Aberforth Geared Capital & Income Trust plc

Annual Report and Accounts
31 December 2010

Registered in England & Wales Number 4283484

Investment Objective

"The investment objective of Aberforth Geared Capital & Income Trust plc (AGCiT) is to provide Income Shareholders with a high level of income payable half yearly with the potential for income growth and to provide Capital Shareholders with geared capital growth."

Contents

Fınancıal Hıghlıghts

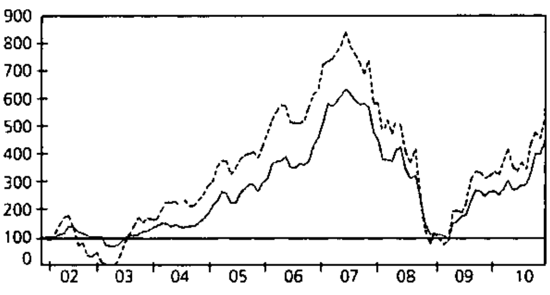
Year to 31 December 2010

	%
Total Assets Total Return[1]	+31 3
Net Asset Value of Capıtal Shares[2]	+65 2
RBS Hoare Govett Smaller Companıes Index (excludıng Investment Companıes)[3]	+28 5
Income Share Prıce (wıth dıvıdends reınvested)[1]	+10 4
Capıtal Share Prıce	+71 1

	As at 31 December 2010	As at 31 December 2009	% Change
Total assets	£113 0m	£93 9m	+20 3%
Loans and other lıabılıtıes (ıncl Income Shares)	(£55 7m)	(£59 4m)	-6 2%
Equıty Shareholders' Funds[4]	£57 3m	£34 5m	+66 1%
Market Capıtalısatıon (Capıtal and Income Shares)	£74 8m	£55 6m	+34 5%
Net asset value of Income Share	109 71p	104 75p	+4 7%
Net asset value of Capıtal Share[2]	529 42p	320 48p	+65 2%
Income Share prıce	112 50p	114 25p	–1 5%
Capıtal Share prıce	450 00p	263 00p	+71 1%
Return per Income Share	12 78p	11 40p	+12 1%
Dıvıdends per Income Share	14 00p	12 60p	+11 1%
Return per Capıtal Share	218 21p	209 57p	–
Total Expense ratıo[5]	1 5%	1 8%	–
Portfolıo turnover	28 6%	29 5%	–
Capıtal Share dıscount[2]	15 0%	17 9%	–

Capıtal Share Performance

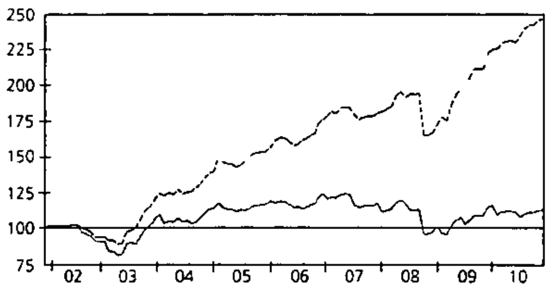
(fıgures have been rebased to 100 at 18 Dec 2001)



— Capıtal Share NAV[2] - Capıtal Share Prıce

Income Share Performance

(fıgures have been rebased to 100 at 18 Dec 2001)



— Income Share Prıce - Income Share Prıce Total Return

[1] Total returns are capıtal apprecıatıon/(deprecıatıon) wıth net dıvıdends reınvested

[2] The asset performance and valuatıon of the Capıtal Shares assumes that the Income Shares each have a capıtal entıtlement of 100p and the Interest Rate Swap has a nıl valuatıon

[3] Performance of the RBS Hoare Govett Smaller Companıes Index (excludıng Investment Companıes) (RBS HGSC (XIC)) whıch ıs representatıve of AGCıT's ınvestment opportunıty base

[4] Equıty Shareholders' Funds comprıse the net assets attrıbutable to the Capıtal Shares ın accordance wıth the Artıcles plus the cumulatıve revenue reserve and capıtal entıtlement not yet transferred to Income Shareholders

[5] Ratıo of operatıng costs (excludıng ınterest and transactıon costs), to average shareholders' funds (calculated per AIC guıdelınes)

Company Summary

Introduction

Aberforth Geared Capital & Income Trust plc (AGCiT) is an Investment Trust whose shares are traded on the London Stock Exchange

Objective

The investment objective of AGCiT is to provide Income Shareholders with a high level of income payable half yearly with the potential for income growth and to provide Capital Shareholders with geared capital growth

Further details regarding the investment policy and approach can be found in the Business Review contained in the Directors' Report

Risk

The Board believes that the Company has a relatively high-risk profile in the context of the investment trust industry This belief arises due to the Company employing a significant level of gearing to increase its yield and to provide the potential for a growing level of dividend income and the potential for geared capital appreciation The Board intends that the Company remains geared throughout its planned life

Some mitigating factors in the Company's risk profile include the facts that the Company

- has a relatively simple capital structure,
- invests only in a diversified portfolio of small UK quoted companies, and
- outsources all of its main operational activities to recognised, well-established firms

Investment in small companies is generally perceived to carry more risk than investment in large companies While this is reasonable when comparing individual companies, it is much less so when comparing the volatility of returns from diversified portfolios of small and large companies The Board believes that the Company's portfolio is diversified

Management Firm

Aberforth Partners LLP (Aberforth Partners) are contracted as the investment managers and secretaries to the Company Both of these contracts can be terminated by either party at any time by giving six months' notice of termination Aberforth Partners manage £1 7 billion invested in small UK quoted companies Further information on the firm is set out on page 12

Share Capital

The Company has a split level capital structure At 31 December 2010, the Company's authorised share capital consisted of 46 2 million Income Shares of 1p, of which 24 5 million were issued and fully paid, and 24 8 million Capital Shares of 1p, of which 10 5 million were issued and fully paid There were no changes in the year Further information on the share capital is contained on pages 23 and 24

Gearing

The Company seeks to enhance the returns to its Shareholders by utilising gearing in the form of bank borrowing It has a bank debt facility available amounting to £34 3 million, being equal to 100% of the net proceeds of the original issue of shares The bank debt facility is repayable on 31 December 2011 Further information on gearing is set out on page 24

Wind-up Date

The Company has a planned winding up date of 31 December 2011 Further details are set out on page 22

ISA Status

Each of the Company's listed securities is eligible for inclusion in the "Stocks and Shares" component of an Individual Savings Account

