8,552	1.5	Software and related services
27	Anite	8,530	1.5	Software
28	Wilmington Group	8,466	1.4	Information and training to the professional business market
29	Hampson Industries	8,414	1.4	Aerospace and automotive
30	Delta	8,378	1.4	Galvanising, manganese products and industrial supplies
Top Thirty Investments		361,447	61.6	
Other Investments (57)		270,939	46.1	
Total Investments		632,386	107.7	
Net Liabilities		(45,464)	(7.7)	
Total Net Assets		586,922	100.0	

Investment Portfolio

Holding	Security	31 December 2009		
		Value £'000	% of Total Net Assets	% of HGSC (XIC) Index ¹
Oil & Gas Producers		13,675	2.3	3.7
	2,157,039 JKX Oil & Gas	6,044	1.0	
	2,800,263 Melrose Resources	7,631	1.3	
Oil Equipment & Services		–	–	1.3
Alternative Energy		–	–	0.2
Chemicals		4,862	0.8	1.9
	9,174,180 Elementis	4,862	0.8	
Industrial Metals & Mining		–	–	1.8
Mining		–	–	1.6
Construction & Materials		23,663	4.0	1.8
	2,393,482 Galliford Try	7,420	1.3	
	1,485,696 Keller Group	9,590	1.6	
	20,790,661 Low & Bonar	6,653	1.1	
Aerospace & Defence		14,545	2.4	2.9
	12,465,562 Hampson Industries	8,414	1.4	
	2,174,025 UMECO	6,131	1.0	
General Industrials		13,686	2.3	1.6
	5,848,900 RPC Group	13,686	2.3	
Electronic & Electrical Equipment		48,949	8.4	3.5
	2,922,422 Dialight	6,371	1.1	
	4,837,550 Domino Printing Sciences	15,930	2.7	
	19,253,471 e2v technologies	10,974	1.9	
	2,141,308 Spectris	15,674	2.7	
Industrial Engineering		24,443	4.2	3.5
	6,152,399 Bodycote	9,788	1.7	
	3,525,752 Castings	6,277	1.1	
	5,984,334 Delta	8,378	1.4	
Industrial Transportation		–	–	2.2
Support Services		56,685	9.7	12.9
	2,498,650 Acal	3,298	0.6	
	4,976,600 Ashtead Group	4,041	0.7	
	1,011,290 BSS Group	2,427	0.4	
	9,722,944 Communisis	1,215	0.2	
	4,347,489 Lavendon Group	3,000	0.5	
	3,811,100 office2office	5,450	0.9	
	12,065,852 Regus	11,040	1.9	
	5,717,485 RPS Group	12,384	2.1	
	6,180,500 Shanks Group	8,251	1.4	
	1,893,069 SThree	5,579	1.0	
Automobiles & Parts		–	–	–
Beverages		–	–	1.0
Food Producers		13,524	2.3	2.9
	2,636,305 Robert Wiseman Dairies	13,524	2.3	
Household Goods		33,717	5.8	3.9
	2,396,120 Bellway	19,445	3.3	
	2,055,625 Headlam Group	6,172	1.1	
	6,090,054 Redrow	8,100	1.4	

Investment Portfolio

Holding	Security	31 December 2009		
		Value £'000	% of Total Net Assets	% of HGSC (XIC) Index ¹
Leisure Goods		1,793	0.3	0.4
464,405	Vitec Group (The)	1,793	0.3	
Personal Goods		–	–	0.9
Tobacco		–	–	–
Health Care Equipment & Services		12,738	2.2	1.1
3,326,525	Biocompatibles Intl	7,651	1.3	
642,800	Care UK	2,668	0.5	
2,835,900	Corin Group	1,758	0.3	
742,300	Optos	661	0.1	
Pharmaceuticals & Biotechnology		20,938	3.6	2.7
15,257,825	Ark Therapeutics Group	2,136	0.4	
4,737,400	Asterand	877	0.1	
8,622,084	ProStrakan Group	7,458	1.3	
16,362,400	Source BioScience	1,145	0.2	
12,347,477	Vectura Group	9,322	1.6	
Food & Drug Retailers		17,178	2.9	1.0
3,949,870	Greggs	17,178	2.9	
General Retailers		57,803	10.0	7.6
3,710,691	Brown (N.) Group	9,203	1.6	
6,734,951	Debenhams	5,216	0.9	
3,817,027	Dunelm Group	14,505	2.5	
6,679,580	Game Group	7,080	1.2	
2,907,281	JD Sports Fashion	14,565	2.5	
7,296,300	Lookers	3,356	0.6	
4,643,875	Topps Tiles	3,878	0.7	
Media		37,922	6.5	4.4
2,387,300	4imprint Group	2,865	0.5	
7,385,094	Centaur Media	3,360	0.6	
2,662,500	Chime Communications	5,778	1.0	
24,553,700	Future	4,113	0.7	
21,007,398	Huntsworth	13,340	2.3	
7,298,500	Wilmington Group	8,466	1.4	
Travel & Leisure		32,299	5.4	9.0
530,300	Air Partner	2,386	0.4	
3,510,255	Holidaybreak	7,784	1.3	
6,252,966	National Express Group	11,881	2.0	
12,266,793	Punch Taverns	8,341	1.4	
4,056,576	Sportech	1,907	0.3	
Fixed Line Telecommunications		11,985	2.0	0.4
27,238,300	KCOM Group	11,985	2.0	
Electricity		–	–	–
Gas, Water & Multiutilities		–	–	–
Nonlife Insurance		21,076	3.6	4.1
14,310,304	Beazley	14,296	2.4	
14,739,093	Chaucer Holdings	6,780	1.2	
Life Insurance		5,804	1.0	0.3
3,685,200	Hansard Global	5,804	1.0	

