11

Aberdeen Smaller Companies High Income Trust PLC

Annual Report and Accounts
31 December 2011

Aberdeen

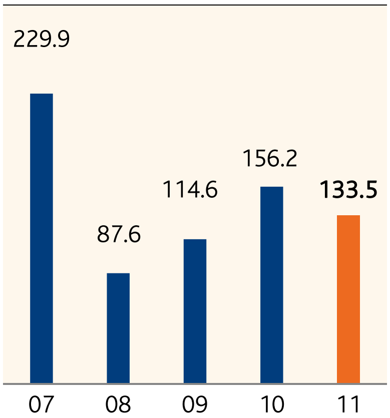
Contents

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your Ordinary shares in Aberdeen Smaller Companies High Income Trust PLC, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

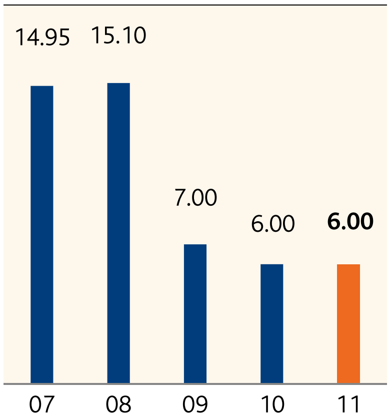
Financial Highlights

	2011	2010
Net asset value total return	**–11.1%**	+43.3%
Share price total return	**–17.6%**	+50.3%
Dividend per share	**6.00p**	6.00p

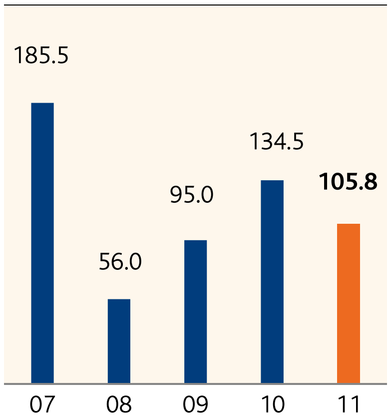
Net asset value per share
At 31 December – pence



Dividends per share
pence



Mid-market price per share
At 31 December – pence



Financial Calendar

31 January 2012	Fourth interim dividend 2011 paid
28 February 2012	Annual results announcement
18 April 2012	Annual General Meeting
30 April 2012	First interim dividend 2012 payable
31 July 2012	Second interim dividend 2012 payable
August 2012	Half-yearly results announcement
August 2012	Half-yearly Report published
31 October 2012	Third interim dividend 2012 payable

Corporate Summary

Objective

The objective of the Company is to provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

Benchmark

FTSE SmallCap Index – excluding Investment Companies (Total Return).

Investment Policy

The Company invests in equities, bonds and preference shares. Investment in preference shares and corporate bonds is primarily to enhance the income generation of the Company. Investment risk within the portfolio is managed by investing in different categories of investment and by the Manager adhering to various guidelines set by the Board which are detailed on pages 16 and 17 of the Directors' Report.

Gearing, currently in the form of a three year unsecured revolving credit facility, has been used with the intention of enhancing long term returns.

Capital Structure

The Company was incorporated in 1992. At 31 December 2011 the Company had a capital structure comprising 22,109,765 Ordinary shares of 50p.

Dividends

Dividends on the Ordinary shares are payable quarterly at the end of January, April, July and October.

Continuation Vote

The Company's Articles of Association require that an ordinary resolution is proposed at the eighth and then every fifth Annual General Meeting to allow the Company to continue as an investment trust for a further five year period. The present five year mandate expires at the Annual General Meeting due to be held in 2015.

Management Company and Fee

Aberdeen Asset Managers Limited ("Aberdeen") acts as Manager to the Company under a management contract which is terminable by either party giving one year's notice. The fee is at the rate of 0.75% of shareholders' funds plus short and medium-term funding.

SIPPs and ISAs

The Company's Ordinary shares are available for investment in SIPPs and ISAs.

AIC

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

Price and Net Asset Value Information

The price of the Ordinary shares, which are listed on the main market of the London Stock Exchange, is quoted in the Financial Times, The Daily Telegraph, The Times and The Herald. The Company's Net Asset Value is calculated daily and announced to the London Stock Exchange.

Share Register Enquiries

The Company's Registrars, Equiniti Limited, maintain the share register. In the event of queries regarding your shares, please contact the Registrars on 0871 384 2030. (Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary. Lines are open from 8.30 a.m. to 5.30 p.m. Monday to Friday.) The Equiniti overseas helpline number is +44 121 415 7047. Changes of name or address must be notified in writing to Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

Shareview Website

The Registrars provide an on-line service that enables shareholders to access details of their shareholdings. A shareholder wishing to view the information, together with additional information such as indicative share prices and details of recent dividends, should visit www.shareview.co.uk.

Shares Held in Nominee Names

Where notification has been received in advance, the Company will provide nominee companies with copies of shareholder communications for distribution to their customers. Shareholders who hold their shares in nominee names may, if appointed as a proxy by the nominee company, attend and speak at general meetings.

Company Secretary

Aberdeen Asset Management PLC, 40 Princes Street, Edinburgh, EH2 2BY

Websites

www.aberdeensmallercompanies.co.uk
www.aberdeen-asset.com

Chairman's Statement

Carolan Dobson
Chairman

Looking back over the last ten years we have seen unprecedented movements in world stockmarkets; a dramatic collapse in 2002 following the tech bubble and in 2008 a second collapse after the financial crash. Over that ten year period our Trust has survived these troubles and our share price has delivered a total return greater than that of the Index.

After a very promising start to 2011 and a good uplift in our NAV at the interim results, markets became unsettled by worries about the prospects for global economic growth and the unprecedented turmoil in European sovereign debt issues. This resulted in a fall in all major equity stock market indices over our second half reporting period taking the return on the FTSE Small Cap ex IT index down 15.2% for the year ended 31 December 2011. The Trust's NAV total return fell 11.1%.

Whilst it is disappointing for the Board and the Manager to be reporting a fall in NAV per share we are encouraged by the Trust's relative performance. The Board has implemented a number of changes over the last few years to provide the Trust with more stability not only in the structure of our funding but also within the stock selection in our portfolio. 2011 proved a stern test and seeing both our bond and equity portfolios outperform their respective benchmarks is testament to the changes made and a reflection of the Board's progress in delivering a more robust structure.

This improved stability and the attractions of the Trust's 5.5% yield have been at the forefront of the Board's attention in our quarterly meetings. We are acutely aware of the pressures on our shareholders especially in a period where low interest rates look likely to persist. Investors are also getting little in the way of real returns from Government bonds where yields reached all-time lows during 2011. It is against this backdrop that the Board see the Trust as an attractive income alternative with the ability to own smaller companies coupled with a very attractive yield.

After another turbulent year we are pleased to continue our long history of paying covered dividends. The Board has declared a fourth quarter dividend of 1.5 pence per share for a full year dividend of 6 pence per share. Subject to any unforeseen circumstances we expect to declare an unchanged dividend for the year ending 31 December 2012.

The companies in our portfolio have in the main performed very well throughout the year, despite their inextricable link to the wider economic environment. Although there have been a few areas of concern where the Manager has had to take action, Aberdeen seeks to buy quality companies with strong market positions and balance sheets that can perform throughout the cycle. It is these characteristics that allow us as a Board to have some comfort that the outlook is not all gloomy. At a portfolio level profitability, dividend cover and balance sheet strength mean that we have seen the majority of our companies increase their dividends, in spite of a drop in earnings at company level.

The bond and preference share performance has also provided balance to the portfolio. Whilst equities have been volatile bonds have been much more defensive. We have benefited from the performance of both our utility holdings with investors seeking out the safety of these defensive holdings. The Manager has lately sold some of these positions where yields have contracted.

Board Changes

As you are aware this is my first year as your Chairman having taken over post the AGM in April 2011. Barry Rose joined the Board in March 2011 and has a wealth of experience as the former Chief Executive of Scottish Provident UK. He also has experience of smaller companies through his position as Chair of Baillie Gifford Shin Nippon. After almost 13 years with the Board, Dinah Nichols has decided to step down at the next AGM. She has been a valuable member of the Board and I would like to thank her for her support and wish her all the best in her future. We have already completed our search for a successor and I am delighted to announce that Robert Lister will join the Board with effect from 1 March 2012 and he has considerable experience in the financial services industry and will add greatly to the strength of the Board.

Outlook

The Manager has struck a cautious tone in our meetings throughout the year with GDP slowing, consumer budgets under pressure and further cuts to Government spending looming. These are not normal times to make a prediction on the outlook for 2012 but markets have started the year in buoyant mood despite the headwind of slowing growth. This slowdown and the uncertainty will keep investor appetite for smaller companies in check. However as a Board we feel the steps we have taken leave the portfolio well positioned should we see further turbulence but also to take advantage of opportunities.

Carolan Dobson
Chairman
27 February 2012

Investment Manager's Review

Background

After the positive returns of the last few years it is disappointing to be writing about another tough year for smaller companies. After a strong start to the year the third quarter saw a sharp sell-off across global equity markets which continued to year end. The ongoing sovereign crisis in the Eurozone, lack of action among policy makers and worries about slowing global growth all had their part to play. Investors shunned riskier asset classes which could be seen from the sharp rally in Government All Stocks which returned an unprecedented 15.6% on a total return basis over 2011.

Performance

What the Trust has demonstrated this year is the resilience of the portfolio which gives us comfort that we are well positioned to outperform in tougher times. This can be seen from the relative performance with the Trust's NAV declining 11.1% against the FTSE Small Cap ex IT down 15.2%. It is pleasing that after two years of strong market conditions where we outperformed on a relative basis we are also protecting shareholder value through periods of volatility.

Economics

There have been plenty of economic lows to highlight over 2011, among them the bailout of peripheral Europe and ensuing sovereign debt concerns, and further afield the downgrading of the U.S. credit rating from AAA. These have all brought considerable volatility to markets and whilst the sovereign debt crisis remains the near term risk for markets the Eurozone is also close to a recession or at least a period of very low growth.

The Office for National Statistics upgraded third quarter GDP growth in the UK from 0.5% to 0.6% whilst the Bank of England has predicted that growth for 2012 will be no more than 1%. The recapitalisation of the banking sector and the European Central Bank's LTRO (Long Term Refinancing Operation) has provided the backdrop to a market rebound in January. Whilst these packages provide markets with short-term comfort the combination of high government indebtedness, budget deficits and austerity packages means this is going to be a long, slow and at times painful road to recovery as the whole system goes through a process of deleveraging.

Equity Portfolio

The equity portfolio declined by 9.4% in 2011 which was an outperformance of 5.8% against the index. It is often difficult to remove companies from the wider markets and economic outlook but in contrast to the levels of debt held by governments, companies are in very good health. Trading has however become much tougher as we have progressed through the year with companies announcing profit warnings with a greater frequency to which the Trust has not been immune.

As a reminder Aberdeen analyses company fundamentals and not sectors. We don't buy or sell companies based on a top down view; what we are striving to do is pick the best quality companies and then construct the portfolio from the bottom up. Whilst we have a top down overview we analyse companies and their prospects, whether the weight in the fund is reflective of this view, and finally the comfort we have in the balance sheet and cash flow.

The outperformance in 2011 was delivered across a broad base of companies. Fenner was one of the main contributors and is currently the largest equity holding across the fund. They sell industrial belting to the mining sector which is a critical product in the operation of mines. This brings with it a high cost of failure given the potential losses from downtime. They have leveraged this relationship by acquiring a number of service agents over the last few years. This aftermarket servicing network is higher margin, embeds them with the customer - they have a service engineer on-site - whilst also providing a more stable recurring revenue stream. We have recently trimmed our position after a very strong run through January and valuation near the top end of our range. Oxford Instruments has also been one of our top performers. We have owned this for over six years and have seen a huge transformation as they have shifted to be a more commercial operator. They recently updated the market with their new plan, '14 cubed'. This will see them deliver 14% compound annual revenue growth and 14% return on sales by 2014 which is a tough target to set given the current outlook but one the management views as achievable.

The portfolio was also aided by two takeovers. The first was Holidaybreak which was acquired by Cox and Kings, while Arcus Infrastructure took over Forth Ports.

Whilst the majority of the portfolio has performed well over the year there will always be a few names that are facing challenges. Mothercare is one such name where we have seen UK sales deteriorate more sharply than management had expected. The issues were isolated to the UK and in particular bigger ticket home & travel goods which are more susceptible in these tough times. The group has been reshaping the UK store footprint for a number of years and post the recent warning they have accelerated these closures. We have had a number of meetings with the management team over the past year and with the international business growing strongly we still feel there is value here once they stabilise the UK. Highlighting that not all consumer facing names find life tough we have taken profits after strong share price performance in A.G. Barr, Restaurant Group and Greggs.

We have added three new names to the Trust over the year the first of which was Euromoney. They are a leading provider of subscription based business to business information, training and events - focused primarily on the financial and commodity sectors. Euromoney was an early adopter of digital which has given it a strong competitive position globally. The business is very cash generative and has a strong balance sheet which they partly deployed with the recent acquisition of Ned Davis Research. We have been looking to build our position on weakness with the valuation looking reasonable. In March we introduced Elementis to the portfolio. Elementis is a speciality chemical company focused on rheological products. The business is well set to grow as its products are increasingly used in industrial coatings and as they grow their Asian capabilities. Across the chemicals space we also own Victrex and Zotefoams. With the addition of Elementis, which offers a niche exposure, we decided to exit Zotefoams which had performed very well from the lows seen in 2008. The final introduction was BBA Aviation which has a leading position in the operation of flight support stations for private business jets in the US. This is a recovering market with ample scope for additional growth through consolidation. The barriers are high as the ability to provide a national network of bases is very attractive to customers whilst being difficult to replicate. They also have a unique business that provides out of production spares to the aviation industry.