AIC

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

Directors and Corporate Information

Directors

Alastair Dempster CBE (Chairman, appointed 28 November 2001)

Alastair Dempster is Vice-Chairman of Glasgow Housing Association He was previously Chairman of Sportscotland and St Andrews Links Trust He was a Director of Aberforth Split Level Trust plc from 1991 to 2003 He was Chief Executive of Lloyds TSB Scotland plc until 1998

Michael Foulkes (appointed 28 November 2001 and is a Member of the Audit and Management Engagement Committee)

Michael Foulkes began his career in stockbroking with Fielding Newson-Smith & Co in 1969 and was made a partner in 1974 He joined Peel Hunt in 1990 and retired in April 2001 Throughout his career he specialised in institutional corporate stockbroking, mainly in UK smaller companies

John Richards (appointed 29 October 2003 and is Chairman of the Audit and Management Engagement Committee)

John Richards is Group Finance Director of The Miller Group – the UK's largest privately owned property development, house building and construction services company He is a Chartered Accountant who joined The Miller Group in 1987 and was appointed to the Group Board in 1994

Alastair Ritchie (appointed 28 November 2001 and is a Member of the Audit and Management Engagement Committee)

Alastair Ritchie is Chairman of John Swan & Sons plc, which is quoted on AIM, and a Director of the Octopus Second AIM VCT plc He has experience in small companies, both private and public, and has served as Chairman of several companies

Corporate Information

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

Registered Office and Company Number
c/o Dickson Minto W S
The Broadgate Tower
Primrose Street
London EC2A 2EW
Registered in England and Wales No 4283484

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Tel 0871 664 0300 (Calls cost 10p per minute plus network extras)
Email shareholder services@capitaregistrars com
Website www capitaregistrars com

Bankers
Bank of Scotland
38 St Andrew Square
Edinburgh EH2 2YR

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

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

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

Sponsors
JP Morgan Cazenove Limited
10 Aldermanbury
London
EC2V 7RF

Chairman's Statement

Introduction

Aberforth Geared Capital & Income Trust (AGCiT) recorded a total return on total assets of 31 3% during 2010 Over the same period the index that represents AGCiT's opportunity base, the RBS Hoare Govett Smaller Companies Index (excluding Investment Companies), recorded a total return of 28 5% The FTSE All-Share Index, representative of the entire UK market, showed a total return of 14 5% It has, therefore, been another year in which AGCiT's chosen asset class has produced a return superior to that of the broader UK stock market

Throughout the year the level of borrowing employed by your Company has been consistently toward the upper end of the available facilities and this has made a positive contribution to performance in a period of such high absolute returns The net asset value of a Capital Share (assuming 100p prior charge for the Income Shares and a nil swap valuation) has risen from 320 48p on 31 December 2009 to 529 42p on 31 December 2010, an increase of 65 2%

Dividends

The Directors have approved a second interim dividend of 7 50p per Income Share This represents an increase of 11 9% over the 6 70p equivalent dividend in respect of 2009 When taken together with the first interim dividend of 6 50p, the total dividend for the year is 14 00p, an increase over the 12 60p dividend paid in respect of 2009 of 11 1% Earnings per Income Share for 2010 were 12 78p The dividend payment therefore is in accord with the Board's decision, discussed in the interim statement in July 2010, to distribute the retained revenue reserve with the second interim dividends paid in respect of 2010 and 2011 Following the payment of the second interim dividend, the retained revenue reserve will be £867,000, equivalent to 3 54p per Income Share The dividend performance of the portfolio has been robust in 2010 with total income rising by 10 4% Dividend growth from the underlying investments exceeded expectations during the year and this gives some considerable confidence for 2011

The second interim dividend will be paid on 25 February 2011 to Income Shareholders on the register at the close of business on 4 February 2011 The ex-dividend date will be 2 February 2011

Policy for 2011

AGCiT is a split level investment trust and the Directors are required either to propose a resolution to wind up the company on the Planned Winding-Up Date (31 December 2011) or to put forward other proposals in relation to a reconstruction ahead of that date Other key dates in 2011 are 30 September when the interest rate swap expires and 31 December when the bank facilities expire

At this stage, your Board is open minded as to the appropriate course of action A number of the factors that may influence the ultimate outcome could change significantly between now and the fourth quarter of 2011 For example, the structure and viability of any potential roll-over vehicle may be influenced, amongst other things, by the lending conditions pertaining at the time and these may be very different from those available now

In order to arrive at more informed conclusions your Board welcomes input from all Shareholders and in this respect I have attached at the end of this statement an email address through which I can be contacted by any Shareholder wishing to express a view to me directly

In addition, your Board will actively consult with the larger Shareholders of the Company in order to understand better their preferences As the outcome of these consultations and the eventual Shareholders' decision remain uncertain, full disclosures relating to the uncertainty and the implications for the preparation of the 2010 financial statements are set out in the Directors' Report (page 26) and also Note 1(a) to the financial statements (page 42)

It is the current expectation that any proposals that may be put forward will include the possibility of a full cash exit for both Income and Capital Shareholders as well as a tax efficient roll-over for Capital Shareholders

In respect of short term investment strategy, the Directors are able to be more explicit

Chairman's Statement

As can be deduced from the Managers' Report, the valuation characteristics of the portfolio are considered to be most attractive at present The smaller company sector has recovered well from the recession of 2008/2009 and profits growth and cash generation are robust An analysis of AGCIT's portfolio shows that it has an historic dividend yield of 3 3% and a dividend cover of 2 5 times The cover is towards the higher level seen in the nine years of AGCIT's life

Consequently, your Board and the Managers are resolved to maintain the borrowings towards the upper level of available facilities for as long as practicable, and certainly over the course of the first half of the year This view would, of course, change were there to be a significant re-rating of the portfolio in the short term

Conclusion

As we commence the last year of AGCIT's planned life it is reassuring to do so in the knowledge that your Company has a high quality portfolio trading at a valuation that is attractive on an absolute and relative basis The dividend growth from portfolio companies has been robust and there are encouraging indications that this is a sustainable trend

Finally, I repeat my invitation to Shareholders to contact me via the email address below

