Aberforth Smaller Companies Trust plc

Annual Report and Accounts

31 December 2010

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

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

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

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

Financial Highlights

Year to 31 December 2010

	%
Net Asset Value (total return)	+26.6
RBS Hoare Govett Smaller Companies Index (excl. Investment Companies) (total return)	+28.5
Ordinary Share Price (with net dividends reinvested)	+22.8

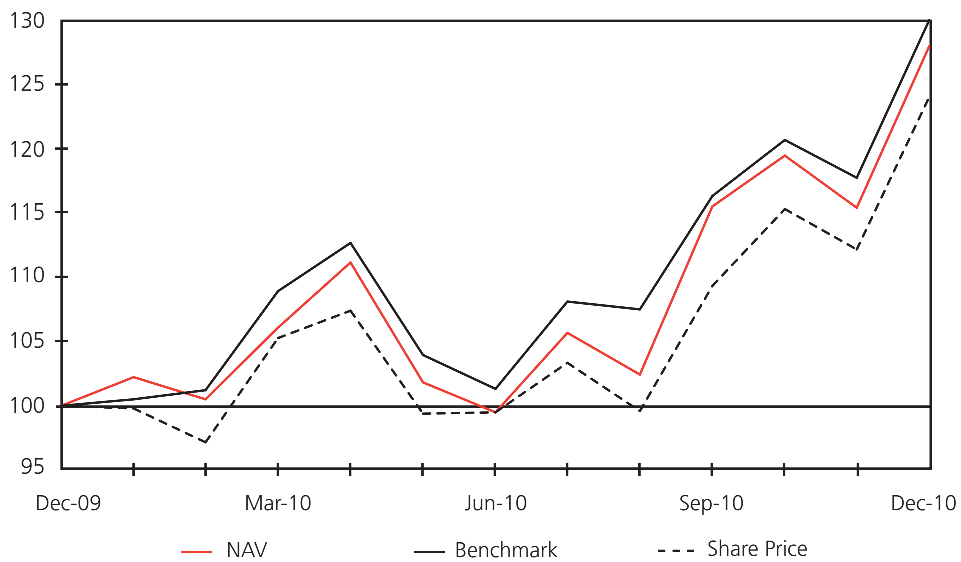
	As at 31 December 2010	As at 31 December 2009	% Change
Shareholders' Funds	**£716.8m**	£586.9m	+22.1
Market Capitalisation	**£609.5m**	£517.3m	+17.8
Actual gearing employed	**107.3%**	107.7%	n/a
Ordinary Share net asset value	**743.81p**	605.90p	+22.8
Ordinary Share price	**632.50p**	534.00p	+18.4
Ordinary Share discount	**15.0%**	11.9%	n/a
Revenue per Ordinary Share	**18.11p**	17.35p	+4.4
Dividends per Ordinary Share	**19.00p**	19.00p	0.0
Total expense ratio	**0.85%**	0.85%	n/a
Portfolio turnover	**37.3%**	42.0%	n/a

	31 December 2010	31 December 2009
Total return per Ordinary Share		
Revenue	**18.11p**	17.35p
Capital	**138.08p**	169.84p
Total	**156.19p**	187.19p

One Year Performance

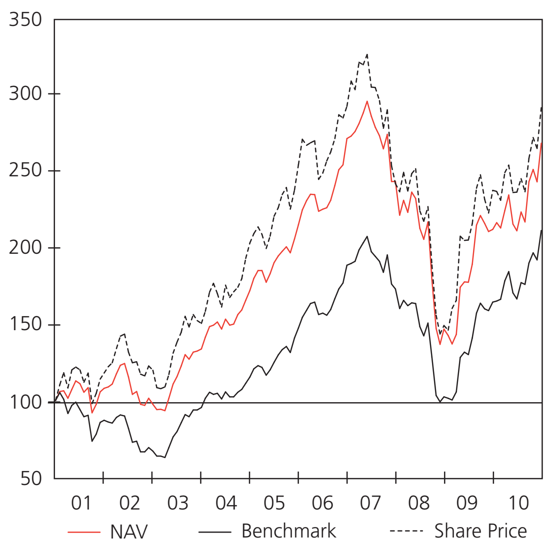
Absolute Performance

(figures are total returns and have been rebased to 100 at 31 December 2009)



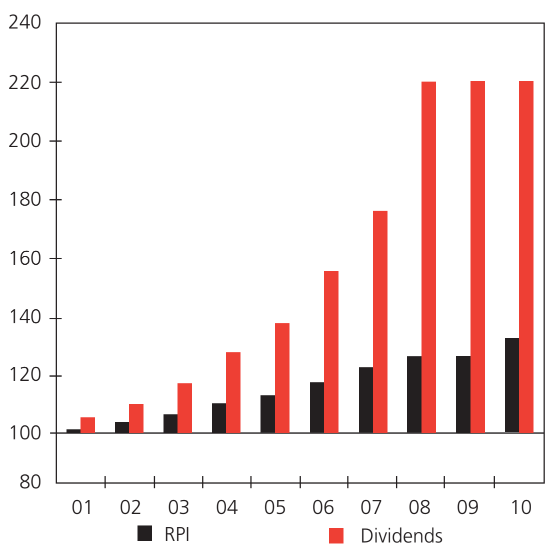
Ten Year Investment Record

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2000)

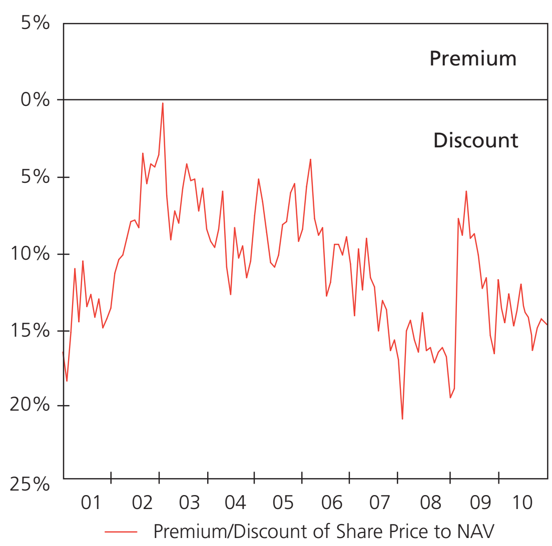


Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2000)

Dividends and RPI Growth
(figures have been rebased to 100 at 31 Dec 2000)



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 2010, it is the largest trust, based on net assets, within its sub-sector of UK Smaller Company Investment Trusts.

Objective

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

Further details regarding the benchmark, investment policy and approach can be found in the Business Review contained in the Directors' Report on pages 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 £1.7 billion invested in small UK quoted companies. Further information on the firm is set out on page 6.

Share Capital

At 31 December 2010 the Company's issued share capital consisted of 96,366,792 Ordinary Shares of 1p. During the year 500,208 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 2010 Performance

2010 has been another good year for UK equities. The FTSE 100 gave a total return (including reinvested dividends) of 12.6%, while the FTSE All-Share returned 14.5% and the FTSE SmallCap total return index (excluding investment companies) rose 16.9%. The return on your Company's shares, with dividends reinvested, was 22.8%, while your Company's net asset value total return was 26.6%. This was surpassed by the performance of your Company's investment benchmark, the RBS Hoare Govett Smaller Companies Index (excluding investment companies) (RBS HGSC (XIC)) which gave a return of 28.5%. The Managers' Report below provides further information on the current year's performance, including the reasons for the underperformance against benchmark. It also provides Shareholders with greater insight into what has undoubtedly been an extremely frustrating five year period for relative performance, particularly when set against the longer term returns.

Continuation Vote

In viewing the table on page 18, your Board is acutely conscious of the disappointing five year numbers sitting alongside the excellent long term numbers. It is against this backdrop that your Board has carefully considered its recommendation ahead of the three yearly continuation vote in March 2011. In addition to the Shareholder meetings undertaken by the Managers, your Board has sought, and received, feedback from Shareholders. As a Board, we strongly believe that the Company's long term performance has benefited from the management features offered by Aberforth Partners. Wholly owned by its partners, Aberforth Partners continues to specialise solely in investment in small UK quoted companies. The experienced investment personnel are also significant investors in your Company and have delivered a level of continuity few in the broader investment trust sector can rival. Aberforth Partners also brings with it a consistent investment approach around the value investing style.

These are truly torrid times for value investing. As the Managers' Report demonstrates in greater detail, value investing within the UK, and especially the UK smaller companies sector, has never been so out of favour over your Company's history. Not only is the value style performing as poorly as it did during the TMT millennium bubble, but it has done so for a longer period than was the case back then. Investment styles wax and wane but there can be little doubt that growth and (in most years) momentum have truly held the upper hand over the past five years. Indeed, the experience in 2010 would suggest that this trend is intensifying. However, as any stockmarket investor is acutely aware, no investment style continues unchecked indefinitely. As value investors, we believe that eventually, "true value will out". And certainly, for patient investors, the smaller companies/value style segment has outperformed all others over the longer run.

Your Board believes that investment style has been the overwhelming influence behind your Company's under-performance against the benchmark. But, during such a difficult period for value investing, it was almost inevitable that a "perfect storm" might arrive. It did so in the shape of the exceptional benchmark index rebalancing in 2009. Last year's Annual Report covered in detail the impact of the 40 "Fallen Stars" that entered the RBS HGSC benchmark at the start of 2009. These were once-large companies characterised by high levels of debt and sizeable pension deficits. Had economic recovery been delayed, many of them would likely not have survived. Nevertheless, when the market recovered sharply in 2009, these high risk companies performed extremely well, and the Company's exposure to them was limited. While this was detrimental to relative capital performance, many of these companies went on to make dividend cuts. Suffice it to say that the Company has a much rosier outlook with regard to future growth in dividends to Shareholders.

Your Company's policy is to hold a continuation vote every three years. Since the last vote three years ago, your Company's net asset value return has underperformed its benchmark. However, on the brighter side, it is worth noting that over this same period, the net asset value return has exceeded the total return on the FTSE All-Share index and has been appreciably larger than the return on the FTSE SmallCap XIC index. Furthermore, the return to investors, as measured by your Company's share price return, with dividends reinvested, very nearly matched the return on the RBS HGSC index.

Under-performance is never an enjoyable experience but, in reviewing the past three and five years, the Directors have carried out extensive analysis, and have a comprehensive understanding of the factors behind the numbers. They have spent much time reviewing the investment process with the Managers, and continue to have full confidence in the professionalism of Aberforth Partners. As the Managers' Report highlights, the portfolio is well populated with soundly financed companies selling on attractive valuations. Your Company is a large, liquid trust, following a consistent value style, with outstanding long run performance. It occupies an important place in the market and in the opportunity set available to investors. As a consequence, your Board recommends that Shareholders vote in favour of your Company's continuation. Your Directors intend to do so in respect of their aggregate beneficial holdings of 135,425 Ordinary Shares.

