Signed

Aberforth Smaller Companies Trust plc

Annual Report and Accounts
31 December 2012

Registered in Scotland No. 126524

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 Numis 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.

Data has been sourced from Aberforth Partners LLP unless otherwise stated.

Financial Highlights

Year to 31 December 2012

	% change
Net Asset Value (total return)	31.9
Numis Smaller Companies Index (excl. Investment Companies) (total return)	29.9
Ordinary Share Price (with net dividends reinvested)	43.9

	As at 31 December 2012	As at 31 December 2011	% Change
Shareholders' Funds	**£768.2m**	£603.1m	27.4
Market Capitalisation	**£665.5m**	£481.7m	38.2
Actual gearing employed	**5.9%**	11.1%	n/a
Ordinary Share net asset value	**802.76p**	627.31p	28.0
Ordinary Share price	**695.50p**	501.00p	38.8
Ordinary Share discount	**13.4%**	20.1%	n/a
Revenue per Ordinary Share	**26.07p**	24.13p	8.0
Dividends per Ordinary Share	**22.25p**	20.75p	7.2
Ongoing charges	**0.81%**	0.88%	n/a
Portfolio turnover	**26.2%**	29.5%	n/a

	31 December 2012	31 December 2011
Total return per Ordinary Share		
Revenue	26.07p	24.13p
Capital	**170.13p**	(121.46p)
Total	**196.20p**	(97.33p)

One Year Performance

Absolute Performance

(figures are total returns and have been rebased to 100 at 31 December 2011)

Ten Year Investment Record

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2002)

Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2002)

Dividends and RPI Growth
(figures have been rebased to 100 at 31 Dec 2002)

Premium/Discount
(being the difference between Share Price and NAV)

Chairman's Statement

Review of 2012 Performance

The history books will record 2012 as an excellent year for UK smaller companies. Larger companies, as represented by the FTSE 100, gave a total return (including reinvested dividends) of 10.0%, while the FTSE All-Share, which is also heavily weighted towards large companies, gave a return of 12.3%. Meanwhile, the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)), your Company's benchmark, gave a return of 29.9%. Over the same period, your Company's net asset value total return was 31.9%, while the share price return (including reinvested dividends) was 43.9%. Returns of this magnitude require a health warning. They are unlikely to be matched in 2013.

Importantly for your Company, the year witnessed a stirring in the fortunes of value investing within the NSCI (XIC), your Company's investment universe. Over the five calendar years from 2007–11 inclusive, value stocks within the NSCI (XIC) underperformed growth stocks by 9.4% p.a.. In 2012, there was a reversal of this trend. The year also saw exceptionally strong relative performance from the FTSE SmallCap Index, which beat the FTSE 250 Index for only the second year out of the last nine. This, too, is important since your Company's portfolio is positioned towards the lower end of the capitalisation range. The Managers' report expands in more detail on these themes and the interconnected influences of style and size.

While 2012 witnessed a "rebranding" of your Company's investment benchmark which is now known as the Numis Smaller Companies Index (excluding Investment Companies), Shareholders should be aware the underlying data series and index methodology remains unaltered. Since your Company's formation in 1990, the NSCI (XIC) has risen by 10.8% p.a. By comparison, your Company's net asset value total return has increased by 13.3% p.a..

Dividends

In 2012, the dividend experience from investee companies in general, continued to be positive. Your Company's investment objective is total return orientated rather than income orientated. However, as value investors, your Board and the Managers are acutely aware of the importance of the role that income plays in generating long term returns for both UK equities in general and your Company specifically. In this context, your Board is pleased to declare a second interim dividend, in lieu of a final dividend, of 15.25p. This results in total dividends for the year of 22.25p, representing an increase of 7.2% on 2011. Based on the year end share price of 695.5p, your Company's shares deliver a 3.2% yield.

Your Board remains committed to a progressive dividend policy. The level of your Company's revenue reserves, after adjusting for payment of the second interim dividend, amounting to 32.1p per share (up from 28.1p as at 31 December 2011), provides a degree of flexibility going forward.

The second interim dividend will be paid on 28 February 2013 to Shareholders on the register as at the close of business on 8 February 2013. The ex dividend date is 6 February 2013. Your Company operates a Dividend Reinvestment Plan (DRIP). Details of the DRIP, including the Form of Election, are available from Aberforth Partners LLP or on its website, www.aberforth.co.uk.

Gearing

Your Board regularly reviews the level of gearing with the Managers and is comfortable that your Company has access to sufficient liquidity for both investment purposes and also to fund share buy-ins as and when appropriate. As at 31 December 2012, gearing was 5.9%, with £47m of the £100m facility utilised. The decision to remain geared is based upon attractive valuation levels, described in greater detail in the Managers' Report. As has been highlighted in recent Annual Reports, this should also be viewed in conjunction with the strong balance sheets of the underlying investee companies currently held in your portfolio. During the year, the level of gearing ranged from 5.8% to 11.2%.

Share Buy-In Authority and Treasury Shares

At the Annual General Meeting in March 2012, the authority to buy-in up to 14.99% of your Company's Ordinary Shares was approved. During the year, 446,000 Ordinary Shares were bought-in at a total cost of £2.6 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 7 March 2013. Your Board keeps under constant review the circumstances under which the authority is utilised in relation to the overall objective of seeking to manage the share price discount relative to the net asset value.

Chairman's Statement

Board Changes

Hamish Buchan, who has been a Director since November 2003, will not be standing for re-election at the forthcoming Annual General Meeting. Hamish has been a valued member of your Board and we will all miss his insight and invaluable contributions. We wish Hamish all the very best for the future.

We are delighted to appoint Paul Trickett as a Director of your Company with effect from 30 January 2013. Paul's career in the financial industry extends over 25 years. He has extensive knowledge of the investment world and we look forward to working with him.

Regulatory Developments

The regulatory environment in which your Company operates continues to change. The Retail Distribution Review (RDR) came into effect on 1 January 2013 with several commentators forecasting an increased level of interest in investment trusts from the investor adviser community. Later in 2013, and subject to consultation, we will see The Alternative Investment Fund Managers (AIFM) Directive come into force. Your Board and the Managers continue to monitor all major regulatory developments and their impact on your Company.

Summary

Performance within the NSCI (XIC) over the recent past has been highly polarised, with larger growth stocks driving the index's returns. This has been detrimental to the relative performance of your Company, given its value investment orientation and its size positioning towards the lower end of the available range of market capitalisations. It is therefore encouraging that 2012 saw a shift in these recent trends in favour of both style and size. However, since the global financial crisis in 2008, we have witnessed such periods before, only for them to fade and for larger growth leadership to resume: it would therefore be unwise to proclaim the "return of value investing" based solely upon the trends of any one calendar year.

Regardless of what 2013 brings, your Board remains confident in ASCoT's style positioning, which has become increasingly uncommon within the small cap market over recent years. Stockmarket history supports the eventual revival in fortunes of both value investing and the small companies effect. These have been the two cornerstones of your Company's strategy since its creation in 1990 and have no doubt been crucial in attracting investors to become shareholders in ASCoT. Therefore, your Board takes comfort from the Managers' unswerving application of their value investment philosophy and is also encouraged by the alignment of interests represented by their significant shareholdings in your Company.

Finally, your Board and I very much welcome your views and are always available to talk to Shareholders directly. My email address is noted below.

P R Marsh

Professor Paul Marsh
Chairman
29 January 2013
paul.marsh@aberforth.co.uk

Aberforth Partners LLP – Information

Aberforth Partners LLP (the "firm") act as investment 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 2012). The firm is wholly owned by six partners – five investment managers (including three founding partners), and Alan Waite, who is responsible for the firm's administration. 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 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 – 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.

Euan R Macdonald 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; Life Assurance; Nonlife Insurance; 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.

Keith Muir BEng (Hons), CFA

Keith joined Aberforth Partners in March 2011 and is responsible for investment research and stock selection in the following areas – Automobiles & Parts; Chemicals; Construction & Materials; Electricity; Fixed Line Telecommunications; Gas, Water & Multiutilities; Household Goods & Home Construction; Industrial Metals & Mining; Leisure Goods; Mining; and Mobile Telecommunications. Previously Keith was an Investment Director with Standard Life Investments for 13 years and spent the last 9 years as a senior member of the Smaller Companies team with associated portfolio management responsibilities. Prior to that he gained experience with Southpac, Scottish Equitable and Murray Johnstone.

Richard M J Newbery 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; General Industrials; General Retailers; and Personal Goods. 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 FCCA

David was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Real Estate Investment Trusts; Real Estate Investment & Services; 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

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

Stockmarkets performed well in 2012. The FTSE All-Share's total return was 12.3%, but this was eclipsed by the NSCI (XIC)'s 29.9%. Small companies therefore regained the ground lost in 2011 and, indeed, proceeded to move above the previous highs established in 2007. Illustrating the importance of income to equity returns, the NSCI (XIC) ended the year 19% above its mid 2007 peak in total return terms but only 1% above that peak in capital only terms. ASCoT performed relatively well in 2012. Its NAV total return of 31.9% is analysed in detail in the Investment Performance section of this report.

These strong returns from equities are apparently at odds with macro economic developments through the year: the US had to deal with the "fiscal cliff", Chinese GDP decelerated from double digit growth rates, the Eurozone crisis rumbled on to drag much of the Continent into recession, and in the UK the austerity strategy combined with weaker overseas demand to provoke a double-dip recession. Offsetting these challenges was an encouraging performance from the US economy, where there are indications, not least from the housing market, that the consumer sector might be able to resume its traditional role of supporting global demand. Moreover, while the Eurozone's problems are still very obvious, markets have been tempted to the view that some of the key elements of a lasting solution may be starting to fall into place and that things may have stopped getting worse.

Pervading these positive and negative influences on real economies are unprecedented monetary conditions. While it is still too early to be definitive about the merits or otherwise of "quantitative easing" in the US and UK or the Eurozone's new "outright monetary transactions", the past year witnessed rising frustration with such unconventional measures. These appear frequently to have missed their intended target, which is presumably investment in the real economy, instead providing a boost to asset prices. Thus, the "risk-on, risk-off" gyrations of the equity markets in recent years can be rationalised as coinciding with the announcement of the latest liquidity boost.