Bond Portfolio

The bond portfolio returned 2.8% over the year. Credit markets, especially the investment grade sector, initially performed well thanks to investors focusing on strong fundamentals and better than expected reported earnings. However, as risk aversion increased financial bonds saw their credit spreads widen the most due to concerns over the resilience of the European banking sector and potential losses that banks would face in the event of a sovereign default. In the portfolio, we have locked in profits in utility and secured property bonds, switching into equities and higher yielding telecom bonds.

Dividends

At a company level dividends have been increasing although this has been limited to high single digit growth. Despite company balance sheets being in good health management teams are reluctant to ramp up dividends when the earnings outlook is so uncertain. Whilst this might be frustrating in the short term, as long term investors in these companies we consider that it is the prudent decision to be taking.

As a whole we are encouraged by the stability of the portfolio, dividend cover and balance sheet strength. That said we see a similar trend to 2011 playing out in 2012 with caution on dividend increases but overall feel well placed with opportunities to add to positions where we see attractive yields and valuations.

Outlook

Many uncertainties remain both in terms of the broader economies of Europe but also the economic strength of the US and growth rates in emerging markets. Whilst it is hard to strike a balance between the negatives of continued elevated debt levels in Western economies and the potential positives for global growth to be derived from emerging markets, we continue to believe that a focus on sensibly financed companies with strong competitive positions will serve us well. Currently, the valuations of such companies remain attractive from both a relative and absolute perspective.

Aberdeen Asset Managers Limited
27 February 2012

Results

Financial Highlights

	31 December 2011	31 December 2010	% change
Total investments	£38,260,000	£42,814,000	–10.6
Shareholders' funds	£29,525,000	£34,545,000	–14.5
Market capitalisation	£23,381,000	£29,738,000	–21.4
Net asset value per share	133.54p	156.24p	–14.5
Share price (mid market)	105.75p	134.50p	–21.4
Discount to adjusted NAV[A]	19.9%	13.1%	
Gearing	29.6%	23.9%	
Total expense ratio	1.9%	1.8%	
Dividends and earnings			
Revenue return per share[B]	6.01p	6.04p	–0.5
Dividends per share[C]	6.00p	6.00p	–
Dividend cover	1.00	1.01	
Revenue reserves[D]	£1,997,000	£1,995,000	

[A] Based on IFRS NAV above reduced by dividend adjustment of 1.50p (2010 – 1.50p).
[B] Measures the revenue earnings for the year divided by the weighted average number of Ordinary shares in issue (see Statement of Comprehensive Income).
[C] The figures for dividends per share reflect the years in which they were earned (see note 8).
[D] The revenue reserve figure does not take account of the fourth interim dividend amounting to £332,000 (2010 – £332,000).

Performance (total return)

	1 year % return	3 year % return	5 year % return
Net asset value	–11.1	+86.9	–34.5
Share price (based on mid price)	–17.6	+143.5	–40.3
FTSE SmallCap Index (excluding Investment Companies)	–15.2	+56.4	–33.7
FTSE All-Share Index	–3.5	+43.8	+6.2

All figures are for total return and assume re-investment of net dividends excluding transaction costs.

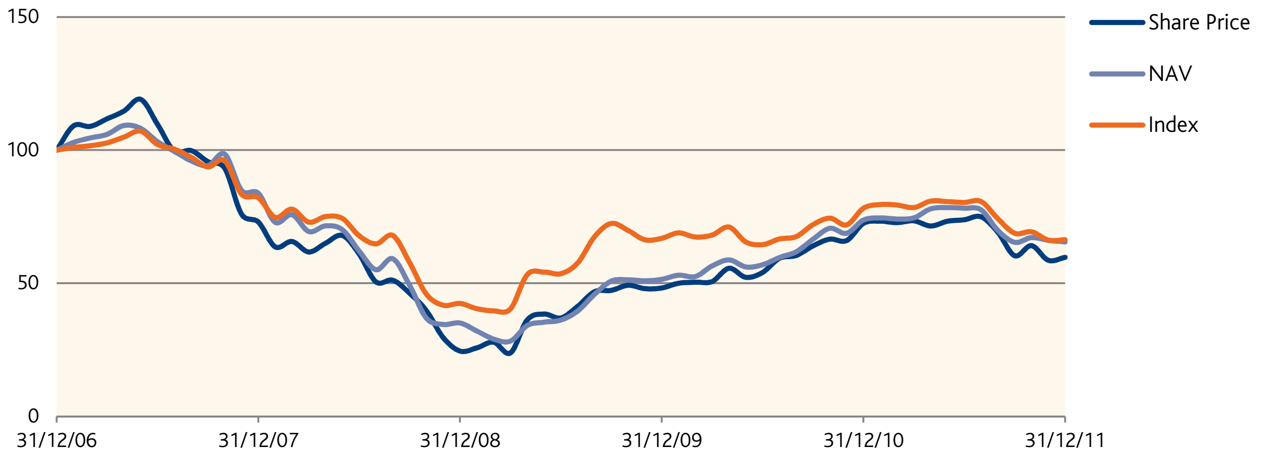
Dividends

	Rate per share	xd date	Record date	Payment date
First interim dividend	1.50p	6 April 2011	8 April 2011	28 April 2011
Second interim dividend	1.50p	6 July 2011	8 July 2011	29 July 2011
Third interim dividend	1.50p	12 October 2011	14 October 2011	31 October 2011
Fourth interim dividend	1.50p	4 January 2012	6 January 2012	31 January 2012
2011	**6.00p**			
First interim dividend	1.50p	7 April 2010	9 April 2010	30 April 2010
Second interim dividend	1.50p	7 July 2010	9 July 2010	30 July 2010
Third interim dividend	1.50p	6 October 2010	8 October 2010	29 October 2010
Fourth interim dividend	1.50p	5 January 2011	7 January 2011	28 January 2011
2010	**6.00p**			

Performance

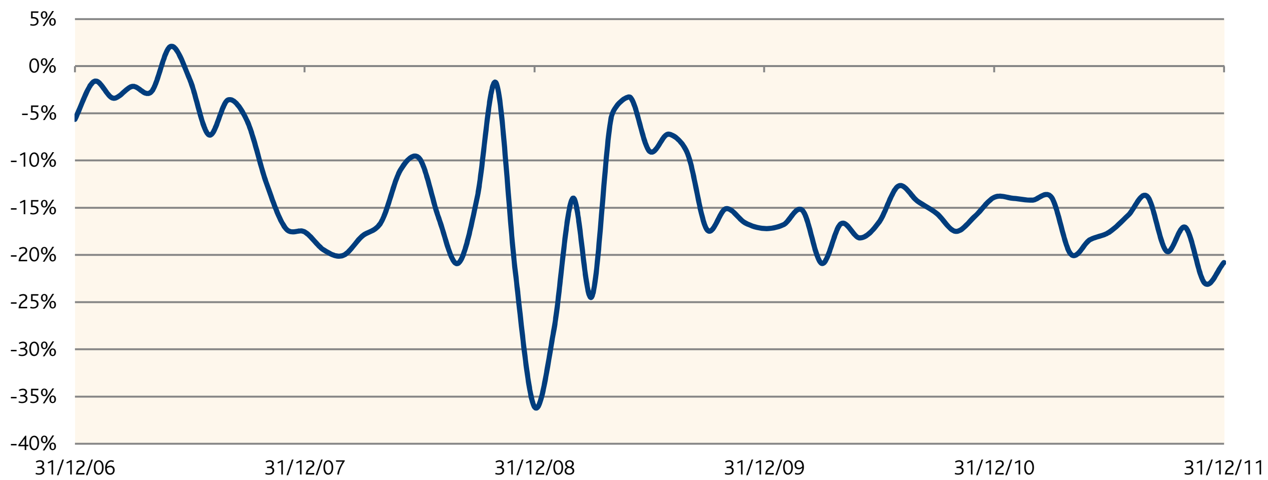
Total Return of NAV and Share Price vs FTSE SmallCap (ex Inv Co's) Index

Figures are total return and have been rebased to 100 at 31 December 2006



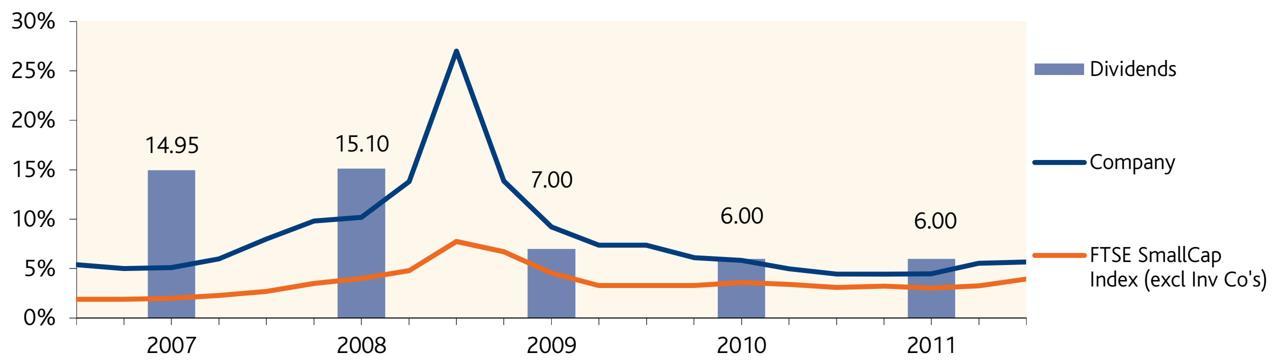
Share Price Premium/(Discount) to Net Asset Value

Five years to 31 December 2011



Dividend (p) and Company and Benchmark Yield (%)

Five years to 31 December 2011



Ten Year Financial Record

Year to 31 December	2002	2003	2004[A]	2005	2006	2007	2008	2009	2010	2011
Revenue available for Ordinary dividends (£'000)	4,184	3,662	3,555	3,272	3,294	3,484	3,444	1,608	1,336	1,329
Per share (p)										
Net revenue return	13.77	14.46	13.64	14.81	14.90	15.75	15.58	7.27	6.04	6.01
Net dividends paid/proposed	13.75	13.75	13.75	13.75	14.50	14.95	15.10	7.00	6.00	6.00
Total return	(41.01)	43.73	54.63	49.80	48.71	(44.33)	(127.18)	37.07	47.94	(16.70)
Net asset value per share	147.6	177.6	218.6	254.8	289.0	229.9	87.6	114.6	156.2	133.5
Shareholders' funds (£m)	32.3	38.9	47.9	56.3	63.9	50.8	19.4	25.3	34.5	29.5

[A] 2004 figures restated following the introduction of International Reporting Standards ('IFRS'). Figures for 2003 and earlier have not been restated.

Cumulative Performance

Rebased to 100 at 31 December 2001

As at 31 December	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
NAV	100.0	72.9	87.7	106.9	124.6	141.3	112.4	42.8	56.0	76.4	65.3
NAV total return[A]	100.0	78.6	103.0	134.6	166.4	199.5	167.1	70.0	102.7	147.1	130.8
Share price performance	100.0	71.0	93.6	114.8	128.5	136.5	94.4	28.5	48.3	68.4	53.8
Share price total return[A]	100.0	76.7	110.5	145.7	173.0	194.5	142.0	47.7	93.8	141.1	116.2
Benchmark performance	100.0	70.3	96.1	106.1	123.4	148.2	118.8	58.9	89.9	101.6	83.6
Benchmark total return[A]	100.0	72.2	101.8	115.1	136.9	168.2	138.0	71.3	112.5	131.5	111.6

[A] Total return figures are based on reinvestment of net income.
The figures for 2004 figures were restated following the introduction if International Reporting Standards ('IFRS'). Figures for 2003 and earlier have not been restated.

Investment Portfolio – Ordinary Shares

As at 31 December 2011

Company	Valuation 2011 £'000	Total portfolio %	Valuation 2010 £'000
Fenner	1,375	3.6	970
Weir Group	1,229	3.2	1,077
RPC Group	1,224	3.2	881
Dechra Pharmaceuticals	1,090	2.8	810
Oxford Instruments	1,083	2.8	1,349
Morgan Sindall	997	2.6	1,184
Bellway	983	2.6	898
XP Power	972	2.5	1,282
Euromoney Institutional Investor	925	2.4	–
Helical Bar	867	2.3	915
Ten largest investments	**10,745**	**28.0**	
Fuller Smith & Turner 'A'	844	2.2	705
Melrose	840	2.2	978
Wilmington	778	2.0	916
Restaurant Group	760	2.0	770
Interserve	750	2.0	693
Victrex	743	1.9	750
Chesnara	735	1.9	1,235
Greggs	714	1.9	816
Berendsen	709	1.9	–
Chemring Group	708	1.9	601
Twenty largest investments	**18,326**	**47.9**	
Menzies (John)	652	1.7	666
Savills	648	1.7	502
Rathbone Brothers	647	1.7	337
McBride	640	1.7	898
Umeco	635	1.7	775
Barr	613	1.6	498
Dignity	605	1.6	531
Bloomsbury Publishing	588	1.5	817
Elementis	554	1.4	–
Aveva Group	546	1.4	616
Thirty largest investments	**24,454**	**63.9**	
Robert Walters	540	1.4	670
Mothercare	527	1.4	1,324
Halfords Group	499	1.3	681
TT Electronics	492	1.3	877
Fisher James	473	1.2	470
Hornby	469	1.2	489
Intermediate Capital Group	453	1.2	503
BBA Aviation	449	1.2	–
Numis Corporation	412	1.1	450
Huntsworth	341	0.9	617
Forty largest investments	**29,109**	**76.1**	
Keller Group	341	0.9	654
Zotefoams	206	0.5	467
Total Ordinary shares	**29,656**	**77.5**	