Dividends

Alas, your Board is neither able, nor naïve enough, to attempt to call the shift in investment styles, but perhaps the improvement we are seeing in dividends from the companies in the portfolio offers some cause for optimism.

Chairman's Statement

Your Board is pleased to declare a second interim dividend, in effect a final dividend, of 13p per share. This results in total dividends for the year of 19p which is the same as last year.

In last year's Chairman's Statement, my predecessor cautiously forecast that investment income from the portfolio might witness a "further modest decline" during 2010. Encouragingly, investment income has surprised on the upside, growing by a healthy 7.4%. Earnings per share for the year were 18.1p, considerably higher than had been anticipated at the beginning of the year, thereby resulting in a minimal 0.9p per share draw on revenue reserves to maintain the current dividend. The Managers' Report provides Shareholders with greater detail on what has been an excellent year for dividends.

Your Board has always emphasised the importance of the income element of the total return from equities over the long term. Your Company's dividend per share has increased on average by 8.2% p.a. and 7.9% p.a. over the past ten and twenty years respectively, and has been a key component in delivering the long term record. As we enter 2011, I am optimistic about your Board's ability to resume this record of increasing the dividend paid to Shareholders.

Gearing

As you are aware, it has been your Company's policy to use gearing in a tactical manner during its twenty year history. The current gearing was put in place progressively from mid-2008 and has thus far been beneficial to Shareholders. As at 31 December 2010, your Company was utilising £52 million of the £75 million facility provided by The Royal Bank of Scotland plc. As the Managers' Report covers in more detail, the current valuation levels are supportive of the maintenance of a geared position. Your Board and Managers are already in discussion regarding the replacement or rollover of the existing facility in July 2011. I hope that the improvement we have seen in the financial sector will be reflected in the terms of our new facility. We have already seen some evidence of this through improved terms that the Managers have agreed with the lender for the existing facility. This facility, which represents 10.5% of Shareholders' funds, provides the Company with access to liquidity for investment purposes and also to fund share buy-ins as and when appropriate.

Share Buy-In Authority and Treasury Shares

At the Annual General Meeting in March 2010, the authority to buy-in up to 14.99% of your Company's Ordinary Shares was approved. During the year, 500,208 Ordinary Shares have been bought-in at a total cost of £2.746 million. Consistent with your Board's stated policy, those Ordinary Shares have been cancelled rather than held in treasury. Once again, your Board will be seeking to renew the buy-in authority at the Annual General Meeting on 2 March 2011. The Board keeps under constant review the circumstances under which the authority is utilised in relation to the overall objective of seeking to sustain a low discount.

Board Changes

Marco Chiappelli, who has been a Director for over nine years, will not be standing for re-election at the forthcoming Annual General Meeting. We are extremely grateful to Marco for his sound advice and wise counsel, and for his outstanding contribution as Chairman of the Audit Committee for the last seven years. David Jeffcoat succeeds Marco as Chairman of the Committee. We wish Marco all the very best for the future.

Conclusion

2010 has seen a continuing recovery in the share prices of UK smaller companies from the depths of the fourth quarter of 2008. While bad news over-populates the nation's media, there is undoubtedly a good news story to be told about corporates. UK equity investors are enjoying the fruits of that as the Managers highlight in their report. Small UK quoted companies are very much part of that story. A strong financial position, coupled with the diligent management of costs during recent years, is allowing them to reward shareholders through rising dividends as the business cycle slowly recovers from the global financial crisis.

The prospects of rising dividends from investee companies – and hence for our own Shareholders – will hopefully herald a return in the market to a focus on value, which in turn will lead to an improvement in your Company's relative performance. In this regard the outperformance versus the benchmark in the second half of 2010 is an encouraging first step.

Your Board remains confident that the Managers' experience will continue to benefit your Company over the long term.

Professor Paul Marsh
Chairman
26 January 2011

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 £1.7 billion (as at 31 December 2010). 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 (44) 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 – Health Care Equipment & Services; Industrial Transportation; Technology Hardware & Equipment; Travel & Leisure; and a proportion of Support Services. Previously he was with Edinburgh Fund Managers for 7 years, latterly as Deputy Head of UK Small Companies, with specific responsibility for institutional clients. Prior to joining Edinburgh Fund Managers he was a senior investment analyst with General Accident for 2 years supporting the head of UK Smaller Companies. Before joining General Accident, he was a Chartered Accountant with Price Waterhouse.

John M Evans (53) MA (Hons) – John was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Automobiles & Parts; Chemicals; Construction & Materials; Household Goods & Home Construction; Leisure Goods; Personal Goods; Fixed Line Telecom; Electricity; Gas and Water & Multiutilities. 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 (40) 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 (51) BA (Hons) – Richard was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Alternative Energy; Beverages; Electronic & Electrical Equipment; Food & Drug Retailers; Food Producers; 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 (61) 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 Investment & Services; Real Estate Investment Trusts; 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 (47) – Alistair was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Aerospace & Defence; Industrial Metals & Mining; Media; Mining; Oil & Gas Producers; Oil Equipment, Services & Distribution; and Pharmaceuticals & Biotechnology. Previously he was with Ivory & Sime for 11 years where latterly he managed portfolios in Asia. Prior to that he managed portfolios with the objective of capital growth from smaller companies in the UK and internationally.

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

Managers' Report

Introduction

Small UK quoted companies performed well in 2010, with the RBS Hoare Govett Smaller Companies Index (excluding Investment Companies) (RBS HGSC (XIC) or the benchmark) securing a total return of 28.5%. A good close to the year took the benchmark above its previous peak in total return terms, which was set on 1 June 2007. Large companies, as measured by the FTSE All-Share, achieved a 14.5% total return. ASCoT's NAV total return was 26.6%, higher than that of large companies but below that of the benchmark.

The strong gains enjoyed by equity markets over the past two years have been driven by three factors.

- Early 2009 witnessed a powerful "relief rally". The valuations of a significant number of UK businesses reflected the risk of bankruptcy. However, a series of rights issues served to recapitalise these companies and, by extending the investment horizon, to breathe life into their valuations.
- Despite this rally, corporate profits continued to decline through most of 2009 as revenues came under recessionary pressure. However, management teams reacted promptly with deep restructuring programmes. Thus, when revenues troughed late in 2009 and began to grow again in 2010, margins recovered sharply, allowing a surprising number of businesses to exceed their previous peak profit levels in 2010 – a remarkable feat when viewed in the context of the global financial crisis.
- Concurrently, monetary policy has remained extremely accommodative and indeed has proceeded to embrace the unconventional measures termed as "quantitative easing". As central banks have made direct purchases of government debt, bond yields have moved downwards: in the UK, for example, ten year gilt yields declined from 4.0% to 3.4% over the course of 2010. With government bond yields forming the risk free basis of the discount rates used to value equities, equity valuations may be considered to have benefited.

Investment Background

However, the year under review was punctuated by bouts of concern about the sustainability of recovery, notably in May and June, when the RBS HGSC (XIC) declined by 10%. Some of the challenges confronting equity markets are described in the following paragraphs.

- Western economies have depended on emerging markets in general and China in particular as sources of demand growth through recession and the initial stages of recovery. However, this reliance on economic imbalances can play both ways. Inflationary pressures in the emerging world are manifest in renewed commodity price rises. Of course, higher commodity prices apply too to Western economies, which would also be affected should policymakers in the emerging world move to quell the threat of inflation. Moving forward, China's commitment to its mercantilist growth agenda will be pivotal.
- In contrast to the inflationary issues in emerging markets, the focus in the developed world has been on the robustness of recovery and the risk of the notorious double-dip. In the US, the recovery has seen GDP return close to its peak level at the end of 2007. Nevertheless, there is concern about pressures on the US consumer sector, which has driven recoveries from earlier recessions. News on housing and employment has been mixed and has generated considerable short term stockmarket noise. However, the extension of the Bush administration's tax cuts provides some relief and, cliché though it is, writing off the US consumer is dangerous.
- Europe has been the frequent focus of worries, with first Greece and then Ireland raising questions about the viability of the single currency. The markets were still digesting the implications of the Irish bail-out as the year drew to a close, but it is difficult to believe that sovereign debt concerns in the euro zone will be confined to 2010 or to Greece and Ireland. It is not all bad news, however: the export led economies of Northern Europe – notably Germany – are together much larger than the troubled "PIGS" and are benefiting from the euro's 7% decline against the dollar in 2010.
- In common with many Western economies, with the notable exception to date of the US, the UK has embraced fiscal austerity. Indeed, the coalition government's plans for public sector retrenchment are among the most drastic yet announced. This has polarised opinion among economists, including members of the Bank of England's Monetary Policy Committee, between those who see a looming inflationary threat in persistently high CPI data and those who identify lingering deflationary forces undermining the recovery. It is too early to judge the merits of the coalition's experiment. However, the

key to its success lies in the ability of the corporate sector to take up the strain as the public sector deficit narrows. In this, the consumer sector may be seen as the wild card: its proclivity to save will be influenced by its perceptions of the success of present economic policy.

Fortunately, the UK's corporate sector is in remarkably good shape, a characteristic shared with other Western economies. British non-financial companies have in aggregate generated cash, since the first quarter of 2002. Thus, businesses on the whole were well prepared for the downturn. And balance sheets have been further strengthened by cost cutting actions and the subsequent pick-up in profitability. However, companies have not yet proved willing to translate their financial wellbeing into the meaningful pick-up in investment that will ease the economy's reliance on the public sector and sustain overall economic growth. Private sector investment has recovered from its recessionary nadir but remains well below its levels in the years leading up to the credit crunch. So management teams now find themselves with an intriguing question – what to do with their robust balance sheets. From the point of view of an equity investor, this is not an unpleasant conundrum.

Investment Performance

ASCoT's 26.6% NAV total return in 2010 was below the 28.5% achieved by its benchmark. This result continues a frustrating period of relative performance that can be traced back to 2005. The following paragraphs provide some explanation for 2010's performance and also draw out themes that help put the longer term into context. The concluding section of the report, ***Investment Outlook***, then seeks to outline why your Managers believe that the portfolio is well positioned to generate an improvement in relative performance over the next five years.

- Your Managers have consistently adhered to a value investment style over the past 20 years. As a consequence, there have been periods, most notoriously during the TMT boom at the turn of the century, in which relative performance was poor, but overall this value philosophy has assisted ASCoT's returns. The last five years, including 2010, have been extremely adverse for the value style, favouring instead growth and momentum investors. This has been less headline-grabbing than was the case during the TMT boom, but research conducted by the London Business School suggests that the current bear market for value stocks has been as deep and more prolonged. This research shows that value stocks within the RBS HGSC (XIC) under-performed the benchmark as a whole by 10.8 percentage points in 2010 and by 34.0 percentage points over the last five years. Though not insurmountable through good stock selection, this has represented a major headwind to the value investor.