Investment Portfolio

Holding	Security	31 December 2009		
		Value £'000	% of Total Net Assets	% of HGSC (XIC) Index ¹
Real Estate Investments & Services		19,804	3.4	4.0
	3,641,085 St. Modwen Properties	7,013	1.2	
	4,270,908 Unite Group	12,791	2.2	
Real Estate Investment Trusts		5,757	1.0	2.8
	7,151,950 Hansteen Holdings	5,757	1.0	
Financial Services		44,213	7.4	7.8
	5,304,600 Brewin Dolphin Holdings	7,320	1.2	
	1,489,630 Charles Stanley Group	3,650	0.6	
	13,430,232 Collins Stewart	9,300	1.6	
	8,569,800 Evolution Group	11,544	2.0	
	8,940,409 F&C Asset Management	6,728	1.1	
	1,101,477 Henderson Group	1,369	0.2	
	5,587,362 Record	4,302	0.7	
Software & Computer Services		70,813	12.1	4.1
	27,080,664 Anite	8,530	1.5	
	8,262,953 Intec Telecom Systems	8,552	1.5	
	4,652,409 Kofax	8,142	1.4	
	3,457,113 Micro Focus International	15,754	2.7	
	8,890,126 Microgen	7,735	1.3	
	8,008,800 Morse	3,204	0.5	
	3,479,857 Parity Group	418	0.1	
	4,668,866 Phoenix IT Group	12,372	2.1	
	3,864,200 RM	6,106	1.0	
Technology Hardware & Equipment		24,514	4.1	2.7
	1,587,487 CSR	6,494	1.1	
	9,602,421 Filtronic	3,409	0.6	
	4,323,250 Pace	9,036	1.5	
	10,519,000 Trafficmaster	3,129	0.5	
	1,846,400 Wolfson Microelectronics	2,446	0.4	
Investments as shown in the Balance Sheet		632,386	107.7	100.0
Net Liabilities		(45,464)	(7.7)	-
Total Net Assets		586,922	100.0	100.0

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

¹ This reflects the rebalanced index as at 1 January 2010.

Long-Term Record

Historic Total Returns

Period	Discrete Annual Returns (%)		
	NAV ¹	Index ²	Share Price ³
1 year to 31 December 2009	44.4	60.7	59.2
1 year to 31 December 2008	-39.6	-40.8	-38.3
1 year to 31 December 2007	-10.4	-8.3	-17.3
1 year to 31 December 2006	26.3	28.0	15.0
1 year to 31 December 2005	24.9	27.8	25.1
1 year to 31 December 2004	28.7	20.7	35.2
1 year to 31 December 2003	37.1	43.0	25.4
1 year to 31 December 2002	-9.7	-23.3	1.7
1 year to 31 December 2001	7.9	-13.0	17.7
1 year to 31 December 2000	15.6	1.2	4.2
1 year to 31 December 1999	49.5	56.2	62.5
1 year to 31 December 1998	-6.1	-5.7	-14.2
1 year to 31 December 1997	5.3	9.2	-1.4
1 year to 31 December 1996	22.3	18.7	20.5
1 year to 31 December 1995	23.2	16.1	21.0
1 year to 31 December 1994	-2.6	-3.1	-7.0
1 year to 31 December 1993	50.9	41.6	57.6
1 year to 31 December 1992	2.8	6.4	3.4
1 year to 31 December 1991	32.1	18.3	29.4

Periods to 31 December 2009	Compound Annual Returns (%)			Cumulative Returns (%)		
	NAV ¹	Index ²	Share Price ³	NAV ¹	Index ²	Share Price ³
2 years from 31 December 2007	-6.7	-2.5	-0.9	-12.9	-4.9	-1.8
3 years from 31 December 2006	-7.9	-4.5	-6.7	-21.9	-12.8	-18.8
4 years from 31 December 2005	-0.3	2.8	-1.7	-1.4	11.6	-6.6
5 years from 31 December 2004	4.3	7.4	3.2	23.2	42.6	16.9
6 years from 31 December 2003	8.0	9.5	7.9	58.6	72.1	58.0
7 years from 31 December 2002	11.7	13.7	10.3	117.4	146.2	98.2
8 years from 31 December 2001	8.8	8.3	9.2	96.4	88.8	101.5
9 years from 31 December 2000	8.7	5.7	10.1	111.8	64.3	137.3
10 years from 31 December 1999	9.4	5.2	9.5	144.8	66.2	147.2
11 years from 31 December 1998	12.5	9.1	13.5	265.8	159.6	301.8
12 years from 31 December 1997	10.8	7.7	10.9	243.5	144.6	244.6
13 years from 31 December 1996	10.4	7.9	9.9	261.7	167.2	239.7
14 years from 31 December 1995	11.2	8.6	10.6	342.2	217.2	309.4
15 years from 31 December 1994	12.0	9.1	11.3	444.9	268.3	395.4
16 years from 31 December 1993	11.0	8.3	10.0	430.6	256.9	360.9
17 years from 31 December 1992	13.0	10.0	12.4	700.9	405.3	626.4
18 years from 31 December 1991	12.4	9.8	11.9	723.6	437.7	651.2
19 years from 31 December 1990	13.4	10.2	12.7	987.9	536.2	872.4
19.1 years from inception on 10 December 1990	13.4	10.1	12.6	991.4	530.8	852.9

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

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

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

Long-Term Record

Ten Year Capital Summary

As at 31 December	Total assets ⁵ £m	Borrowings £m	Equity Shareholders' funds £m	Net asset Value per Share ¹ p	Share Price p	Discount ² %
2009	635.2	48.3	586.9	605.9	534.00	11.9
2008	465.3	41.2	424.1	437.7	351.25	19.7
2007	735.0	—	735.0	743.9	587.00	21.1
2006	833.3	—	833.3	843.4	723.00	14.3
2005	671.2	—	671.2	679.3	640.00	5.8
2004 ³	547.2	—	547.2	553.7	522.00	5.7
2003 ⁴	431.5	—	431.5	436.7	395.75	9.4
2002	275.9	—	275.9	326.3	325.25	0.3
2001	315.3	—	315.3	371.6	328.75	11.5
2000	300.9	—	300.9	352.7	287.00	18.6
1999	280.6	14.2	266.4	313.0	283.50	9.4

- 1 The calculation of Net Asset Value per Share is explained in the Shareholder Information section on page 53. This represents the Fully Diluted Net Asset Value prior to 1 April 2003.
- 2 The Discount calculation is the percentage difference between the Company's Ordinary Share price and the underlying Net Asset Value per Share which includes current year revenues.
- 3 2004 figures have been restated in line with the restated financial statements for that year.
- 4 In 2003 the Company raised £61,876,000 through the issue of Shares pursuant to the scheme of reconstruction of Aberforth Split Level Trust plc.
- 5 Total assets less liabilities excluding borrowings.