But, the distortions of government action, whether through central banks' quantitative easing or through regulation of the type applied to the valuation of defined pension liabilities, are not confined to volatile assets such as equities. Government bonds, which have not endured the curse of volatility in recent years, are in uncharted territory. Their yields, the cornerstone of financial asset valuation, have been driven down to historically low levels. Within the discount rates used to value apparently riskier assets, the so-called risk free component is close to zero. This leaves the more subjective component, the asset specific risk premium, much more important. In such an environment, the valuations of financial assets can readily become detached from reality. The beneficiaries within equity markets are those businesses that are perceived capable of growing irrespective of economic conditions and of avoiding the disappointment of expectations – that is to say, those businesses that, like bonds themselves, have experienced low volatility in recent years. Within the context of the NSCI (XIC), such companies are relatively few and have enjoyed very strong share price performances over recent years, resulting in stretched valuations relative to the majority.

This "valuation stretch", which is quantified later in this report, perhaps hints at the most convincing reason for the strong performance from small UK quoted companies and, indeed, other equities during 2012: accentuated by the stockmarket declines in 2011, the valuations of the majority of companies were simply much too low. While markets, under the influence of government action, might be slower than usual to exploit valuation anomalies, they do get there in the end.

Managers' Report

Investment performance

ASCoT's NAV total return in 2012 was 31.9%. Against a background of a strong market for the shares of small UK quoted companies, with the NSCI (XIC) returning 29.9%, ASCoT's gearing was beneficial. Average gearing of 7.5% enhanced portfolio returns as the following table demonstrates.

For the 12 months ended 31 December 2012	Basis points
Stock selection	-422
Sector selection	+477
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 34 basis points)	+55
Movement in mid to bid price spread	-31
Cash/gearing	+260
Purchase of ordinary shares	+9
Management fee	-91
Other expenses	-7
Total attribution based on bid prices	**+195**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 31.89%; Benchmark Index = 29.94%; difference is +1.95% being +195 basis points).

The standard methodology to split attribution between Stock and Sector selection can be misleading when analysing ASCoT's performance. Your Managers' investment process is focused on decisions about individual companies. Only rarely does a general view on a particular sector play a part in determining the profile of the portfolio. The TMT period, when ASCoT had very little representation in "new economy" businesses, was a notable instance of a sector level influence, but even then the key insights were the nonsensical valuations attributed to individual companies within the TMT areas of the market. In 2012, some investment was made in the resources companies, but the portfolio benefited overall from its under-weight position in the resources sectors, which accounted for roughly 60% of the positive sector attribution.

The following paragraphs describe some of the themes inherent in the portfolio and their influences on performance.

Style

The opening section of this report described how the unusual conditions pervading financial markets since the global financial crisis have manifested themselves in the universe of small UK quoted companies. The bear market for value stocks in recent years has been the deepest and most prolonged in the 57 year history of the NSCI (XIC). Given your Managers' consistently applied value investment disciplines, this has represented a significant headwind to ASCoT's relative performance. Encouragingly, the past twelve months witnessed a stirring in value. There are several methods to assess the performance of value against growth, all of which have advantage and disadvantages. Data from Style Research (an independent performance analysis firm) shows value stocks out-performing growth in 2012. This suggests that style influences were beneficial to ASCoT's returns last year.

Size

The NSCI (XIC) is defined as the bottom 10% by value of the UK stockmarket. This definition drives a market capitalisation ceiling of £1.4bn and so the index includes a large number of mid cap companies. Indeed, the overlap with FTSE 250 accounts for 76% of the value of the NSCI (XIC). The profile of ASCoT's portfolio is rather different, with 56% invested in mid caps. This positioning is motivated by the more attractive valuations on offer among the smaller denizens of the NSCI (XIC): the craving for certainty that has characterised financial markets in recent years has driven many investors to overlook the less liquid "smaller small" companies. With its closed-end status, ASCoT is well placed to exploit the consequent discount for illiquidity. This discount is unusually large at present and does not accurately reflect the business fundamentals of many "smaller small" companies. This has presented the opportunity to your Managers to invest in companies that ought to be attractive from the perspective of both the value and the growth investor.

Managers' Report

Turnover

With the NSCI (XIC) led higher by growth companies over recent years, the majority of businesses have been neglected. Re-ratings among this majority have been infrequent. Thus the opportunities to take money out of investments that have enjoyed a revaluation and to put it back to work in more modestly rated investments have also been infrequent. This is manifest in ASCoT's portfolio turnover, which, at 26% in 2012, was lower than the 22 year average of 38%. Since the basic dynamic of recycling capital makes an important contribution to the performance of many value investors, your Managers, though conscious of the frictional dealing costs, would not be uncomfortable were turnover to return to more normal levels in the years ahead.

Strong balance sheets

Balance sheets remain unusually strong across the corporate sectors of major economies. This is also a feature of the NSCI (XIC)'s constituents and of ASCoT's investments: companies forecast to have net cash on their balance sheets at the end of 2013 accounted for 38% and 36% by value of the year end portfolio and index respectively. ASCoT's exposure declined through 2012 as a result of portfolio changes and, encouragingly, of a handful of holdings coming up with a use for the cash. However, hoarding remains the general theme. Your Managers acknowledge the still uncertain trading environment but would prefer ASCoT's investee companies to utilise their financial strength on organic investment or modestly priced acquisitions. In the absence of these, mounting cash piles are of little help to anyone and represent an opportunity cost to investors.

De-equitisation

Last year was another of net de-equitisation within the small cap universe, with new issuance out-weighed by returns of capital, dividends and acquisitions. The first half of 2012 witnessed an upturn in the level of M&A activity in the small cap world. The most encouraging aspect was the large (50-60%) premiums to market prices that acquirers were able to justify, though it is worth stating that traditional premiums of around 30% would have been unattractive in view of the low valuations accorded to many businesses by the stockmarket. However, after the half year, the level of M&A fell sharply, possibly in response to macro economic uncertainty. Over the year as a whole, 18 constituents of the NSCI (XIC) were acquired. ASCoT owned five of these. This represented a lower than average hit-rate, though the portfolio enjoyed an indirect benefit as the large premiums paid in the first half drew wider attention to the valuations on offer. Meanwhile, there was little IPO activity within the investment universe, with only five primary listings. The principal influence here is again the low valuations already on offer in the secondary market. These are often too low to attract private equity houses, which instead trade businesses between each other. But if vendors do not move their valuation expectations the chances of a sustained uptick in IPOs are not high.

Dividends

The worst year for small company dividends since records for the NSCI (XIC) began in 1955 was 2009. Since then, the recovery has been strong. Entering 2012, the third year of recovery, your Managers were cautiously expecting a slowdown in the rate of aggregate dividend growth from the NSCI (XIC)'s constituents. In the event, the dividend experience proved better than expected, helped by the contribution of companies that had passed their dividends in 2009 returning to the dividend register. ASCoT's portfolio has shared in this favourable backdrop. The following table classifies ASCoT's 90 holdings at 31 December by their most recent dividend action.

Band	Nil	Down	Flat	Up	New
No. of holdings	19	5	16	46	4

Supported by long term data, which show that dividend yield and dividend growth have accounted for over three quarters of the total real return from small companies, your Managers believe that income will continue to be crucial to future returns from the asset class and, indeed, from equities in general. However, in today's income starved world, it can be frustrating when the search for yield within the UK equity market tends to begin and end with the FTSE 100.

Managers' Report

The 2.8% yield of small companies is below the 3.6% of the FTSE All-Share, but this is in part a result of the relatively large proportion of the NSCI (XIC) that still does not pay dividends: the yield of the yielders is 3.4%. The small company universe also comprises many more stocks than the large cap world and income is considerably less concentrated, a point highlighted by BP's problems two years ago. Within the NSCI (XIC) there are numerous businesses on attractive yields that have good dividend records and whose boards appreciate the importance of income to investors. Such businesses are a feature of ASCoT's portfolio and help drive a yield premium over the NSCI (XIC). ASCoT's portfolio dividend cover of 3.1x is also noteworthy: this is towards its highest ever level and ought to be supportive of dividend growth in future years.

Valuations

	31 December 2012		31 December 2011	
Characteristics	**ASCoT**	**NSCI (XIC)**	ASCoT	NSCI (XIC)
Number of companies	**90**	**389**	89	422
Weighted average market capitalisation	**£512m**	**£748m**	£391m	£676m
Price earnings ratio (historic)	**10.5x**	**12.8x**	9.0x	10.5x
Dividend yield (historic)	**3.0%**	**2.8%**	3.4%	3.2%
Dividend cover	**3.1x**	**2.8x**	3.3x	3.0x

The table above provides the historic PE ratios and dividend yields of the portfolio and the NSCI (XIC). Both metrics emphasise the portfolio's value characteristics. The table also illustrates the portfolio's size positioning: ASCoT's weighted average market capitalisation is much lower than that of the index. This is again a result of your Managers' value investment disciplines: the smaller companies within the NSCI (XIC) are presently valued more cheaply than the larger companies.

When assessing the value of individual businesses, in relation to their own histories, to other companies or to M&A valuations, your Managers tend to focus on the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). This is because the PE ratio of a company is influenced by the liability structure of its balance sheet: other things being equal, a company with a high amount of net debt will have a lower PE ratio than a company with net cash.