- A related impact is that of size. It may seem strange for a small cap manager to alight on this influence, but the RBS HGSC (XIC), which represents the bottom 10% of the total market capitalisation of the UK stockmarket, now takes in a significant portion of the FTSE 250 index. Indeed, with the largest company in the benchmark boasting a market capitalisation of £1.3bn, mid cap companies account for over 72% of the total value of the RBS HGSC (XIC). In contrast, ASCoT's portfolio has moved steadily more under-weight the FTSE 250 component of the benchmark over the past five years to the extent that its exposure stood at 44% at the end of 2010. This has proved ill-timed: the FTSE 250 has outstripped the FTSE SmallCap by 58% over the past five years, including out-performance of 12% in 2010.

  There are several factors that may have contributed to the substantially better returns from the "larger small" companies. A precise quantification is difficult but your Managers maintain that they have not had to compromise in terms of fundamentals, such as growth and profitability, when investing in the "smaller small" companies. The more significant influence has been on a technical level. Mid caps have benefited from rising trading volumes and stockmarket liquidity over the past decade, as hedge funds and long-only managers sought to diversify risk within portfolios dominated by larger companies. In this process, "smaller small" companies were left behind, exaggerating the customary discount that reflects their lower liquidity. It is this widening discount, which amounted to 20% on a forward PE basis at the end of the year, that your Managers have been seeking to exploit in reallocating capital from "larger small" companies to "smaller small" companies.

- The following table is an attribution analysis, setting out the various contributions to ASCoT's relative NAV performance through 2010.

For the twelve months ended 31 December 2010		Basis Points
Stock selection	Based on mid-prices	(255)
Sector selection		(41)
Attributable to the portfolio of investments (after transaction costs of 54 basis points)		**(296)**
Movement in mid to bid price spread		18
Cash/gearing		171
Purchase of Ordinary Shares		9
Management fee charged		(82)
Other expenses		(8)
Total attribution based on bid-prices		**(188)**

Note: 100 basis points = 1%. Total attribution is the difference between the total return of the net asset value and the Benchmark Index (i.e. net asset value = 26.61%; Benchmark Index = 28.49%; difference is –1.88% being –188 basis points).

Overall sector selection made a small negative contribution to relative performance. One of the stockmarket's strongest themes over recent years, and one that has intensified during the recovery phase, has been the out-performance of businesses with high exposure to emerging markets, which continued to grow while the developed markets languished. This trend has benefited the commodity sectors and capital goods companies. The portfolio was under-weight in commodity sectors: the companies available within the benchmark often have valuations that are highly dependent on the resilience of underlying commodity prices and, at an early stage of development, tend to consume cash. Compensating for this positioning was the portfolio's large over-weighting in capital goods, which benefit from similar demand drivers but which also boast more attractive cash dynamics. However, the stockmarket's fondness for this emerging markets trade opened up sizeable valuation differentials with domestically oriented businesses. Consistent with their value investment disciplines, your Managers therefore moved capital into sectors such as Media and General Retailers through the year.

Stock selection made a negative contribution. This impact should be assessed within the context of the comment on investment style made above. Within each sector, your Managers' value investment philosophy tends to drive capital into stocks sitting on lower valuations. This does not mean that the quality of the underlying business or its growth prospects are ignored. It does mean that in the trade-off of value and growth, your Managers will, as they always have, emphasise the former. However, the stockmarket, as already described, has preferred those businesses with higher growth profiles in the current environment of economic uncertainty: i.e. genuine growth has attracted a scarcity premium. This dynamic has exaggerated the "value stretch" within the benchmark: the relatively narrow band of companies perceived to have reliable growth prospects has seen its premium to the apparently dreary majority expand.

The strong absolute returns from ASCoT's portfolio meant that its gearing enhanced NAV performance over 2010.

- While many of the companies in which ASCoT invests might be described as out of fashion for the present mood of the stockmarket, their underlying performance has been robust, consistent with the benefits of economic recovery and rapid cost cutting previously described. A demonstration of this fundamental progress is the portfolio's dividend experience in 2010. The following table classifies ASCoT's 88 investee companies at the year end by their most recent dividend action:

Band	Nil	IPOs	Down	Flat	+0-10%	+10-20%	+ >20%
No. of holdings	15	3	3	23	16	11	17

The "Nil" category includes those companies that did not pay a dividend in 2010. Six of these can be termed structural nil payers, typically technology businesses at a relatively early stage of development. The other nine may be considered cyclical nil payers that will come back to the dividend register once their profits recover. This latter phenomenon is relevant to the wider small company universe and can have a meaningful effect on aggregate reported dividend growth. Of the three holdings in the IPO category, two are expected to go on to pay dividends. Three companies cut their dividends, which is not an abnormal incidence even in steadier economic conditions. The positive aspect of the analysis is the number of companies in the three right hand columns: 44 companies chose to increase their dividends, some by a significant amount.

Going into recession, your Managers emphasised the tactic of being "paid to wait" for the eventual upturn: a sustainable dividend yield can provide some compensation in periods of difficult trading. In the event, 2009 turned out to be the worst for dividends in the RBS HGSC (XIC)'s history. ASCoT's portfolio fared less badly, but there were nevertheless some disappointing dividend decisions. The turnaround encapsulated in the preceding analysis is therefore welcome and is indicative of the rapid cost reductions implemented by management teams last year. The dividend recovery has come earlier than your Managers had expected at the start of 2010 and is clearly supportive of ASCoT's income account.

- As described previously, the corporate sector in the UK is in a relatively healthy position, with strong cash flows and balance sheets. These are characteristics that are shared by the small company universe and by ASCoT's portfolio, and that no doubt assisted company boards in deciding to increase dividends. Entering 2011, almost 40% of the portfolio was invested in companies with net cash on their balance sheets at the end of 2010. This positioning hindered relative returns in 2009 as many highly geared businesses enjoyed a powerful bounce in their share prices. However, in 2010 the impact of balance sheet structure was less pronounced and, indeed, the share prices of several of the indebted businesses that performed so strongly in 2009 slipped back. Moving forward, your Managers are retaining the portfolio's bias to strong balance sheets. This is less for defensive reasons and more as a result of the stockmarket's current reluctance to look beyond the extremely low returns from cash. Crucially, cash affords businesses a degree of competitive advantage over rivals still focused on balance sheet repair and also gives flexibility to make acquisitions or return capital to shareholders. It is not your Managers' preference to see substantial balances of net cash reside on balance sheets indefinitely: pressure will mount to deploy cash in a profitable fashion for shareholders.
- M&A activity within the RBS HGSC (XIC) in 2010 picked up from the depressed levels of 2009, but, with 16 deals completed, was still some way short of the 50 per annum average over the preceding five years. However, the average deal size rose markedly and, entering 2011, a number of deals were awaiting completion. Echoing previous cycles, the predators have included large American companies, which typically trade on higher valuations than their smaller UK peers and, at the current time, benefit from the weakness of sterling. The conditions for a further recovery in M&A and de-equitisation in general are in place. As already noted, companies are under pressure to utilise their strong balance sheets. Moreover, the gap between the cost of debt and the cost of equity is wide: at the end of 2010, the BBB sterling 5-7 year corporate bond yield stood at 5%, whereas the portfolio's prospective ratio of pre tax and interest profit to enterprise value was 13%. Valuations within the small company universe are attractive, particularly down the scale of market capitalisations. This has led to often exaggerated bid premiums to prevailing stockmarket valuations but it has also invited some opportunistic approaches. So, while the scope for more M&A ought to be of relative advantage to ASCoT as it has been in the past, your Managers are mindful of balancing the short term fillip from acquisitions to relative performance against the intrinsic value of the underlying businesses.

Investment Outlook

From a top down perspective, it is not difficult to identify a series of challenges to the current recovery in developed economies. The process of deleveraging already underway is inherently deflationary. Policy makers thus confront a tricky balancing act as demand from the public sector is reduced and the willingness of the private sector to take up the slack is still unclear. Complicating matters is the experiment with the unconventional tool of quantitative easing, whose effectiveness is compromised by a transmission mechanism, the banking system, whose focus remains on balance sheet repair. Furthermore, unlike previous recoveries, there is the emerging markets dimension: China in particular has played a crucial role in fostering recovery to date and will remain a key influence on demand in Western economies.

Intriguingly, in the face of these challenges, 2010 drew to a close with a series of more positive economic data releases in the US. These coincided with renewed strength in industrial commodity prices and with a marked change in sentiment within major government bond markets. For illustration, ten year treasury yields in the US, which had declined steadily through most of the year, rose from 2.4% to 3.3% through the fourth quarter. The majority of this increase was driven by higher real yields, rather than by expectations of increased inflation, which can be interpreted as an indication of stronger real economic growth. While such a development perhaps says more about where bond yields themselves had got to, the implications for equities are more positive: the increase in the risk free rate is offset by the prospect of a more robust outlook for growth.

However, it is helpful to bear in mind that ASCoT invests in businesses rather than economies. The corporate sectors in many developed markets are in robust health, both in absolute terms and relative to the other parts of the economy. This is certainly the case in the UK and, most relevantly, in the small company universe. The range of companies available to ASCoT during this upturn is very different from those that populated the benchmark in the recovery from the recession in the early 1990s. The intervening "hollowing-out" of UK industry has left a collection of survivors with international-facing businesses: roughly half of the revenues generated by portfolio companies in 2010 came from outside the UK.

The corporate sector is in a fascinating position. In simple terms, it has two choices. The first, no doubt favoured by policy makers, is to take the strain from the public sector, using their balance sheets and cash flows to invest for future growth. The second is to sit tight, enjoying the current period of margin expansion, allowing balance sheets to strengthen further and participating, one way or the other, in renewed de-equitisation. While the merits of these can be debated, perhaps the most important point is that companies do have a choice: either scenario could be supportive of good returns for equity investors.

Of course, the probability of good returns is enhanced by attractive starting valuations. ASCoT's portfolio would seem well positioned, as the table below suggests.

	31 December 2010		31 December 2009	
Characteristics	**ASCoT**	**Benchmark**	ASCoT	Benchmark
Number of companies	**88**	**430**	87	448
Weighted average market capitalisation	**£424m**	**£696m**	£368m	£619m
Price earnings ratio (historic)	**11.8x**	**13.7x**	8.1x	11.2x
Dividend yield (historic)	**2.5%**	**2.4%**	3.2%	2.7%
Dividend cover (historic)	**3.4x**	**3.0x**	3.9x	3.3x

ASCoT's portfolio ended the year on a historic dividend yield of 2.5%. The decline from last year's 3.2% was driven by a rise in the portfolio's value over the twelve months and by trading activity. Working in the opposite direction was the positive dividend experience described previously. The outlook for continued growth in dividends is supported by the return of cyclical nil payers to the dividend register and by the portfolio's dividend cover of 3.4x, which is almost 40% above the average over ASCoT's 20 year life.