Ten Year Revenue Summary

Year to 31 December	Available for Ordinary Shareholders £'000	Revenue per Ordinary Share ¹ p	Dividends per Ordinary Share net p	Total expense ratio ² %	Gearing ³ %
2009	16,813	17.35	19.00	0.85	107.7
2008	22,223	22.75	19.00	0.94	109.5
2007	18,158	18.38	15.20	0.86	96.7
2006	16,209	16.40	13.40	0.97	96.2
2005	14,325	14.50	11.85	0.99	98.3
2004 ⁴	13,085	13.24	11.00	0.99	97.0
2003 ⁵	10,026	11.59	10.10	0.98	96.3
2002	8,855	10.57	9.50	1.04	99.1
2001	9,134	10.93	9.10	0.98	96.8
2000	8,716	10.48	8.65	1.00	95.1
1999	8,045	9.72	7.60	1.00	104.9

- 1 The calculation of Revenue per Ordinary Share is based on the revenue from ordinary activities after taxation and the weighted average number of Ordinary Shares in issue.
- 2 Ratio of operating costs (excluding transaction costs taken to capital reserve) to average Shareholders' funds (calculated per AIC guidelines). Since 2007, the figures exclude VAT on investment management fees although earlier years have not been restated.
- 3 Total investments divided by Shareholders' funds.
- 4 2004 figures have been restated in line with the financial statements.
- 5 In 2003 the Company raised £61,876,000 through the issue of Shares pursuant to the scheme of reconstruction of Aberforth Split Level Trust plc.

Directors

Directors

D R Shaw, (61) CA (Chairman, appointed as a director on 14 October 1994)

David Shaw is a Director of F&C Private Equity Trust plc and sits on the Board of a number of private companies including acting as Chairman of the charity Dyslexia Scotland. He was previously Chief Executive then Chairman of Bridgepoint Capital, a leading European mid corporate private equity firm until his retirement in December 2009.

H N Buchan, (65) (appointed 11 November 2003 and is a Member of the Audit and Management Engagement Committee)

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

M L A Chiappelli, (65) CA (appointed 17 July 2001 and is Chairman of the Audit and Management Engagement Committee)

Marco Chiappelli joined the regional newspaper company, Johnston Press plc, in 1974 as Company Secretary and was Finance Director from 1980 until his retirement in July 2001. Before joining Johnston Press he was an Audit Manager with Alexander Sloan & Co. He is 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.

J E G Cran, (58) ACMA (appointed 17 July 2001 and is a Member of the Audit and Management Engagement Committee)

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

David J Jeffcoat, (59) FCMA (appointed 22 July 2009 and is a Member of the Audit and Management Engagement Committee)

David Jeffcoat began his career as a production engineer at Jaguar Cars Ltd. After qualifying as an accountant several years later, he held a number of senior positions including subsidiary-level Finance Director at GlaxoWellcome plc and Group Financial Controller at Smiths Industries plc. More recently David was Group Finance Director and Company Secretary at Ultra Electronics Holdings plc from 2000 until his retirement in 2009. He also sits on the Board of WYG plc.

Professor P R Marsh, (62) (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 RBS Hoare Govett Smaller Companies Index, produced for ABN AMRO/The Royal Bank of Scotland at London Business School.

Professor W S Nimmo, (62) (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.

Directors' Report

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year to 31 December 2009.

Business Review

Investment Objective

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

Investment Policy

The Company aims to achieve its objective and to diversify risk by investing in over 80 small UK quoted companies. Small companies are those having a market capitalisation, at time of purchase, equal to or lower than the largest company in the bottom 10% of the main UK equity market or companies in the RBS Hoare Govett Smaller Companies Index (Excluding Investment Companies). The upper market capitalisation limit to this index at 1 January 2010 (the date of the last annual index rebalancing) was £1.188 billion, although this limit will change owing to movements in the stockmarket. The aggregate market capitalisation of the index as at 1 January 2010 was £126 billion and includes 448 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

In July 2009, the Board negotiated a new two year committed facility of £75 million with The Royal Bank of Scotland, replacing the previous facility which was due for renewal at the end of October 2009. The bank debt

Directors' Report

facility of £75 million can be used at any time. As at 31 December 2009, the Company had drawn down £48.25 million under the facility. Further information can be found in Note 12.

Corporate Structure, Governance and Regulation

The Company is an investment company as defined with the meaning of Section 833 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 2008. 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

Directors' Report

amounted to £16,615 (excluding VAT) per quarter during 2009. 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.

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 2009, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 96,867,000 were issued and fully paid. During the year, 33,000 shares (with a nominal value of £330) were bought back (0.03% of the Company's issued share capital) and cancelled at a total cost of £167,000. 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.

Voting Rights

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

Return and Dividends

The total return attributable to Shareholders for the year amounted to a gain of £181,385,000 (2008 – loss of £283,604,000). The net asset value per ordinary share at 31 December 2009 was 605.90p (2008 – 437.68p).

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, unchanged on the total for the previous year. The second interim dividend of 13.0p per share will be paid on 26 February 2010 to Shareholders on the register at the close of business on 5 February 2010.

	£'000	£'000
Revenue return for the year available for dividends		16,813
Dividends in respect of the revenue available:		
First interim dividend of 6.0p per Ordinary Share paid 26 August 2009	(5,814)	
Second interim dividend of 13.0p per Ordinary Share payable 26 February 2010	(12,593)	(18,407)
		(1,594)

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 18 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 RBS 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. The Board and the Managers monitor the discount on a daily basis.
- (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

In accordance with the latest guidance issued by the Financial Reporting Council the Directors have undertaken and documented a rigorous assessment of whether the Company is a going concern. The Directors considered all available information when undertaking the assessment.

Directors' Report

The Company's business activities, capital structure, borrowing facilities, together with the factors likely to affect its future development, performance and position are set out in the Managers Report on pages 7 to 12 and the Business Review on pages 21 to 24. In addition, notes 1 to 20 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Company has appropriate financial resources to enable it to meet its day-to-day working capital requirements and the Directors believe that the Company is well placed to continue to manage its business risks.