Investment Portfolio – Other Investments

As at 31 December 2011

Company	Valuation 2011 £'000	Total portfolio %	Valuation 2010 £'000
Convertibles			
Balfour Beatty Cum Conv 10.75%	1,116	2.9	1,161
Total Convertibles	**1,116**	**2.9**	
Corporate Bonds			
Society of Lloyds 6.875% 2025	918	2.4	956
National Westminster 5.98% 2012	637	1.7	737
Stagecoach Group 5.75% 2016	635	1.7	622
Telecom Italia 5.625% 2015[A]	620	1.6	655
Wales & West Utilities Finance 6.75% 2036	558	1.5	537
Telefonica Emisiones 5.375% 2018	556	1.4	–
Anglian Water 6.75% 2024	375	1.0	377
Bupa Finance 6.125% 2020	361	0.9	428
Lloyds TSB 6.375% 2014	297	0.8	301
Total Corporate Bonds	**4,957**	**13.0**	
Preference shares			
Aviva 8.75%	989	2.6	1,044
General Accident 8.875%	917	2.4	977
Ecclesiastical Insurance 8.625%	625	1.6	651
Total Preference shares	**2,531**	**6.6**	
Total Other Investments	**8,604**	**22.5**	
Total investments	**38,260**	**100.0**	

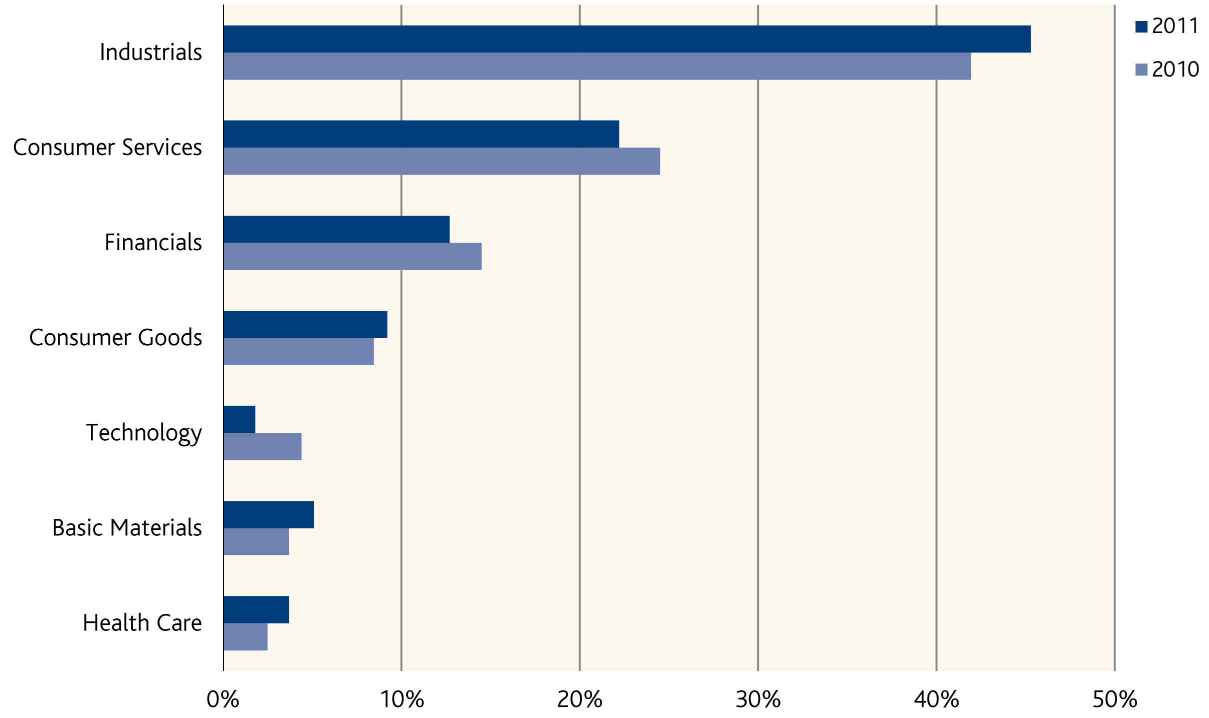
[A]All investments are listed on the London Stock Exchange (sterling based), except those marked, which are listed on overseas exchanges based in sterling.

Distribution of Assets and Liabilities

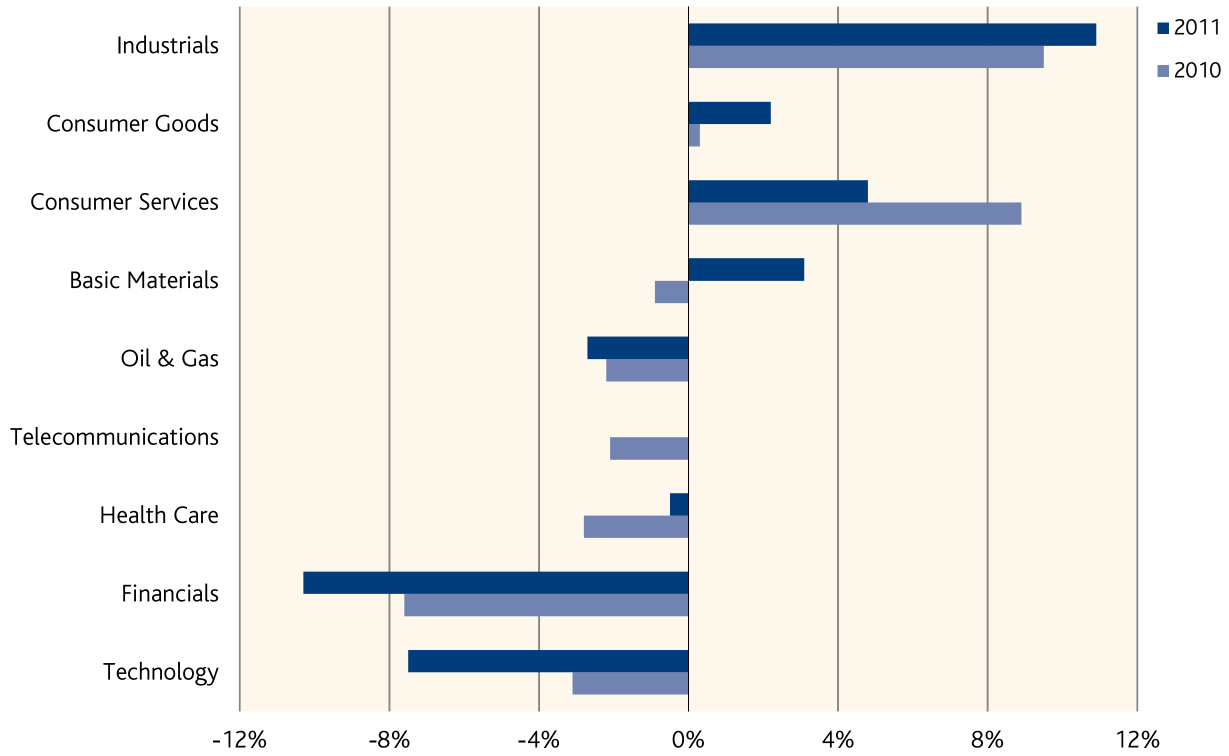
	Valuation at 31 December 2010		Movement during the year				Valuation at 31 December 2011	
			Purchases	Sales	Other[A]	Gains/ (losses)		
	£'000	%	£'000	£'000	£'000	£'000	£'000	%
Listed investments								
Ordinary shares	32,900	95.2	7,627	(6,514)	–	(4,357)	29,656	100.5
Convertibles	1,161	3.4	–	–	–	(45)	1,116	3.8
Corporate bonds	6,081	17.6	551	(1,499)	(65)	(111)	4,957	16.8
Other fixed interest	2,672	7.7	–	–	–	(141)	2,531	8.6
	42,814	123.9	8,178	(8,013)	(65)	(4,654)	38,260	129.7
Current assets	1,882	5.4					1,429	4.8
Current liabilities	(151)	(0.4)					(164)	(0.6)
Long-term loan	(10,000)	(28.9)					(10,000)	(33.9)
Net assets	**34,545**	**100.0**					**29,525**	**100.0**
Net asset value per Ordinary share	**156.2p**						**133.5p**	

[A] Amortisation adjustment of £65,000 (see note 2).

Analysis of Listed Equity Portfolio



Aberdeen Smaller Companies High Income Trust PLC relative to the FTSE SmallCap (ex Inv Co's) Index



Your Board of Directors

The Directors, all of whom are non-executive and independent of the Manager, supervise the management of Aberdeen Smaller Companies High Income Trust PLC and represent the interests of shareholders.

Carolan Dobson

Status: Chairman, Independent Non-Executive Director
Length of service: 7 years and 5 months.
Experience: Reporting Panel Member and Chair of the Finance and Regulation Group of the Competition Commission. Chairman of QinetiQ Pension Fund and trustee or adviser to a number of other pension funds. Previously Director of Abbey Asset Managers Limited and Murray Johnstone Limited. Formerly a non-executive Director of The Securities and Investment Institute, AIC and British Waterways. Also a Director of other companies.
Last re-elected to the Board: 27 April 2010
Committee membership: Nominations Committee, (Chairman), Management Engagement Committee (Chairman)
Remuneration: £30,000
All other public company directorships: JPMorgan European Smaller Companies Trust plc
Employment by the Manager: None
Other connections with Trust or Manager: None
Shared Directorships with any other Trust Directors: None
Shareholding in Company: 2,713 Ordinary shares

Dinah A. Nichols

Status: Independent Non-Executive Director
Length of service: 12 years and 10 months.
Experience: Currently a Crown Estate Counsellor, a non-executive Director of Pennon Group plc and trustee of The Land Trust and Keep Britain Tidy. Previously Director General Environment at the Department for Environment, Food and Rural Affairs. Formerly non-executive Director of the Carbon Trust, Anglian Water plc, and of John Laing ETE.
Last re-elected to the Board: 13 April 2011
Committee membership: Audit Committee, Nominations Committee, Management Engagement Committee
Remuneration: £20,000
All other public company directorships: Non-executive Director of Pennon Group plc
Employment by the Manager: None
Other connections with Trust or Manager: None
Shared Directorships with any other Trust Directors: None
Shareholding in Company: 2,786 Ordinary shares

James G. West

Status: Senior Independent Non-Executive Director and Audit Committee Chairman
Length of service: 9 years and 10 months.
Experience: Chairman and Director of a number of investment companies. Chairman of Associated British Foods Pension Fund
Last re-elected to the Board: 7 April 2009
Committee membership: Audit Committee (Chairman), Nominations Committee, Management Engagement Committee
Remuneration: £23,000 per annum
All other public company directorships: Chairman of New City High Yield Fund Limited. He is also a non-executive Director of British Assets Trust plc, UK Select Trust Limited and JPMorgan Income & Capital Trust plc.
Employment by the Manager: None
Other connections with Trust or Manager: None
Shared Directorships with any other Trust Directors: None
Shareholding in Company: 10,000 Ordinary shares

Barry M. Rose

Status: Independent Non-Executive Director
Length of service: 1 year
Experience: Chairman of Baillie Gifford Shin Nippon PLC. Mr Rose has extensive investment experience and was formerly a director of Scottish Provident Institution and Chief executive of Scottish Provident UK. Also a director of other companies.
Last re-elected to the Board: 13 April 2011
Committee membership: Audit Committee, Nominations Committee, Management Engagement Committee
Remuneration: £20,000
All other public company directorships: Baillie Gifford Shin Nippon PLC and Optos plc
Employment by the Manager: None
Other connections with Trust or Manager: None
Shared Directorships with any other Trust Directors: None
Shareholding in Company: Nil

Directors' Report

Status of the Company

The Company, which was incorporated in 1992, has received approval as an investment trust by HM Revenue & Customs for all accounting periods up to and including 31 December 2010. The Company has subsequently continued to conduct its affairs for the year ended 31 December 2011 so as to be able to obtain approval as an investment trust under Sections 1158-1159 of the Corporation Tax Act 2010. This approval is subject to there being no subsequent enquiry under corporation tax self assessment. The Company is a member of the Association of Investment Companies. The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company's registration number is SC137448. On 13 April 2011 the Company changed its name from Shires Smaller Companies plc to Aberdeen Smaller Companies High Income Trust PLC.

Business Review

Activities

The Company is an investment trust. Its subsidiary undertaking, Shirescot Securities Limited, is an investment dealing company. There was no investment dealing activity in the year and the subsidiary was dissolved on 6 January 2012.

Results and Dividends

The financial statements for the year ended 31 December 2011 appear on pages 26 to 45. Dividends declared for the year amounted to 6.00p per share (2010 – 6.00p).

A fourth interim dividend of 1.50p per share was announced by the Board on 16 December 2011 with an ExD date of 4 January 2012 and paid on 31 January 2012. Under accounting standards this dividend will be accounted for in the financial year ended 31 December 2012.

Current and Future Developments

A review of the business is given in the Chairman's Statement and the Investment Manager's Review. Key performance indicators ("KPIs") are shown in the financial information on pages 7 and 8 with historical performance being shown on page 9. These KPIs include the net asset value total return, share price total return, and the premium/(discount) at which the shares trade. The Board also considers the marketing and promotion of the Company, including effective communications with shareholders, which is explained in more detail on pages 21 and 22. The future strategic direction and development of the Company is discussed frequently as part of Board meeting agendas.

Principal Risks and Uncertainties

The principal risks facing the Company relate to the Company's investment activities and include market risk (comprising interest rate risk and other price risk), liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 16 to the financial statements on pages 39 to 44.

Investment Policy

The Company invests in equities, bonds and preference shares. Investment in corporate bonds and preference shares is primarily to enhance the income generation of the Company. The investment risk within the portfolio is managed by the diversification of the overall portfolio and by the Manager adhering to various guidelines set by the Board. The Board regularly reviews the guidelines to ensure they remain appropriate and Board approval is required before any exceptions are permitted.

Gearing is used with the intention of enhancing long-term returns. The Company's gearing is currently in the form of bank borrowing. The bank borrowing comprises a £10 million three year revolving credit facility which commenced on 23 July 2010 and which was fully drawn at the period end.

The risk of the gearing is also managed by investing in corporate bonds, the vast majority of which are investment grade and preference shares of large financial institutions.

Investment Risk

The Directors are responsible for determining the investment policy and the investment objectives of the Company, while the day-to-day management of the Company's assets has been delegated to the Manager. The Manager invests in equities, bonds and preference shares, following their investment processes.