The historic PE ratio was 14% below that of the RBS HGSC (XIC) at the end of the year. This compares with an average discount over ASCoT's history of 8%. In absolute terms, ASCoT's PE of 11.8x compares with a 20 year average of 13.0x and, given that profits are still recovering, might be considered low at this stage of the cycle. However, with the presently low levels of return from cash, PE ratios struggle to capture the crucial cash dynamic previously described in this report. The EV/EBITA (i.e. enterprise value to profit before interest, tax and amortisation), which is your Managers' key valuation metric in the investment process, adds some colour.

EV/EBITA	Actual **2009**	Forecast **2010**	Forecast **2011**
ASCoT	9.8x	9.2x	7.7x

The table above sets out the EV/EBITA progression for the year end portfolio. There are two factors driving the decline in the ratio: first, profits are expected to grow; and, second, the enterprise value is anticipated to decline as retained cash flows reduce debt or increase cash. These low valuations, underpinned as they are by strong cash generation at present levels of profitability, might offer some downside protection in the event of a deterioration in trading conditions, or if, indeed, growth forecasts simply prove too ambitious.

However, low absolute and relative valuations have not necessarily served ASCoT well over recent years. The key question is what can translate these attractive valuations into improved relative investment performance going forward. Though timing is near impossible to call, your Managers identify three factors worthy of consideration.

- As described in the ***Investment Performance*** section of this report, the influences of style and size have acted as headwinds to ASCoT's relative performance over the last five years. This is unusual in a longer term context, as the following analysis, based on data from the London Business School, demonstrates:

Total return pa	5 years	10 years	20 years	Since 1955
RBS HGSC *	+7.5%	+7.8%	+11.1%	+15.5%
Value component	+1.8%	+11.1%	+13.3%	+19.4%
Small component	+5.0%	+8.6%	+11.3%	+17.4%

** Extended HGSC (XIC) from 1980 & HGSC for prior dates*

  In terms of both depth and duration, the present bear market for value stocks and small stocks within the benchmark is without precedent over the last 55 years. Your Managers – biased as they are by their value investment philosophy – contend that over the medium term the odds are that the present style and size headwinds will swing to become tailwinds.

- Through the recession, profits growth naturally became more difficult to find. The valuations of companies capable of consistent growth therefore attained a scarcity premium. This premium has been sustained through the early stages of recovery as markets have continued to fret about the fragility of the upturn and the threat of a double-dip. If, however, the recovery holds, the "need" to pay up for growth might reasonably be considered to diminish. This might be accompanied by a lengthening of the market's investment horizon, easing the present extreme aversion to perceived illiquidity and focusing attention on neglected "smaller small" companies. In these circumstances, cheaper and smaller stocks might enjoy a re-rating.

- Through the mid 1990s, the stockmarket's focus was on large companies that were getting larger through mega mergers. Small companies as a consequence languished. The trigger that set off a twelve year period of out-performance by the RBS HGSC (XIC) was M&A: with stockmarket investors reluctant to venture into the small company world, other corporates and private equity houses stepped up to exploit the valuation opportunities. And, as noted previously, the conditions for a renewed phase of M&A would appear to be in place.

Ultimately, the precise catalyst for a change in the stockmarket's appetites is difficult to identify in advance. For your Managers, as value investors, the key point is that the portfolio is demonstrably cheap in relation both to its own history and to the benchmark. This value advantage has been achieved by investing in a collection of sound and profitable businesses that have been overlooked owing to their size or inability to generate serial upgrades to their earnings estimates. Thus, in your Managers' judgement, there has been little compromise in terms of the quality required in securing the portfolio's valuation characteristics. The investment principles by which the portfolio has been constructed are essentially the same as those that have driven ASCoT's successful long term record. While relative performance more recently has been disappointing, your Managers are confident that these principles are the basis for an improvement in ASCoT's fortunes in coming years.

Aberforth Partners LLP
Managers
26 January 2011

Portfolio Information

FTSE Industry Classification Exposure Analysis

Sector	31 December 2009 RBS HGSC (XIC) Weight %	31 December 2009 Portfolio Weight %	31 December 2009 Portfolio Valuation £'000	Net[2] Purchases/ (Sales) £'000	Net Appreciation/ (Depreciation) £'000	**31 December 2010 Portfolio Valuation £'000**	**31 December 2010 Weight %**	31 December 2010 RBS HGSC (XIC)[1] Weight %
Oil & Gas	*5*	2	13,675	10,647	757	**25,079**	3	*6*
Basic Materials	*5*	1	4,862	2,424	13,126	**20,412**	3	*5*
Industrials	*28*	29	181,971	(22,845)	70,526	**229,652**	30	*24*
Consumer Goods	*9*	8	49,034	(31,244)	(5,945)	**11,845**	2	*10*
Health Care	*4*	5	33,676	2,668	8,965	**45,309**	6	*2*
Consumer Services	*22*	23	145,202	27,559	40,868	**213,629**	28	*22*
Telecommunications	*1*	2	11,985	(6,914)	3,112	**8,183**	1	*2*
Utilities	–	–	–	–	–	–	–	*1*
Financials	*19*	15	96,654	21,426	(6,987)	**111,093**	14	*20*
Technology	*7*	15	95,327	(4,990)	13,415	**103,752**	13	*8*
	100	100	632,386	(1,269)	137,837	**768,954**	100	*100*

[1] This reflects the rebalanced index as at 1 January 2011.
[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 2009 Portfolio No. of Companies	31 December 2009 Portfolio Valuation £'000	31 December 2009 Portfolio Weight %	31 December 2009 RBS) HGSC (XIC) Weight %	**31 December 2010 Portfolio No. of Companies**	**31 December 2010 Portfolio Valuation £'000**	**31 December 2010 Portfolio Weight %**	31 December 2010 RBS HGSC (XIC)[1] Weight %
FTSE 100	–	–	–	–	–	–	–	–
FTSE 250	32	315,197	50	*74*	32	337,636	44	*76*
FTSE SmallCap	39	246,481	39	*19*	42	352,434	46	*19*
FTSE Fledgling	12	39,658	6	*2*	8	39,352	5	*2*
Other	4	31,050	5	*5*	6	39,532	5	*3*
	87	632,386	100	*100*	88	768,954	100	*100*

[1] This reflects the rebalanced index as at 1 January 2011.

Summary of Material Portfolio Changes

For the year ended 31 December 2010

Purchases	Cost £'000	Sales	Proceeds £'000
Mecom Group	13,696	Spectris	19,066
CSR	12,500	Bellway	16,363
Tullett Prebon	11,611	Domino Printing Sciences	14,570
Micro Focus International	10,507	Delta	14,412
Millennium & Copthorne Hotels	9,503	Robert Wiseman Dairies	13,014
JKX Oil & Gas	8,703	Micro Focus International	10,565
CPP Group	8,490	Intec Telecom Systems	9,972
Moneysupermarket.com Group	7,930	United Business Media	9,028
Ferrexpo	7,834	KCOM Group	8,765
Halfords Group	7,404	Greggs	8,361
Safestore Holdings	7,167	Brown (N.) Group	8,321
United Business Media	6,914	Elementis	7,353
Punch Taverns	5,980	Shanks Group	6,709
De La Rue	5,977	Dunelm Group	6,481
Smiths News	5,819	Ashtead Group	5,954
Promethean World	4,989	National Express Group	5,687
Hampson Industries	4,885	Trafficmaster	5,687
St.Modwen Properties	4,758	SThree	5,681
RPS Group	4,709	Bodycote	5,229
Optos	4,578	CPP Group	5,035
Other Purchases	96,300	Other Sales	65,270
Total for the year	250,254	Total for the year	251,523

The summary of material portfolio changes shows the 20 largest aggregate purchases and sales including transaction costs. Portfolio turnover for the year was 37.3% (2009: 42.0%)

Thirty Largest Investments

No.	Company	Value as at 31 December 2010 £'000	% of Total Net Assets	Business Activity
1	JD Sports Fashion	25,208	3.5	Retailing - sports goods & clothing
2	RPS Group	19,053	2.7	Energy & environmental consulting
3	RPC Group	18,424	2.6	Plastic packaging
4	Anite	18,275	2.5	Software - telecoms & travel
5	e2v technologies	17,120	2.4	Electronic components & subsystems
6	Beazley	16,905	2.4	Lloyds insurer
7	JKX Oil & Gas	16,861	2.4	Oil & gas exploration & production
8	CSR	16,505	2.3	Location & connectivity chips for mobile devices
9	Punch Taverns	15,793	2.2	Leased & managed pub operator
10	Micro Focus International	15,784	2.2	Software - development & testing
	Top Ten Investments	179,928	25.2	
11	Huntsworth	15,728	2.2	Public relations
12	Bodycote	15,001	2.1	Engineering - heat treatment
13	Tullett Prebon	14,428	2.0	Inter dealer broker
14	ProStrakan Group	14,202	2.0	Speciality pharmaceutical business
15	National Express Group	12,918	1.8	Train, bus & coach operator
16	Millennium & Copthorne Hotels	12,900	1.8	Hotels
17	Collins Stewart	12,724	1.8	Stockbroker & private client fund manager
18	Phoenix IT Group	12,291	1.7	IT services & disaster recovery
19	Holidaybreak	12,044	1.7	Education & holiday services
20	Low & Bonar	11,825	1.6	Manufacture of industrial textiles
	Top Twenty Investments	313,989	43.9	
21	Mecom Group	11,643	1.6	European newspaper publisher
22	Regus	11,608	1.6	Serviced office accommodation
23	Galliford Try	11,268	1.6	Housebuilding & construction services
24	Future	11,203	1.6	Special interest consumer publisher
25	Lavendon Group	11,132	1.6	Hire of access equipment
26	Dunelm Group	11,049	1.5	Homewares retailer
27	Biocompatibles International	10,554	1.5	Drug-delivery technology
28	Domino Printing Sciences	10,548	1.5	Industrial printers & inks
29	Dialight	10,546	1.5	LED based lighting solutions
30	Keller Group	10,294	1.4	Ground engineering services
	Top Thirty Investments	423,834	59.3	
	Other Investments	345,120	48.0	
	Total Investments	768,954	107.3	
	Net Liabilities	(52,165)	(7.3)	
	Total Net Assets	716,789	100.0	