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

The Directors who held office at 31 December 2009 and their interests in the Shares of the Company as at that date were as follows:

Directors	Nature of Interest	Ordinary Shares	
		2009	2008
D R Shaw	Beneficial	37,000	37,000
H N Buchan	Beneficial	19,474	19,474
M L A Chiappelli	Beneficial	29,173	29,173
J E G Cran	Beneficial	30,590	29,245
D J Jeffcoat ¹	Beneficial	4,438	4,438
Prof P R Marsh	Beneficial	25,000	25,000
Prof W S Nimmo	Beneficial	25,656	25,656

¹ Appointed 22 July 2009.

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2009 and 26 January 2010.

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 3 March 2010. All Directors, with the exception of Mr Shaw who will retire at the Annual General Meeting, offer themselves for election or re-election and biographical details for each are shown on page 20.

Corporate Governance Report

The Corporate Governance Report, which details compliance with the Combined Code, can be found on pages 28-31 and forms part of this report.

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 2011. The price paid for Shares will not be less than the nominal value of 1p per Share and the maximum price

Directors' Report

shall be the higher of (i) 105% of the average of the middle market quotations for the Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out. Any Shares purchased under the authority will be automatically cancelled, rather than being held in treasury, thereby reducing the Company's issued share capital. There are no outstanding options/warrants to subscribe for equity shares in the capital of the Company.

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

Directors' Recommendation

The Directors consider each resolution being proposed at the 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 received notifications in accordance with the FSA's Disclosure and Transparency Rules of the following interests in 3% or more of the voting rights of the Company, which total 96,867,000 votes, as at 26 January 2010.

Interested person	Percentage of Voting Rights Held
Lloyds Banking Group plc (including discretionary investment management)	5.7
Rathbone Brothers plc	5.4
Newton Investment Management Limited	5.0
Legal & General Investment Management	4.2
Barclays plc (including discretionary investment management)	3.9
Rensburg Sheppards Investment Management	3.0

Financial Instruments

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

Section 992 of the Companies Act 2006

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

- The Company's capital structure and voting rights are summarised on page 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 (2008 – £nil).

By Order of the Board
Aberforth Partners LLP, Secretaries
14 Melville Street, Edinburgh EH3 7NS
26 January 2010

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

This report, which forms part of the Directors’ Report, outlines how the principles and recommendations of the AIC Code were applied, unless otherwise stated, throughout the financial year. The Directors are also aware that there are many other published guidelines relating to corporate governance and, whilst these receive due consideration, the Board does not consider it appropriate to address them individually in this report. The Board 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 seven 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 additionally 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		Audit and Management Engagement Committee		Specific Committee	
	Held	Attended	Held	Attended	Held	Attended
D R Shaw, Chairman	4	4	–	–	1	1
H N Buchan	4	4	3	3	–	–
M L A Chiappelli ¹	4	4	3	3	–	–
J E G Cran	4	4	3	3	–	–
D J Jeffcoat ²	2	2	1	1	–	–
Prof P R Marsh	4	4	–	–	1	1
Prof W S Nimmo	4	4	–	–	–	–

¹ Chairman of the Audit and Management Engagement Committee.

² Appointed 22 July 2009.

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 and changes affecting Directors' responsibilities are advised to the Board as they arise. Directors are also able to participate in training courses run by the AIC. 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. Furthermore, appropriate induction training is arranged by the Secretaries for newly appointed directors.

Directors' and Officers' Liability Insurance

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

Appointments to the Board

The Board conducts an annual review of its composition having regard to the present and future needs of the Company, and the Board's structure, including the balance of expertise and skills brought by individual

Corporate Governance Report

Directors and their length of service, where continuity and experience can add significantly to the strength of the Board. During 2009 it was agreed to appoint an additional director. The Board, in conjunction with the Secretaries, prepared a list of prospective candidates. Following meetings, the Board, as a whole, agreed the appointment of Mr. Jeffcoat with effect from 22 July 2009. 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 (including Committees), processes and interaction with the Managers. The Directors also evaluate the performance of the Board and each Director by way of an evaluation questionnaire. The Board then considers the results of this exercise, together with other relevant discussion areas. The appraisal of the Chairman is led by Mr. Chiappelli as Chairman of the Audit and Management Engagement Committee. In line with the Board's policy, each Director retires at the Annual General Meeting (AGM) to be held on 3 March 2010. Messrs Buchan, Chiappelli, Cran, Jeffcoat, Prof Marsh and Prof Nimmo, whose biographical details are shown on page 20, being eligible, offer themselves for election or re-election. As noted in the Chairman's Statement, Mr Shaw has decided to retire at the forthcoming AGM, when Prof Marsh will take over the role of Chairman. The Board believes that each Director continues to be effective, bringing a wealth of knowledge and experience to the Board and recommends the election or 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, a monthly factsheet and Interim Management Statements. The Directors may be contacted through the Secretaries whose details are shown on the inside back cover or through the Chairman's email address which is david.shaw@aberforth.co.uk or Chairman-elect, paul.marsh@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 the financial information of the Company is reliable. The Directors have an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and these are recorded in a risk matrix. This was in operation during the year and continues in place up to the date of this report. The Directors regularly formally review the effectiveness of the Company's system of internal control. This process principally comprises the Audit Committee receiving and examining reports from Aberforth Partners LLP 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.

Corporate Governance Report

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, Cran and Jeffcoat 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 £2,000 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. Representatives of the auditors attend the Committee meeting at which the Annual Report and Accounts are considered.

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.

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 the Companies Act 2006. An ordinary resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting.