2013 EV/EBITA ratio

36 growth companies	*247 other companies*	*Tracked NSCI (XIC)*	*ASCoT's portfolio*
13.5x	8.6x	9.4x	7.4x

The table above sets out the EV/EBITA ratios of ASCoT's portfolio, the NSCI (XIC) and two components of the index to which the opening section of this report alluded. Your Managers monitor a collection of growth stocks within the NSCI (XIC). These totalled 36 in December, though 31 have been constituents of the NSCI (XIC) over the last three years. At 1 January 2010, the 31 represented just 7% by number of the NSCI (XIC). However, they accounted for 13% of the then value of the index and for 28% of its 52% total return over the three years to 31 December 2012. The re-rating over the period took their average EV/EBITA ratio up to 13.5x. Meanwhile, the substantial majority of the NSCI (XIC), which can be considered to comprise value stocks, enjoyed more modest but still strong returns. The average EV/EBITA multiple of these companies ended 2012 at 8.6x, implying a 57% premium for growth and perceived certainty. TMT aside, this is the widest "value stretch" that your Managers have witnessed over ASCoT's 22 years. The disparity is stark and gives your Managers confidence that ASCoT's portfolio is well positioned to generate good relative returns in the future.

Managers' Report

Outlook & conclusion

The trouble with value investors is that they can almost always present a set of numbers that demonstrates how much cheaper their portfolio is than the market. However, with a long term horizon, this is probably enough. Academic studies on both sides of the Atlantic suggest that the value style out-performs over time, through the process of steady compounding in companies that the market chooses not to re-rate and through the disciplined recycling of funds from companies that have been revalued into those on lower valuations.

In last year's report, conscious of shorter time horizons of some investors, your Managers described four potential catalysts for a renaissance of the value style. A year on, it is reasonable to conclude that each of these may have played a part in 2012's stirring in value.

- Dividends have continued to grow and the hunger for yield may slowly be rubbing off on small companies.
- Your Managers have continued to conduct discreet corporate engagement in an attempt to close value gaps.
- De-equitisation has continued, with a slightly disappointing number of M&A transactions offset by higher than average premiums.
- An improved macro economy is perhaps most difficult to argue, though, without further unpleasant surprises, equity prices had possibly discounted much of the downside as 2011 drew to a close.

A year on, despite the asset class's intervening 29.9% returns, your Managers remain enthused about the prospects for value investment in the equities of small UK quoted companies. This enthusiasm is motivated by what are still attractive valuations. And these valuations are attractive because, for several years now, the market has run scared of practically everything that ASCoT has to offer: the low volatility of bonds has been preferred to equities; the perceived certainty of the growth style has been preferred to value; more liquid "larger small" companies have been preferred to "smaller small" companies; private equity models have been preferred to quoted companies; and exciting emerging markets have been preferred to the UK.

From a contrarian perspective and backed up by historical evidence, your Managers consider ASCoT's portfolio of well financed and attractively valued businesses suitably positioned to take advantage of today's unusual structure of relationships within financial markets and to deliver good returns for investors over the medium and long term.

Aberforth Partners LLP
Managers
29 January 2013

Thirty Largest Investments

As at 31 December 2012

No.	Company	Value £'000	% of Total Net Assets	Business Activity
1	RPC Group	24,734	3.2	Plastic packaging
2	Bodycote	24,167	3.2	Engineering - heat treatment
3	Galliford Try	22,525	2.9	Housebuilding & construction services
4	e2v technologies	21,637	2.8	Electronic components & subsystems
5	CSR	20,891	2.7	Location & connectivity semiconductors
6	JD Sports Fashion	20,588	2.7	Retailing - sports goods & clothing
7	Northgate	19,805	2.6	Van rental
8	Spirit Pub Company	19,749	2.6	Managed pub operator
9	St. Modwen Properties	18,495	2.4	Property investment & development
10	Howden Joinery Group	16,540	2.2	Kitchen supplier
	Top Ten Investments	**209,131**	**27.3**	
11	Brewin Dolphin Holdings	16,477	2.2	Private client fund manager
12	RPS Group	16,380	2.1	Energy & environmental consulting
13	Barratt Developments	15,547	2.0	Housebuilding
14	Phoenix IT Group	14,564	1.9	IT services & disaster recovery
15	Vectura Group	13,906	1.8	Inhaled pharmaceuticals - respiratory specialism
16	Tullett Prebon	13,802	1.8	Interdealer broker
17	Lavendon Group	13,593	1.8	Hire of access equipment
18	Synthomer	13,266	1.7	Speciality chemicals
19	Micro Focus	13,027	1.7	Software - development & testing
20	Regus	12,586	1.7	Serviced office accommodation
	Top Twenty Investments	**352,279**	**46.0**	
21	AZ Electronic Materials	12,355	1.6	Chemicals for semiconductor production
22	WH Smith	11,800	1.5	Newsagents
23	Unite Group	11,797	1.5	Property - student accommodation
24	National Express Group	11,644	1.5	Train, bus & coach operator
25	Halfords Group	11,638	1.5	Retailing & car servicing
26	Beazley	11,369	1.5	Lloyds insurer
27	Laird Group	11,170	1.5	Electronic systems & controls
28	Cranswick	10,904	1.4	Food manufacturer
29	Castings	10,861	1.4	Engineering - automotive castings
30	Optos	10,665	1.4	Medical technology - retinal imaging
	Top Thirty Investments	**466,482**	**60.8**	
	Other Investments	346,844	45.1	
	Total Investments	**813,326**	**105.9**	
	Net Liabilities	(45,147)	(5.9)	
	Total Net Assets	**768,179**	**100.0**	

Investment Portfolio

As at 31 December 2012

Holding	Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[1]
Oil & Gas Producers		**21,104**	**2.7**	**3.9**
7,906,390	EnQuest	9,456	1.2	
7,507,713	JKX Oil & Gas	5,668	0.7	
85,423,500	Petroceltic International	5,980	0.8	
Oil Equipment, Services & Distribution		–	–	**1.5**
Alternative Energy		–	–	**0.1**
Chemicals		**25,621**	**3.3**	**4.0**
3,563,508	AZ Electronic Materials	12,355	1.6	
7,086,582	Synthomer	13,266	1.7	
Industrial Metals & Mining		**3,012**	**0.4**	**0.2**
30,892,435	International Ferro Metals	3,012	0.4	
Mining		**14,137**	**1.9**	**3.3**
2,641,181	Anglo Pacific Group	7,039	0.9	
3,803,824	Aquarius Platinum	2,016	0.3	
13,043,252	Centamin	5,082	0.7	
Construction & Materials		**29,556**	**3.8**	**1.9**
3,031,644	Galliford Try	22,525	2.9	
13,391,658	Low & Bonar	7,031	0.9	
Aerospace & Defence		**14,309**	**1.9**	**2.7**
2,324,800	Chemring Group	5,338	0.7	
4,888,838	QinetiQ Group	8,971	1.2	
General Industrials		**24,734**	**3.2**	**1.2**
6,230,321	RPC Group	24,734	3.2	
Electronic & Electrical Equipment		**30,971**	**4.0**	**2.5**
17,881,671	e2v technologies	21,637	2.8	
3,490,623	Morgan Crucible	9,334	1.2	
Industrial Engineering		**40,316**	**5.3**	**2.0**
5,357,441	Bodycote	24,167	3.2	
3,436,942	Castings	10,861	1.4	
1,328,766	Hill & Smith Holdings	5,288	0.7	
Industrial Transportation		**4,978**	**0.7**	**2.0**
102,600	Clarkson	1,218	0.2	
5,371,000	Wincanton	3,760	0.5	
Support Services		**121,222**	**15.9**	**15.4**
2,571,850	Acal	4,887	0.6	
3,939,730	Capital Drilling	1,005	0.1	
3,912,515	CPPGroup	509	0.1	
7,085,986	Fiberweb	4,854	0.6	
9,583,056	Howden Joinery Group	16,540	2.2	
804,443	Hyder Consulting	3,218	0.4	
10,013,582	Lavendon Group	13,593	1.8	
6,536,293	Northgate	19,805	2.6	
4,156,810	office2office	5,071	0.7	
11,536,204	Regus	12,586	1.7	
2,987,642	Robert Walters	5,766	0.8	
7,829,760	RPS Group	16,380	2.1	
5,361,758	Smiths News	8,378	1.1	
22,710,900	Speedy Hire	8,630	1.1	
Automobiles & Parts		–	–	–
Beverages		–	–	**1.1**
Food Producers		**19,773**	**2.5**	**2.5**
1,291,988	Cranswick	10,904	1.4	
327,686	Dairy Crest Group	1,258	0.1	
2,837,286	Hilton Food Group	7,611	1.0	
Household Goods & Home Construction		**20,025**	**2.6**	**2.3**
7,521,717	Barratt Developments	15,547	2.0	
783,510	Bovis Homes Group	4,478	0.6	
Leisure Goods		–	–	**0.3**
Personal Goods		–	–	**0.7**
Health Care Equipment & Services		**10,665**	**1.4**	**1.0**
6,282,867	Optos	10,665	1.4	
Pharmaceuticals & Biotechnology		**14,415**	**1.9**	**2.1**
16,408,004	Ark Therapeutics Group	509	0.1	
16,654,125	Vectura Group	13,906	1.8	