Alastair C Dempster
Chairman
27 January 2011

alastair dempster@aberforth co uk

Managers' Report

Introduction

Small UK quoted companies performed well in 2010, with the RBS Hoare Govett Smaller Companies Index (excluding Investment Companies) (RBS HGSC (XIC) or the index) securing a total return of 28 5% A good close to the year took the index above its previous peak in total return terms, which was set on 1 June 2007 Large companies, as measured by the FTSE All-Share, achieved a 14 5% total return AGCiT's Total Asset Total Return was 31 3%, higher than the return of both large companies and also of the RBS HGSC (XIC)

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

- Early 2009 witnessed a powerful "relief rally" The valuations of a significant number of UK businesses reflected the risk of bankruptcy However, a series of rights issues served to recapitalise these companies and, by extending the investment horizon, to breathe life into their valuations
- Despite this rally, corporate profits continued to decline through most of 2009 as revenues came under recessionary pressure However, management teams reacted promptly with deep restructuring programmes Thus, when revenues troughed late in 2009 and began to grow again in 2010, margins recovered sharply, allowing a surprising number of businesses to exceed their previous peak profit levels in 2010 – a remarkable feat when viewed in the context of the global financial crisis
- Concurrently, monetary policy has remained extremely accommodative and indeed has proceeded to embrace the unconventional measures termed as "quantitative easing" As central banks have made direct purchases of government debt, bond yields have moved downwards in the UK, for example, ten year gilt yields declined from 4 0% to 3 4% over the course of 2010 With government bond yields forming the risk free basis of the discount rates used to value equities, equity valuations may be considered to have benefited

Investment Background

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

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

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

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

Investment Performance

AGCiT's 31 3% Total Return on Total Assets in 2010 was marginally higher than the 28 5% achieved by the RBS HGSC (XIC) The following paragraphs provide some background to 2010's performance and also draw out themes in relation to longer term returns The concluding section of the report, ***Investment Outlook,*** then seeks to outline the current portfolio positioning and strategy for 2011

- Your Managers have consistently adhered to a value investment style over the life of AGCiT The last five years have been extremely adverse for the value style, with markets favouring instead growth and momentum investors This has been less headline-grabbing than was the case during the TMT boom around the turn of the century, but research conducted by the London Business School suggests that the current bear market for value stocks has been as deep and more prolonged as that experienced in 1999 and early 2000 This research shows that value stocks within the RBS HGSC (XIC) under-performed the benchmark as a whole by 10 8 percentage points in 2010 and by 34 0 percentage points over the last five years Though not insurmountable through good stock selection, this has represented a major headwind to the value investor
- A related impact is that of size It may seem strange for a small cap manager to alight on this influence, but the RBS HGSC (XIC), which represents the bottom 10% of the total market capitalisation of the UK stockmarket, now takes in a significant portion of the FTSE 250 Indeed, with the largest company in the benchmark boasting a market capitalisation of £1 3bn, mid cap companies account for over 72% of the total value of the RBS HGSC (XIC) In contrast, AGCiT's portfolio has moved steadily more under-weight the FTSE 250 component of the benchmark over the past five years to the extent that its exposure stood at 45% at the end of 2010 This has proved ill-timed the FTSE 250 has outstripped the FTSE SmallCap by 58% over the past five years, including out-performance of 12% in 2010

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

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

For the year ended 31 December 2010	Basis Points
Stock Selection	(237)
Sector Selection	544
Attributable to the portfolio of investments, based on mid prices	307
Movement in mid to bid price spread	17
Cash/gearing	4,077
Interest cost	(439)
Management fee	(170)
Other expenses	(121)
Total attribution based on bid prices	**3,671**

Note 100 basis points = 1% Total Attribution is the difference between the total return performance of the Capital Share net asset value (assuming 100p entitlement per Income Share and nil swap valuation) and the RBS HGSC (XIC) (i e Capital Share net asset value = 65 20%, RBS HGSC (XIC) = 28 49%, difference is 36 71% being 3,671 basis points)

Overall, sector selection made a strong positive contribution to relative performance One of the stockmarket's strongest themes over recent years, and one that has intensified during the recovery phase, has been the out-performance of businesses with high exposure to emerging markets, which continued to grow while the developed markets languished This trend has benefited the commodity sectors and capital goods companies The portfolio was under-weight in commodity sectors the companies available within the benchmark often have valuations that are highly dependent on the resilience of underlying commodity prices and, at an early stage of development, tend to consume cash and in general do not have the income characteristics suitable for the portfolio Compensating for this positioning was the portfolio's large over-weighting in capital goods, which benefit from similar demand drivers but which also boast more attractive cash and income dynamics In particular the overweight positions in Electronic and Electrical Equipment and Industrial Engineering were beneficial to performance in 2010 The portfolio also benefited from underweight positions in Household Goods (Housebuilders) and Real Estate Investment & Services (Property) In both these sectors the managers were not attracted by the combination of the macro demand factors driving the sectors and the stockmarket valuations attached to the constituent companies In addition the companies in these sectors are currently, in general, unable to pay dividends to shareholders owing in part to their trading performance and also to the fact that they are, in the majority asset, rather than income, return businesses

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

The strong absolute returns from AGCIT's portfolio meant that its gearing significantly enhanced NAV performance for Capital Shareholders over 2010

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

Band	Nil	IPOs	Down	Flat	+0-10%	+10-20%	+ >20%
No of holdings	2	1	1	23	19	13	11

The "Nil" category includes the two companies that did not pay a dividend in 2010 These companies may be considered cyclical nil payers that will come back to the dividend register once their profits recover Reinstatement of dividends is relevant to the wider small company universe and can have a meaningful effect on aggregate reported dividend growth Only one company cut its dividend, which would be considered an excellent outcome even in steadier economic conditions The other positive aspect of the analysis is the number of companies in the three right hand columns forty three companies chose to increase their dividends, some by a significant amount

Going into recession, your Managers emphasised the tactic of being "paid to wait" for the eventual upturn a sustainable dividend yield can provide some compensation in periods of difficult trading In the event, 2009 turned out to be the worst for dividends in the RBS HGSC (XIC)'s history AGCIT's portfolio fared less badly, but there were nevertheless some disappointing dividend decisions The turnaround encapsulated in the preceding analysis is therefore welcome and is indicative of the rapid cost reductions implemented by management teams last year The dividend recovery has come earlier than your Managers had expected at the start of 2010 and is clearly supportive of AGCIT's income account which showed growth in total income of 10 4% in 2010