Equity Investment Process

The equity investment process is active and bottom-up, based on disciplined evaluation of companies through direct visits by fund managers. Stock selection is the major source of added value, concentrating on quality first, then value. Top-down investment factors are secondary in the equity portfolio construction, with diversification rather than formal controls guiding stock and sector weights. However, the exposure to equities is limited by investment guidelines drawn up by the Board in conjunction with the Manager.

These include:

- Maximum equity gearing of 110% of Net Asset Value
- Maximum 5% of investee companies' ordinary shares
- Maximum 5% of the Company's total assets invested in the securities of one company
- No unquoted investments

Fixed Income Investment Process

The fixed income investment process is an active investment style which identifies value between individual securities.

This is achieved by combining bottom-up security selection with a top-down investment approach. Investments in corporate bonds and preference shares are also managed by investment guidelines drawn up by the Board in conjunction with the Manager which include:

- Fixed income securities not to exceed 60% of shareholders' funds
- No holding in a single fixed interest security to exceed 5% of the total bond issue of the investee company
- Maximum acquisition cost of an investment grade bond - £1 million
- Maximum acquisition cost of non-investment grade bond - £500,000

Analysis of Portfolio

A comprehensive analysis of the portfolio is given in the Investment Manager's Review on pages 5 and 6, the distribution of assets and liabilities on page 12 and the portfolio of investments on pages 10 and 11.

Directors

Biographies of the Directors are found on pages 14 and 15. Mr Cathcart retired from the Board on 13 April 2011 and Mr Rose was appointed to the Board on 1 March 2011. All other Directors held office throughout the year.

Mr West, having served more than nine years, will retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election. Miss Nichols, having served more than nine years, will retire at the conclusion of the Annual General Meeting and not seek re-election.

Following completion of a search process in which the Board were assisted by the services of Trust Associates Limited, Mr Lister has been appointed to the Board with effect from 1 March 2012 and as a result is required to submit himself for election at the first Annual General Meeting following his appointment in accordance with the Company's Articles of Association. The Board supports the candidature of Mr West and Mr Lister for the reasons described in the Corporate Governance section below.

Mr Lister is a non executive director of Investec Wealth and Investment and has over 20 years' experience of investment management. He was previously the global head of equities at Dresdner Kleinwort Wasserstein.

The Board has reviewed its collective performance and that of each individual Director, and continues to believe that it operates in an efficient and effective manner with each Director making a significant contribution to the performance of the Company.

There were no contracts during or at the end of the year in which any Director was materially interested. No Director had a material interest in any investment in which the Company itself had a material interest.

The Directors at 31 December 2011 had no other interest other than those interests, all of which are beneficial interests, shown below in the share capital of the Company.

	31 December 2011 Ordinary shares	**1 January 2011 Ordinary shares**
C. Dobson	2,713	2,713
D.A. Nichols	2,786	2,671
J.G. West	10,000	10,000
B.M. Rose	nil	n/a

Miss Nichols holds her beneficial holding through an ISA. As a result of standing arrangements to acquire shares in the Company by reinvestment of dividends, her beneficial holding has increased during the period 1 January 2012 to 27 February 2012 by 36 shares. There have been no other changes in the Directors' interests between 1 January 2012 and 27 February 2012.

Capital Structure

At 31 December 2011, the Company had 22,109,765 fully paid Ordinary shares of 20p each (2010 – 22,109,765 Ordinary shares) in issue. There have been no changes in the Company's issued share capital subsequent to the year end and up to the date of this report.

Substantial Interests

As at 27 February 2012 the Company had received notification of the following interests in its Ordinary shares:

Shareholder	**Number of Ordinary shares held**	**% held**
Shires Income plc	4,000,000	18.1
Aberdeen Investment Trust Share Plans (non-beneficial)	2,546,089	11.5
Philip J Milton & Company	1,346,975	6.1
M&G Investment Management	837,720	3.8

Going Concern

The Company's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary. The Company has negotiated a three year revolving credit facility which is available to be drawn against through until July 2013. The Board considers that the Group has adequate financial resources to continue in operational existence for the foreseeable future. Accordingly, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Annual General Meeting

Among the resolutions being put at the Annual General Meeting of the Company to be held on 18 April 2012, the following resolutions will be proposed:

(i) Section 551 authority to allot shares
Resolution 6 which is an ordinary resolution, will, if approved, give the Directors a general authority to allot new securities up to an aggregate nominal value of £3,684,960, representing approximately one third of the total Ordinary share capital of the Company in issue (excluding treasury shares) as at the date of this document, such authority to expire on 31 July 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

(ii) Disapplication of Pre-emption Provisions
Resolution 7 is to enable the Directors to issue new shares and to resell shares held in treasury up to an aggregate nominal amount of £1,105,488 (representing approximately 10 per cent of the total Ordinary share capital in issue). Resolution 7, which is a special resolution, will, if approved, give the Directors power to allot Ordinary shares (including Ordinary shares held in treasury) for cash, otherwise than pro rata to existing shareholders, up to a maximum aggregate nominal amount of £1,105,488. Ordinary shares would only be issued for cash at a price not less than the net asset value per share. This authority will expire on 31 July 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting). As noted, this disapplication of pre-emption rights also applies in respect of treasury shares which the Company may sell. The Company has no shares held in treasury as at the date of this report.

(iii) Purchase of the Company's own Ordinary Shares
Resolution 8, which is a special resolution, will be proposed to renew the Company's authorisation to make market purchases of its own shares. The maximum number of Ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued share capital of the Company as at the date of the passing of the resolution (approximately 3.3 million Ordinary shares). The minimum price which may be paid for an Ordinary share (exclusive of expenses) shall be 50p. The maximum price for an Ordinary share (again exclusive of expenses) shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations for the Company's Ordinary 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 relating to an Ordinary share on the trading venue where the purchase is carried out.

This authority, if conferred, will only be exercised if to do so would enhance the net asset value per share and is in the best interests of shareholders generally. Shares so repurchased will be held in treasury. No dividends will be paid on treasury shares and no voting rights attach to them. Any purchase of shares will be made within guidelines established from time to time by the Board. This authority will expire on 31 July 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

Recommendation

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and recommend that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings totalling 15,535 Ordinary shares, and representing 0.07% of the issued Ordinary share capital of the Company.

Manager and Company Secretary

Investment management services are provided to the Company by Aberdeen Asset Managers Limited. Company secretarial, accounting and administrative services are provided by Aberdeen Asset Management PLC. The fee is at a rate of 0.75% of shareholders' funds plus short and medium-term funding. The contract may be terminated by either the Company or the Manager on the expiry of 12 months' written notice.

Investment Management Agreement

The key terms of the Investment Management Agreement including the calculation of the fee are set out in note 3 to the financial statements. The Board believes the fee charged to be competitive with reference to other investment trusts with a similar mandate. The Board considers the continuing appointment of the Manager to be in the best interests of shareholders at this time.

Corporate Governance

The Statement of Corporate Governance is set out on pages 20 to 22 and forms part of this report.

Audit Committee

Details of the Audit Committee are contained within the Statement of Corporate Governance.

Payment Policy

The Company's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms. The Company does not have trade creditors.

Auditors

The Directors confirm that, so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware and the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Company's auditors, KPMG Audit Plc, are willing to continue in office and resolutions will be proposed at the AGM to reappoint them and to authorise the Directors to determine their remuneration.

Additional Information

Where not provided elsewhere in the Directors' Report, the following provides the additional information required to be disclosed by part 15 of the Companies Act 2006.

There are no restrictions on the transfer of Ordinary shares in the Company other than certain restrictions which may be applied from time to time by law (for example, insider trading law).

The Company is not aware of any agreements between shareholders that may result in the transfer of securities and/or voting rights.

The rules governing the appointment of Directors are set out in the Statement of Corporate Governance.

The Company is not aware of any significant agreements to which it is a party that take effect, alter or terminate upon change of control of the Company following a takeover.

Other than the Investment Management Agreement with the Manager, further details of which are set out in Note 3, the Company is not aware of any contractual or other agreements which are essential to its business which ought to be disclosed in the Directors' Report.

The Company has no employees.

By Order of the Board
Aberdeen Asset Management PLC
Secretaries
27 February 2012

Statement of Corporate Governance

Corporate Governance

This Statement of Corporate Governance forms part of the Directors' Report which is shown on pages 16 to 19.

Compliance

The Company is committed to high standards of corporate governance and has in place arrangements which it believes are appropriate for an investment trust company. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles set out in the 2010 UK Corporate Governance Code (the "UK Code") issued in June 2010 which is available on the Financial Reporting Council's website: www.frc.org.uk. The Board confirms that the Company has complied throughout the accounting period with the relevant provisions contained within the UK Code.

Additionally, the Company is a member of the Association of Investment Companies (AIC) and complies with the recommendations of the AIC's Code of Corporate Governance (The "AIC Code") which was re-issued in October 2010 which seeks to codify best practice of particular relevance to investment trusts. The AIC Code is available on the AIC's website: www.theaic.co.uk.

The Board

The Board consists currently of four non-executive Directors. There is no chief executive officer within the Company as day to day management of the Company's affairs has been delegated to the Manager, Aberdeen Asset Managers Limited. Biographies of the Directors appear on pages 14 and15 which demonstrate the wide range of skills and experience each brings to the Board. Each Director has a signed letter of appointment to formalise the terms of their engagement as a non-executive Director. Copies of these letters are available for inspection at the offices of Aberdeen, the registered office of the Company, during normal business hours and at the London office of the Manager at Bow Bells House, 1 Bread Street, London EC4M 9HH and will also be available for at least fifteen minutes prior to and during the Annual General Meeting.

The Board has appointed Aberdeen to manage the Company's investment portfolio within guidelines set by the Board. These include, amongst other things, maximum gearing levels, composition of bond portfolio between investment and non-investment grade bonds and limits on investing in individual companies. Aberdeen also provides accounting, administrative and secretarial services. Aberdeen supplies the Board with monthly reports on the Company's activities. The Board has a formal schedule of matters specifically reserved to it for decision. There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the advice of Aberdeen as Secretaries of the Company.

The following tables set out the number of formal Board and Committee meetings attended by each Director during the year ended 31 December 2011 (with their eligibility to attend the relevant meeting in brackets):

Director	Board Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
C. Dobson	4 (4)	2 (2)	1 (1)
D.A. Nichols	4 (4)	2 (2)	1 (1)
B. Rose	3 (3)	1 (1)	1 (1)
J.G. West	4 (4)	2 (2)	1 (1)
H.S. Cathcart	2 (2)	1 (1)	0 (0)

Director	Nomination Committee Meetings
C. Dobson	1 (1)
D.A. Nichols	1 (1)
B. Rose	1 (1)
J.G. West	1 (1)
H.S. Cathcart	0 (0)

The Board regularly monitors the interests of each Director and a register of Directors' interests, including potential conflicts of interest, is maintained by the Company. Directors who have potential conflicts of interest will not take part in any discussions which relate to that particular conflict. The Board will continue to monitor and review potential conflicts of interests on a regular basis.

Following the implementation of the Bribery Act 2010, the Board has adopted a zero tolerance approach to bribery and corruption and has implemented appropriate procedures designed to prevent bribery.

The Articles of Association permit the Company to indemnify the Directors, former Directors or any other officer for any liabilities incurred in the actual or purported execution of their duties or powers, or otherwise in relation to their duties, power or office, to the widest extent possible under the 2006 Act.

Performance Evaluation

The Board undertakes a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. In order to review its effectiveness, the Board carries out a process of formal self appraisal. The Directors consider how the Board functions as a whole and also review the individual performance of its members. This process encompasses quantitative and qualitative measures of performance implemented by way of an evaluation survey questionnaire and Board discussion. It also forms the basis of the decision on whether or not Directors are nominated for re-election at the relevant intervals. The appraisal of the Chairman is carried out via the Senior Independent Director, Mr West, who reviews the performance of the Chairman with other non-executive Directors. This process has been carried out in respect of the year under review and will be conducted on an annual basis. The review concluded that the Board is functioning well and there are no issues of concern.

The Board regularly reviews the independence of its members and, having due regard to the definitions and current AIC guidelines on independence, considers all Directors to be independent of the Company's Manager. Under the UK Code, Directors with more than nine years' service are required to submit themselves for annual re-election. The Board takes the view that independence is not compromised by length of service. Mr West will retire from the Board at the AGM and will seek re-election. Mr West has experience of the investment trust industry and his knowledge and experience is greatly valued by the Board. Ms Nichols will retire from the Board at the conclusion of the AGM and not seek re-election.

The Board has appointed three committees over specific operations as set out below. The terms of reference of each committee are available on the Company's website and will also be available at the Annual General Meeting.

Nominations Committee

The Nominations Committee, comprising all Directors of the Company, considers appointments of new Directors undertaking a thorough and open process involving professional recruitment consultants and subsequently, committee interviews with the candidates identified. The Nominations Committee met once during the year, to initiate the search process, which will conclude with the appointment of Mr Lister with effect from 1 March 2012.

Audit Committee

The Audit Committee comprising all Directors of the Company with the exception of Ms Dobson, who attends but is a non-voting member, meets at least twice per year to coincide with the annual and interim reporting cycle. The Chairman is Mr West. The principal role of the Audit Committee is to review the annual and interim financial statements, the accounting policies applied therein and to ensure compliance with financial and regulatory reporting requirements. The external auditors, KPMG Audit Plc, whose continued appointment is also reviewed and ratified by the Audit Committee, attend at least one meeting of the Audit Committee per year. In addition the Committee reviews the independence of the external auditors in relation to the audit of the annual financial statements. In completing this review, the Audit Committee has taken into account the standing, experience and tenure of the audit director, the nature and level of service provided and confirmation that they have complied with the relevant UK independence guidelines. The Audit Committee considers KPMG Audit Plc to be independent both of the Company and Manager in all respects.

The Audit Committee has also reviewed the provision of non-audit services by the auditors. For the year ended 31 December 2011 there were no non-audit services provided.