Investment Portfolio

As at 31 December 2012

Holding	Security	Value £'000	% of Total Net Assets	% of NSCI (XIC)[1]
Food & Drug Retailers		–	–	1.2
General Retailers		60,792	7.9	8.1
12,985,166	Dixons Retail	3,663	0.5	
3,508,611	Halfords Group	11,638	1.5	
3,005,508	JD Sports Fashion	20,588	2.7	
1,826,812	Mothercare	6,161	0.8	
13,883,032	Topps Tiles	6,942	0.9	
1,770,416	WH Smith	11,800	1.5	
Media		49,299	6.3	3.9
2,509,834	4imprint Group	8,784	1.1	
10,499,235	Centaur Media	4,830	0.6	
2,562,365	Chime Communications	5,810	0.7	
46,368,442	Future	8,114	1.1	
26,912,901	Huntsworth	10,631	1.4	
8,637,351	Mecom Group	6,392	0.8	
5,136,530	Trinity Mirror	4,738	0.6	
Travel & Leisure		54,413	7.1	10.4
657,000	Air Partner	1,971	0.3	
5,704,906	National Express Group	11,644	1.5	
2,054,526	Playtech	8,732	1.1	
36,046,262	Punch Taverns	2,884	0.4	
30,979,341	Spirit Pub Company	19,749	2.6	
8,145,555	Sportech	5,702	0.7	
7,772,000	Thomas Cook Group	3,731	0.5	
Fixed Line Telecommunications		8,176	1.1	2.0
11,483,378	KCOM Group	8,176	1.1	
Electricity		–	–	0.5
Gas, Water & Multiutilities		–	–	–
Banks		–	–	0.3
Nonlife Insurance		16,186	2.1	1.7
6,474,632	Beazley	11,369	1.5	
1,219,385	Novae Group	4,817	0.6	
Life Insurance		5,569	0.7	0.9
5,801,257	Hansard Global	5,569	0.7	
Real Estate Investment & Services		43,807	5.6	4.0
14,840,200	Assura Group	4,897	0.6	
770,442	Grainger	903	0.1	
7,143,462	Safestore Holdings	7,715	1.0	
8,180,087	St. Modwen Properties	18,495	2.4	
4,286,786	Unite Group	11,797	1.5	
Real Estate Investment Trusts		18,504	2.4	3.0
11,386,757	Hansteen Holdings	9,109	1.2	
3,110,979	Workspace Group	9,395	1.2	
Financial Services		54,132	7.1	7.3
8,014,000	Brewin Dolphin Holdings	16,477	2.2	
1,733,231	Charles Stanley Group	5,113	0.7	
9,367,960	F&C Asset Management	9,471	1.2	
3,328,300	Jupiter Fund Management	9,269	1.2	
5,505,265	Tullett Prebon	13,802	1.8	
Software & Computer Services		68,980	9.0	2.9
7,445,956	Anite	10,573	1.4	
1,820,421	Computacenter	7,435	1.0	
3,546,822	Kofax	10,250	1.3	
2,253,863	Micro Focus	13,027	1.7	
6,247,336	Microgen	7,497	1.0	
8,125,111	Phoenix IT Group	14,564	1.9	
7,413,696	RM	5,634	0.7	
Technology Hardware & Equipment		38,630	5.1	3.1
6,258,477	CSR	20,891	2.7	
13,834,827	Filtronic	4,635	0.6	
5,435,668	Laird	11,170	1.5	
12,085,283	Promethean World	1,934	0.3	
Investments as shown in the Balance Sheet		**813,326**	**105.9**	**100.0**
Net Liabilities		(45,147)	(5.9)	–
Total Net Assets		**768,179**	**100.0**	–

All investments have a listing on the London Stock Exchange.

[1] This reflects the rebalanced index as at 1 January 2013.

Portfolio Information

FTSE Industry Classification Exposure Analysis

Sector	31 December 2011 NSCI (XIC) Weight %	31 December 2011 Portfolio Weight %	31 December 2011 Portfolio Valuation £'000	Net[2] Purchases/ (Sales) £'000	Net Appreciation/ (Depreciation) £'000	31 December 2012 Portfolio Valuation £'000	31 December 2012 Portfolio Weight %	31 December 2012 NSCI (XIC)[1] Weight %
Oil & Gas	6	3	16,832	6,571	(2,299)	**21,104**	3	5
Basic Materials	9	5	32,546	15,680	(5,456)	**42,770**	5	7
Industrials	26	31	208,778	(8,101)	65,409	**266,086**	33	28
Consumer Goods	7	5	33,477	(7,380)	13,701	**39,798**	5	7
Health Care	3	3	22,321	(65)	2,824	**25,080**	3	3
Consumer Services	20	20	136,046	(2,426)	30,884	**164,504**	20	24
Telecommunications	3	1	8,606	(689)	259	**8,176**	1	2
Utilities	1	–	–	–	–	–	–	1
Financials	17	17	112,734	(6,758)	32,222	**138,198**	17	17
Technology	8	15	98,563	(20,911)	29,958	**107,610**	13	6
	100	100	669,903	(24,079)	167,502	**813,326**	100	100

[1] This reflects the rebalanced index as at 1 January 2013.

[2] Includes transaction costs.

FTSE Index Classification Exposure Analysis

Index Classification	31 December 2011 Portfolio No. of Companies	31 December 2011 Portfolio Valuation £'000	31 December 2011 Portfolio Weight %	31 December 2011 NSCI (XIC) Weight %	31 December 2012 Portfolio No. of Companies	31 December 2012 Portfolio Valuation £'000	31 December 2012 Portfolio Weight %	31 December 2012 NSCI (XIC)[1] Weight %
FTSE 100	–	–	–	–	–	–	–	–
FTSE 250	33	345,320	52	76	**39**	**462,345**	**57**	**76**
FTSE SmallCap	40	260,950	39	17	**38**	**284,872**	**35**	**18**
FTSE Fledgling	8	16,817	2	1	**6**	**25,187**	**3**	**1**
Other	8	46,816	7	6	**7**	**40,922**	**5**	**5**
	89	669,903	100	100	**90**	**813,326**	**100**	**100**

[1] This reflects the rebalanced index as at 1 January 2013.

Summary of Material Portfolio Changes

For the year ended 31 December 2012

Purchases	Cost £'000	Sales	Proceeds £'000
Centamin	10,967	Anite	15,311
Playtech	8,747	Debenhams	13,884
QinetiQ Group	8,446	UMECO	12,860
Hilton Food Group	7,821	Moneysupermarket.com Group	11,335
Chemring Group	7,013	CSR	11,262
Jupiter Fund Management	6,972	GlobeOp Financial	11,173
Northgate	6,852	Collins Stewart Hawkpoint	10,245
F&C Asset Management	6,584	Greggs	10,203
Computacenter	6,367	Headlam Group	9,011
Cranswick	5,932	Redrow	8,337
Aquarius Platinum	5,877	Investec	7,909
Speedy Hire	5,754	Low & Bonar	7,875
WH Smith	5,284	Micro Focus	7,791
Kofax	5,204	RPC Group	7,357
Assura Group	4,840	Persimmon	6,583
Fiberweb	4,578	Galliford Try	5,162
Tullett Prebon	4,354	RPS Group	4,802
Mothercare	3,835	Pace	4,424
Bovis Homes Group	3,827	Barratt Developments	4,213
Synthomer	3,291	Wilmington Group	4,114
Other Purchases	77,373	Other Sales	50,146
Total for the period	**199,918**	**Total for the period**	**223,997**

This summary shows the 20 largest aggregate purchases and sales including transaction costs.

Long-Term Record

Historic Total Returns

Period	Discrete Annual Returns (%) NAV	Index	Share Price
1 year to 31 December 2012	**31.9**	**29.9**	**43.9**
1 year to 31 December 2011	-13.5	-9.1	-18.5
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

	Compound Annual Returns (%)			Cumulative Returns (%)		
Periods to 31 December 2012	NAV	Index	Share Price	NAV	Index	Share Price
2 years from 31 December 2010	6.8	8.7	8.3	14.1	18.1	17.3
3 years from 31 December 2009	13.0	14.9	12.9	44.5	51.7	44.0
4 years from 31 December 2008	20.2	25.0	23.1	108.6	143.9	129.4
5 years from 31 December 2007	4.7	7.6	7.2	25.9	44.3	41.4
6 years from 31 December 2006	2.0	4.8	2.6	12.8	32.3	16.9
7 years from 31 December 2005	5.2	7.8	4.3	42.5	69.3	34.5
8 years from 31 December 2004	7.5	10.1	6.7	78.0	116.4	68.3
9 years from 31 December 2003	9.6	11.3	9.6	129.1	161.1	127.5
10 years from 31 December 2002	12.1	14.1	11.1	214.1	273.5	185.4
11 years from 31 December 2001	9.9	10.0	10.2	183.7	186.5	190.2
12 years from 31 December 2000	9.8	7.9	10.8	206.0	149.2	241.8
13 years from 31 December 1999	10.2	7.4	10.3	253.7	152.2	256.0
14 years from 31 December 1998	12.6	10.3	13.4	428.6	293.8	478.7
15 years from 31 December 1997	11.3	9.1	11.3	396.2	271.2	396.4
16 years from 31 December 1996	10.9	9.1	10.4	422.6	305.4	389.3
17 years from 31 December 1995	11.5	9.7	11.0	538.9	381.2	489.7
18 years from 31 December 1994	12.1	10.0	11.5	687.3	458.8	613.6
19 years from 31 December 1993	11.3	9.3	10.5	666.6	441.5	563.9
20 years from 31 December 1992	13.0	10.7	12.5	1,057.1	666.7	946.4
21 years from 31 December 1991	12.5	10.5	12.0	1,090.0	715.8	982.1
22.1 years from inception on 10 December 1990	13.3	10.8	12.6	1,476.9	857.1	1,272.6

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] %
2012	**814.9**	**46.7**	**768.2**	**802.8**	**695.50**	**13.4**
2011	671.1	68.0	603.1	627.3	501.00	20.1
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

1 The calculation of Net Asset Value per Share is explained in the Shareholder Information section on page 50.

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	Ongoing Charges[2] %	Gearing %
2012	**25,008**	**26.07**	**22.25**	**0.81**	5.9
2011	23,247	24.13	20.75	0.88	11.1
2010	17,512	18.11	19.00	0.85	7.3
2009	16,813	17.35	19.00	0.85	7.7
2008	22,223	22.75	19.00	0.94	9.5
2007	18,158	18.38	15.20	0.86	–
2006	16,209	16.40	13.40	0.97	–
2005	14,325	14.50	11.85	0.99	–
2004[3]	13,085	13.24	11.00	0.99	–
2003[4]	10,026	11.59	10.10	0.98	–
2002	8,855	10.57	9.50	1.04	–

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 Represents the total cost of investment management fees and other operating expenses as a percentage of the average published net asset value over the period.

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

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

Directors

Professor P R Marsh, Chairman

Appointed: 16 July 2004
Remuneration: £ 31,500
Shareholding in the Company: 33,000 Ordinary Shares

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

H N Buchan

Appointed: 11 November 2003 and is a Member of the Audit Committee (Retiring at the AGM on 5 March 2013)
Remuneration: £ 22,000
Shareholding in the Company: 19,474 Ordinary Shares

Hamish Buchan is a consultant in the financial sector and is a Director of Templeton Emerging Markets Investment Trust plc, The Scottish Investment Trust plc and is Chairman of 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.