Investment Portfolio

Holding	Security	Value £'000	% of Total Net Assets (31 December 2010)	% of RBS HGSC (XIC) Index[1]
Oil & Gas Producers		**25,079**	**3.5**	**4.0**
5,393,690	JKX Oil & Gas	16,861	2.4	
3,485,918	Melrose Resources	8,218	1.1	
Oil Equipment & Services		–	–	1.7
Alternative Energy		–	–	0.5
Chemicals		**6,692**	**1.0**	**2.6**
3,995,906	Elementis	5,634	0.8	
337,450	Yule Catto & Co	678	0.1	
449,933	Yule Catto & Co NPR	380	0.1	
Industrial Metals & Mining		**7,381**	**1.0**	**0.1**
1,774,622	Ferrexpo	7,381	1.0	
Mining		**6,339**	**0.9**	**1.9**
1,770,578	Anglo Pacific Group	6,339	0.9	
Construction & Materials		**33,387**	**4.6**	**1.7**
3,774,947	Galliford Try	11,268	1.6	
1,633,895	Keller Group	10,294	1.4	
23,414,961	Low & Bonar	11,825	1.6	
Aerospace & Defence		**16,530**	**2.2**	**2.8**
22,486,382	Hampson Industries	6,915	0.9	
2,174,025	UMECO	9,615	1.3	
General Industrials		**18,424**	**2.6**	**1.2**
5,848,900	RPC Group	18,424	2.6	
Electronic & Electrical Equipment		**44,436**	**6.3**	**2.9**
2,076,058	Dialight	10,546	1.5	
1,622,756	Domino Printing Sciences	10,548	1.5	
19,022,371	e2v technologies	17,120	2.4	
280,800	Morgan Crucible Company	683	0.1	
423,158	Spectris	5,539	0.8	
Industrial Engineering		**26,283**	**3.7**	**1.6**
5,384,419	Bodycote	15,001	2.1	
3,512,867	Castings	9,309	1.3	
716,035	Hill & Smith Holdings	1,973	0.3	
Industrial Transportation		–	–	2.5
Support Services		**90,592**	**12.6**	**11.2**
2,556,550	Acal	6,979	1.0	
2,617,800	Ashtead Group	4,521	0.6	
4,663,100	Capital Drilling	3,731	0.5	
1,491,223	CPP Group	4,504	0.6	
693,400	De La Rue	5,682	0.8	
9,617,689	Lavendon Group	11,132	1.6	
1,253,993	Mears Group	3,800	0.5	
2,807,900	Mouchel Group	2,997	0.4	
834,100	Northgate	2,335	0.3	
4,066,700	office2office	5,002	0.7	
975,710	Paypoint	3,464	0.5	
13,458,852	Regus	11,608	1.6	
8,269,568	RPS Group	19,053	2.7	
4,891,008	Smiths News	5,784	0.8	
Automobiles & Parts		–	–	–
Beverages		–	–	1.1

Investment Portfolio

Holding	Security	Value £'000	31 December 2010 % of Total Net Assets	% of RBS HGSC (XIC) Index[1]
Food Producers		**2,853**	**0.4**	**3.1**
4,546,485	Northern Foods	2,853	0.4	
Household Goods & Home Construction		**8,992**	**1.3**	**4.7**
6,656,054	Redrow	8,992	1.3	
Leisure Goods		–	–	0.3
Personal Goods		–	–	0.7
Health Care Equipment & Services		**20,403**	**2.8**	**0.8**
2,692,465	Biocompatibles International	10,554	1.5	
3,669,600	Corin Group	1,871	0.2	
4,693,020	Optos	7,978	1.1	
Pharmaceuticals & Biotechnology		**24,906**	**3.5**	**1.8**
15,257,825	Ark Therapeutics Group	732	0.1	
13,787,995	ProStrakan Group	14,202	2.0	
14,296,078	Vectura Group	9,972	1.4	
Food & Drug Retailers		**9,680**	**1.3**	**1.8**
2,081,817	Greggs	9,680	1.3	
General Retailers		**73,419**	**10.2**	**7.5**
11,644,742	Debenhams	8,244	1.2	
2,164,308	Dunelm Group	11,049	1.5	
9,649,627	Game Group	6,682	0.9	
1,729,306	Halfords Group	7,903	1.1	
2,880,881	JD Sports Fashion	25,208	3.5	
9,368,000	Lookers	5,551	0.8	
10,612,689	Topps Tiles	8,782	1.2	
Media		**71,531**	**10.0**	**3.6**
2,387,300	4imprint Group	6,374	0.9	
7,385,094	Centaur Media	4,837	0.7	
2,323,570	Chime Communications	5,158	0.7	
39,309,098	Future	11,203	1.6	
22,388,498	Huntsworth	15,728	2.2	
5,932,655	Mecom Group	11,643	1.6	
9,659,420	Moneysupermarket.com Group	7,486	1.0	
5,948,700	Wilmington Group	9,102	1.3	
Travel & Leisure		**58,999**	**8.2**	**9.4**
657,000	Air Partner	2,891	0.4	
3,513,955	Holidaybreak	12,044	1.7	
2,184,519	Millennium & Copthorne Hotels	12,900	1.8	
5,146,426	National Express Group	12,918	1.8	
21,256,032	Punch Taverns	15,793	2.2	
6,541,968	Sportech	2,453	0.3	
Fixed Line Telecommunications		**8,183**	**1.1**	**2.1**
14,047,668	KCOM Group	8,183	1.1	
Electricity		–	–	0.6
Gas, Water & Multiutilities		–	–	–
Nonlife Insurance		**24,440**	**3.5**	**2.2**
14,700,404	Beazley	16,905	2.4	
14,421,979	Chaucer Holdings	7,535	1.1	
Life Insurance		**6,117**	**0.9**	**2.0**
3,685,200	Hansard Global	6,117	0.9	

Investment Portfolio

Holding	Security	Value £'000	31 December 2010 % of Total Net Assets	% of RBS HGSC (XIC) Index[1]
Real Estate Investment & Services		**25,332**	**3.5**	**4.1**
5,325,035	Safestore Holdings	6,923	1.0	
6,224,292	St.Modwen Properties	10,270	1.4	
4,192,947	Unite Group	8,139	1.1	
Real Estate Investment Trusts		**5,791**	**0.8**	**3.3**
7,171,488	Hansteen Holdings	5,791	0.8	
Financial Services		**49,413**	**7.0**	**8.2**
5,304,600	Brewin Dolphin Holdings	8,328	1.2	
1,695,486	Charles Stanley Group	4,832	0.7	
16,260,506	Collins Stewart	12,724	1.8	
10,240,400	Evolution Group	7,117	1.0	
5,587,362	Record	1,984	0.3	
3,796,714	Tullett Prebon	14,428	2.0	
Software & Computer Services		**70,018**	**9.7**	**5.1**
30,458,497	Anite	18,275	2.5	
2,665,209	Kofax	7,942	1.1	
4,073,166	Micro Focus International	15,784	2.2	
8,687,826	Microgen	9,122	1.3	
4,668,866	Phoenix IT Group	12,291	1.7	
3,884,900	RM	6,604	0.9	
Technology Hardware & Equipment		**33,734**	**4.7**	**2.9**
4,636,204	CSR	16,505	2.3	
10,751,243	Filtronic	4,300	0.6	
4,782,101	Pace	8,737	1.2	
6,550,686	Promethean World	4,192	0.6	
Investments as shown in the Balance Sheet		**768,954**	**107.3**	**100.0**
Net Liabilities		(52,165)	(7.3)	–
Total Net Assets		**716,789**	**100.0**	**100.0**

All investments have a listing on the London Stock Exchange.

[1] This reflects the rebalanced index as at 1 January 2011.

Long-Term Record

Historic Total Returns

Period	Discrete Annual Returns (%) NAV[1]	Index[2]	Share Price[3]
1 year to 31 December 2010	**26.6**	**28.5**	**22.8**
1 year to 31 December 2009	44.4	60.7	59.2
1 year to 31 December 2008	-39.6	-40.8	-38.3
1 year to 31 December 2007	-10.4	-8.3	-17.3
1 year to 31 December 2006	26.3	28.0	15.0
1 year to 31 December 2005	24.9	27.8	25.1
1 year to 31 December 2004	28.7	20.7	35.2
1 year to 31 December 2003	37.1	43.0	25.4
1 year to 31 December 2002	-9.7	-23.3	1.7
1 year to 31 December 2001	7.9	-13.0	17.7
1 year to 31 December 2000	15.6	1.2	4.2
1 year to 31 December 1999	49.5	56.2	62.5
1 year to 31 December 1998	-6.1	-5.7	-14.2
1 year to 31 December 1997	5.3	9.2	-1.4
1 year to 31 December 1996	22.3	18.7	20.5

	Compound Annual Returns (%)			Cumulative Returns (%)		
Periods to 31 December 2010	NAV[1]	Index[2]	Share Price[3]	NAV[1]	Index[2]	Share Price[3]
2 years from 31 December 2008	35.2	43.7	39.8	82.8	106.5	95.6
3 years from 31 December 2007	3.3	6.9	6.4	10.3	22.2	20.6
4 years from 31 December 2006	-0.3	2.9	-0.1	-1.1	12.0	-0.3
5 years from 31 December 2005	4.5	7.5	2.8	24.9	43.4	14.7
6 years from 31 December 2004	7.7	10.6	6.2	56.0	83.3	43.5
7 years from 31 December 2003	10.5	12.0	9.9	100.8	121.1	94.0
8 years from 31 December 2002	13.5	15.5	11.8	175.2	216.3	143.3
9 years from 31 December 2001	10.7	10.4	10.6	148.6	142.6	147.4
10 years from 31 December 2000	10.4	7.8	11.3	168.2	111.1	191.3
11 years from 31 December 1999	10.8	7.1	10.6	209.9	113.5	203.5
12 years from 31 December 1998	13.6	10.6	14.2	363.2	233.5	393.3
13 years from 31 December 1997	12.0	9.2	11.7	334.9	214.3	323.2
14 years from 31 December 1996	11.5	9.2	10.7	358.0	243.3	317.1
15 years from 31 December 1995	12.2	9.8	11.4	459.9	307.5	402.8
16 years from 31 December 1994	12.8	10.2	11.9	589.9	373.2	508.4
17 years from 31 December 1993	11.9	9.4	10.7	571.8	358.6	466.0
18 years from 31 December 1992	13.7	11.0	12.9	914.0	549.3	792.0
19 years from 31 December 1991	13.1	10.7	12.4	942.8	590.9	822.5
20 years from 31 December 1990	14.0	11.1	13.2	1277.4	717.5	1094.1
20.1 years from inception on 10 December 1990	14.0	11.0	13.0	1281.8	710.5	1070.2

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] %
2010	**768.6**	**51.8**	**716.8**	**743.8**	**632.50**	**15.0**
2009	635.2	48.3	586.9	605.9	534.00	11.9
2008	465.3	41.2	424.1	437.7	351.25	19.7
2007	735.0	—	735.0	743.9	587.00	21.1
2006	833.3	—	833.3	843.4	723.00	14.3
2005	671.2	—	671.2	679.3	640.00	5.8
2004[3]	547.2	—	547.2	553.7	522.00	5.7
2003[4]	431.5	—	431.5	436.7	395.75	9.4
2002	275.9	—	275.9	326.3	325.25	0.3
2001	315.3	—	315.3	371.6	328.75	11.5
2000	300.9	—	300.9	352.7	287.00	18.6

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] %
2010	**17,512**	**18.11**	**19.00**	**0.85**	**107.3**
2009	16,813	17.35	19.00	0.85	107.7
2008	22,223	22.75	19.00	0.94	109.5
2007	18,158	18.38	15.20	0.86	96.7
2006	16,209	16.40	13.40	0.97	96.2
2005	14,325	14.50	11.85	0.99	98.3
2004[4]	13,085	13.24	11.00	0.99	97.0
2003[5]	10,026	11.59	10.10	0.98	96.3
2002	8,855	10.57	9.50	1.04	99.1
2001	9,134	10.93	9.10	0.98	96.8
2000	8,716	10.48	8.65	1.00	95.1

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

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

3 Total investments divided by Shareholders' funds.

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

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

Directors

Directors

Professor P R Marsh, (Chairman, appointed as a director on 16 July 2004)
Paul Marsh is Emeritus Professor of Finance at London Business School. Within London Business School, 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.