Management Engagement Committee

The Management Engagement Committee, comprising all Directors of the Company, met once in the past year. The purpose of the Committee is to review the terms of the agreements with the Manager including, but not limited to, the management fee and to review the performance of the Manager in relation to the achievement of the Company's objectives.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company and the Company reports formally to shareholders twice a year by way of the annual and half yearly reports. All shareholders have the opportunity to attend and vote at Annual General Meetings of the Company at which the Board and the Manager are available to discuss key issues affecting the Company. The Manager has also conducted meetings with shareholders throughout the year to discuss issues relating to the Company and also to give them the opportunity to meet the Board if requested. Shareholders and investors may obtain up-to-date information on the Company through the Company's website and the Manager's information services.

As recommended by the AIC Code, the Company makes available the proxy votes cast at general meetings. In addition the Company aims to give at least twenty working days' notice to shareholders of the Annual General Meeting.

Responsibilities as an Institutional Shareholder

The Board has delegated responsibility for monitoring the corporate governance of investee companies to the Manager. The Board has reviewed and accepts the Manager's Corporate Governance Principles which may be found on the Manager's website at http://www.aberdeen-asset.com/aam.nsf/groupcsr/literature. This document sets out the Manager's framework on corporate governance, proxy voting and shareholder engagement in relation to companies in which the Manager has invested or is considering investing. The Board has also reviewed the Manager's Statement of Compliance with the UK Stewardship Code which appears on the Manager's website at http://www.aberdeen-asset.com/aam.nsf/AboutUs/governancestewardship.

The following General Policy is a statement of the procedures and policies followed by the Board in discharging its responsibilities over all investee companies.

General Policy

The Board delegates to the Manager, Aberdeen, responsibility for selecting the portfolio of investments within investment guidelines established by the Board after discussions with Aberdeen, and for monitoring the performance and activities of investee companies. Aberdeen carries out detailed research of investee companies and possible future investee companies by a combination of broker and internally generated research. The research on a company comprises an evaluation of fundamental details such as financial strength, quality of management, market position and product differentiation, plus an appraisal of issues relevant to it including policies relating to social, ethical and environmentally responsible investment.

The Company's voting rights in respect of investee companies are delegated to the Manager who endeavours to exercise proxy votes at all shareholder meetings. The primary aim of the use of voting rights is to ensure a satisfactory return from investments.

Social, Ethical and Environmental Policy

The Directors recognise that their first duty is to act in the best financial interests of the Company's shareholders and to achieve good financial returns against acceptable levels of risk, in accordance with the objectives of the Company. In asking the Manager to deliver against these objectives, they believe that companies failing to take into account broader social, ethical and environmental issues are unlikely to have long term sustainable businesses. Therefore they ask the Manager to take into account these factors when assessing investment opportunities. The Manager aims to take a full part in dialogue on corporate governance reforms and is a member of various international and regional bodies, including the International Corporate Governance Network as well as being a signatory to the United Nations Principles for Responsible Investing (UNPRI). Through these groups and independently, the Manager communicates its views on corporate governance best practice to regulators and policy-makers across the world.

Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Under the Financial Reporting Council's publication 'Internal Control: Revised Guidance for Directors on the Combined Code' and the AIC Code, it is a requirement that the Board reviews the effectiveness of the Company's system of internal controls at least annually, comprising all controls including financial, operational, compliance and risk management. To achieve this, the Board has in place regular review procedures for the identification, evaluation and management of significant risks to the Company, to enable full compliance. This process has been in place throughout the year under review and up to the date of approval of the Annual Report.

The Board has delegated certain functions. The main service providers are Aberdeen, the Manager and Secretaries; HSBC Bank plc, the custodian; and Equiniti, the registrars. Aberdeen provides the Board with monthly reports, which cover investment activities and financial matters, and with periodic reports on its control procedures and its system of internal financial control. An independent custodian, HSBC Bank plc, is appointed to safeguard the Company's investments, which are registered in the name of the custodian's nominee company. In view of the controls that are in place, the Directors do not consider that there is any need for an internal audit function.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report & Accounts and the group and parent company financial statements (the "financial statements"), in accordance with applicable law and regulations. Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under the law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements on the same basis.

The financial statements are required by law and IFRSs, as adopted by the EU, to present fairly the financial position of the group and the parent company and performance of the group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU subject to any material departures disclosed and explained in the Notes to the Financial Statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors confirm that the financial statements comply with these requirements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that their financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm to the best of our knowledge:
- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' 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 the Company faces.

For and on behalf of Aberdeen Smaller Companies High Income Trust PLC

J. G. West
Chairman of the Audit Committee
27 February 2012

Directors' Remuneration Report

A separate resolution for the approval of the Directors' Remuneration Report will be put to the members at the forthcoming Annual General Meeting. The outcome of the vote on this resolution has no particular legal effect and its sole function is to enable shareholders to demonstrate whether or not they are in agreement with the Board's policies in this matter. Accordingly Resolution 2 will be proposed as an ordinary resolution to enable shareholders to show whether they approve or not of the contents of the Directors' Remuneration Report. As the Board of Directors is comprised solely of non-executive Directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of the Directors' fees is a matter dealt with by the whole Board on an annual basis. This Report has been divided into separate sections for unaudited and audited information.

Unaudited Information

Remuneration Policy

The Articles of Association of the Company set a maximum aggregate limit within a financial year for non-executive directors' remuneration. This limit is £150,000 per annum, subject to annual upward adjustment on 1 January each year by reference to the percentage rate of change in the Retail Prices Index in respect of the preceding twelve-month period.

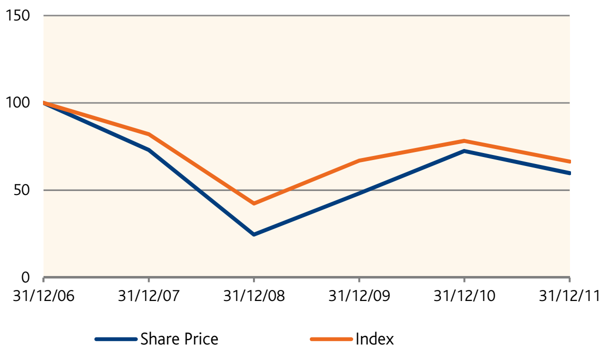
The Board considers that the present policy to remunerate Directors exclusively by fixed fees in cash is appropriate and adequate for the Company in its present and foreseeable circumstances and there are no plans to introduce additional or alternative remuneration schemes.

No Director has a service contract with the Company or its subsidiary undertaking although each has a letter of appointment from the Company confirming their appointment and setting out their remuneration as at the date of the letter. These letters contain no provisions regarding notice period nor do they make provision for compensation payable upon early termination of the Director's appointment.

Directors' Remuneration Rates

The rates of remuneration were £30,000 per annum for the Chairman, £23,000 per annum for the Chairman of the Audit Committee and £20,000 per annum for each other Director, effective from 1 October 2010. These rates were established after taking advice from external sources as to current market levels.

The chart shown below illustrates the total shareholder return for a holding in the Company's shares as compared to the total return on the FTSE SmallCap Index (excluding Investment Companies) for the five year period to 31 December 2011 (rebased to 100 at 31 December 2006).



Audited Information

The total fee payable to each Director who served during the present and previous financial year of the Company is shown in the following table

	2011 £	2010 £
C. Dobson	27,167	16,250
D.A. Nichols	20,000	16,250
B.M. Rose	16,667	-
J.G. West	23,000	19,250
H.S. Cathcart	10,000	24,750
Total	**96,834**	**76,500**

There is no performance related remuneration scheme such as an annual bonus or long-term incentive scheme such as the granting of share options. The Company does not operate a pension scheme for the Directors and no Director received any form of remuneration during the present or preceding financial year other than the fees shown above.

Approved by the Board of Directors on 27 February 2012 and signed on its behalf.

By order of the Board
Aberdeen Asset Management PLC
Secretaries

Independent Auditors' Report to the Members of Aberdeen Smaller Companies High Income Trust PLC

We have audited the financial statements of Aberdeen Smaller Companies High Income Trust PLC for the year ended 31 December 2011 set out on pages 26 to 45. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 23, 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 (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- the Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Statement set out on pages 20 to 22 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 17 and 18, in relation to going concern;
- the part of the Corporate Governance Statement on pages 20 to 22 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 shareholders by the Board on Directors' remuneration.

Simon Pashby (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
Edinburgh,
27 February 2012

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2011 Revenue £'000	Capital £'000	Total £'000	Year ended 31 December 2010 Revenue £'000	Capital £'000	Total £'000
Gains and losses on investments							
(Losses)/gains on investments at fair value	10	–	(4,654)	(4,654)	–	9,763	9,763
Fair value movement in zero coupon finance derivatives	13	–	–	–	–	(58)	(58)
Revenue	2						
Dividend income		1,522	–	1,522	1,367	–	1,367
Interest income from investments		410	(65)	345	486	(27)	459
Deposit interest		–	–	–	19	–	19
Other income		4	–	4	1	–	1
		1,936	(4,719)	(2,783)	1,873	9,678	11,551
Expenses							
Investment management fee	3	(162)	(162)	(324)	(151)	(151)	(302)
VAT recovered on investment management fees	3	–	–	–	16	16	32
Other administrative expenses	4	(304)	–	(304)	(231)	–	(231)
Finance costs of borrowings	5	(141)	(141)	(282)	(171)	(279)	(450)
Profit/(loss) before tax		1,329	(5,022)	(3,693)	1,336	9,264	10,600
Tax expense	6	–	–	–	–	–	–
Profit/(loss) attributable to equity holders of the Group	7	**1,329**	**(5,022)**	**(3,693)**	**1,336**	**9,264**	**10,600**
Earnings/(loss) per Ordinary share (pence)	9	**6.01**	**(22.71)**	**(16.70)**	**6.04**	**41.90**	**47.94**

The total column of this statement represents the Group's Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

The Company does not have any income or expense that is not included in profit for the year, and therefore the "Profit/(loss) attributable to equity holders of the Group" is also the "Total comprehensive income attributable to equity holders of the Group" as defined in IAS 1 (revised).

All of the profit and comprehensive income are attributable to the equity holders of the parent Company. There are no minority interests.

All items in the above statement derive from continuing operations.

The accompanying notes are an integral part of these financial statements.

Balance Sheets

		Group		Company	
	Notes	As at 31 December 2011 £'000	As at 31 December 2010 £'000	As at 31 December 2011 £'000	As at 31 December 2010 £'000
Non-current assets					
Ordinary shares		29,656	32,900	29,656	32,900
Convertibles		1,116	1,161	1,116	1,161
Corporate bonds		4,957	6,081	4,957	6,081
Other fixed interest		2,531	2,672	2,531	2,672
Securities at fair value	10	38,260	42,814	38,260	42,814
Current assets					
Cash and cash equivalents		1,049	1,552	1,049	1,552
Other receivables	12	380	330	380	472
		1,429	1,882	1,429	2,024
Current liabilities					
Trade and other payables		(164)	(151)	(164)	(151)
Net current assets		1,265	1,731	1,265	1,873
Total assets less current liabilities		39,525	44,545	39,525	44,687
Non-current liabilities					
Long-term loan	13	(10,000)	(10,000)	(10,000)	(10,000)
Net assets		**29,525**	**34,545**	**29,525**	**34,687**
Issued capital and reserves attributable to equity holders of the parent					
Called-up share capital	14	11,055	11,055	11,055	11,055
Share premium account		11,892	11,892	11,892	11,892
Capital redemption reserve		2,032	2,032	2,032	2,032
Retained earnings:					
Capital reserve	15	2,549	7,571	2,549	7,571
Revenue reserve	15	1,997	1,995	1,997	2,137
		29,525	**34,545**	**29,525**	**34,687**
Net asset value per Ordinary share (pence)	9	**133.54**	**156.24**		

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2012 and were signed on its behalf by:

C. Dobson
Chairman

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2010		11,055	11,892	2,032	7,571	1,995	34,545
Revenue profit for the year		–	–	–	–	1,329	1,329
Capital losses for the year		–	–	–	(5,022)	–	(5,022)
Equity dividends	8	–	–	–	–	(1,327)	(1,327)
As at 31 December 2011		**11,055**	**11,892**	**2,032**	**2,549**	**1,997**	**29,525**

Year ended 31 December 2010

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2009		11,055	11,892	2,032	(1,693)	2,041	25,327
Revenue profit for the year		–	–	–	–	1,336	1,336
Capital profits for the year		–	–	–	9,264	–	9,264
Equity dividends	8	–	–	–	–	(1,382)	(1,382)
As at 31 December 2010		**11,055**	**11,892**	**2,032**	**7,571**	**1,995**	**34,545**

Company Statement of Changes in Equity

Year ended 31 December 2011

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2010		11,055	11,892	2,032	7,571	2,137	34,687
Current year transfer of subsidiary undertaking's reserves	11	–	–	–	142	(142)	–
Revenue profit for the year		–	–	–	–	1,329	1,329
Capital losses for the year		–	–	–	(5,022)	–	(5,022)
Dissolution of subsidiary undertaking			–	–	(142)	–	(142)
Equity dividends	8	–	–	–	–	(1,327)	(1,327)
As at 31 December 2011		**11,055**	**11,892**	**2,032**	**2,549**	**1,997**	**29,525**

Year ended 31 December 2010

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2009		11,055	11,892	2,032	(1,693)	2,183	25,469
Revenue profit for the year		–	–	–	–	1,336	1,336
Capital profits for the year		–	–	–	9,264	–	9,264
Equity dividends	8	–	–	–	–	(1,382)	(1,382)
As at 31 December 2010		**11,055**	**11,892**	**2,032**	**7,571**	**2,137**	**34,687**

The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

The accompanying notes are an integral part of the financial statements.