D J Jeffcoat, FCMA

Appointed: 22 July 2009 and is Chairman of the Audit Committee
Remuneration: £ 26,000
Shareholding in the Company: 4,898 Ordinary Shares

David Jeffcoat began his career as a production engineer at Jaguar Cars. 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 he was Group Finance Director and Company Secretary at Ultra Electronics Holdings plc from 2000 until 2009. He is a Director and Chairman of the Audit Committee of WYG plc and RSM Tenon Group PLC. He also works as a volunteer Citizens Advisor.

Professor W S Nimmo

Appointed: 16 July 2004
Remuneration: £ 21,000
Shareholding in the Company: 29,157 Ordinary Shares

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.

R A Rae, ACA

Appointed: 26 January 2012 and is a member of the Audit Committee
Remuneration: £ 20,021
Shareholding in the Company: 4,000 Ordinary Shares

Richard Rae qualified as a chartered accountant with KPMG and joined Hoare Govett as an investment analyst in 1987. He spent 22 years working in investment research and equities management, latterly as a Managing Director, responsible for smaller companies, in the Global Equities division of ABN AMRO. Since 2009, he has established himself as an independent management consultant providing due diligence and corporate advice to both listed and unlisted companies.

S P Trickett

Appointed: 30 January 2013
Remuneration: n/a
Shareholding in the Company: n/a

Paul Trickett worked in the pensions and financial services sector from 1988 until 2013 having been a managing director in Goldman Sachs Asset Management responsible for their multi asset class investments, head of the investment consulting practice of Towers Watson in EMEA and Chief Executive of the British Coal Pension Schemes. He now acts as a non executive director and trustee for a number of organisations.

Directors' Report

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year to 31 December 2012.

Business Review

Investment Objective

The objective of ASCoT is to achieve a net asset value total return (with dividends reinvested) greater than on the Numis 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 typically 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 Numis Smaller Companies Index (excluding Investment Companies). The upper market capitalisation limit to this index at 1 January 2013 (the date of the last annual index rebalancing) was £1.428 billion, although this limit will change owing to movements in the stockmarket. The aggregate market capitalisation of the index as at 1 January 2013 was £141 billion and it includes 389 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 security 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 with the exception of real estate investment trusts that are eligible to be included in the NSCI (XIC).

The Board, in conjunction with the Managers, is responsible for determining the gearing strategy for the Company. When considered appropriate, gearing is used tactically in order to enhance returns. The Company has a £100m three year facility in place and the level of gearing has, during 2012, ranged from 5.8% to 11.2%. Further details can be found in note 12 to the Financial Statements.

The Board believes that small UK quoted companies continue to provide opportunities for positive total returns 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 6 to 14.

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 reflected in 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.

Directors' Report

Bank Debt Facility

On 4 May 2011, the Company entered into a three year unsecured bank debt facility of £100 million with The Royal Bank of Scotland plc. This facility can be used at any time. As at 31 December 2012, the Company had drawn down £46.75 million under the facility. Further information can be found in Note 12.

Corporate Structure, Governance and Regulation

The Company is an investment company as defined within 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 2014 (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 respect of the year ended 31 December 2012, the key requirements included:

- the Company must invest in shares, land or other assets with the aim of spreading investment risk and giving members of the Company the benefit of the results of the management of its funds;
- the Company's Ordinary Shares are listed on a regulated market such as the London Stock Exchange;
- the Company must not retain in respect of each accounting period more than 15% of its total income and;
- the Company must not be a close company.

The Company has been approved by HM Revenue & Customs as an investment trust for accounting periods commencing on or after 1 January 2012 subject to the Company continuing to meet the eligibility conditions. The Company will continue to conduct its affairs as an investment trust.

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 £18,346 (excluding VAT) per quarter during 2012. 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 formally reviews the Company's investment management and secretarial arrangements on an ongoing basis including: investment performance in relation to the investment policy and strategy; the continuity of personnel managing the assets and the quality of 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 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.

Capital Structure and Share Buy-Backs

At 31 December 2012, the Company's authorised share capital consisted of 333,299,254 Ordinary Shares of 1p of which 95,692,792 were issued and fully paid. During the year, 446,000 shares (with a nominal value of £4,460) were bought back (0.5% of the Company's issued share capital) and cancelled at a total cost of £2,642,000. 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.

Return and Dividends

The total return attributable to Shareholders for the year to 31 December 2012 amounted to a gain of £188,183,000 (2011 – loss of £93,778,000). The net asset value per Ordinary Share at 31 December 2012 was 802.76p (2011 – 627.31p).

Your Board is pleased to declare a second interim dividend, in lieu of a final dividend, of 15.25p, which produces total dividends for the year of 22.25p, an increase of 7.2% over the previous year. The second interim dividend of 15.25p per share will be paid on 28 February 2013 to Shareholders on the register at the close of business on 8 February 2013.

Key Performance Indicators

	£'000	£'000
Revenue return for the year available for dividends		25,008
Dividends in respect of the revenue available:		
First interim dividend of 7.00p per Ordinary Share paid 23 August 2012	(6,705)	
Second interim dividend of 15.25p per Ordinary Share payable 28 February 2013	(14,584)	(21,289)
Transfer to reserves		3,719

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

- Net asset value total return
- Share price total return
- Performance attribution
- Share price discount to net asset value
- Ongoing charges
- Revenue and dividend position

A record of these measures is shown on pages 7, 15 and 16.

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

Review of Performance, activity during the year and the investment outlook

A comprehensive review can be found in the Chairman's Statement and Managers' Report.

Directors' Report

Principal Risks and Risk Management

The Directors have established an on-going 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.

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 Company has a diversified portfolio. In addition, 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. Nonetheless, 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 key risks faced by the Company, together with the approach taken by the Board towards them, have been summarised below:

(i) **Investment policy/performance** – the performance of the investment portfolio will typically 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 Managers have a clearly defined investment philosophy and manage a diversified portfolio. The value of the portfolio will also be affected by events or developments in the economic environment generally, for example inflation or deflation, recession and movements in interest rates. The Board continually monitors the Company's performance against the benchmark, and regularly receives detailed portfolio attribution analysis. The peer group is also regularly monitored by the Board and this includes NAV performance and share price discount, management fees and ongoing charges.

(ii) **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. Furthermore, the Board intends to continue to use the share buy back facility to seek to sustain as low a discount as seems possible.

(iii) **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. The Board considers the gearing strategy and associated risk at each meeting.

(iv) **Reputational risk** – reputational risk can rise as a result of factors within or outwith the Company's control. The Board and the Managers monitor external forces affecting the reputation of the Company and take action if appropriate. The Board and the Secretaries also monitor market developments and identify and communicate regularly with investors.

(v) **Risk appetite** – the effect of inappropriate risk appetite or failure to establish appropriate strategy to manage the Company to a desired risk level. The Managers have a clearly defined investment philosophy which includes a number of risk metrics, and they manage a diversified portfolio. The Board considers the strategy to be adopted in conjunction with the risk measures and reviews the decisions against this strategy. The Board continually monitors the Company's performance against the benchmark, and regularly receive a detailed portfolio attribution analysis, including risk measures.

(vi) **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. A 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, together with information on future developments.

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

Directors' Report

Other Matters

Going Concern

In accordance with the report "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.

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 2012 and their interests in the Shares of the Company as at that date and 1 January 2012 were as follows:

		Ordinary Shares	
Directors	Nature of Interest	31 December 2012	1 January 2012
Prof P R Marsh	Beneficial	**33,000**	25,000
H N Buchan	Beneficial	**19,474**	19,474
D J Jeffcoat	Beneficial	**4,898**	4,738
Prof W S Nimmo	Beneficial	**29,157**	29,157
R A Rae (appointed 26 January 2012)	Beneficial	**4,000**	–

There has been no change in the beneficial or non-beneficial holdings of the Directors between 31 December 2012 and 29 January 2013.

As stated in the separate Corporate Governance Report, all Directors seek re-election every year and, as a result, all Directors retire at the AGM to be held on 5 March 2013. All Directors, with the exception of Mr Buchan who will retire at the forthcoming AGM, offer themselves for re-election and biographical details for each are shown on page 17.

Corporate Governance Report

The Corporate Governance Report, which details compliance with the UK Corporate Governance Code, issued in 2010, can be found on pages 25 to 26 and forms part of this report.

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.

Your Board is pleased to offer electronic proxy voting, including CREST voting capabilities. 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 (www.capitashareportal.com) or via CREST. Further details can be found in the Notice of the AGM.

Directors' Report

Annual General Meeting

The AGM will be held on Tuesday, 5 March 2013 at 3.00 p.m. at 14 Melville Street, Edinburgh EH3 7NS. The following special resolution will be proposed at the AGM.

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 AGM. Resolution 10, as set out in the Notice of the AGM, seeks renewal of such authority until the AGM in 2014. 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 AGM 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 of the following interests in 3% or more of the voting rights of the Company as at 31 December 2012 and 29 January 2013. The total number of votes amounted to 95,692,792 and 95,632,792 at each of the respective dates.

Interested person	Percentage of Voting Rights Held
Investec Wealth & Investment Limited	6.0
Rathbone Brothers plc	5.5
Brewin Dolphin Limited	5.1
Lloyds Banking Group plc (including discretionary investment management)	4.2

Financial Instruments

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

Section 992 of the Companies Act 2006

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

- The Company's capital structure and voting rights are summarised on pages 20 and 22.
- 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 27.
- 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.

Directors' Report

- 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.

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.

Independent Auditor

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

Disclosure of Information to Auditor

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 Auditor is 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 Auditor is aware of that information.

By Order of the Board
For Aberforth Partners LLP, Secretaries
29 January 2013

Corporate Governance Report

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (the AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (the AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in The UK Corporate Governance Code ("The Code"), issued in 2010 by the Financial Reporting Council, 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.