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

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

Directors' Service Contracts

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

The following Directors held office during the year:

Director	Date of Appointment	Date of Retirement	Date of Letter of Appointment	Unexpired Term ¹
D R Shaw, <i>Chairman</i>	14 October 1994	—	29 April 2003	5 weeks
H N Buchan	11 November 2003	—	11 November 2003	1 year
M L A Chiappelli	17 July 2001	—	29 April 2003	1 year
J E G Cran	17 July 2001	—	29 April 2003	1 year
D J Jeffcoat	22 July 2009	—	22 July 2009	2.5 years
Prof P R Marsh	16 July 2004	—	16 July 2004	1 year
Prof W S Nimmo	16 July 2004	—	16 July 2004	1 year

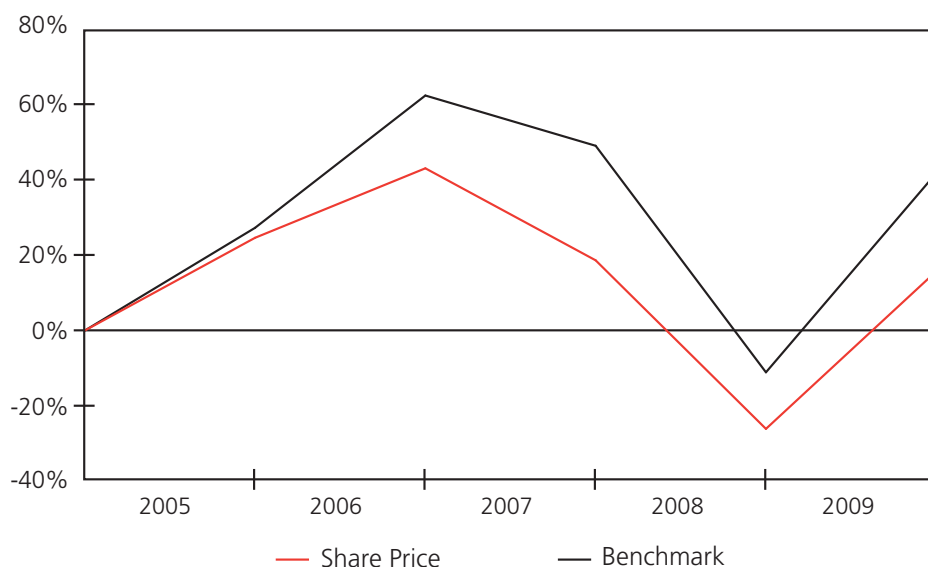
¹ Each Director's unexpired term, other than that of Mr Shaw, is subject to their re-election at the Annual General Meeting in March 2010. As previously stated, Mr Shaw will retire at this Annual General Meeting.

Directors' Remuneration Report

Share Price Performance

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

Total Return Performance over last 5 Years



Directors' Fees (Audited)

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

	Fees 2009 £	Fees 2008 £
D R Shaw, <i>Chairman</i>	26,250	26,250
H N Buchan, <i>Member of the Audit and Management Engagement Committee</i>	18,500	18,500
M L A Chiappelli, <i>Chairman of the Audit and Management Engagement Committee</i>	22,000	22,000
J E G Cran, <i>Member of the Audit and Management Engagement Committee</i>	18,500	18,500
D J Jeffcoat, <i>Member of the Audit and Management Engagement Committee</i>	8,224	–
Prof P R Marsh	17,500	17,500
Prof W S Nimmo	17,500	17,500
	128,474	120,250

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 26 January 2010 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.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Annual Report is published on www.aberforth.co.uk, which is the website maintained by the Company's Manager. The work undertaken by the 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

26 January 2010

Independent Auditors' Report

To the Members of Aberforth Smaller Companies Trust plc

We have audited the financial statements of Aberforth Small Companies Trust plc for the year ended 31 December 2009 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibility Statement set out on page 34, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' Statement, set out page 24, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

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

26 January 2010

Income Statement

For the year ended 31 December 2009

	Note	2009			2008		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	9	—	169,395	169,395	—	(306,730)	(306,730)
Investment income	2	19,110	1,183	20,293	23,684	7,387	31,071
Other income	2	169	—	169	1,206	—	1,206
Investment management fee	3	(1,450)	(2,417)	(3,867)	(1,636)	(2,727)	(4,363)
Other expenses	4	(437)	(2,624)	(3,061)	(489)	(2,880)	(3,369)
Net return before finance costs and tax		17,392	165,537	182,929	22,765	(304,950)	(282,185)
Finance costs	6	(579)	(965)	(1,544)	(526)	(877)	(1,403)
Return on ordinary activities before tax		16,813	164,572	181,385	22,239	(305,827)	(283,588)
Tax on ordinary activities	5	—	—	—	(16)	—	(16)
Return attributable to equity shareholders		16,813	164,572	181,385	22,223	(305,827)	(283,604)
Returns per ordinary share	8	17.35p	169.84p	187.19p	22.75p	(313.12p)	(290.37p)

The Board declared on 26 January 2010 a second interim dividend of 13.0p per Ordinary Share (2008 — 13.0p). The Board also declared on 22 July 2009 a first interim dividend of 6.0p per Ordinary Share (2008 — 6.0p).

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

The accompanying notes form an integral part of this statement.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2009

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2008	969	19	186,192	198,224	38,711	424,115
Return on ordinary activities after taxation	—	—	—	164,572	16,813	181,385
Equity dividends paid	—	—	—	—	(18,411)	(18,411)
Purchase of Ordinary Shares	—	—	(167)	—	—	(167)
Balance as at 31 December 2009	969	19	186,025	362,796	37,113	586,922

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

The accompanying notes form an integral part of this statement.

Balance Sheet

As at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets:			
Investments at fair value through profit or loss	9	632,386	464,427
Current assets			
Debtors	10	2,010	2,278
Cash at bank		362	—
		2,372	2,278
Creditors (amounts falling due within one year)	11	(148)	(42,590)
Net current assets/(liabilities)		2,224	(40,312)
TOTAL ASSETS LESS CURRENT LIABILITIES			
Creditors (amounts falling due after more than one year)	12	(47,688)	—
TOTAL NET ASSETS		586,922	424,115
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital:			
Ordinary Shares	13	969	969
Reserves:			
Capital redemption reserve	14	19	19
Special reserve	14	186,025	186,192
Capital reserve	14	362,796	198,224
Revenue reserve	14	37,113	38,711
TOTAL SHAREHOLDERS' FUNDS		586,922	424,115
NET ASSET VALUE PER SHARE	15	605.90p	437.68p

Approved and authorised for issue by the Board of Directors on 26 January 2010 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 2009