- As described previously, the corporate sector in the UK is in a relatively healthy position, with strong cash flows and balance sheets These are characteristics that are shared by the small company universe and by AGCIT's portfolio, and that no doubt assisted company boards in deciding to increase dividends Entering 2011, almost 43% of the portfolio was invested in companies with net cash on their balance sheets at the end of 2010 This positioning hindered relative returns in 2009 as many highly geared businesses enjoyed a powerful bounce in their share prices However, in 2010 the impact of balance sheet structure was less pronounced and, indeed, the share prices of several of the indebted businesses that performed so strongly in 2009 slipped back Moving forward, your Managers are retaining the portfolio's bias to strong balance sheets This is less for defensive reasons and more as a result of the stockmarket's current reluctance to look beyond the extremely low returns from cash Crucially, cash affords businesses a degree of competitive advantage over rivals still focused on balance sheet repair and also gives flexibility to make acquisitions or return capital to shareholders It is not your Managers' preference to see substantial balances of net cash reside on balance sheets indefinitely pressure will mount to deploy cash in a profitable fashion for shareholders
- M&A activity within the RBS HGSC (XIC) in 2010 picked up from the depressed levels of 2009, but, with 16 deals completed, was still some way short of the 50 per annum average over the preceding five years However, the average deal size rose markedly and, entering 2011, a number of deals were awaiting completion Echoing previous cycles, the predators have frequently been large American companies, which typically trade on higher valuations than their smaller UK peers and, at the current time, benefit from the weakness of sterling The conditions for a further recovery in M&A and de-equitisation in general are in place As already noted, companies are under pressure to utilise their strong balance sheets Moreover, the gap between the cost of debt and the cost of equity is wide at the end of 2010, the BBB sterling 5-7 year corporate bond yield stood at 5%, whereas the portfolio's prospective ratio of pre tax and interest profit to enterprise value was 13% Valuations within the small company universe are attractive, particularly down the scale of market capitalisations This has led to often exaggerated bid premiums to prevailing stockmarket valuations but it has also invited some opportunistic approaches So, while the scope for more M&A ought to be of relative advantage to AGCIT as it has been in the past, your Managers are mindful of balancing the short term fillip to relative performance against the intrinsic value of the underlying businesses

Investment Outlook

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

Intriguingly, in the face of these challenges, 2010 drew to a close with a series of more positive economic data releases in the US These coincided with renewed strength in industrial commodity prices and with a marked change in sentiment within major government bond markets For illustration, ten year treasury yields in the US, which had declined steadily through most of the year, rose from 2 4% to 3 3% through the fourth quarter The majority of this increase was driven by higher real yields, rather than by expectations of increased inflation, which can be interpreted as an indication of stronger real economic growth While such a development perhaps says more about where bond yields themselves had got to, the implications for equities are more positive the increase in the risk free rate is offset by the prospect of a more robust outlook for growth

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

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

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

	31 December 2010		31 December 2009	
Characteristics	AGCIT	RBS HGSC (XIC)	AGCIT	RBS HGSC (XIC)
Number of companies	70	430	61	448
Weighted average market capitalisation	£458m	£696m	£347m	£619m
Price earnings ratio (historic)	11 8x	13 7x	8 4x	11 2x
Dividend yield (historic)	3 3%	2 4%	4 2%	2 7%
Dividend cover (historic)	2 5x	3 0x	2 9x	3 3x

AGCIT's portfolio ended the year on a historic dividend yield of 3 3% The decline from last year's 4 2% was driven by a rise in the portfolio's value over the twelve months and by trading activity Working in the opposite direction was the positive dividend experience described previously This ought to be supportive of portfolio dividend growth in 2011

The historic PE ratio was 14% below that of the RBS HGSC (XIC) at the end of the year In absolute terms, AGCIT's PE of 11 8x compares with an average of 12 1x and, given that profits are still recovering, might be considered low at this stage of the cycle However, with the presently low levels of return from cash, PE ratios struggle to capture the crucial cash dynamic previously described in this report The EV/EBITA (i e enterprise value to profit before interest, tax and amortisation), which is your Managers' key valuation metric in the investment process, adds some colour

EV/EBITA	Actual 2009	Forecast 2010	Forecast 2011
AGCIT	9 5x	8 8x	7 5x

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

Managers' Report

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

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

Total return pa	5 years	10 years	20 years	Since 1955
RBS HGSC *	+7 5%	+7 8%	+11 1%	+15 5%
Value component	+1 8%	+11 1%	+13 3%	+19 4%
Small component	+5 0%	+8 6%	+11 3%	+17 4%

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

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

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

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

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

Wrapped around this investment philosophy has been the capital structure of AGCIT The trust has been consistently geared over its life and this has both benefited and hindered NAV returns to capital shareholders depending on the period examined The most recent experience has been positive given the significant returns from the opportunity base in 2009 and 2010 The immediate intention in this final year of AGCIT's planned life is to maintain the gearing given the attractive valuation characteristics described above

Aberforth Partners LLP
Managers
27 January 2011

Aberforth Partners LLP – Information

Aberforth Partners LLP (the "firm") act as Managers and Secretaries to the Company The predecessor business, Aberforth Partners, was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies Since then funds under management have grown to £1 7 billion (as at 31 December 2010) The firm is wholly owned by seven partners – six investment managers (including four founding partners), and Alan Waite, who is responsible for the firm's administration The six investment managers work as a team managing the Company's portfolio on a collegiate basis The founding partners have been managing smaller company portfolios since December 1990 The partners each have a personal investment in the Company The biographical details of the investment managers are as follows

Andrew P Bamford (44) BCom (Hons), CA – Andy joined Aberforth Partners in April 2001, became a partner in May 2004, and is responsible for investment research and stock selection in the following areas – Healthcare Equipment & Services, Industrial Transportation, Technology Hardware & Equipment, Travel & Leisure, and a proportion of Support Services Previously he was with Edinburgh Fund Managers for 7 years, latterly as Deputy Head of UK Small Companies, with specific responsibility for institutional clients Prior to joining Edinburgh Fund Managers he was a senior investment analyst with General Accident for 2 years supporting the head of UK Smaller Companies Before joining General Accident, he was a Chartered Accountant with Price Waterhouse

John M Evans (53) MA (Hons) – John was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Automobiles & Parts, Chemicals, Construction & Materials, Household Goods & Home Construction, Leisure Goods, Personal Goods, Fixed Line Telecom, Electricity, Gas and Water & Multiutilities Previously he was with Ivory & Sime for 11 years where he was latterly responsible for the management of portfolios whose objectives were income and capital growth from UK equities