Compliance

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.

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 Committee fulfils this role when necessary, for example, taking the lead in the annual evaluation of the Chairman.

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

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 five 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 provide investment management, secretarial, registrar, and custodial services to 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 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 Buchan 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.

The Board formally evaluates the Investment Manager, including performance and quality of reporting to the Board and Shareholders. The Board also 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.

Corporate Governance Report

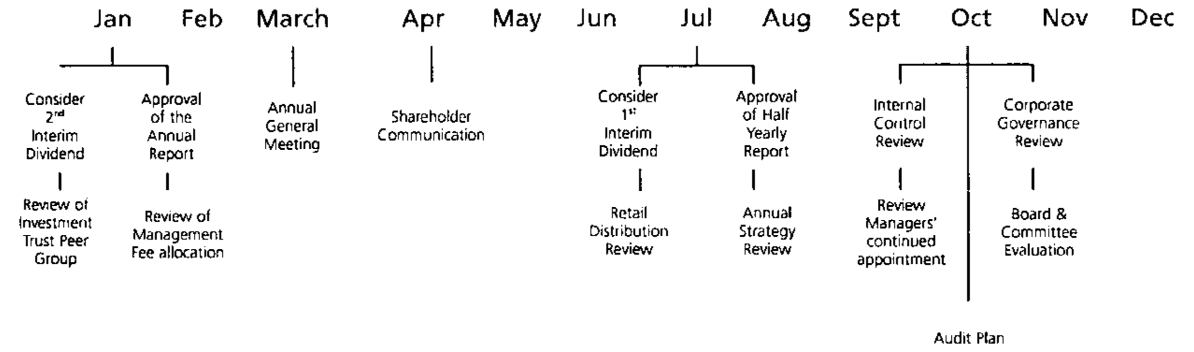
Meetings

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);
- Regulatory matters; and
- relevant industry issues.

In addition, the Board receives regular reports from the Managers analysing and commenting on the composition of the Company's share register and monitors significant changes. The Board also holds an annual strategy session to consider, amongst other matters, the Company's objective and investment focus and style.

The following highlights various additional matters considered by the Board during the past year:



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 AGM in March 2012.

Director	The Board		Audit Committee	
	Held	Attended	Held	Attended
Prof P R Marsh, Chairman	4	4	–	–
H N Buchan	4	4	3	3
J E G Cran (retired 7 March 2012)	1	1	1	1
D J Jeffcoat	4	4	3	3
Prof W S Nimmo	4	4	–	–
R A Rae (appointed on 26 January 2012)	3	3	2	2

Training and advice

New Directors are provided with an induction programme that is tailored to the particular requirements of the appointee. All Directors are entitled to receive appropriate training when required and changes affecting Directors' responsibilities are advised to the Board as they arise. 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.

Corporate Governance Report

All Directors have access to the advice and services of the Company's Secretaries, 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.

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 indirect 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.

Directors' and Officers' Liability Insurance

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

Appointments to the Board

The Board continually reviews 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. As mentioned in the Chairman's statement, Mr Buchan will retire at the conclusion of this year's AGM and, in order that the Board continues to have a balance of skills and experience, the Board decided that an additional Director should be appointed.

During the 2011 Board appointment process, described fully in last year's Annual Report and Accounts, the Board met with Paul Trickett, a prospective candidate, and agreed that he would be an excellent potential addition to the Board. Unfortunately, due to other commitments, Paul was unable to offer himself for consideration for a position on the Board until 2013. The Board are now delighted to report the appointment of Paul Trickett, as a Director of the Company, with effect from 30 January 2013. Paul will stand for formal election by Shareholders at the AGM and his biography can be found on page 17.

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 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 Committee.

The Board does not currently 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.

In line with the Board's policy, each Director retires at the AGM to be held on 5 March 2012. Professor Marsh and Professor Nimmo and Messrs Jeffcoat and Rae, whose biographical details are shown on page 17, being eligible, offer themselves for re-election. The Board believes that each Director continues to be effective, bringing a wealth of knowledge and experience to the Board and recommends the re-election of each Director to Shareholders.

Relations with Shareholders

The Board believes that regular contact with Shareholders is essential 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, daily Net Assets Values, monthly factsheets 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 Baker Tilly UK Audit LLP respectively. The Audit Committee then submits a detailed report on its findings to the Board. The Directors have not identified any significant failures or weaknesses in respect of the Company's system of internal control.

Audit Committee

The Directors have appointed an Audit Committee ("Committee"), chaired by Mr Jeffcoat. This Committee, of which Messrs Buchan and Rae are also members, specifically:

- reviews the Company's financial statements and the accounting policies adopted;
- assesses the Company's key risks, the internal control objectives and controls adopted;
- considers the relationship with the Company's auditor including making recommendations to the Board on the appointment, reappointment or removal, and the terms of appointment, including remuneration, of the auditor;
- evaluates the results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to non-audit fees;
- considers the provision of non-audit services to be carried out by the auditor; and
- assesses whether there is a need for the Company to have its own internal audit function.

Ernst & Young LLP (EY) are engaged as the Company's Auditors. Fees paid and payable (excluding VAT) to EY relating to audit work amounted to £17,650 for the year ended 31 December 2012 (2011: £17,000). Fees paid and payable to EY relating to non-audit work amounted to £3,850 in the year ended 31 December 2012 (2011: £1,800) and related to the completion and submission of the corporation tax return, including iXBRL formatted accounts. Having reviewed the range of services provided by EY, the Committee is satisfied that the provision of non-audit services does not impair the independence of the Auditors.

Taking into account the experience of the audit partner and staff at EY and the quality of the work undertaken during the audit of the Annual Report, the Committee remains satisfied with the Auditors' effectiveness and recommended to the Board the continuing appointment of EY as the Company's Auditors. The Board supported this recommendation, and a proposal will be put to shareholders at the forthcoming Annual General Meeting. The Auditors have provided confirmation that they have complied with the relevant UK professional and regulatory requirements on independence and the Committee knows of no reason to believe the Auditors' independence has been impaired.

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

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

Social, Environmental and Ethical Issues

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

The Managers' primary objective is to deliver investment returns greater than the return on the Company's benchmark index, the NSCI (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 sets 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 Auditor to audit certain elements of this report. These elements are described below as "audited". The Auditor's opinion is included in the Independent Auditor's Report on page 33.

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
H N Buchan	11 November 2003	—	11 November 2003	5 weeks
J E G Cran	17 July 2001	7 March 2012	29 April 2003	–
D J Jeffcoat	22 July 2009	—	22 July 2009	1 year
Prof W S Nimmo	16 July 2004	—	16 July 2004	1 year
R A Rae	26 January 2012	—	26 January 2012	1 year

[1] Each Director's unexpired term, other than that of Mr Buchan, is subject to their re-election at the Annual General Meeting in March 2013. As previously stated, Mr Buchan 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 Numis 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 2007

Directors' Fees (Audited)

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

	Fees 2012 £	Fees 2011 £
Prof P R Marsh, *Chairman*	**31,500**	30,000
H N Buchan, *Member of the Audit Committee*	**22,000**	21,000
M L A Chiappelli, *Chairman of the Audit Committee until 25 January 2011. Retired on 2 March 2011*	**–**	3,789
J E G Cran, *Member of the Audit Committee. Retired 7 March 2012*	**4,027**	21,000
D J Jeffcoat, *Chairman of the Audit Committee with effect from 25 January 2011*	**26,000**	24,884
Prof W S Nimmo	**21,000**	20,000
R A Rae, *appointed 26 January 2012 and is a member of the Audit Committee*	**20,021**	–
	124,548	120,673

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 30 to 31 was approved by the Board on 29 January 2013 and signed on its behalf by Professor Paul Marsh, Chairman.

PR Marsh

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 Auditor does not involve consideration of the maintenance and integrity of the website and, accordingly, the Auditor accepts 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
29 January 2013

P R Marsh

Independent Auditor's 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 2012 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 auditor

As explained more fully in the Directors' Responsibility Statement set out on page 32, 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 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:

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

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

Under the Listing Rules we are required to review:

- The Directors' statement on page 22 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.

Ernst & Young LLP

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

29 January 2013

Income Statement

For the year ended 31 December 2012

		2012			2011		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	9	—	169,537	169,537	—	(110,015)	(110,015)
Investment income	2	28,065	—	28,065	26,502	—	26,502
Other income	2	1	—	1	1	—	1
Investment management fee	3	(2,057)	(3,428)	(5,485)	(2,105)	(3,508)	(5,613)
Other expenses	4	(443)	(2,035)	(2,478)	(522)	(2,475)	(2,997)
Net return before finance costs and tax		25,566	164,074	189,640	23,876	(115,998)	(92,122)
Finance costs	5	(540)	(899)	(1,439)	(616)	(1,027)	(1,643)
Return on ordinary activities before tax		25,026	163,175	188,201	23,260	(117,025)	(93,765)
Tax on ordinary activities	6	(18)	—	(18)	(13)	—	(13)
Return attributable to equity shareholders		25,008	163,175	188,183	23,247	(117,025)	(93,778)
Returns per Ordinary Share	8	26.07p	170.13p	196.20p	24.13p	(121.46p)	(97.33p)

The Board declared on 29 January 2013 a second interim dividend of 15.25p per Ordinary Share (2011 — 14.3p). The Board also declared on 18 July 2012 a first interim dividend of 7.0p per Ordinary Share (2011 — 6.45p).

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 2012

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2011	**961**	**27**	**182,103**	**379,276**	**40,724**	**603,091**
Return on ordinary activities after taxation	**—**	**—**	**—**	**163,175**	**25,008**	**188,183**
Equity dividends paid	**—**	**—**	**—**	**—**	**(20,453)**	**(20,453)**
Purchase of Ordinary Shares	**(4)**	**4**	**(2,642)**	**—**	**—**	**(2,642)**
Balance as at 31 December 2012	**957**	**31**	**179,461**	**542,451**	**45,279**	**768,179**

For the year ended 31 December 2011

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 31 December 2010	964	24	183,279	496,301	36,221	716,789
Return on ordinary activities after taxation	—	—	—	(117,025)	23,247	(93,778)
Equity dividends paid	—	—	—	—	(18,744)	(18,744)
Purchase of Ordinary Shares	(3)	3	(1,176)	—	—	(1,176)
Balance as at 31 December 2011	961	27	182,103	379,276	40,724	603,091

The accompanying notes form an integral part of this statement.