	Note	2009 £'000	2008 £'000
Net cash inflow from operating activities		16,833	31,520
Taxation	5	—	(16)
Returns on investments and servicing of finance	16	(2,062)	(1,381)
Capital expenditure and financial investment	16	(2,907)	(62,013)
		11,864	(31,890)
Equity dividends paid	7	(18,411)	(16,189)
		(6,547)	(48,079)
Financing			
Purchase of Ordinary Shares	13	(167)	(11,113)
Net drawdown of bank debt facilities (before costs)	17	7,076	41,174
Increase/(decrease) in cash	17	362	(18,018)
Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities			
Net return before finance costs and taxation		182,929	(282,185)
(Gains)/losses on investments		(169,395)	306,730
Expenses incurred in acquiring or disposing of investments		2,624	2,880
Decrease in debtors		690	4,076
(Decrease)/increase in other creditors		(15)	19
Net cash inflow from operating activities		16,833	31,520
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year	17	362	(18,018)
Net drawdown of bank debt facilities		(6,326)	(41,174)
Amortised costs in respect of the bank debt facility		(188)	—
Change in net debt		(6,152)	(59,192)
Opening net (debt)/funds		(41,174)	18,018
Closing net debt		(47,326)	(41,174)

The accompanying notes form an integral part of this statement.

Notes to the Financial Statements

1 Accounting Policies

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

(a) Basis of accounting

The 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

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

The arrangement fee in relation to the new £75 million bank debt facility has been amortised over the expected life of the facility (with 62.5% allocated to capital reserve and 37.5% to revenue reserve) on a straight line basis.

(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 Financial Statements

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

	2009 £'000	2008 £'000
Income from investments (UK listed)		
Franked investment income (net)	18,680	23,262
Other investment income	430	422
	19,110	23,684
Other income		
Deposit interest	1	167
Interest recovered from HMRC (see Note 3)	—	985
Underwriting/placing commission	168	54
	169	1,206
Total income	19,279	24,890
Total income comprises:		
Dividends	19,110	23,684
Interest	1	167
Interest recovered from HMRC (see Note 3)	—	985
Underwriting/placing commission	168	54
	19,279	24,890

During the year the Company also received special dividends totalling £1,183,000 (2008 – £7,387,000) 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 the revenue reserve.

Notes to the Financial Statements

3 Investment Management Fee

	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
Investment management fee	1,450	2,417	3,867	1,901	3,170	5,071
VAT recovered	—	—	—	(265)	(443)	(708)
Total	1,450	2,417	3,867	1,636	2,727	4,363

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.

The 2008 VAT recovered above represents the repayment of VAT paid on investment management fees from 1991 to 1996. 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

	2009 £'000	2008 £'000
The following expenses have been charged to revenue:		
Directors' fees (refer to Directors' Remuneration Report)	128	120
Secretarial services	76	76
Registrars fees	60	59
AIC fees	39	39
Custody and other bank charges	28	31
Directors and Officers liability insurance	10	10
Auditors' fee – for audit services: recurring	19	18
– for non-audit services: recurring – taxation services	2	2
– for non-audit services: non-recurring (advisory)	—	3
Legal fees	6	21
Other expenses	69	110
	437	489

The following expenses have been charged to capital:

Expenses incurred in acquiring or disposing of investments classified at fair value through profit or loss	2,624	2,880
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Notes to the Financial Statements

4 Other Expenses (continued)

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

	2009 £'000	2008 £'000
Analysis of total purchases		
Purchase consideration before expenses	235,169	258,819
Commissions	797	1,093
Taxes	889	1,166
Total acquisition expenses	1,686	2,259
Total purchases	236,855	261,078
Analysis of total sales		
Sales consideration before expenses	236,605	198,628
Total disposal expenses – commissions	938	621
Total sales net of expenses	235,667	198,007

5 Taxation

Analysis of tax charged on return on ordinary activities	2009 £'000	2008 £'000
Current tax charge for the year (see below)	—	—
Overseas taxation suffered	—	16
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%).

The differences are explained below:

Total returns on ordinary activities before tax	181,385	(283,588)
Notional corporation tax at 28% (2008 — 28.5%)	50,788	(80,823)
Non-taxable UK dividends	(5,561)	(8,735)
Non-taxable overseas dividend income	(75)	—
Expenses not deductible for tax purposes	735	821
Expenses for which no relief has been taken	1,544	1,319
Overseas taxation suffered	—	16
Capital returns (not subject to corporation tax)	(47,431)	87,418
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 £47,546,000 (2008: £41,996,000).

Notes to the Financial Statements

6 Finance Costs

	Revenue £'000	2009 Capital £'000	Total £'000	Revenue £'000	2008 Capital £'000	Total £'000
Interest/non-utilisation costs on bank debt facility	508	848	1,356	526	877	1,403
Amortisation of bank debt facility costs	71	117	188	—	—	—
	579	965	1,544	526	877	1,403

7 Dividends

	2009 £'000	2008 £'000
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Amounts recognised as distributions to equity holders in the period:

Second interim dividend for the year ended 31 December 2008 of 13.0p (2007: 10.5p) paid on 27 February 2009	12,597	10,375
First interim dividend for the year ended 31 December 2009 of 6.0p (2008: 6.0p) paid on 21 August 2009	5,814	5,814
	18,411	16,189

Amounts not recognised in the period:

Second interim dividend for the year ended 31 December 2009 of 13.0p (2008: second interim dividend of 13.0p) payable on 26 February 2010	12,593	12,597
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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.