Euan R Macdonald (40) BA (Hons) – Euan joined Aberforth Partners in May 2001, became a partner in May 2004, and is responsible for investment research and stock selection in the following areas – Industrial Engineering, Software & Computer Services, and a proportion of Support Services Previously he was with Baillie Gifford for 10 years where he managed portfolios invested in small companies both in Continental Europe and in the UK

Richard M J Newbery (51) BA (Hons) – Richard was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Alternative Energy, Electronic & Electrical Equipment, Beverages, Food & Drug Retailers, Food Producers, Forestry & Paper, General Industrials, and General Retailers Previously he was with Ivory & Sime for 9 years where he managed international portfolios for a range of clients including those with a small company specialisation

David T M Ross (61) FCCA – David was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Nonlife Insurance, Life Assurance, Real Estate Investment & Services, Real Estate Investments Trusts, and Financial Services Previously he was with Ivory & Sime for 22 years, the last two of which were as Managing Director He was a Director of US Smaller Companies Investment Trust plc and served as a member of the Executive Committee of the Association of Investment Companies

Alistair J Whyte (47) – Alistair was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Aerospace & Defence, Industrial Metals & Mining, Media, Mining, Oil & Gas Producers, Oil Equipment, Services and Distribution, and Pharmaceuticals & Biotechnology Previously he was with Ivory & Sime for 11 years where latterly he managed portfolios in Asia Prior to that he managed portfolios with the objective of capital growth from smaller companies in the UK and internationally

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

Portfolio Information

Summary of Material Portfolio Changes

For the year ended 31 December 2010

Purchases	Cost £'000	Sales	Proceeds £'000
Morgan Crucible Company	1 860	Delta	3,536
Tullett Prebon	1,813	Domino Printing Sciences	3,343
Debenhams	1,601	Spectris	3,227
Halfords Group	1,559	Robert Wiseman Dairies	2,886
BBA Aviation	1 475	Greggs	1,766
De La Rue	1,382	Dunelm Group	1,544
Electrocomponents	1,209	BSS Group	1,501
Moneysupermarket com Group	1,207	United Business Media	1,376
Lookers	1,164	Elementis	1,334
Micro Focus International	1,125	Shanks Group	1,220
Anglo Pacific Group	1,079	Go-Ahead Group	1,200
Galliford Try	1,039	Brown (N) Group	1,127
United Business Media	1,034	KCOM Group	1,107
Chime Communications	994	Dialight	1,005
RPS Group	937	Headlam Group	976
Hampson Industries	890	UK Mail Group	955
Safestore Holdings	847	JD Sports Fashion	878
Promethean World	763	F&C Asset Management	740
Ashtead Group	704	Micro Focus International	682
Diploma	694	Spice	551
Other Purchases	5,047	Other Sales	2,151
Total for the year	**28,423**	**Total for the year**	**33,105**

The summary of material portfolio changes shows the 20 largest aggregate purchases and sales including transaction costs Portfolio turnover for the year was 28 6% (2009 29 5%)

FTSE Industry Classification Exposure Analysis

	31 December 2009					31 December 2010		
	RBS HGSC (XIC)	Portfolio		Net[1] Purchases/	Net Appreciation/	Portfolio		*RBS HGSC (XIC)*
Sector	*Weight %*	Weight %	Valuation £'000	(Sales) £'000	(Depreciation) £'000	Valuation £'000	Weight %	*Weight %*
Oil & Gas	*5*	1	908	72	117	1,097	1	*6*
Basic Materials	*5*	1	864	(76)	1,457	2,245	2	*4*
Industrials	*28*	44	40,640	(3,958)	16,419	53,101	47	*24*
Consumer Goods	*9*	5	5,059	(3,467)	(1 156)	436	–	*10*
Health Care	*4*	–	–	–	–	–	–	*3*
Consumer Services	*22*	25	23,457	766	5,725	29,948	27	*22*
Telecommunications	*1*	2	2,193	(881)	569	1,881	2	*2*
Utilities	–	–	–	–	–	–	–	*1*
Financials	*19*	13	12,262	2,025	(342)	13,945	12	*20*
Technology	*7*	9	8,131	837	1,077	10,045	9	*8*
	100	100	93,514	(4,682)	23,866	112,698	100	*100*

[1] Includes transaction costs

FTSE Index Classification Exposure Analysis

	31 December 2009				31 December 2010			
	Portfolio			*RBS HGSC (XIC)*	Portfolio			*RBS HGSC (XIC)*
Index Classification	No of Companies	Valuation £'000	Weight %	*Weight %*	No of Companies	Valuation £'000	Weight %	*Weight %*
FTSE 100	–	–	–	–	–	–	–	–
FTSE 250	23	44,418	47	*75*	26	51,089	45	*76*
FTSE SmallCap	30	40,298	43	*18*	34	51,019	45	*19*
FTSE Fledgling	6	6,105	7	*2*	6	5,971	6	*2*
Other	2	2,693	3	*5*	4	4,619	4	*3*
	61	93 514	100	*100*	70	112,698	100	*100*