Group and Company Cash Flow Statement

	Year ended 31 December 2011 £'000	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000	Year ended 31 December 2010 £'000
Cash flows from operating activities				
Investment income received		1,872		1,922
Deposit interest received		2		20
Investment management fee paid		(330)		(291)
VAT recovered		–		32
Other cash expenses		(274)		(240)
Cash generated from operations		1,270		1,443
Interest paid		(281)		(428)
Net cash inflows from operating activities		989		1,015
Cash flows from investing activities				
Purchases of investments	(8,178)		(11,401)	
Sales of investments	8,013		13,276	
Net cash (outflow)/inflow from investing activities		(165)		1,875
Cash flows from financing activities				
Equity dividends paid	(1,327)		(1,382)	
Repayment of July 2010 ZCF position	–		(5,337)	
Loan repaid	–		(7,000)	
Loan drawndown	–		10,000	
Net cash outflow from financing activities		(1,327)		(3,719)
Net decrease in cash and cash equivalents		(503)		(829)
Cash and cash equivalents at start of year		1,552		2,381
Cash and cash equivalents at end of year		**1,049**		**1,552**

1. Accounting policies

(a) Basis of accounting

The financial statements of the Group and Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and International Financial Reporting Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, and to the extent that they have been adopted by the European Union.

The financial statements have been prepared under the historical cost convention as modified to include the revaluation of securities held at fair value and on the assumption that approval as an investment trust will continue to be granted. The principal accounting policies adopted are set out below. These policies have been applied consistently throughout the year. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP except as referred to in paragraph (d) and (h) below. The effects on capital and revenue of the items involving departures from the SORP are set out in note 17.

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend. Additionally, the net revenue of the Company is the measure the Directors believe appropriate in assessing the Group's compliance with certain requirements set out in Sections 1158 – 1159 of the Corporation Tax Act 2010.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

– Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters (effective for annual periods beginning on or after 1 July 2011).
– Amendments to IFRS 7 – Financial Instruments: Transfers of Financial Assets Disclosures (effective for annual periods beginning on or after 1 July 2011).
– IFRS 9 – Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2013).
– IFRS 10 – Consolidated Financial Statements (early adoption permitted) (effective for annual periods beginning on or after 1 January 2013).
– IFRS 11 – Joint Arrangements (early adoption permitted) (effective for annual periods beginning on or after 1 January 2013).
– IFRS 12 – Disclosure of Interests in Other Entities (early adoption permitted) (effective for annual periods beginning on or after 1 January 2013).
– IFRS 13 – Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013).
– Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012)
– Amendments to IAS 12 – Income Taxes – Deferred Tax Amendment (effective for annual periods beginning on or after 1 January 2012).
– Amendments to IAS 19 – Employee Benefits (effective for annual periods on or after 1 January 2013).
– IAS 27 – Separate Financial Statements (early adoption permitted) (effective for annual periods beginning on or after 1 January 2013).
– IAS 28 – Investments in Associates and Joint Ventures (early adoption permitted) (effective 1 January 2013).

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group. The Group concludes however that certain additional disclosures may be necessary on their application.

(b) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entity controlled by the Company (its subsidiary) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The Company has availed itself of the relief from showing a Statement of Comprehensive Income for the parent company, granted under Section 408 of the Companies Act 2006. During the year, the inter company balance was extinguished and the subsidiary undertaking was formally dissolved on 6 January 2012.

(c) Investments

Investments have been designated upon initial recognition at fair value through profit or loss. Investments are recognised and de-recognised at trade date where a purchase or sale is under a contract whose terms require delivery within the time frame established by the market concerned, and are initially measured at fair value. Subsequent to initial recognition, investments are valued at fair value. For listed investments, this is deemed to be bid market prices or closing prices for SETS stocks sourced from The London Stock Exchange. SETS is the London Stock Exchange's electronic trading service for UK securities including all the FTSE All-Share Index constituents.

Gains and losses arising from the changes in fair value are included in net profit or loss for the period as a capital item. Transaction costs are treated as a capital cost.

No investments were held in the dealing subsidiary undertaking in either the current or previous year, prior to the subsidiary undertaking's dissolution on 6 January 2012.

(d) Income

Dividend income from equity investments including preference shares which have a discretionary dividend is recognised when the shareholders' rights to receive payment have been established, normally the ex-dividend date.

Interest from debt securities which include preference shares which do not have a discretionary dividend are accounted for on an effective yield basis. Any write off of the premium or discount on acquisition as a result of using this basis is allocated against capital reserve. The SORP recommends that such a write off should be allocated against revenue. The Directors believe this treatment is not appropriate for a high yielding investment trust which frequently trades in debt securities and believe any premium or discount paid for such an investment is a capital item.

Interest receivable on AAA rated money market funds and short term deposits are accounted for on an accruals basis.

Underwriting commission is taken to revenue, unless any shares underwritten are required to be taken up, in which case the proportionate commission received is deducted from the cost of the investment.

(e) Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Consolidated Statement of Comprehensive Income, all expenses have been presented as revenue items except those where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. Accordingly the investment management fee and finance costs have been allocated 50% to revenue and 50% to capital, in order to reflect the Directors expected long-term view of the nature of the investment returns of the Company.

(f) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Consolidated Statement of Comprehensive Income using the effective interest rate method.

(g) Finance costs and long-term borrowings

Long-term borrowings are stated at the amount of the proceeds of issue net of expenses. The finance costs, being the difference between the net proceeds of borrowing and the total amount of payments that require to be made in respect of that borrowing, accrue evenly over the life of the borrowing and are allocated between capital and revenue.

With the exception of the loan redemption costs incurred during 2010, which were allocated 100% to capital, finance costs have been allocated 50% to revenue and 50% to capital in the Consolidated Statement of Comprehensive Income, in order to reflect the Directors expected long-term view of the nature of the investment returns of the Company.

(h) Taxation

The tax payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible (see note 6 for a more detailed explanation). The Group has no liability for current tax.

Deferred tax is provided in full on timing differences which result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The SORP requires that a transfer should be made from income to capital equivalent to the tax value of any management expenses that arise in capital but are utilised against revenue. The Directors consider that this requirement is not appropriate for an investment trust with an objective to provide a high and growing dividend that does not generate a corporation tax liability. Given there is only one class of shareholder and hence overall the net effect of such a transfer to the net asset value of the shares is nil no such transfer has been made.

(i) Foreign currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Assets and liabilities in foreign currencies are translated at the closing rates of exchange at the Balance Sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or the revenue account as appropriate.

2. Income	**2011 £'000**	**2010 £'000**
Income from investments		
Dividend income from UK equity securities	1,441	1,244
Dividend income from overseas equity securities	42	123
Interest income from investments	410	486
Stock dividends	39	–
	1,932	1,853
Other income		
Interest on VAT recoverable on investment management fees	–	1
Deposit interest	–	19
Underwriting commission	4	–
	4	20
Total revenue income	**1,936**	**1,873**

As per note 1 (d), the Company amortises the premium or discount on acquisition on debt securities against unrealised capital reserve. For 2011 this represented £65,000 (2010 – £27,000) which has been reflected in the capital column of the Consolidated Statement of Comprehensive Income.

	2011			2010		
	Revenue	Capital	Total	Revenue	Capital	Total
3. Investment management fees	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee	162	162	324	151	151	302

For the year ended 31 December 2011 management and secretarial services were provided by Aberdeen Asset Managers Limited. The fee is at an annual rate of 0.75%, calculated monthly and paid quarterly. The fee is allocated 50% to capital and 50% to revenue.

On 5 November 2007, the European Court of Justice ruled that management fees on investment trusts should be exempt from VAT. HMRC announced its intention not to appeal against this ruling to the UK VAT Tribunal and therefore protective claims were made in relation to the Company with HMRC. The Company has not been charged VAT on its investment management fees from 1 October 2007.

The VAT charged on the investment management fees has been refunded in stages. The Manager has refunded £440,000 (excluding interest) for the period 1 January 2004 to 30 September 2007 and £288,000 (excluding interest) to the Company for VAT charged on investment management fees for the periods 28 August 1992 (commencement of trading) to 3 December 1996 and 1 January 2001 to 31 December 2003. The amounts received were included in the financial statements for the year ended 31 December 2008 and 31 December 2009 respectively. In addition, a further £32,000 (excluding interest) was refunded by the Manager and included in the prior year's financial statements. The repayment related to VAT charged on investment management fees for the quarter 1 July 2007 to 30 September 2007. This repayment was allocated to revenue and capital in line with the accounting policy of the Company for the periods in which the VAT was charged. In addition, interest of £132,000 was received and included in the financial statements to 31 December 2009. A further £1,000 of interest was included in the prior year's financial statements.

	2011	2010
4. Other administrative expenses	£'000	£'000
Directors' remuneration – fees as Directors	97	77
Fees payable to auditors and associates:		
• fees payable to the Company's auditors for the audit of the annual accounts	21	19
Marketing fees	35	12
Legal and professional fees	15	15
Registrars fees	15	13
Printing and postage	13	12
Broker fees	30	–
Directors & Officers' liability insurance	8	9
Trade subscriptions	23	22
Other management expenses	47	52
	304	**231**

Marketing expenses of £35,000 (2010 – £12,000) were paid to the Manager in respect of marketing and promotion of the Company.

The Company had no employees during the year (2010 – nil). No pension contributions were paid for Directors (2010 – £nil). Further details on Directors' Remuneration can be found in the Directors Remuneration Report on page 24.

5. Finance costs and borrowings	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Bank loans	141	141	282	171	171	342
Bank loan redemption costs	–	–	–	–	108	108
	141	**141**	**282**	**171**	**279**	**450**

6. Taxation

Management expenses arising on revenue items this year were sufficient to offset against taxable revenue. In accordance with accounting policy 1(h) described on page 32 no amount (2010 – £nil) has been credited to capital and charged to revenue as a notional corporation tax item.

At 31 December 2011, the Company had net surplus management expenses and loan relationship deficits of £8,965,000 (2010 – £8,274,000) in respect of which a deferred tax asset has not been recognised. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses and deficits of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses and loan relationship deficits.

The UK corporation tax rate was 28% until 31 March 2011 and 26% from 1 April 2011 giving an effective rate of 26.5% (2010 – effective rate of 28%). The tax assessed for the year is lower than the rate of corporation tax. The differences are explained below:

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Profit/(loss) before tax	1,329	(5,022)	(3,693)	1,336	9,264	10,600
Taxation of return on ordinary activities at the standard rate of corporation tax	352	(1,331)	(979)	374	2,594	2,968
Effects of:						
UK dividend income not liable to further tax	(405)	–	(405)	(373)	–	(373)
Capital losses/(gains) disallowed for the purposes of corporation tax	–	1,251	1,251	–	(2,726)	(2,726)
Zero coupon finance costs not an allowable tax deduction	–	–	–	–	16	16
Income not subject to tax	(22)	–	(22)	(34)	–	(34)
Excess management expenses not utilised	75	109	184	33	116	149
Adjustment to prior year management expenses not utilised	–	(29)	(29)	–	–	–
Taxation charge for the year	–	–	–	–	–	–

7. Revenue and capital losses attributable to equity holders of the Company

The revenue and capital losses attributable to equity holders of the Group for the financial year includes losses of £3,693,000 (2010 – profits of £10,600,000) which has been dealt with in the Company's financial statements.

8. Dividends	2011 £'000	2010 £'000
Amounts recognised as distributions to equity holders in the period:		
Fourth interim dividend for the year ended 31 December 2010 of 1.50p (2009 – 1.75p) per share	332	387
Three interim dividends for the year ended 31 December 2011 totalling 4.50p (2010 – 4.50p) per share	995	995
	1,327	**1,382**

The fourth interim dividend of 1.50p per share, declared on 16 December 2011 and paid on 31 January 2012, has not been included as a liability in these financial statements.

We also set out below the total dividends payable in respect of the financial year, which is the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered:

	2011 £'000	2010 £'000
Three interim dividends for the year ended 31 December 2011 totalling 4.50p (2010 – 4.50p) per share	995	995
Fourth interim dividend for the year ended 31 December 2011 of 1.50p (2010 – 1.50p) per share	332	332
	1,327	**1,327**

9. Return and net asset value per share	2011 £'000	2010 £'000
The returns per share are based on the following figures:		
Revenue return	1,329	1,336
Capital return	(5,022)	9,264
Net return	**(3,693)**	**10,600**
Weighted average number of shares in issue	**22,109,765**	**22,109,765**

The net asset value per share is based on net assets attributable to shareholders of £29,525,000 (2010 – £34,545,000) and on the 22,109,765 (2010 – 22,109,765) shares in issue at 31 December 2011.

	Group & Company	
10. Non–current assets – securities at fair value	2011 £'000	2010 £'000
Listed on recognised stock exchanges:		
United Kingdom	37,640	42,159
Overseas	620	655
	38,260	**42,814**

	Group & Company	
	2011 £'000	2010 £'000
Cost at 31 December 2010	36,203	38,355
Investment holdings gains/(losses) at 31 December 2010	6,611	(3,408)
Fair value at 31 December 2010	42,814	34,947
Purchases	8,178	11,401
Amortised cost adjustments to fixed interest securities	(65)	(27)
Sales – proceeds	(8,013)	(13,270)
Sales – net gains/(losses)	60	(256)
Movement in investment holdings gains during the year	(4,714)	10,019
Valuation at 31 December 2011	**38,260**	**42,814**
Cost at 31 December 2011	36,363	36,203
Investment holdings gains at 31 December 2011	1,897	6,611
Fair value at 31 December 2011	**38,260**	**42,814**

For an analysis of investments between equity and fixed interest securities and for detailed interest rates, see pages 10 to 11.

	Group & Company	
(Losses)/gains on investments	2011 £'000	2010 £'000
Net realised gains/(losses) on sales	60	(256)
Movement in fair value	(4,714)	10,019
(Losses)/gains on investments	**(4,654)**	**9,763**

The total transaction costs on the purchases and sales in the year were £44,000 (2010 – £59,000) and £7,000 (2010 – £11,000) respectively.

All investments are categorised as held at fair value through profit and loss.

	Company	
11. Subsidiary undertaking	2011 £'000	2010 £'000
Shares at cost	–	–

On 2 September 2011 the Company applied to Companies House to dissolve Shirescot Securities Limited. The Company owned the whole of the issued ordinary share capital of its sole subsidiary undertaking, an investment dealing company registered in Scotland. The Company has since received notification that the dissolution date was 6 January 2012.