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

M L A Chiappelli, CA (appointed 17 July 2001)
Marco Chiappelli joined the regional newspaper company, Johnston Press plc, in 1974 as Company Secretary and was Finance Director from 1980 until his retiral in July 2001. Before joining Johnston Press he was an Audit Manager with Alexander Sloan & Co. He was previously a Director of Scottish Radio Holdings plc.

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

David J Jeffcoat, FCMA (appointed 22 July 2009 and is Chairman of the Audit and Management Engagement Committee)
David Jeffcoat began his career as a production engineer at Jaguar Cars Ltd. After qualifying as an accountant several years later, he held a number of senior positions including subsidiary-level Finance Director at GlaxoWellcome plc and Group Financial Controller at Smiths Industries plc. More recently 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 and Zenergy Power plc.

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

Directors' Report

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year to 31 December 2010.

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 2011 (the date of the last annual index rebalancing) was £1.327 billion, although this limit will change owing to movements in the stockmarket. The aggregate market capitalisation of the index as at 1 January 2011 was £143 billion and includes 430 companies.

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

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

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

The Board, in conjunction with the Managers, is responsible for determining the gearing strategy for the Company. 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 2010, the Board negotiated improved terms attached to the facility of £75 million with The Royal Bank of Scotland. The bank debt facility of £75 million can be used at any time. As at 31 December 2010, the Company had drawn down £51.75 million under the facility. Further information can be found in Note 11.

Directors' Report

Corporate Structure, Governance and Regulation

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

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

Continuation of the Company

The Company has no fixed duration. However, in accordance with the Company's Articles of Association an ordinary resolution will be proposed at the Annual General Meeting to be held in 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, pro rata, among such holders.

Investment Trust Status

The Company is exempt from corporation tax on capital profits, provided it qualifies as an investment trust. In summary, this 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 up to 31 December 2009. 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 each year under Sections 1158 of the Corporation Tax Act 2010.

Management

Aberforth Partners LLP, a limited liability partnership, provides investment management, administration and company secretarial services to the Company. These services can be terminated by either party at any time by giving six months' notice of termination. Compensation fees would be payable in respect of this six month period only if termination were to occur sooner. Aberforth Partners LLP receives a quarterly management fee, payable in advance, equal to 0.2% of the total net assets of the Company. However, the total fee paid each year may be slightly higher or lower than 0.8% depending on the movements in the value of the Company's assets during the year. The Company also pays a quarterly secretarial fee, payable in advance, which amounted to £16,662 (excluding VAT) per quarter during 2010. The secretarial fee is adjusted annually in line with the Retail Prices Index and is subject to VAT which is currently irrecoverable by the Company.

Directors' Report

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

Capital Structure and Share Buy-Backs

At 31 December 2010, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 96,366,792 were issued and fully paid. During the year, 500,208 shares (with a nominal value of £5,002) were bought back (0.52% of the Company's issued share capital) and cancelled at a total cost of £2,746,000. 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 £151,017,000 (2009 – £181,385,000). The net asset value per ordinary share at 31 December 2010 was 743.81p (2009 – 605.90p).

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 25 February 2011 to Shareholders on the register at the close of business on 4 February 2011.

	£'000	£'000
Revenue return for the year available for dividends		17,512
Dividends in respect of the revenue available:		
First interim dividend of 6.0p per Ordinary Share paid 2 April 2010	(5,812)	
Second interim dividend of 13.0p per Ordinary Share payable 25 February 2011	(12,528)	(18,340)
Transfer from reserves		(828)

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 9, 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 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to capital gains tax. The Board receives quarterly compliance reports from the Secretaries to monitor compliance with rules and regulations.

(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 Going Concern and Liquidity Risk : Guidance for Directors of UK Companies 2009 issued by the Financial Reporting Council, the Directors have undertaken and documented a rigorous assessment of whether the company is a going concern. The Directors considered all available information when undertaking the assessment, in particular, the continuation vote and operational factors.

The Company's continuation as an investment trust company remains subject to Shareholder approval at the 2011 AGM. The Directors have considered investor sentiment and indeed the provision of the AIC's Statement of Recommended Practice in relation to this matter.

The company's business activities, capital structure and borrowing facility, together with the factors likely to affect its development, performance and position are set out in the Managers Report and the Business Review. In addition, the notes to the financial statements include the company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

The company's assets comprise mainly readily realisable equity securities which, if necessary, can be sold to meet any funding requirements though funding flexibility can typically be achieved through the use of the bank debt facility. The company has appropriate financial resources to enable it to meet its day-to-day working capital requirements and the Directors believe that the company is well placed to continue to manage its business risks. The Directors consider that the company has adequate resources to continue in operational existence for the foreseeable future.

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

Directors

The Directors who held office at 31 December 2010 and their interests in the Shares of the Company as at that date and 1 January 2010 were as follows:

		Ordinary Shares	
Directors	Nature of Interest	31 December 2010	1 January 2010
Prof P R Marsh	Beneficial	**25,000**	25,000
H N Buchan	Beneficial	**19,474**	19,474
M L A Chiappelli	Beneficial	**29,173**	29,173
J E G Cran	Beneficial	**31,684**	30,590
D J Jeffcoat	Beneficial	**4,438**	4,438
Prof W S Nimmo	Beneficial	**25,656**	25,656
D R Shaw (retired 3 March 2010)	Beneficial	–	37,000

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2010 and 26 January 2011.

As stated in the separate Corporate Governance Report, all Directors seek re-election every year and, as a result, all Directors retire at the Annual General Meeting to be held on 2 March 2011. All Directors, with the exception of Mr Chiappelli who will retire at the forthcoming Annual General Meeting, offer themselves for re-election and biographical details for each are shown on page 20.

Corporate Governance Report

The Corporate Governance Report, which details compliance with the UK Corporate Governance Code (formerly "Combined Code (2008)"), can be found on pages 28 to 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 2012. The price paid for Shares will not be less than the nominal value of 1p per Share and the maximum price shall be the higher of (i) 105% of the average of the middle market quotations for the Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out. Any Shares purchased under the authority will be automatically cancelled, rather than being held in treasury, thereby reducing the Company's issued share capital. There are no outstanding options/warrants to subscribe for equity shares in the capital of the Company.

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

Directors' Recommendation

The Directors consider each resolution being proposed at the 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 96,366,792 votes, as at 26 January 2011.

Interested person	Percentage of Voting Rights Held
Rathbone Brothers plc	5.4
Newton Investment Management Limited	5.0
Lloyds Banking Group plc (including discretionary investment management)	4.2
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.

Directors' Report

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 page 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.

Donations

The Company did not make any political or charitable donations during the year (2009 – £nil).

Creditors Payment Policy

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

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.

By Order of the Board
Aberforth Partners LLP, Secretaries
14 Melville Street, Edinburgh EH3 7NS
26 January 2011

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 complied with The UK Corporate Governance Code ("The Code") (formerly "Combined Code (2008)") issued by the Financial Reporting Council in May 2010.

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

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

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

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

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

The Board

The Board is responsible for the effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are determined by the Board. A formal schedule of matters reserved for decision of the Board has been adopted. The Board of Directors comprises six non-executive Directors of which Professor Marsh acts as Chairman. The Company has no executive Directors nor any employees. However, the Board has engaged external firms to 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 Company's investment performance compared with its benchmark index. The Directors also review several key areas including the Company's investment activity over the quarter relative to its investment policy; the stockmarket environment; the revenue and balance sheet position; gearing; performance in relation to comparable investment trusts; share price discount (both absolute levels and volatility); and relevant industry issues. The Board also receives regular reports from the Managers analysing and commenting on the composition of the Company's share register and monitors significant changes to Shareholders.

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

The following table sets out the number of Board and Committee meetings held during the financial year and the number of meetings attended by each Director (whilst a Director or Committee member). All Directors also attended the annual general meeting in March 2010.

Director	Board of Directors Held	Board of Directors Attended	Audit and Management Engagement Committee Held	Audit and Management Engagement Committee Attended	Specific Committee Held	Specific Committee Attended
Prof P R Marsh, Chairman	4	4	–	–	2	2
D R Shaw	1	1	–	–	1	1
H N Buchan	4	4	3	3	1	1
M L A Chiappelli[1]	4	4	3	3	2	2
J E G Cran	4	4	3	3	1	1
D J Jeffcoat[2]	4	4	3	3	1	1
Prof W S Nimmo	4	4	–	–	1	1

[1] Chairman of the Audit and Management Engagement Committee until 25 January 2011.

[2] Chairman of the Audit and Management Engagement Committee with effect from 25 January 2011.

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

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

Conflicts of Interest

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

Training and advice

All Directors are entitled to receive appropriate training when required and changes affecting Directors' responsibilities are advised to the Board as they arise. Directors 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.

Corporate Governance Report

Appointments to the Board

The Board conducts an annual review of its composition having regard to the present and future needs of the Company, and the Board's structure, including the balance of expertise and skills brought by individual Directors and their length of service, where continuity and experience can add significantly to the strength of the Board. During 2010, the Board agreed that following the appointment of Mr Jeffcoat on 22 July 2009 and the retiral of Mr Shaw on 3 March 2010, no further appointments were necessary.

Board performance and re-appointment of Directors

The Board undertakes a formal annual self-assessment of its collective performance on a range of issues including the Board's role (including Committees), processes and interaction with the Managers. The Directors also evaluate the performance of the Board and the Audit and Management Engagement Committee by way of an evaluation questionnaire. The Board then considers the results of this exercise, together with other relevant discussion areas. The appraisal of the Chairman is led by the Chairman of the Audit and Management Engagement Committee. In line with the Board's policy, each Director retires at the Annual General Meeting (AGM) to be held on 2 March 2011. Messrs Buchan, Cran, Jeffcoat, Prof Marsh and Prof Nimmo, whose biographical details are shown on page 20, being eligible, offer themselves for re-election. As noted in the Chairman's Statement, Mr Chiappelli has decided to retire at the forthcoming AGM. The Board believes that each Director continues to be effective, bringing a wealth of knowledge and experience to the Board and recommends the re-election of each Director to Shareholders.