Thirty Largest Investments

No	Company	Value as at 31 December 2010 £'000	% of Total	Business Activity
1	Spirax-Sarco Engineering	5,204	4.6	Engineering
2	RPC Group	4,030	3.6	Plastic packaging
3	JD Sports Fashion	3,953	3.5	Retailing - sports goods & clothing
4	Bodycote	2,902	2.6	Engineering - heat treatment
5	e2v technologies	2,878	2.6	Electronic components & subsystems
6	Beazley	2,825	2.5	Lloyds insurer
7	Holidaybreak	2,658	2.3	Education & holiday services
8	RPS Group	2,486	2.2	Energy & environmental consulting
9	Dunelm Group	2,439	2.2	Homewares retailer
10	UMECO	2,341	2.1	Supply chain management & advanced composite materials
	Top Ten Investments	**31,716**	**28.2**	
11	Phoenix IT Group	2,312	2.1	IT services & disaster recovery
12	Morgan Crucible Company	2,234	2.0	Engineer - ceramic & carbon materials
13	Tullett Prebon	2,197	1.9	Inter dealer broker
14	Greggs	2,180	1.9	Retailing - baked products & sandwiches
15	Huntsworth	2,111	1.9	Public relations
16	Dialight	2,093	1.9	LED based lighting solutions
17	Low & Bonar	2,089	1.9	Manufacture of industrial textiles
18	Domino Printing Sciences	2,082	1.8	Industrial printers & inks
19	Galliford Try	2,059	1.8	Housebuilding & construction services
20	Brown (N.) Group	2,009	1.8	Catalogue retailer
	Top Twenty Investments	**53,082**	**47.2**	
21	Wilmington Group	1,999	1.8	Information & training for professional business market
22	Keller Group	1,964	1.7	Ground engineering services
23	Micro Focus International	1,960	1.7	Software - development & testing
24	Collins Stewart	1,928	1.7	Stockbroker & private client fund manager
25	KCOM Group	1,881	1.7	Telecommunications services
26	Smiths News	1,827	1.6	Newspaper distribution
27	Castings	1,754	1.6	Engineering - automotive castings
28	BBA Aviation	1,751	1.6	Aviation - fuelling & maintenance
29	Microgen	1,634	1.4	Workflow & financial services software
30	Halfords Group	1,611	1.4	Retailing - car & cycling accessories
	Top Thirty Investments	**71,391**	**63.4**	
	Other Investments	41,307	36.6	
	Total Investments	**112,698**	**100.0**	

Investment Portfolio

Holding	Security	Value £'000	% of Total Investments	% of RBS HGSC (XIC) Index[1]
		31 December 2010		
Oil & Gas Producers		**1,097**	**1 0**	**4 0**
351,100	JKX Oil & Gas	1,097	1 0	
Oil Equipment, Services & Distribution		**–**	**–**	**1 7**
Alternative Energy		**–**	**–**	**0 5**
Chemicals		**1,035**	**0 9**	**2 6**
733,854	Elementis	1,035	0 9	
Industrial Metals & Mining		**–**	**–**	**0 1**
Mining		**1,210**	**1 1**	**1 9**
338,100	Anglo Pacific Group	1,210	1 1	
Construction & Materials		**7,267**	**6 4**	**1 7**
689,631	Galliford Try	2,059	1 8	
311,712	Keller Group	1,964	1 7	
4,136,073	Low & Bonar	2,089	1 9	
163,856	Morgan Sindall Group	1,155	1 0	
Aerospace & Defence		**3,618**	**3 2**	**2 8**
4,152,122	Hampson Industries	1,277	1 1	
529,253	UMECO	2,341	2 1	
General Industrials		**4,030**	**3 6**	**1 2**
1,279,500	RPC Group	4,030	3 6	
Electronic & Electrical Equipment		**10,284**	**9 2**	**2 9**
411,945	Dialight	2,093	1 9	
320,353	Domino Printing Sciences	2,082	1 8	
3,197,464	e2v technologies	2,878	2 6	
918,400	Morgan Crucible Company	2,234	2 0	
76,190	Spectris	997	0 9	
Industrial Engineering		**11,340**	**10 1**	**1 6**
1,041,605	Bodycote	2,902	2 6	
661,700	Castings	1,754	1 6	
109,200	Hill & Smith Holdings	301	0 3	
269,075	Spirax-Sarco Engineering	5,204	4 6	
201,500	The Vitec Group	1,179	1 0	
Industrial Transportation		**1,751**	**1 6**	**2 5**
790,000	BBA Aviation	1,751	1 6	
Support Services		**14,811**	**13 1**	**11 2**
385,200	Acal	1,052	0 9	
345,300	Ashtead Group	596	0 5	
156,400	De La Rue	1,282	1 1	
400,000	Diploma	1,097	1 0	
540,000	Electrocomponents	1,435	1 3	
191,100	Mears Group	579	0 5	
999,700	office2office	1,230	1 1	
148,500	Paypoint	527	0 5	
1,796,800	Regus	1,550	1 4	
1,079,000	RPS Group	2,486	2 2	
1,544,800	Smiths News	1,827	1 6	
315,300	SThree	1,150	1 0	
Automobiles & Parts		**–**	**–**	**–**
Beverages		**–**	**–**	**1 1**

Investment Portfolio

Holding	Security	Value £'000	% of Total Investments	% of RBS HGSC (XIC) Index[1]
		31 December 2010		
Food Producers		436	0 4	3 1
695,200	Northern Foods	436	0 4	
Household Goods & Home Construction		–	–	4 8
Leisure Goods		–	–	0 3
Personal Goods		–	–	0 7
Health Care Equipment & Services		–	–	0 8
Pharmaceuticals & Biotechnology		–	–	1 8
Food & Drug Retailers		2,180	1 9	1 8
468,880	Greggs	2,180	1 9	
General Retailers		14,116	12 5	7 5
675,590	Brown (N) Group	2,009	1 8	
2,114,100	Debenhams	1,497	1 3	
477,800	Dunelm Group	2,439	2 2	
2,056,775	Game Group	1,424	1 3	
352,500	Halfords Group	1,611	1 4	
451,762	JD Sports Fashion	3,953	3 5	
1,996,700	Lookers	1,183	1 0	
Media		9,724	8 7	3 5
362,900	4imprint Group	969	0 9	
1,584,409	Centaur Media	1,038	0 9	
531,100	Chime Communications	1,179	1 0	
4,519,250	Future	1,288	1 2	
3,005,138	Huntsworth	2,111	1 9	
1,470,600	Moneysupermarket com Group	1,140	1 0	
1,306,700	Wilmington Group	1,999	1 8	
Travel & Leisure		3,928	3 5	9 4
166,626	Air Partner	733	0 7	
250,000	Cineworld Group	537	0 5	
775,522	Holidaybreak	2,658	2 3	
Fixed Line Telecommunications		1,881	1 7	2 1
3,229,409	KCOM Group	1,881	1 7	
Electricity		–	–	0 6
Gas, Water & Multiutilities		–	–	–
Nonlife Insurance		4,112	3 6	2 2
2,456,969	Beazley	2,825	2 5	
2,463,252	Chaucer Holdings	1,287	1 1	
Life Insurance		1,050	0 9	2 0
632,400	Hansard Global	1,050	0 9	
Real Estate Investment & Services		805	0 7	4 1
619,100	Safestore Holdings	805	0 7	
Real Estate Investment Trusts		–	–	3 3