Balance Sheet

As at 31 December 2012

	Note	2012 £'000	2011 £'000
Fixed assets:			
Investments at fair value through profit or loss	9	**813,326**	669,903
Current assets			
Debtors	10	**1,857**	2,578
Cash at bank		**259**	151
		2,116	2,729
Creditors (amounts falling due within one year)	11	**(577)**	(1,657)
Net current assets		**1,539**	1,072
TOTAL ASSETS LESS CURRENT LIABILITIES		**814,865**	670,975
Creditors (amounts falling due after more than one year)	12	**(46,686)**	(67,884)
TOTAL NET ASSETS		**768,179**	603,091
CAPITAL AND RESERVES: EQUITY INTERESTS			
Called up share capital:			
Ordinary Shares	13	**957**	961
Reserves:			
Capital redemption reserve	14	**31**	27
Special reserve	14	**179,461**	182,103
Capital reserve	14	**542,451**	379,276
Revenue reserve	14	**45,279**	40,724
TOTAL SHAREHOLDERS' FUNDS		**768,179**	603,091
NET ASSET VALUE PER SHARE	15	**802.76p**	627.31p

Approved and authorised for issue by the Board of Directors on 29 January 2013 and signed on its behalf by Professor Paul Marsh, *Chairman*

P R Marsh

The accompanying notes form an integral part of this statement.

Registered in Scotland No. 126524

Cash Flow Statement

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Net cash inflow from operating activities		**22,708**	18,763
Taxation		**9**	(15)
Returns on investments and servicing of finance	16	**(1,394)**	(1,584)
Capital expenditure and financial investment	16	**23,506**	(13,787)
		44,829	3,377
Equity dividends paid	7	**(20,453)**	(18,744)
		24,376	(15,367)
Financing			
Purchase of Ordinary Shares		**(3,018)**	(800)
Net (repayment)/drawdown of bank debt facilities (before costs)	17	**(21,250)**	16,250
Increase in cash	17	**108**	83

Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities			
Net return before finance costs and taxation		**189,640**	(92,122)
(Gains)/losses on investments		**(169,537)**	110,015
Scrip dividends received		**(120)**	(137)
Expenses incurred in acquiring or disposing of investments		**2,035**	2,475
Decrease/(increase) in debtors		**694**	(1,471)
(Decrease)/increase in other creditors		**(4)**	3
Net cash inflow from operating activities		**22,708**	18,763

Reconciliation of net cash flow to movement in net debt	17		
Increase in cash in the year		**108**	83
Net repayment/(drawdown) of bank debt facilities		**21,250**	(16,100)
Amortised costs in respect of the bank debt facility		**(52)**	(173)
Change in net debt		**21,306**	(16,190)
Opening net debt		**(67,733)**	(51,543)
Closing net debt		**(46,427)**	(67,733)

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 financial statements have been prepared on a going concern basis and 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. Any surplus or deficit in the value of the shares received compared to the cash dividend foregone is recognised as capital. 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 £100 million bank debt facility is being 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. The unamortised value of these costs is deducted from the fair value of the bank debt facility.

(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.

(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.

Notes to the Financial Statements

1 Accounting Policies *(continued)*

(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

	2012 £'000	2011 £'000
Income from investments (UK listed)		
UK dividend income	**26,239**	25,066
Overseas investment income	**1,521**	1,173
Property income distributions	**185**	126
Scrip dividends	**120**	137
	28,065	26,502
Other income		
Deposit interest	**1**	1
Total income	**28,066**	26,503
Total income comprises:		
Dividends	**28,065**	26,502
Interest	**1**	1
	28,066	26,503

During the year the Company received no special dividends (2011 – nil) which were considered as a return of capital by the investee companies.

3 Investment Management Fee

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Investment management fee	**2,057**	**3,428**	**5,485**	2,105	3,508	5,613

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.

Notes to the Financial Statements

4 Other Expenses

	2012 £'000	2011 £'000
The following expenses (including VAT, where applicable), have been charged to revenue:		
Directors' fees (refer to Directors' Remuneration Report)	**125**	121
Secretarial services	**88**	84
Registrars fees	**62**	65
AIC fees	**28**	34
Custody and other bank charges	**36**	37
Directors and Officers liability insurance	**9**	10
Auditor's fee – for audit services: recurring (£17,650 + VAT)	**21**	20
– for non-audit services: recurring – taxation compliance services	**5**	2
Legal fees	**2**	33
Other expenses	**67**	116
	443	522
The following expenses have been charged directly to capital:		
Expenses incurred in acquiring or disposing of investments classified at fair value through profit or loss	**2,035**	2,475

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

	2012 £'000	2011 £'000
Analysis of total purchases		
Purchase consideration before expenses	**198,459**	235,402
Commissions	**607**	852
Taxes	**852**	947
Total purchase expenses	**1,459**	1,799
Total purchase consideration	**199,918**	237,201
Analysis of total sales		
Sales consideration before expenses	**224,573**	224,438
Commissions	**(576)**	(676)
Total sale/proceeds net of expenses	**223,997**	223,762

Notes to the Financial Statements

5 Finance Costs

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Interest/non-utilisation costs on bank debt facility	520	867	1,387	551	919	1,470
Amortisation of bank debt facility costs	20	32	52	65	108	173
	540	899	1,439	616	1,027	1,643

6 Taxation

Analysis of tax charged on return on ordinary activities	2012 £'000	2011 £'000
UK corporation tax charge for the year (see below)	–	–
Irrecoverable overseas taxation suffered	18	13
Total tax charge for the year	18	13

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.

The differences are explained below:

	2012	2011
Total returns on ordinary activities before tax	188,201	(93,765)
Notional corporation tax at 24.5% (2011 — 26.5%)	46,109	(24,856)
Non-taxable UK dividends	(6,429)	(6,712)
Non-taxable overseas dividend income	(373)	(311)
Expenses not deductible for tax purposes	499	656
Expenses for which no relief has been taken	1,731	2,069
Non-taxable capital returns	(41,537)	29,154
UK corporation tax charge for the year	–	–
Irrecoverable overseas taxation suffered	18	13
Total tax charge for the year	18	13

The Company has not recognised a potential asset for deferred tax of £16,195,000 (2011: £16,750,000) 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

7 Dividends

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the period:		
Second interim dividend for the year ended 31 December 2011 of 14.3p (2010: 13.0p) paid on 24 February 2012	**13,748**	12,528
First interim dividend for the year ended 31 December 2012 of 7.0p (2011: 6.45p) paid on 23 August 2012	**6,705**	6,216
	20,453	18,744
Amounts not recognised in the period:		
Second interim dividend for the year ended 31 December 2012 of 15.25p (2011: second interim dividend of 14.3p) payable on 28 February 2013	**14,584**	13,748

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.

	2012 £'000	2011 £'000
Revenue available for distribution by way of dividends for the year	**25,008**	23,247
First interim dividend for the year ended 31 December 2012 of 7.0p (2011: 6.45p)	**6,705**	6,216
Second interim dividend for the year ended 31 December 2012 of 15.25p (2011: second interim dividend of 14.3p)	**14,584**	13,748
	21,289	19,964

8 Returns per Ordinary Share

The returns per Ordinary Share are based on:

	2012	2011
Returns attributable to Ordinary Shareholders	**£188,183,000**	£(93,778,000)
Weighted average number of shares in issue during the year	**95,911,500**	96,345,381
Return per Ordinary Share	**196.20p**	(97.33p)

Notes to the Financial Statements

9 Investments

	2012 £'000	2011 £'000
Investments at fair value through profit or loss		
Opening book cost	812,480	732,160
Opening fair value adjustment	(142,577)	36,794
Opening valuation	669,903	768,954
Movements in the period:		
Purchases at cost	198,459	235,402
Sales – proceeds	(224,573)	(224,438)
– (losses)/gains on sales	(19,697)	69,356
Movement in fair value adjustment	189,234	(179,371)
Closing valuation	813,326	669,903
Closing book cost	766,669	812,480
Closing fair value adjustment	46,657	(142,577)
Closing valuation (all investments are in ordinary shares (unless otherwise stated) listed on the London Stock Exchange)	813,326	669,903
Net (losses)/gains on sales	(19,697)	69,356
Movement in fair value adjustment	189,234	(179,371)
Gains/(losses) on investments	169,537	(110,015)

10 Debtors

	2012 £'000	2011 £'000
Amounts due from brokers	–	–
Investment income receivable	1,820	2,514
Taxation recoverable	–	27
Other debtors	37	37
	1,857	2,578

11 Creditors: Amounts falling due within one year

	2012 £'000	2011 £'000
Amounts due to brokers	444	1,137
Amounts due in respect of purchase of own Ordinary Shares	–	376
Other creditors	133	144
	577	1,657

12 Creditors: Amounts falling due after more than one year

	2012 £'000	2011 £'000
Bank debt facility	46,750	68,000
Less: Unamortised costs	(64)	(116)
	46,686	67,884

Notes to the Financial Statements

Borrowing facilities

On 4 May 2011, the Company entered into a three year unsecured £100 million Facilities Agreement with The Royal Bank of Scotland plc. A 0.15% arrangement fee was paid on entering into the agreement and is being amortised over the expected life of the facility. Under the facility, all funds drawn down attract interest at a margin of 1.35% over LIBOR. A non-utilisation fee is also payable on any undrawn element, at a rate equivalent to 40% 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 2012, total borrowings represented 5.7% of total gross assets (excluding all creditors). The current facility is due to expire on 2 May 2014.