As at 31 December 2011 Shirescot Securities Limited had net liabilities of £nil (2010 – net liabilities of £142,000). The inter-company balance was extinguished during the year and written off against the Company's capital reserve.

12. Other receivables	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Accrued income & prepayments	354	287	354	287
Due by subsidiary undertaking	–	–	–	142
Other debtors	26	43	26	43
	380	**330**	**380**	**472**

None of the above amounts are overdue.

13. Loan and zero coupon finance derivatives at fair value	2011 £'000	2010 £'000
Bank loan included at amortised cost	**10,000**	**10,000**

Bank loan

The Company has a three year facility of £10 million with National Australia Bank, which was drawn down in full on 29 July 2010 and rolled over monthly hence. On 30 November 2011 the loan was rolled over for 2 months at a rate of 2.86% per annum. The loan has subsequently been rolled over on 31 January 2012 for one month at a rate of 2.78%.

The Directors are of the opinion that the fair value of the bank loan at 31 December 2011 is not materially different from the book value.

Zero coupon finance

The zero coupon finance arrangement comprised a set of separately traded financial instruments (FTSE 100 Index options) each with its own market value, which equated to their fair values. The options ran until July 2010 when the tranche taken out in July 2005, was repaid at a cost of £5.3 million.

The amount charged to capital fluctuates over accounting periods due to market volatility over the life of the options but was approximately 5.5% per annum for the options which expired in July 2010.

On repayment of the July 2010 tranche the collateral previously pledged was no longer required.

The movements in the fair value of this finance were as follows:

	Group and Company 2011 £'000	Group and Company 2010 £'000
At 31 December 2010	–	5,275
Cost of closure of existing zero coupon finance arrangement	–	(5,333)
	–	(58)
Finance costs charged to capital	–	58
At 31 December 2011	–	–

14. Called-up share capital	Ordinary shares of 50 pence each Number	Ordinary shares of 50 pence each £'000
Allotted and fully paid		
At 31 December 2011 and 31 December 2010	**22,109,765**	**11,055**

The objective of the Company is to provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:
- the planned level of gearing, which takes account of the Investment Manager's views on the market;
- the level of equity shares in issue; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

The Company does not have any externally imposed capital requirements.

15. Retained earnings	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
Capital reserve				
At 1 January 2011	7,571	7,571	(1,693)	(1,693)
Current year transfer of subsidiary undertaking's reserves	–	142	–	–
Net gains/(losses) on sales of investments during the year	60	60	(256)	(256)
Movement in investment holdings gains during the year	(4,714)	(4,714)	10,019	10,019
Dissolution of subsidiary undertaking	–	(142)	–	–
Amortised cost adjustment relating to capital	(65)	(65)	(27)	(27)
Zero coupon finance costs (note 13)	–	–	(58)	(58)
Finance costs of borrowings (note 5)	(141)	(141)	(279)	(279)
Investment management fee	(162)	(162)	(151)	(151)
VAT recovered on management fees	–	–	16	16
At 31 December 2011	**2,549**	**2,549**	**7,571**	**7,571**

The capital reserve includes investment holding gains amounting to £1,897,000 (2010 – £6,611,000), as disclosed in note 10.

Revenue reserve	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
At 1 January 2011	1,995	2,137	2,041	2,183
Current year transfer of subsidiary undertaking's reserves	–	(142)	–	–
Revenue return	1,329	1,329	1,336	1,336
Dividends paid	(1,327)	(1,327)	(1,382)	(1,382)
At 31 December 2011	**1,997**	**1,997**	**1,995**	**2,137**

The subsidiary undertaking's revenue reserves were reclassified as capital and subsequently written off on its dissolution.

16. Risk management, financial assets and liabilities

Risk management

The Company's objective of providing a high and growing dividend with capital growth is addressed by investing in smaller UK market capitalisation equities to provide growth in capital and income and in fixed income securities to provide a high level of income.

The impact of security price volatility is reduced by diversification. Diversification is by type of security – ordinary shares, preference shares, convertibles and corporate fixed interest – and by investment in the stocks and shares of companies in a range of industrial, commercial and financial sectors. The management of the portfolio is conducted according to investment guidelines, established by the Board after discussion with the Managers, which specify the limits within which the Manager is authorised to act.

The Manager has a dedicated investment management process, as disclosed in the Directors' Report on pages 16 and 17, which ensures that the investment objective explained on page 2 is achieved. Stock selection procedures are in place based on the active portfolio management and identification of stocks. The portfolio is reviewed on a periodic basis by a Senior Investment Manager and also by the Manager's Investment Committee.

The Company's Manager has an independent Investment Risk department for reviewing the investment risk parameters of all core equity, balanced, fixed income and alternative asset classes on a regular basis. The department reports to the Manager's Performance Review Committee which is chaired by the Manager's Chief Investment Officer. The department's responsibility is to review and monitor ex-ante (predicted) portfolio risk and style characteristics using best practice, industry standard multi-factor models.

Additionally, the Manager's Compliance department continually monitor the Company's investment and borrowing powers and report to the Manager's Risk Management Committee.

The Manager has a Business Risk department to consolidate risk management functions. The department is responsible for supporting management in the efficient identification of risk and resolution of control issues. The department incorporates Operational Risk, Breaches and Errors Risk Control Management, Counterparty Risk, and the Procedures and Business Control teams. The Head of Front Office risk reports directly to the Manager's Group Head of Risk.

Financial assets and liabilities

The Company's financial assets include investments, cash at bank and short-term debtors. Financial liabilities consist of bank loans and overdrafts, other short-term creditors and a long term creditor arising from a fixed rate term loan.

The main risks the Company faces from its financial instruments are (i) market risk (comprising interest rate risk and other price risk), (ii) liquidity risk and (iii) credit risk. The Company has no exposure to foreign currency risk as it does not hold any foreign currency assets or have exposure to any foreign currency liabilities.

The Company is subject to interest rate risk because bond yields are linked to underlying bank rates or equivalents, and its short-term borrowings and cash resources carry interest at floating rates. The interest rate profile is managed as part of the overall investment strategy of the Company.

(i) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate movements may affect:

- the fair value of the investments in fixed interest rate securities;
- the level of income receivable on cash deposits;

– interest payable on the Company's variable rate borrowings.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions.

The Board reviews on a regular basis the values of the fixed interest rate securities.

Interest rate profile

The interest rate risk profile of the portfolio of financial assets and liabilities (excluding ordinary shares and convertibles) at the Balance Sheet date was as follows:

As at 31 December 2011	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000	Non–interest bearing £'000
Assets					
UK corporate bonds	8.93	6.62	4,957	–	–
UK preference shares	–	8.45	2,531	–	–
Cash	–	–	–	1,049	–
Total assets	–	–	7,488	1,049	–
Liabilities					
Long-term bank loan	0.08	2.86	(10,000)	–	–
Total liabilities	–	–	(10,000)	–	–
Total	**–**	**–**	**(2,512)**	**1,049**	**–**

As at 31 December 2010	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000	Non–interest bearing £'000
Assets					
UK corporate bonds	9.29	6.39	6,081	–	–
UK preference shares	–	8.01	2,672	–	–
Cash	–	–	–	1,552	–
Total assets	–	–	8,753	1,552	–
Liabilities					
Long-term bank loan	0.08	2.63	(10,000)	–	–
Total liabilities	–	–	(10,000)	–	–
Total	**–**	**–**	**(1,247)**	**1,552**	**–**

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on bank loan is based on the interest rate payable, weighted by the total value of the loan. The maturity date of the Company's loan is shown in note 13 to the financial statements.

The cash assets consist of cash deposits on call earning interest at prevailing market rates.

Short-term debtors and creditors have been excluded from the above tables.

All financial liabilities are measured at amortised cost.

Maturity profile

The maturity profile of the Company's financial assets and liabilities at the Balance Sheet date was as follows:

At 31 December 2011	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000	More than 5 years £'000
Fixed rate						
UK corporate bonds	637	–	297	620	635	2,768
Bank loan	–	(10,000)	–	–	–	–
	637	(10,000)	297	620	635	2,768
Floating rate						
Cash	1,049	–	–	–	–	–
Total	**1,686**	**(10,000)**	**297**	**620**	**635**	**2,768**

At 31 December 2010	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000	More than 5 years £'000
Fixed rate						
UK corporate bonds	737	–	–	301	–	5,043
Bank loan	–	–	(10,000)	–	–	–
	737	–	(10,000)	301	–	5,043
Floating rate						
Cash	1,552	–	–	–	–	–
Total	**2,289**	**–**	**(10,000)**	**301**	**–**	**5,043**

The maturity table above excludes the value of holdings in UK irredeemable preference shares held at the year end, which equated to £2,531,000 (2010 – £2,672,000).

Interest rate sensitivity

The sensitivity analysis below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the Balance Sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates.

If interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's:

- profit before tax for the year ended 31 December 2011 would increase/decrease by £10,000 (2010 – £16,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances. These figures have been calculated based on cash positions at each year end.
- profit before tax for the year ended 31 December 2011 would increase/decrease by £258,000 (2010 – £237,000). This is also mainly attributable to the Company's exposure to interest rates on its fixed interest securities. This is based on a Value at Risk ('VaR') calculated at a 99% confidence level.

In the opinion of the Directors, the above sensitivity analyses would not necessarily reflect the year as a whole, since the level of exposure changes frequently as part of the interest rate risk management process used to meet the Company's objectives. The risk parameters used will also fluctuate depending on the current market perception.

Other price risk

Other price risks (ie changes in market prices other than those arising from interest rate or currency risk) may affect the value of the quoted investments.

It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets to specific sectors and the stock selection process, as detailed on pages 16 and 17, both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. All of the investments held by the Company are listed on the London Stock Exchange, with the exception of its holding in Telecome Italia 5.625% 2015, which is traded on Clearstream in Luxembourg.

Other price sensitivity

If market prices at the Balance Sheet date had been 10% higher or lower while all other variables remained constant, the profit before tax attributable to ordinary shareholders for the year ended 31 December 2011 would have increased/decreased by £3,077,000 (2010 – increase/decrease of £3,406,000). This is based on the Company's equity portfolio and convertibles held at each year end.

(ii) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is not considered to be significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. Short-term flexibility is achieved through the use of loan and overdraft facilities (note 13).

(iii) Credit risk

This is failure of the counter party to a transaction to discharge its obligations under that transaction that could result in the Company suffering a loss.

The Company considers credit risk not to be significant as it is actively managed as follows:

– where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default;
– investments in quoted bonds are made across a variety of industry sectors so as to avoid concentrations of credit risk;
– transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Company of default;
– investment transactions are carried out with a large number of brokers, whose credit-standing is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker;
– the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a daily basis. In addition, both stock and cash reconciliations to the custodian's records are performed on a daily basis to ensure discrepancies are investigated on a timely basis. The Manager's Compliance department carries out periodic reviews of the Custodian's operations and reports its finding to the Manager's Risk Management Committee.
– transactions involving derivatives, structured notes and other arrangements wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest are subject to rigorous assessment by the Manager of the credit worthiness of that counterparty. The Company's aggregate exposure to each such counterparty is monitored regularly by the Board;
– cash is held only with reputable banks with high quality external credit enhancements.

None of the Company's financial assets are secured by collateral or other credit enhancements.

Credit risk exposure

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 December was as follows:

	2011		2010	
	Balance Sheet £'000	Maximum exposure £'000	Balance Sheet £'000	Maximum exposure £'000
Non-current assets				
Securities at fair value through profit or loss	38,260	38,260	42,814	42,814
Current assets				
Trade and other receivables	26	26	43	43
Accrued income	354	354	287	287
Cash and cash equivalents	1,049	1,049	1,552	1,552
	39,689	**39,689**	**44,696**	**44,696**

None of the Company's financial assets is past due or impaired.

Fair value of financial assets and liabilities

The fair value of the short term loan is shown on page 37. The book value of cash at bank and bank loans and overdrafts included in these financial statements approximate to fair value because of their short-term maturity. Investments held as dealing investments are valued at fair value. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices. For details of bond maturities and interest rates, see page 11. For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity.

Gearing

The Company has in place a £10 million unsecured loan. The Company augments this from time to time with short-term borrowings so that greater returns to shareholders may be generated from the capital stock thus enlarged. Although this gearing increases the opportunity for gain, it also increases the risk of loss in falling markets. The risk of increased gearing is managed by retaining the flexibility to reduce short term borrowings as appropriate.

Gearing is also restricted by the various covenants applicable to the different borrowings. The unsecured loan contains a clause which stipulates that total borrowings cannot exceed 40% of adjusted assets. As at 31 December 2011 the reported ratio was 25.2% (2010 – 22.4%).

There is a second short term borrowing facility with another major bank for £1 million. In respect of this lender, the Company's net asset value must not fall below £10 million. As at 31 December 2011 the net asset value stood at £29.5 million (2010 – £34.5 million).

17. Income enhancement

Zero coupon finance (note 13) raised in the derivatives market was invested in corporate fixed interest securities to augment the income available for distribution to shareholders. The cost of these funds was fixed when they were raised, and was charged wholly to capital.

In addition the SORP recommends that debt securities are accounted for on an effective yield basis with the associated adjustment being allocated to revenue. The Company has decided to allocate this adjustment to capital as explained in note 1(d). The effect of this treatment on revenue and capital is set out below.

Finally, as explained in note 1(h) revenue may utilise surplus management expenses that have arisen in capital but does not compensate capital for this tax effect as recommended by the SORP.

The effect of these income enhancement strategies on capital and income is summarised in the table below. There is a risk with these strategies that capital will be eroded unless the charges to capital are covered by gains elsewhere in the portfolio, and this is managed by investing in a portfolio of shares which in the long run is expected to provide adequate capital growth to absorb the effective yield adjustment while paying growing dividends which contribute to the pursuit of the Company's objectives.

In following this strategy, the Directors recognise that there is only one class of shareholder.