Investment Portfolio

Holding	Security	Value £'000	% of Total Investments	% of RBS HGSC (XIC) Index[1]
		31 December 2010		
Financial Services		**7,978**	**7 0**	**8 2**
963,500	Brewin Dolphin Holdings	1,513	1 3	
296,500	Charles Stanley Group	845	0 7	
2,463,600	Collins Stewart	1,928	1 7	
1,595,997	Evolution Group	1,109	1 0	
1,088,100	Record	386	0 4	
578,200	Tullett Prebon	2,197	1 9	
Software & Computer Services		**8,705**	**7 7**	**5 1**
2,190,933	Anite	1,315	1 2	
505,900	Micro Focus International	1,960	1 7	
1,556,500	Microgen	1,634	1 4	
878,273	Phoenix IT Group	2,312	2 1	
872,800	RM	1,484	1 3	
Technology Hardware & Equipment		**1,340**	**1 2**	**2 9**
1,746,800	Filtronic	699	0 6	
1,001,600	Promethean World	641	0 6	
Investments as shown in the Balance Sheet		**112,698**	**100 0**	**100 0**

All investments have a listing on the London Stock Exchange

[1] Reflects the rebalanced index as at 1 January 2011

Long-Term Record

Historic Total Returns[1]

Period	NAV of Capital Shares[2]	Index[3]	Capital Share Price	Income Share Price
	Discrete Annual Returns (%)			
1 year to 31 December 2010	65 2	28.5	71 1	10 4
1 year to 31 December 2009	186 0	60 7	139 1	33 4
1 year to 31 December 2008	(80 8)	(40 8)	(75 5)	(7 5)
1 year to 31 December 2007	(19 7)	(8 3)	(12 5)	2 6
1 year to 31 December 2006	50 7	28 0	65 8	12 4
1 year to 31 December 2005	57 2	27 8	46 7	12 1
1 year to 31 December 2004	86 4	20 7	49 3	12 4
1 year to 31 December 2003	1,407 5	43 0	39 4	32 7
1 year to 31 December 2002	(88 4)	(23 3)	0 5	(7 6)

Periods to 31 December 2010	NAV of Capital Shares[2]	Index[3]	Capital Share Price	Income Share Price
	Compound Annual Returns (%)			
2 years from 31 December 2008	117 4	43 7	102 3	21 3
3 years from 31 December 2007	(3 2)	6 9	0 0	10 8
4 years from 31 December 2006	(7 6)	2 9	(3 3)	8 7
5 years from 31 December 2005	1 9	7 5	7 7	9 5
6 years from 31 December 2004	9 6	10 6	13 4	9 9
7 years from 31 December 2003	18 2	12 0	18 0	10 2
8 years from 31 December 2002	62 5	15 5	20 5	12 8
Since inception on 18 December 2001	20 3	10 4	18 1	10 4

Periods to 31 December 2010	NAV of Capital Shares[2]	Index[3]	Capital Share Price	Income Share Price
	Cumulative Returns (%)			
2 years from 31 December 2008	372 5	106 5	309 1	47 3
3 years from 31 December 2007	(9 2)	22 2	0 1	36 2
4 years from 31 December 2006	(27 1)	12 0	(12 5)	39 8
5 years from 31 December 2005	9 9	43 4	45 2	57 1
6 years from 31 December 2004	72 9	83 3	113 0	76 0
7 years from 31 December 2003	222 2	121 1	218 0	97 9
8 years from 31 December 2002	4,757 1	216 3	343 3	162 6
Since inception on 18 December 2001	429 4	145 0	350 0	145 0

1 Total returns are capital appreciation/(depreciation) with net dividends reinvested

2 The asset performance of the Capital Shares assumes that the Income Shares each have a capital entitlement of 100p and the Interest Rate Swap has a nil valuation

3 Performance of the RBS Hoare Govett Smaller Companies Index (Excluding Investment Companies) which is representative of AGCIT's investment opportunity base

Long-Term Record

Capital Summary

As at 31 December	Total Investments £m	Borrowings £m	Other Net (Liabilities)/ Assets[1] £m	Equity Shareholders Funds[1] £m
2010	112 7	(30 2)	(25 2)	57 3
2009	93 5	(32 9)	(26 1)	34 5
2008	70 9	(31 9)	(26 2)	12 8
2007	119 4	(31 8)	(23 9)	63 7
2006	133 1	(30 3)	(24 4)	78 4
2005	111 6	(34 9)	(25 6)	51 1
2004[2]	94 2	(36 0)	(25 3)	32 9
2003	74 2	(30 9)	(1 2)	42 1
2002	59 7	(33 0)	(0 8)	25 9
2001	21 6	—	12 8	34 4

Capital Shares

				Income Shares at 100p and nil swap valuation	
As at 31 December	Articles Basis Capital Share NAV p	Capital Share Price p	Capital Share NAV Discount[3] %	Capital Share NAV p	Capital Share NAV Discount/ (Premium)[3] %
2010	522 82	450 00	13 9%	529 42	15 0%
2009	317 17	263 00	17 1%	320 48	17 9%
2008	120 16	110 00	8 5%	112 05	1 8%
2007	620 27	449 50	27 5%	582 82	22 9%
2006	777 91	514 00	33 9%	725 76	29 2%
2005	533 84	310 00	41 9%	481 53	35 6%
2004[2]	374 50	211 25	43 6%	306 28	31 0%
2003	255 42	141 50	44 6%	164 32	13 9%
2002	114 52	101 50	11 4%	10 90	(831 2%)
2001	209 79	101 00	51 9%	93 60	(7 9%)

Revenue Summary

Year to 31 December	Return attributable to Income Shareholders £'000	Earnings per Income Share[4] p	Dividends per Income Share p
2010	3,131	12 78	14 00
2009	2,793	11 40	12 60
2008	3,369	13 75	12 60
2007	2,835	11 57	10 50
2006	2,586	10 55	9 40
2005	2,226	9 09	8 62
2004	2,231	9 11	8 41
2003	2,096	8 56	8 20
2002[6]	2,220	9 06	8 00
2001	n/a	n/a	n/a

Income Shares

As at 31 December	Income Share NAV[5] p	Income Share Price p
2010	109 71	112 50
2009	104 75	114 25
2008	100 57	97 00
2007	94 02	117 00
2006	86 77	123 50
2005	79 72	118 50
2004[2]	73 73	113 75
2003	62 37	109 50
2002	56 65	90 50
2001	50 31	101 00

1 From 2004 Income Shares have been classified as financial liabilities and funds attributable to Income Shares are included within Other Net Liabilities