13 Share Capital

	2012 No. of Shares	2012 £'000	2011 No. of Shares	2011 £'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	**95,692,792**	**957**	96,138,792	961

During the year, the Company bought in and cancelled 446,000 shares (2011: 228,000) at a total cost of £2,642,000 (2011: £1,176,000). 60,000 shares have been bought back for cancellation between 31 December 2012 and 29 January 2013 at a total cost of £435,000.

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 2010	**964**	**24**	**183,279**	**496,301**	**36,221**	**716,789**
Net gains on sale of investments	–	–	–	69,356	–	69,356
Movement in fair value adjustment	–	–	–	(179,371)	–	(179,371)
Cost of investment transactions	–	–	–	(2,475)	–	(2,475)
Management fees charged to capital	–	–	–	(3,508)	–	(3,508)
Finance costs charged to capital	–	–	–	(1,027)	–	(1,027)
Revenue return attributable to equity shareholders	–	–	–	–	23,247	23,247
Equity dividends paid	–	–	–	–	(18,744)	(18,744)
Purchase of Ordinary Shares	(3)	3	(1,176)	–	–	(1,176)
At 31 December 2011	**961**	**27**	**182,103**	**379,276**	**40,724**	**603,091**
Net (losses)/gains on sale of investments	–	–	–	(19,697)	–	(19,697)
Movement in fair value adjustment	–	–	–	189,234	–	189,234
Cost of investment transactions	–	–	–	(2,035)	–	(2,035)
Management fees charged to capital	–	–	–	(3,428)	–	(3,428)
Finance costs charged to capital	–	–	–	(899)	–	(899)
Revenue return attributable to equity shareholders	–	–	–	–	25,008	25,008
Equity dividends paid	–	–	–	–	(20,453)	(20,453)
Purchase of Ordinary Shares	(4)	4	(2,642)	–	–	(2,642)
At 31 December 2012	**957**	**31**	**179,461**	**542,451**	**45,279**	**768,179**

Notes to the Financial Statements

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	
	2012 pence	2011 pence	**2012 £'000**	2011 £'000
Ordinary Shares	**802.76**	627.31	**768,179**	603,091

Net asset value per Ordinary Share is based on net assets of £768,179,000 (2011: £603,091,000), and on 95,692,792 (2011: 96,138,792) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

16 Gross cash flows

	2012 £'000	2011 £'000
Returns on investments and servicing of finance		
Interest/non-utilisation costs on bank debt facility	**(1,394)**	(1,434)
Bank debt facility fee (see note 12)	**–**	(150)
	(1,394)	(1,584)
Capital expenditure and financial investment		
Payments to acquire investments	**(200,491)**	(238,064)
Receipts from sales of investments	**223,997**	224,277
	23,506	(13,787)

17 Analysis of changes in net debt

	Net debt at 1 January 2012 £'000	**Cash flow £'000**	**Other non-cash movements £'000**	**Net debt at 31 December 2012 £'000**
Cash at bank	**151**	**108**	**–**	**259**
Bank debt facility	**(68,000)**	**21,250**	**–**	**(46,750)**
Bank debt facility fee (see note 12)	**116**	**–**	**(52)**	**64**
	(67,733)	**21,358**	**(52)**	**(46,427)**

18 Financial instruments and risk management

The Company's financial instruments comprise its investment portfolio (see pages 12 to 13), 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

Notes to the Financial Statements

18 Financial instruments *(continued)*

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

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

(i) Interest rate risk

When the Company decides to hold cash balances, all balances are held on variable rate bank accounts yielding rates of interest linked to bank base rate which at 31 December 2012 was 0.5% (2011: 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 £100,000,000 of which £46,750,000 was drawn down as at 31 December 2012 (2011: debt facility of £100,000,000, of which £68,000,000 was drawn down. Further details of this facility can be found in Note 12.

If LIBOR and the bank base rate had increased by 1%, the impact on the profit or loss and therefore Shareholders' equity would have been negative £468,000 (2011: negative £680,000). 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 £234,000 (2011: positive £340,000). 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.

The exposure to credit risk at the year-end comprises:

	2012 £'000	2011 £'000
Investment income receivable	**1,820**	2,514
Cash at bank	**259**	151
	2,079	2,665

(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 6 to 10. It is not the Managers' policy to use derivatives to manage portfolio risk.

If the investment portfolio valuation fell by 20% at 31 December 2012, the impact on the profit or loss and therefore Shareholders' equity would have been negative £162.7m (2011: negative £134.0m). If the investment portfolio valuation rose by 20% at 31 December 2012, the impact on the profit or loss and therefore Shareholders' equity would have been positive £162.7m (2011: £134.0m). The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole and assume all other variables remain constant.

As at 31 December 2012, all of the Company's financial instruments (excluding loans) were included in the balance sheet at fair value. The investment portfolio consisted of listed investments valued at their bid price, which represents fair value. Any cash balances, which are held in variable rate bank accounts, can be withdrawn on demand with no penalty.

Notes to the Financial Statements

18 Financial instruments *(continued)*

Contractual maturity analysis for financial instruments
As at 31 December 2012

(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	259	–	–	–	–	259
Investment income receivable	1,703	117	–	–	–	1,820
Amounts due from brokers	–	–	–	–	–	–
Other debtors	5	10	22	–	–	37
Total current assets	1,967	127	22	–	–	2,116
Liabilities:						
Bank debt facility	–	–	–	46,750	–	46,750
Unamortised costs	–	–	–	(64)	–	(64)
Amounts due to brokers	444	–	–	–	–	444
Other creditors	74	59	–	–	–	133
Total liabilities	518	59	–	46,686	–	47,263
Net liquidity of continuing operations	1,449	68	22	(46,686)	–	(45,147)

Contractual maturity analysis for financial instruments
As at 31 December 2011

(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	151	–	–	–	–	151
Investment income receivable	2,351	163	–	–	–	2,514
Amounts due from brokers	–	–	–	–	–	—
Other debtors	6	11	47	–	–	64
Total current assets	2,508	174	47	–	–	2,729
Liabilities:						
Bank debt facility	–	–	–	68,000	–	68,000
Unamortised costs	–	–	–	(116)	–	(116)
Amounts due to brokers	1,137	–	–	–	–	1,137
Other creditors	411	109	–	–	–	520
Total liabilities	1,548	109	–	67,884	–	69,541
Net liquidity of continuing operations	960	65	47	(67,884)	–	(66,812)

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2012

(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	–	284	865	47,132	–	48,281
Amounts due to brokers	–	444	–	–	–	444
Other creditors	–	133	–	–	–	133
	–	861	865	47,132	–	48,858

Notes to the Financial Statements

18 Financial instruments *(continued)*

Cash flows payable under financial liabilities by remaining contractual maturities
As at 31 December 2011

(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	–	382	1,155	70,045	–	71,582
Amounts due to brokers	–	1,137	–	–	–	1,137
Other creditors	–	520	–	–	–	520
	–	2,039	1,155	70,045	–	73,239

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	2012 Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2011 Total £'000
Investments	813,326	–	–	813,326	669,903	–	–	669,903

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 2012 (2011: nil). The Company may be able to recover further amounts in respect of VAT charged on investment management fees. However, the Board considers that currently there are too many uncertainties to recognise any amounts potentially recoverable from HM Revenue & Customs.

Shareholder Information

Introduction

Aberforth Smaller Companies Trust plc (ASCoT) is an Investment Trust whose shares are traded on the London Stock Exchange. As at 31 December 2012, it is the largest trust, based on net assets, within its sub-sector of UK Smaller Company Investment Trusts.

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.

Security Codes

	SEDOL	Bloomberg	Reuters
Ordinary Shares of 1p	0006655	ASL LN	ASL.L

Continuation Vote

The Company has no fixed duration. However, in accordance with the Articles of Association, an ordinary resolution will be proposed at the 2014 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 (ISA).

AIC

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

Shareholder Information

Financial Calendar

Results	For the half year to 30 June announced	July
	For the full year to 31 December announced	January
Ordinary Share Dividends	*First Interim*	
	Ex-dividend	July/August
	Payable	September
	Second Interim	
	Ex-dividend	January/February
	Payable	February
Interim Report	Published	July
Annual Report and Accounts	Published	January
Annual General Meeting		March
Publication of Net Asset Values		Daily (via the Managers' website)

Glossary 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.

"Ongoing Charges" is the total cost of investment management fees and other operating expenses as a percentage of the average published net asset value over the period (calculated per AIC guidelines).

"Gearing" represents borrowings by an investment trust to buy investments if the Managers expect stockmarkets ro rise, with a view to making a greater return on the money borrowed than the cost of the borrowing. If stockmarkets rise, gearing can incresase the Company's returns, but, if they fall, losses will be greater.

"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 Twenty-second Annual General Meeting of Aberforth Smaller Companies Trust plc will be held at 14 Melville Street, Edinburgh on 5 March 2013 at 3.00 p.m. 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 2012 be adopted.
2. That the Directors' Remuneration Report for the year ended 31 December 2012 be approved.
3. That Prof P R Marsh be re-elected as a Director.
4. That Mr D J Jeffcoat be re-elected as a Director.
5. That Prof W S Nimmo be re-elected as a Director.
6. That Mr R A Rae be re-elected as a Director.
7. That Mr S P Trickett be elected as a Director.
8. That Ernst & Young LLP be re-appointed as Auditor.
9. That the Directors be authorised to fix the remuneration of the Auditor for the year to 31 December 2013.

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 14,335,355 (or if less,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 2014 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2014, 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

For Aberforth Partners LLP, *Secretaries*

29 January 2013

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.capitashareportal.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 3.00 p.m. on 1 March 2013 (or, if the Annual General Meeting is adjourned, at 3.00 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.

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 29 January 2013, the latest practicable date prior to publication of this document, the Company had 95,632,792 Ordinary Shares in issue with a total of 95,632,792 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 auditor) 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
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Edinburgh EH3 7NS
Tel: 0131 220 0733
Email: enquiries@aberforth.co.uk
Website: www.aberforth.co.uk

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