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

Relations with Shareholders

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

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

Internal Control

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

Corporate Governance Report

Audit and Management Engagement Committee

The Directors have appointed an Audit and Management Engagement Committee ("Committee"), chaired by Mr Jeffcoat, a qualified accountant. Mr Chiappelli chaired this Committee until 25 January 2011, the date Mr Jeffcoat succeeded as Chairman. This Committee, of which Messrs Buchan and Cran are also members, specifically considers the Company's financial statements and the accounting policies adopted, the Company's key risks, the internal control principles adopted and the relationship with the Company's 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 completion and submission of the corporation tax returns. The Committee considers that the provisions of these services is cost effective and does not impair the independence of the auditors. Furthermore, non-audit work requires the prior approval of the Committee. The Committee has direct access to the Company's auditors, representatives of whom attend the Committee meeting at which the results of the audit and the Annual Report and Accounts are considered.

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

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

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

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

Social, Environmental and Ethical Issues

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

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

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

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

Voting Policy

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

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

Directors' Remuneration Report

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

The law requires the Company's 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]
Prof P R Marsh, *Chairman*	16 July 2004	—	16 July 2004	1 year
D R Shaw	14 October 1994	3 March 2010	29 April 2003	—
H N Buchan	11 November 2003	—	11 November 2003	1 year
M L A Chiappelli	17 July 2001	—	29 April 2003	5 weeks
J E G Cran	17July 2001	—	29 April 2003	1 year
D J Jeffcoat	22 July 2009	—	22 July 2009	1.5 years
Prof W S Nimmo	16 July 2004	—	16 July 2004	1 year

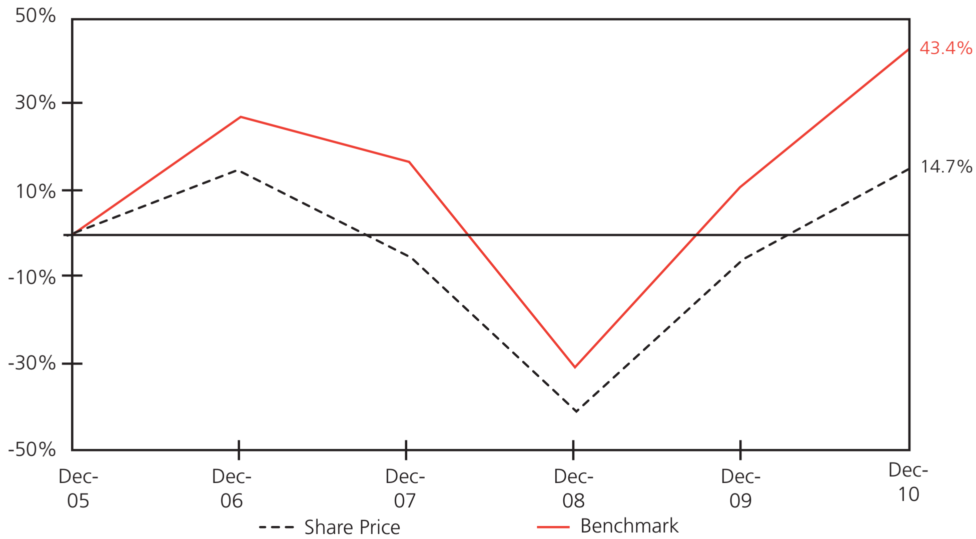
[1] Each Director's unexpired term, other than that of Mr Chiappelli, is subject to their re-election at the Annual General Meeting in March 2011. As previously stated, Mr Chiappelli will retire at the forthcoming Annual General Meeting.

Directors' Remuneration Report

Share Price Performance

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

Total Return Performance since 31 December 2005



Note: For further information on the above graph, please refer to the Historic Total Returns tables on page 18.

Directors' Fees (Audited)

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

	Fees 2010 £	Fees 2009 £
Prof P R Marsh, *Chairman*	**24,674**	17,500
D R Shaw, *retired on 3 March 2010*	**4,459**	26,250
H N Buchan, *Member of the Audit and Management Engagement Committee*	**18,500**	18,500
M L A Chiappelli, *Chairman of the Audit and Management Engagement Committee until 25 January 2011*	**22,000**	22,000
J E G Cran, *Member of the Audit and Management Engagement Committee*	**18,500**	18,500
D J Jeffcoat, *Chairman of the Audit and Management Engagement Committee with effect from 25 January 2011*	**18,500**	8,224
Prof W S Nimmo	**17,500**	17,500
	124,133	128,474

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 2011 and signed on its behalf by Professor Paul Marsh, Chairman.

Directors' Responsibility Statement

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

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

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

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

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

The Annual Report is published on www.aberforth.co.uk, which is the website maintained by the Company's Manager. The work undertaken by the 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
Professor Paul Marsh
Chairman
26 January 2011

Independent Auditors' Report

To the Members of Aberforth Smaller Companies Trust plc

We have audited the financial statements of Aberforth Smaller Companies Trust plc for the year ended 31 December 2010 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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 2010 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- The Directors' statement on page 25 in relation to going concern;
- The part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to the shareholders by the Board on Directors' remuneration.

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

26 January 2011

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

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

Income Statement

For the year ended 31 December 2010

	Note	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Gains on investments	9	—	140,996	140,996	—	169,395	169,395
Investment income	2	20,533	—	20,533	19,110	1,183	20,293
Other income	2	43	—	43	169	—	169
Investment management fee	3	(1,803)	(3,005)	(4,808)	(1,450)	(2,417)	(3,867)
Other expenses	4	(455)	(3,159)	(3,614)	(437)	(2,624)	(3,061)
Net return before finance costs and tax		18,318	134,832	153,150	17,392	165,537	182,929
Finance costs	6	(796)	(1,327)	(2,123)	(579)	(965)	(1,544)
Return on ordinary activities before tax		17,522	133,505	151,027	16,813	164,572	181,385
Tax on ordinary activities	5	(10)	—	(10)	—	—	—
Return attributable to equity shareholders		17,512	133,505	151,017	16,813	164,572	181,385
Returns per ordinary share	8	18.11p	138.08p	156.19p	17.35p	169.84p	187.19p

The Board declared on 26 January 2011 a second interim dividend of 13.0p per Ordinary Share (2009 — 13.0p). The Board also declared on 4 March 2010 a first interim dividend of 6.0p per Ordinary Share (2009 — 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 2010

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

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

The accompanying notes form an integral part of this statement.

Balance Sheet
As at 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets:			
Investments at fair value through profit or loss	9	**768,954**	632,386
Current assets			
Debtors	10	**1,620**	2,010
Cash at bank		**68**	362
		1,688	2,372
Creditors (amounts falling due within one year)	11	**(53,853)**	(148)
Net current (liabilities)/assets		**(52,165)**	2,224
TOTAL ASSETS LESS CURRENT LIABILITIES		**716,789**	634,610
Creditors (amounts falling due after more than one year)	12	**—**	(47,688)
TOTAL NET ASSETS		**716,789**	586,922
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital:			
Ordinary Shares	13	**964**	969
Reserves:			
Capital redemption reserve	14	**24**	19
Special reserve	14	**183,279**	186,025
Capital reserve	14	**496,301**	362,796
Revenue reserve	14	**36,221**	37,113
TOTAL SHAREHOLDERS' FUNDS		**716,789**	586,922
NET ASSET VALUE PER SHARE	15	**743.81p**	605.90p

Approved and authorised for issue by the Board of Directors on 26 January 2011 and signed on its behalf by Prof Paul Marsh, *Chairman*

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

Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Net cash inflow from operating activities		15,766	16,833
Taxation		(35)	—
Returns on investments and servicing of finance	16	(1,739)	(2,062)
Capital expenditure and financial investment	16	3,364	(2,907)
		17,356	11,864
Equity dividends paid	7	(18,404)	(18,411)
		(1,048)	(6,547)
Financing			
Purchase of Ordinary Shares	13	(2,746)	(167)
Net drawdown of bank debt facilities (before costs)	17	3,500	7,076
(Decrease)/increase in cash	17	(294)	362

Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities			
Net return before finance costs and taxation		153,150	182,929
Gains on investments		(140,996)	(169,395)
Scrip dividends received		(51)	—
Expenses incurred in acquiring or disposing of investments		3,159	2,624
Decrease in debtors		508	690
Decrease in other creditors		(4)	(15)
Net cash inflow from operating activities		15,766	16,833

Reconciliation of net cash flow to movement in net debt	17		
(Decrease)/increase in cash in the year		(294)	362
Net drawdown of bank debt facilities		(3,500)	(6,326)
Amortised costs in respect of the bank debt facility		(423)	(188)
Change in net debt		(4,217)	(6,152)
Opening net debt		(47,326)	(41,174)
Closing net debt		(51,543)	(47,326)

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 2009.

(b) Investments

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

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

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

(c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividend income is shown excluding any related tax credit. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. 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 £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) Revenue reserve
This reserve represents the only reserve from which dividends can be funded.

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

2 Income

	2010 £'000	2009 £'000
Income from investments (UK listed)		
Franked investment income (net)	**19,869**	18,680
Scrip dividends	**51**	—
Other investment income	**613**	430
	20,533	19,110
Other income		
Deposit interest	**1**	1
Underwriting/placing commission	**42**	168
	43	169
Total income	**20,576**	19,279
Total income comprises:		
Dividends	**20,533**	19,110
Interest	**1**	1
Underwriting/placing commission	**42**	168
	20,576	19,279

During the year the Company received no special dividends (2009 – £1,183,000) which were considered as a return of capital by the investee companies. Those special dividends paid by investee companies which are considered to be a return on capital to shareholders, are credited to the revenue reserve.

3 Investment Management Fee

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Investment management fee	**1,803**	**3,005**	**4,808**	1,450	2,417	3,867

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.

4 Other Expenses

	2010 £'000	2009 £'000
The following expenses have been charged to revenue:		
Directors' fees (refer to Directors' Remuneration Report)	**124**	128
Secretarial services	**78**	76
Registrars fees	**67**	60
AIC fees	**38**	39
Custody and other bank charges	**33**	28
Directors and Officers liability insurance	**10**	10
Auditors' fee – for audit services: recurring	**20**	19
– for non-audit services: recurring – taxation services	**2**	2
Legal fees	**15**	6
Other expenses	**68**	69
	455	437
The following expenses have been charged to capital:		
Expenses incurred in acquiring or disposing of investments classified at fair value through profit or loss	**3,159**	2,624

4 Other Expenses *(continued)*

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

	2010 £'000	2009 £'000
Analysis of total purchases		
Purchase consideration before expenses	**248,049**	235,169
Commissions	**1,078**	797
Taxes	**1,127**	889
Total acquisition expenses	**2,205**	1,686
Total purchases	**250,254**	236,855
Analysis of total sales		
Sales consideration before expenses	**252,477**	236,605
Total disposal expenses – commissions	**954**	938
Total sales net of expenses	**251,523**	235,667

5 Taxation

Analysis of tax charged on return on ordinary activities	2010 £'000	2009 £'000
Current tax charge for the year (see below)	**—**	—
Irrecoverable overseas taxation suffered	**10**	—
Deferred tax	**—**	—
Total tax charge for the year	**10**	—

Factors affecting current tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for a large company (28%).