	2011		2010	
	Income £'000	**Capital £'000**	**Income £'000**	**Capital £'000**
Finance costs arising on zero coupon finance charged to capital	–	–	–	(58)
Finance costs arising on bank loan finance	(71)	(71)	(30)	(30)
Return on corresponding investments	161	(56)	199	(355)
Amortised cost adjustment charged to capital on debt securities	65	(65)	27	(27)
	155	**(192)**	**196**	**(470)**

18. Fair value hierarchy

Under IFRS 7 'Financial Instruments: Disclosures' an entity is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy at 31 December 2011 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	32,187	–	–	32,187
Quoted bonds	b)	6,073	–	–	6,073
Total		**38,260**	**–**	**–**	**38,260**

As at 31 December 2010

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	35,572	–	–	35,572
Quoted bonds	b)	7,242	–	–	7,242
Total		**42,814**	**–**	**–**	**42,814**

a) Quoted equities

The fair value of the Group’s investments in quoted equities have been determined by reference to their quoted bid prices at the reporting date. Quoted equities included in Fair Value Level 1 are actively traded on recognised stock exchanges.

b) Quoted bonds

The fair value of the Group’s investments in Corporate quoted bonds has been determined by reference to their quoted bid prices at the reporting date.

Marketing Strategy

Aberdeen Smaller Companies High Income Trust PLC ("The Company") contributes to the marketing programme run by the Aberdeen Group ("AAM") on behalf of a number of investment trusts under its management. Under this agreement the Company's contribution is matched by AAM. This contribution is reviewed annually.

The purpose of the programme is to communicate effectively with existing shareholders and gain more new shareholders, thus improving liquidity and thereby enhancing the value and rating of the Company's shares. These aims can be met in several ways:

Investor Relations Programme

AAM runs an investor relations programme to existing and prospective institutional investors in investment trusts. Each month institutional investors and prospects receive a Manager's report on your Company that includes detailed performance analysis.

Group Schemes

AAM runs a group Share Plan and ISA. These schemes allow investment free of dealing costs and, with only nominal exit charges, have proved popular with private investors.

Newsletter

The 'Bulletin' newsletter, an informed commentary on markets and investment trusts managed by AAM, is distributed free of charge.

Public Relations

AAM undertakes to brief journalists, write regularly through placed articles and ensure Company results and any corporate activity are brought to public attention.

Shareholder Services

AAM runs an investment help desk for retail enquirers and investors. Enquirers or investors will be sent any relevant literature on request and have queries answered immediately.

The Marketing Programme is under the direction of AAM's Group Head of Marketing who has considerable experience in the marketing and communications of investment products. He is supported by a team of marketing professionals.

Internet

The AAM Investment Trust website contains details of closed funds and investment companies managed or advised by the Aberdeen Group.

The Company has its own dedicated website at: www.aberdeensmallercompanies.co.uk. This allows web users to access information on the Company's share price performance, capital structure, stock exchange announcements and monthly reports. The site is continuously being evaluated for improvement.

It is intended that ongoing programme activities in these various fields, both proactive and supportive, will assist the Company to increase and maintain its shareholder base, improve liquidity and sustain ratings.

The Company is committed to the close monitoring of the Programme. The Group Head of Marketing reports to the Board and provides a written summary quarterly.

If you have any questions about your Company, the Manager or performance, please telephone AAM Customer Services Department (direct private investors) on 0500 00 00 40. Alternatively, internet users may e-mail AAM at inv.trusts@aberdeen-asset.com or write to AAM at Aberdeen Investment Trusts, PO Box 11020, Chelmsford, Essex CM99 2DB.

How to Invest in Aberdeen Smaller Companies High Income Trust PLC

Direct

Investors can buy and sell shares directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively shares can be bought directly through Aberdeen's Investment Plan for Children, Aberdeen's Investment Trust Share Plan, Investment Trust ISA or ISA Transfer.

Aberdeen's Investment Plan for Children

Aberdeen Asset Managers Limited ("AAM") runs an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including Aberdeen Smaller Companies High Income Trust PLC. Anyone can invest in the Children's Plan, including parents, grandparents and family friends. All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on entry. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing AAM in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts.

Aberdeen's Investment Trust Share Plan

AAM runs a Share Plan (the "Plan") through which shares in Aberdeen Smaller Companies High Income Trust PLC can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on entry. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing AAM in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

Stocks and Shares ISA

An investment of up to £11,280 can be made in the tax year 2012/2013.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £15 + VAT. The annual ISA administration charge is £24 + VAT, calculated six monthly and deducted from income. Under current legislation, investments in ISAs can grow free of capital gains tax.

ISA Transfer

You can choose to transfer previous tax year investments to us which can be invested in while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per trust of £250.

Note

Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs, may be changed by future legislation.

Trust Information

If investors would like details of or information on the Children's Plan, Share Plan, ISA or ISA Transfers please telephone 0500 00 00 40 or write to Aberdeen Investment Trusts, PO Box 11020, Chelmsford, Essex CM99 2DB or e-mail at inv.trusts@aberdeen-asset.com. Details are also available on www.invtrusts.co.uk.

Literature Request Service

For literature and application forms for the Manager's investment trust products, please contact:

Telephone: 0500 00 40 00
Email: aam@lit-request.com

Keeping You Informed

The Company's share price appears under the heading 'Investment Companies' in the Financial Times.

For internet users, detailed data on the Company, including price, performance information and a monthly fact sheet is available from the Trust's website (www.aberdeensmallercompanies.co.uk) and the TrustNet website (www.trustnet.co.uk). Alternatively you can call 0500 00 00 40 for trust information.

How to Invest in
Aberdeen Smaller Companies High Income Trust PLC continued

Contact Us

For information on Aberdeen Smaller Companies High Income Trust PLC and for any administrative queries relating to the Investment Plan for Children, Share Plan, ISA or ISA transfer please contact:

Aberdeen Investment Trusts
PO Box 11020
Chelmsford
Essex CM99 2DB
Telephone 0500 00 00 40

Alternatively, if you have an administrative query which relates to a certificated holding, please contact the Registrar as follows:

Equiniti Limited
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA
Telephone: 0871 384 2030*
Textphone: 0871 384 2255*
Overseas helpline: +44 121 415 7047
Website: www.shareview.co.uk

* Calls to this/these numbers are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary.

The above information has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Services Authority.

Glossary of Terms and Definitions

Benchmark
A market index which averages the performance of the share prices of companies in any given sector, thus providing an indication of movements in the stock market. The benchmark used in this Annual Report is the total return of the FTSE SmallCap Index (excluding Investment Companies). The FTSE SmallCap Index consists of companies outside of the FTSE 350 Index and represents approximately 2% of the UK market capitalisation.

Convertibles
Fixed income securities, which can be converted into shares.

Corporate Bond
A fixed income bond issued by a company. Corporate bonds are given grades which show how likely a company is to repay the interest and capital owed at the end of the term. Investment grade bonds are considered to have a low risk of default which means interest on the loan and the loan itself is almost certainly going to be paid back. Non-investment grade bonds carry a higher risk for investors as there is deemed to be a greater chance the company issuing the bond may default.

Discount
The amount by which the market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.

Dividend Yield
The annual dividend expressed as a percentage of the share price.

Gearing
The term applied to the effect of borrowings on assets which will increase the return on investment when the value of the company's investments is rising but reduce the return when values are declining. A level expressed as either 100% or 0% indicates there is no gearing. Gearing is expressed as a percentage of total equities held divided by shareholders' funds.

Net Asset Value
The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.

Preference Shares
These entitle the holder to a fixed rate of dividend out of the profits of the company, to be paid in priority to dividends on other classes of shares.

Premium
The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.

Prior Charges
The name given to all borrowings including debentures, loans and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.

Total Assets
Total Assets less current liabilities (before deducting prior charges as defined above).

Total Expense Ratio
Ratio of expenses as percentage of average shareholders' funds calculated as per the industry standard Lipper Fitzrovia method.

Total Return
Total return involves reinvesting the net dividend in the month that the share price goes xd. The NAV total return involves investing the same net dividend in the NAV of the trust on the date to which that dividend was earned, eg quarter end, half year or year end date.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the twentieth Annual General Meeting of the shareholders of Aberdeen Smaller Companies High Income Trust PLC (the "Company") will be held at the offices of Aberdeen Asset Management PLC, Bow Bells House, 1 Bread Street, London, EC4M 9HH on Wednesday 18 April 2012 at 12 noon to transact the following business:

To consider and, if thought fit, pass the following as ordinary resolutions:

1. To receive the reports of the Directors and auditors and the audited financial statements for the year to 31 December 2011.
2. To receive the Directors' Remuneration Report for the year to 31 December 2011.
3. To re-elect J G West as a Director of the Company.
4. To elect R Lister as a Director of the Company.
5. To re-appoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to determine their remuneration.
6. That, in substitution for any pre-existing power to allot or grant rights to subscribe for or to convert any security into shares in the Company, but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company ("relevant securities") up to an aggregate nominal amount of £3,684,960, being equal to approximately one third of the Ordinary shares in issue, such authority to expire on 31 July 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.

To consider and, if thought fit, pass the following as special resolutions:

7. That, subject to the passing of resolution 6 in the notice convening the meeting at which this resolution is to be proposed (the "notice of meeting") and in substitution for all existing powers, the Directors be and are hereby generally empowered pursuant to Section 570 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in Section 560 (1) of the Act) for cash pursuant to the authority under Section 551 of the Act conferred by resolution 6 in the notice of meeting as if Section 561 of the Act did not apply to any such allotment, provided that this power:
   (i) expires on 31 July 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if that power had not expired; and
   (ii) shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,105,488 being equal to approximately 10% of the Ordinary shares in issue.

   This power applies in relation to the sale of shares which is an allotment of equity securities that immediately before the allotment are held by the Company as treasury shares as if in the opening paragraph of this resolution the words "subject to the passing of resolution 6 in the notice convening the meeting at which this resolution is to be proposed ("the notice of meeting")" and "pursuant to the authority under Section 551 of the Act conferred by resolution 7 in the notice of meeting" were omitted.
8. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and unconditionally 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 fully paid Ordinary shares of 50p each in the capital of the Company ("shares") provided that:
   (i) the maximum aggregate nominal value of the Ordinary shares hereby authorised to be purchased shall be limited to £1,657,126 being equal to approximately 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;
   (ii) the minimum price which may be paid for a share shall be 50p (exclusive of expenses);
   (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) 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 relating to a share on the trading venue where the purchase is carried out; and
   (iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 July 2013 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase shares

under such authority which would or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired.

By order of the Board
Aberdeen Asset Management PLC
Secretary
14 March 2012

Registered office:
40 Princes Street
Edinburgh EH2 2BY

Notes:

(i) A member is entitled to appoint a proxy or proxies to exercise all or any of their rights to attend, speak and vote on their behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. If a member wishes to appoint more than one proxy, they should contact the Company's Registrars on 0871 384 2030 (Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary. Lines are open from 8.30 a.m. to 5.30 p.m. Monday to Friday). The Equiniti overseas helpline number is +44 121 415 7047.

(ii) A form of proxy for use by members is enclosed with these accounts. Completion and return of the form of proxy will not prevent any member from attending the meeting and voting in person. To be valid, the form of proxy should be lodged, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, at the address stated thereon, so as to be received not less than 48 hours before the time of the meeting.

(iii) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, to have the right to attend and vote at the Meeting a member must first have his or her name entered in the Company's register of members at 6.00pm on 16 April 2012 (or, in the event that the Meeting is adjourned, at 6.00pm on the day which is two business days before the time of the adjourned meeting). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the Meeting.

(iv) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

(v) 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 RA19) no later than 48 hours 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.

(vi) 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.

(vii) 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.

(viii) The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with Section 146 of the Companies

Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in notes i) and ii) above does not apply to Nominated Persons. The rights described in these notes can only be exercised by members of the Company.

(ix) No Director has a service contract with the Company but copies of Directors' letters of appointment will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and Scottish public holidays excepted) from the date of this notice and for at least 15 minutes prior to the Meeting and during the Meeting.

(x) As at close of business on 6 March 2012 (being the latest practicable date prior to publication of this document), the Company's issued share capital comprised 22,109,765 Ordinary shares of 50p each. The total number of voting rights in the Company as at 6 March 2012 is 22,109,765.

(xi) Any person holding 3% of the total voting rights in 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 UK Disclosure and Transparency Rules.

(xii) Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.

(xiii) The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the Auditors' Report and the conduct of the audit, which they intend to raise at the next meeting of the Company. The Company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the Company or (ii) 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 Company Secretary, Aberdeen Smaller Companies High Income Trust PLC, 40 Princes Street, Edinburgh EH2 2BY.

(xiv) Information regarding the Meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's website, www.aberdeensmallercompanies.co.uk.

(xv) Under Section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the Meeting put by a member attending the Meeting unless:

a) answering the question would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information;

b) the answer has already been given on a website in the form of an answer to a question; or

c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

(xvi) Shareholders are advised that, unless otherwise stated, any telephone number, website or e-mail address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form) is not to be used for the purposes of serving information or documents on, or otherwise communicating with, the Company for any purposes other than those expressly stated.

(xvii) There are special arrangements for holders of shares through the Aberdeen's Investment Plan for Children, Aberdeen's Investment Trust Share Plan and Investment Trust ISA. These are explained in the 'Letter of Direction' which such holders will have received with this report.

Corporate Information

Directors
Carolan Dobson (Chairman)
Dinah Nichols
Barry Rose
James West

Managers
Aberdeen Asset Managers Limited
40 Princes Street
Edinburgh
EH2 2BY

Secretaries and Registered Office
Aberdeen Asset Management PLC
40 Princes Street
Edinburgh
EH2 2BY
Telephone 0131 528 4000

Auditors
KPMG Audit Plc

Solicitors
Maclay Murray & Spens LLP

Brokers
Winterflood Sceurities

Bankers
National Australia Bank Limited
HSBC Bank Plc

Registrars and Transfer Office
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone 0871 384 2030

(Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary. Lines are open from 8.30 a.m. to 5.30 p.m. Monday to Friday.)
The Equiniti overseas helpline number is +44 121 415 7047.

Company Registration Number
SC137448 (Scotland)

MIX
Paper from responsible sources
FSC® C005739

Aberdeen