	2009 £'000	2008 £'000
Revenue available for distribution by way of dividends for the year	16,813	22,223
First interim dividend for the year ended 31 December 2009 of 6.0p (2008: 6.0p)	5,814	5,814
Second interim dividend for the year ended 31 December 2009 of 13.0p (2008: final dividend of 13.0p)	12,593	12,597
	18,407	18,411

Notes to the Financial Statements

8 Returns per Ordinary Share

The returns per Ordinary Share are based on:

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

	2009 Total £'000	2008 Total £'000
Attributable to Ordinary Shareholders	181,385	(283,604)

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

	2009	2008
Weighted average number of shares in issue during the year	96,897,197	97,670,037

9 Investments

	2009 UK Listed £'000	2008 UK Listed £'000
Investments at fair value through profit or loss		
Opening book cost	731,828	680,664
Opening fair value adjustment	(267,401)	30,302
Opening valuation	464,427	710,966
Movements in the period:		
Purchases at cost	235,169	258,819
Sales – proceeds	(236,605)	(198,628)
– realised losses on sales	(40,331)	(9,027)
Increase/(decrease) in fair value adjustment	209,726	(297,703)
Closing valuation	632,386	464,427
Closing book cost	690,061	731,828
Closing fair value adjustment	(57,675)	(267,401)
Closing valuation (all investments are in ordinary shares quoted in the UK)	632,386	464,427
Net losses on sales	(40,331)	(9,027)
Increase/(decrease) in fair value	209,726	(297,703)
Gains/(losses) on investments	169,395	(306,730)

10 Debtors

	2009 £'000	2008 £'000
Amounts due from brokers	422	—
Investment income receivable	1,546	2,233
Other debtors	42	45
	2,010	2,278

Notes to the Financial Statements

11 Creditors: Amounts falling due within one year

	2009 £'000	2008 £'000
Amounts due to brokers	—	1,297
Bank debt facility (see note 12)	—	41,174
Other creditors	148	119
	148	42,590

12 Creditors: Amounts falling due after more than one year

	2009 £'000	2008 £'000
Bank debt facility	48,250	—
Less: Unamortised costs	(562)	—
	47,688	—

Borrowing facilities

With effect from 24 July 2009, the Company entered into an unsecured £75 million Facilities Agreement with The Royal Bank of Scotland plc. A 1% arrangement fee was paid on entering into the agreement and is being amortised over the expected life of the facility. Under the facility, all funds drawn down attract interest at a margin of 2.7% over LIBOR. A non-utilisation fee is also payable on any undrawn element, at a rate equivalent to 50% of the level of margin. The previous facility with Bank of Scotland was repaid on 24 July 2009.

The main covenant under the facility requires that, every month, total borrowings shall not exceed 30% of the Company's total gross assets (excluding all creditors). There were no breaches of the covenants during the year. As at 31 December 2009, total borrowings represented 7.6% of total gross assets (excluding all creditors).

The current facility is due to expire on 23 July 2011.

13 Share Capital

	2009		2008	
	No. of Shares	£'000	No. of Shares	£'000
Authorised:				
Ordinary Shares of 1p	333,299,254	3,333	333,299,254	3,333
Allotted, issued and fully paid:				
Ordinary Shares of 1p	96,867,000	969	96,900,000	969

During the year, the Company bought in and cancelled 33,000 shares (2008: 1,909,788) at a total cost of £167,000 (2008: £11,113,000). No further shares have been bought back for cancellation between 31 December 2009 and 26 January 2010.

Notes to the Financial Statements

14 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	TOTAL £'000
At 31 December 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 adjustment	—	—	—	(297,703)	—	(297,703)
Cost of investment transactions	—	—	—	(2,880)	—	(2,880)
Management fees charged to capital	—	—	—	(2,727)	—	(2,727)
Finance costs 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
Receipt of special dividends taken to capital	—	—	—	1,183	—	1,183
Net losses on sale of investments	—	—	—	(40,331)	—	(40,331)
Increase in fair value adjustment	—	—	—	209,726	—	209,726
Cost of investment transactions	—	—	—	(2,624)	—	(2,624)
Management fees charged to capital	—	—	—	(2,417)	—	(2,417)
Finance costs charged to capital	—	—	—	(965)	—	(965)
Revenue return attributable to equity shareholders	—	—	—	—	16,813	16,813
Equity dividends paid	—	—	—	—	(18,411)	(18,411)
Purchase of Ordinary Shares	—	—	(167)	—	—	(167)
At 31 December 2009	969	19	186,025	362,796	37,113	586,922

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

15 Net asset value per share

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

	Net asset value per share attributable		Net assets attributable	
	2009 pence	2008 pence	2009 £'000	2008 £'000
Ordinary Shares	605.90	437.68	586,922	424,115

Net asset value per Ordinary Share is based on net assets of £586,922,000 (2008: £424,115,000), and on 96,867,000 (2008: 96,900,000) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

Notes to the Financial Statements

16 Gross cash flows

	2009 £'000	2008 £'000
Capital expenditure and financial investment		
Payments to acquire investments	(238,152)	(260,020)
Receipts from sales of investments	235,245	198,007
	(2,907)	(62,013)
Returns on investments and servicing of finance		
Interest/non-utilisation costs on bank debt facility	(1,312)	(1,381)
Bank debt facility fee (see note 12)	(750)	—
	(2,062)	(1,381)

17 Analysis of changes in net debt

	Net debt at 1 January 2009 £'000	Cash flow £'000	Other non-cash movements £'000	Net debt at 31 December 2009 £'000
Cash at bank	—	362	—	362
Bank debt facility (with Bank of Scotland)	(41,174)	41,174	—	—
Bank debt facility (with the Royal Bank of Scotland)	—	(48,250)	—	(48,250)
Bank debt facility fee (see note 12)	—	750	(188)	562
	(41,174)	(5,964)	(188)	(47,326)

18 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;
- (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.

Notes to the Financial Statements

18 Financial instruments (*continued*)

(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 2009 was 0.5% (2008: 2.0%). The Company's policy is to hold cash in variable rate bank accounts and not usually to invest in fixed rate securities. The Company's investment portfolio is not directly exposed to interest rate risk.

The Company has a bank debt facility of £75,000,000 of which £48,250,000 was drawn down as at 31 December 2009 (2008: debt facility of £80,000,000, of which £41,174,000 was drawn down as at 31 December 2008). Further details of this facility can be found in Note 12.

If LIBOR and the bank base rate had increased by 1%, the impact on the profit or loss and therefore Shareholders' equity would have been a negative £483,000 (2008: negative £412,000). If LIBOR and the bank base rate had decreased by 0.5%, the impact on the profit or loss and therefore Shareholders' equity would have been a positive £241,000 (2008: positive £206,000). There would be no direct impact on the portfolio valuation. The calculations are based on the cash balances as at the respective balance sheet dates and are not representative of the year as a whole and assume all other variables remain constant.