The differences are explained below:

	2010	2009
Total returns on ordinary activities before tax	**151,027**	181,385
Notional corporation tax at 28% (2009 — 28%)	**42,288**	50,788
Non-taxable UK dividends	**(5,563)**	(5,561)
Non-taxable overseas dividend income	**(172)**	(75)
Expenses not deductible for tax purposes	**885**	735
Expenses for which no relief has been taken	**2,041**	1,544
Capital returns (not subject to corporation tax)	**(39,479)**	(47,431)
Current tax charge for the year	**—**	—

The Company has not recognised a potential asset for deferred tax of £14,936,000 (2009: £13,313,000) in respect of unutilised management expenses because it is unlikely that there will be suitable taxable profits from which the future reversal of a deferred tax asset may be deducted.

Notes to the Financial Statements

6 Finance Costs

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Interest/non-utilisation costs on bank debt facility	**637**	**1,063**	**1,700**	508	848	1,356
Amortisation of bank debt facility costs	**159**	**264**	**423**	71	117	188
	796	**1,327**	**2,123**	579	965	1,544

7 Dividends

	2010 £'000	2009 £'000
Amounts recognised as distributions to equity holders in the period:		
Second interim dividend for the year ended 31 December 2009 of 13.0p (2008: 13.0p) paid on 26 February 2010	**12,592**	12,597
First interim dividend for the year ended 31 December 2010 of 6.0p (2009: 6.0p) paid on 2 April 2010	**5,812**	5,814
	18,404	18,411
Amounts not recognised in the period:		
Second interim dividend for the year ended 31 December 2010 of 13.0p (2009: second interim dividend of 13.0p) payable on 25 February 2011	**12,528**	12,593

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

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

	2010 £'000	2009 £'000
Revenue available for distribution by way of dividends for the year	**17,512**	16,813
First interim dividend for the year ended 31 December 2010 of 6.0p (2009: 6.0p)	**5,812**	5,814
Second interim dividend for the year ended 31 December 2010 of 13.0p (2009: second interim dividend of 13.0p)	**12,528**	12,593
	18,340	18,407

8 Returns per Ordinary Share

The returns per Ordinary Share are based on:

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

	2010 Total £'000	2009 Total £'000
Attributable to Ordinary Shareholders	**151,017**	181,385

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

	2010	2009
Weighted average number of shares in issue during the year	**96,685,671**	96,897,197

9 Investments

	2010 UK Listed £'000	2009 UK Listed £'000
Investments at fair value through profit or loss		
Opening book cost	**690,061**	731,828
Opening fair value adjustment	**(57,675)**	(267,401)
Opening valuation	**632,386**	464,427
Movements in the period:		
Purchases at cost	**248,049**	235,169
Sales – proceeds	**(252,477)**	(236,605)
– gains/(losses) on sales	**46,527**	(40,331)
Increase in fair value adjustment	**94,469**	209,726
Closing valuation	**768,954**	632,386
Closing book cost	**732,160**	690,061
Closing fair value adjustment	**36,794**	(57,675)
Closing valuation (all investments are in ordinary shares (unless otherwise stated) listed on the London Stock Exchange)	**768,954**	632,386
Net gains/(losses) on sales	**46,527**	(40,331)
Increase in fair value	**94,469**	209,726
Gains on investments	**140,996**	169,395

10 Debtors

	2010 £'000	2009 £'000
Amounts due from brokers	**515**	422
Investment income receivable	**1,038**	1,546
Taxation recoverable	**25**	—
Other debtors	**42**	42
	1,620	2,010

11 Creditors: Amounts falling due within one year

	2010 £'000	2009 £'000
Amounts due to brokers	**2,137**	—
Bank debt facility	**51,750**	—
Less: Unamortised costs	**(139)**	—
Other creditors	**105**	148
	53,853	148

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 with effect from 14 July 2010 attract interest at a margin of 1.6% 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 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 2010, total borrowings represented 6.7% of total gross assets (excluding all creditors). The current facility is due to expire on 9 July 2011.

12 Creditors: Amounts falling due after more than one year

	2010 £'000	2009 £'000
Bank debt facility (see note 11)	—	48,250
Less: Unamortised costs	—	(562)
	—	47,688

13 Share Capital

	2010 No. of Shares	2010 £'000	2009 No. of Shares	2009 £'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	**96,366,792**	**964**	96,867,000	969

During the year, the Company bought in and cancelled 500,208 shares (2009: 33,000) at a total cost of £2,746,000 (2009: £167,000). No further shares have been bought back for cancellation between 31 December 2010 and 26 January 2011.

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 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**
Net gains on sale of investments	—	—	—	**46,527**	—	**46,527**
Increase in fair value adjustment	—	—	—	**94,469**	—	**94,469**
Cost of investment transactions	—	—	—	**(3,159)**	—	**(3,159)**
Management fees charged to capital	—	—	—	**(3,005)**	—	**(3,005)**
Finance costs charged to capital	—	—	—	**(1,327)**	—	**(1,327)**
Revenue return attributable to equity shareholders	—	—	—	—	**17,512**	**17,512**
Equity dividends paid	—	—	—	—	**(18,404)**	**(18,404)**
Purchase of Ordinary Shares	**(5)**	**5**	**(2,746)**	—	—	**(2,746)**
At 31 December 2010	**964**	**24**	**183,279**	**496,301**	**36,221**	**716,789**

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	
	2010 pence	2009 pence	**2010 £'000**	2009 £'000
Ordinary Shares	**743.81**	605.90	**716,789**	586,922

Net asset value per Ordinary Share is based on net assets of £716,789,000 (2009: £586,922,000), and on 96,366,792 (2009: 96,867,000) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

16 Gross cash flows

	2010 £'000	2009 £'000
Capital expenditure and financial investment		
Payments to acquire investments	**(248,066)**	(238,152)
Receipts from sales of investments	**251,430**	235,245
	3,364	(2,907)
Returns on investments and servicing of finance		
Interest/non-utilisation costs on bank debt facility	**(1,739)**	(1,312)
Bank debt facility fee (see note 11)	**—**	(750)
	(1,739)	(2,062)

17 Analysis of changes in net debt

	Net debt at 1 January 2010 £'000	Cash flow £'000	Other non-cash movements £'000	Net debt at 31 December 2010 £'000
Cash at bank	362	(294)	—	68
Bank debt facility	(48,250)	(3,500)	—	(51,750)
Bank debt facility fee (see note 11)	562	—	(423)	139
	(47,326)	(3,794)	(423)	(51,543)

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 2010 was 0.5% (2009: 0.5%). The Company's policy is to hold cash in variable rate bank accounts and not usually to invest in fixed rate securities. The Company's investment portfolio is not directly exposed to interest rate risk.

The Company has a bank debt facility of £75,000,000 of which £51,750,000 was drawn down as at 31 December 2010 (2009: debt facility of £75,000,000, of which £48,250,000 was drawn down as at 31 December 2009). Further details of this facility can be found in Note 11.

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 £518,000 (2009: negative £483,000). 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 £259,000 (2009: positive £241,000). 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 2010, the impact on the profit or loss and therefore Shareholders' equity would have been negative £153.8m (2009: negative £126.5m). If the investment portfolio valuation rose by 20% at 31 December 2010, the impact on the profit or loss and therefore Shareholders' equity would have been positive £153.8m (2009: £126.5m). 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 2010, 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.

18 Financial instruments *(continued)*

Contractual maturity analysis for financial instruments
As at 31 December 2010

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

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
Liabilities:						
Bank debt facility	—	—	—	48,250	—	48,250
Unamortised costs	—	—	—	(562)	—	(562)
Other creditors	107	41	—	—	—	148
Total liabilities	107	41	—	47,688	—	47,836
Net liquidity of continuing operations	1,941	258	25	(47,688)	—	(45,464)

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

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

18 Financial instruments *(continued)*

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

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	2010 Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2009 Total £'000
Investments	**768,954**	**—**	**—**	**768,954**	632,386	—	—	632,386

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 2010 (2009: nil). The Company may be able to recover further amounts of VAT charged on investment management fees in respect of the period from 1996 to 2000. However, the Board considers that currently there are too many uncertainties to recognise any amounts potentially recoverable from HM Revenue & Customs.

Shareholder Information

Shareholder register enquiries

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

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

Payment of dividends

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

Sources of further information

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

How to invest

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

		SEDOL	Bloomberg	Reuters
Security Codes	Ordinary Shares of 1p	0006655	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	*First Interim* Ex-dividend Payable *Second Interim* Ex-dividend Payable	 July/August September January/February February
Interim Report	Published	July
Annual Report and Accounts	Published	January
Annual General Meeting		March
Publication of Net Asset Values		Weekly (via the Managers' website) Monthly (as weekly and also via AIC)
Website Content Update		Weekly/Monthly

Glossary 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 2 March 2011 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 2010 be adopted.
2. That Prof P R Marsh be re-elected as a Director.
3. That Mr H N Buchan be re-elected as a Director.
4. That Mr J E G Cran be re-elected as a Director.
5. That Mr D J Jeffcoat be re-elected as a Director.
6. That Prof W S Nimmo be re-elected as a Director.
7. That the Directors' Remuneration Report for the year ended 31 December 2010 be approved.
8. That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.
9. That the Company continues to manage its affairs as an investment trust (as defined in Section 1158 of the Corporation Tax Act 2010).

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 2012 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2012, 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 2011

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 28 February 2011 (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 2011, the latest practicable date prior to publication of this document, the Company had 96,366,792 Ordinary Shares in issue with a total of 96,366,792 voting rights.

6. Shareholder disclosure obligations

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

7. Information on the Company's website

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

8. Nominated Persons

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

9. Audit concerns

   The members of the Company may require the Company (without payment) to publish, on its website, a statement (which is also to be passed to the 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 be sent to the registered address of the Company.

10. Documents available for inspection

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

Corporate Information

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

Registered Office and Company Number
14 Melville Street
Edinburgh EH3 7NS
Registered in Scotland No. 126524

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Tel: 0871 664 0300 (calls cost 10p per minute plus network extras)
Website: www.capitaregistrars.com

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

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

Auditors
Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

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

J. Thomson Colour Printers