(ii) Liquidity risk

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

(iii) Credit risk

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

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

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

(iv) Market price risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the investment managers in pursuance of the investment objective. No derivative or hedging instruments are currently utilised to specifically manage market price risk. Further information on the investment portfolio is set out in the Managers' Report on pages 7 to 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 2009, the impact on the profit or loss and therefore Shareholders' equity would have been negative £126.5m (2008: negative £92.9m). If the investment portfolio valuation rose by 20% at 31 December 2009, the impact on the profit or loss and therefore Shareholders' equity would have been positive £126.5m (2008: £92.9m). 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 2009, all of the Company's financial instruments were included in the balance sheet at fair value. The fair value approximately equates to the book value. The investment portfolio consisted of listed investments valued at their bid price, which represents fair value. Any cash balances, which are held in variable rate bank accounts, can be withdrawn on demand with no penalty.

Notes to the Financial Statements

18 Financial instruments (*continued*)

Contractual maturity analysis for financial instruments As at 31 December 2009

(All in £'000)	Due or due not later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Current Assets:						
Cash at bank	362	—	—	—	—	362
Investment income receivable	1,258	288	—	—	—	1,546
Amounts due from brokers	422	—	—	—	—	422
Other debtors	6	11	25	—	—	42
Total current assets	2,048	299	25	—	—	2,372
Current Liabilities:						
Bank debt facility	—	—	—	48,250	—	48,250
Unamortised costs	—	—	—	(562)	—	(562)
Other creditors	107	41	—	—	—	148
Total current liabilities	107	41	—	47,688	—	47,836
Net liquidity of continuing operations	1,941	258	25	(47,688)	—	(45,464)

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	—	—	—	2,223
Other debtors	7	12	26	—	—	45
Total current assets	1,828	424	26	—	—	2,278
Current Liabilities:						
Bank debt facility	—	—	41,194	—	—	41,194
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)

Cash flows payable under financial liabilities by remaining contractual maturities As at 31 December 2009

(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	—	471	1,439	49,317	—	51,227
Other creditors	—	75	—	—	—	75
	—	546	1,439	49,317	—	51,302

Notes to the Financial Statements

18 Financial instruments (*continued*)

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

Capital Management Policies and Procedures

The Company's capital management objectives are:

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

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

19 Financial instruments measured at fair value

Description	Level 1 £'000	Level 2 £'000	Level 3 £'000	2009 Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2008 Total £'000
Investments	632,386	—	—	632,386	464,427	—	—	464,427
Current assets	2,372	—	—	2,372	2,278	—	—	2,278
Total Assets	634,758	—	—	634,758	466,705	—	—	466,705
Current assets (excl. bank debt facility)	148	—	—	148	1,416	—	—	1,416
Bank debt facility	47,688	—	—	47,688	41,174	—	—	41,174
Total liabilities	47,836	—	—	47,836	42,590	—	—	42,590
Total net assets	586,922	—	—	586,922	424,115	—	—	424,115

Level 1 reflects financial instruments quoted in an active market.

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

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

20 Contingencies, guarantees, financial commitments and contingent assets

The Company had no contingencies, guarantees or financial commitments as at 31 December 2009 (2008: 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, lines are open 8.30 am to 5.30 pm Monday to Friday). Fax: 01484 600 911. Email: shareholder.services@capitaregistrars.com. Website: www.capitaregistrars.com

Payment of dividends

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

Sources of further information

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

How to invest

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

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

Electronic proxy voting

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

AIC

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

Shareholder Information

Financial Calendar

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

Glossary of Technical Terms

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

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

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

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

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

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

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

Notice of the Annual General Meeting

Notice is hereby given that the Twentieth Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 3 March 2010 at 6.30 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 2009 be adopted.
2. That Mr H N Buchan be re-elected as a Director.
3. That Mr M L A Chiappelli be re-elected as a Director.
4. That Mr J E G Cran be re-elected as a Director.
5. That Mr D J Jeffcoat be 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 2009 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 Resolution:

10. That pursuant to and in accordance with its Articles of Association, the Company be and it is hereby authorised in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares of 1p each in the capital of the Company ("Shares"), provided that:
 - (a) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the issued share capital of the Company on the date on which this resolution is passed;
 - (b) the minimum price which may be paid for a Share shall be 1p being the nominal value of a Share;
 - (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be the higher of (i) 5% above the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out;
 - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 July 2011 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2011, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiry of such authority and may make a purchase of Shares pursuant to any such contract.

By Order of the Board

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

26 January 2010

Notes to the Notice of the Annual General Meeting

1. Attending the Annual General Meeting in person

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

2. Appointment of Proxy

A Form of Proxy for use by Shareholders is enclosed. Completion of the Form of Proxy will not prevent a Shareholder from attending the meeting and voting in person. To register your vote electronically, log on to the registrar's web site at www.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 personal members or other CREST sponsored members and other CREST members who have appointed a voting service provider(s) should contact their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

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

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

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

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

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

3. Entitlement to attend and vote

To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6.30 p.m. on 1 March 2010 (or, if the Annual General Meeting is adjourned, at 6.30 p.m. on the day two days (excluding non working days) prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

Notes to the Notice of the Annual General Meeting

4. Questions and Answers

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

5. Total Voting Rights

As at 26 January 2010, the latest practicable date prior to publication of this document, the Company had 96,867,000 Ordinary Shares in issue with a total of 96,867,000 voting rights.

6. Shareholder disclosure obligations

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

7. Information on the Company's website

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

8. Nominated Persons

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

9. Audit concerns

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

10. Documents available for inspection

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

Corporate Information

Investment Managers and Secretaries

Aberforth Partners LLP
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
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Registered in Scotland No. 126524

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
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Tel: 0871 664 0300 (calls cost 10p per minute
plus network extras)
Website: www.capitaregistrars.com

Bankers

The Royal Bank of Scotland
36 St Andrew Square
Edinburgh EH2 2YB

Custodian

The Northern Trust Company
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Canary Wharf
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Auditors

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Ten George Street
Edinburgh EH2 2DZ

Solicitors and Sponsors

Dickson Minto W.S.
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