2 2004 figures have been restated in line with the financial statements

3 The Discount/(Premium) calculation is the percentage difference between the Share Price and the respective Net Asset Value per Share

4 The calculation of Earnings per Income Share is based on the revenue from ordinary activities after taxation and the weighted average number of Income Shares in issue

5 Net Asset Value of Income Shares includes non-distributed revenues

6 Figures for 2002 cover the period 18 December 2001 to 31 December 2002

Hurdle Rates – Statistics

		As at 31 December 2010	As at 31 December 2009
Income Shares	Share price	**112 50p**	114 25p
	Dividend paid/proposed per Share	**14 0p**	12 6p
	Yield	**12 4%**	11 0%
Required capital growth p a on portfolio	To return 100 0p	**–47 4%**	–17 3%
	To return zero value	**–69 1%**	–36 4%
Redemption yields assuming portfolio growth sufficient to return 100 0p and dividend per share growth p a of	0 0%	**7 1%**	8 4%
	2 5%	**7 7%**	9 1%
	5 0%	**8 4%**	9 9%
	7 5%	**9 1%**	10 6%
	10 0%	**9 8%**	11 4%
Capital Shares	Share price	**450 0p**	263 0p
Required capital growth p a on portfolio	To return share price	**–5 5%**	–0 1%
	To return 100p	**–38 1%**	–10 4%
	To return zero value	**–47 4%**	–17 3%
Redemption yields with portfolio capital growth p a of	0 0%	**13 1%**	0 2%
	2 5%	**19 1%**	7 9%
	5 0%	**25 1%**	15 3%
	7 5%	**31 0%**	22 4%
	10 0%	**37 0%**	29 3%

Source Aberforth Partners LLP

All rates of return are per annum over the planned life of the Company to 31 December 2011 and exclude changes in the fair valuation of the interest rate swap

The data in the table above illustrate the rates of return required to return to Shareholders various levels of share value at the planned winding up date of 31 December 2011

An annual return on the investment portfolio of –5 5% per annum would result in Income Shares and Capital Shares having respective entitlements of 100p and 450 0p at the planned winding up date Any return in excess of –5 5% per annum would result in the Capital Shares receiving a value greater than 450 0p, the maximum capital entitlement of the Income Shares being 100 0p

An annual return on the investment portfolio of –47 4% per annum would allow the Income Shares to have a value of 100 0p, while the Capital Shares would have no underlying value Rates of return between –5 5% and –47 4% will produce progressively lower entitlements for the Capital Shares, with –47 4% equating to a nil value for the Capital Shares

An annual return of –69 1% per annum or less will result in neither Income Shares or Capital Shares having any underlying values Returns between –47 4% and –69 1% will produce progressively lower entitlements for the Income Shares with –69 1% per annum producing a nil value for the Income Shares

As can be seen the required rates of return and Redemption Yields have changed over the financial year and this change is a function of the changes in asset values over this time

Directors' Report

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

Business Review

Business and Strategy

Investment Objective

The investment objective of AGCIT is to provide Income Shareholders with a high level of income payable half yearly with the potential for income growth and to provide Capital Shareholders with geared capital growth

Investment Policy

The Company aims to achieve its objective and to diversify risk by investing in a diversified portfolio of small UK quoted companies Small companies are those having a market capitalisation, at time of purchase, equal to or lower than the largest company in the bottom 10% of the main UK equity market or companies in the RBS Hoare Govett Smaller Companies Index (Excluding Investment Companies) The upper market capitalisation limit to this index at 1 January 2011 (the date of the last annual index rebalancing) was £1 327 billion, although this limit will change owing to movements in the stockmarket The aggregated market capitalisation of the Index as at 1 January 2011 was £143 billion and includes 430 companies

The Company may, at time of purchase, invest up to 15% of its assets in any one security although, in practice, each investment will typically be substantially less and, at market value, represent less than 5% of the portfolio on an on-going basis As at 31 December 2010 no security had a value greater than 5% of total portfolio value

If any company held by AGCIT no longer falls within the definition of a small company, as defined above, its securities will become candidates for sale The Managers aim to keep the Company near fully invested in equities at all times and there will normally be no attempt to engage in market timing by holding high levels of liquidity The Company held cash balances of up to £3 2 million during the year reflecting a timing difference between the sale and purchase of securities

The Company's policy towards companies quoted on the Alternative Investment Market (AIM) generally precludes investment except in the circumstances where either an investee company moves from the "Main Market" to AIM (so as to avoid being a forced seller) or where a company quoted on AIM has committed to move from AIM to the "Main Market" (so as to enable investment before a full listing is obtained) The Company does not invest in any unquoted securities or securities issued by investment trusts or investment companies

The Board, in conjunction with the Managers, is responsible for determining the gearing strategy for the Company The Company seeks to enhance the returns to its Shareholders by utilising gearing in the form of bank borrowing Consistent with the level of bank borrowings at inception the maximum gearing will be 100% of Capital and Reserves (including Income Shares) Accordingly, it has a bank debt facility with Bank of Scotland under which it is entitled to draw down an aggregate principal amount of up to £34 3 million Additional information on gearing is set out on page 24 Subject to the prior approval of the Board of Directors the Company may use derivative instruments such as financial futures and options for the purposes of efficient portfolio management

The Board believes that small UK quoted companies continue to provide opportunities for positive total return over the long term Any material changes to the Company's investment objective and policy will be subject to Shareholder approval

A detailed analysis of the investment portfolio is contained in the Managers' Report, Portfolio Information and Investment Portfolio contained on pages 6 to 17

Investment Strategy and Style

AGCIT's portfolio is diversified and will normally consist of investments in over 60 individual companies The Managers' investment style is to focus on 'value investing', an approach that has been developed over time that does not use any one style or sub-set of value investing In seeking investments the approach will be fundamental in nature involving regular contact with the management of prospective and existing investments in conjunction with rigorous financial and business analysis of these companies The Managers recognise that different types of businesses perform better than others depending on the stage of the economic cycle and this is incorporated into the portfolio Therefore, the emphasis within the portfolio will reflect the desire to invest in companies whose shares represent relatively attractive value within a given stockmarket environment

The sectoral disposition of the portfolio is a result of the "bottom-up" stock selection process and there are no sectoral constraints, though a "top-down" risk assessment is undertaken regularly

Corporate Structure, Governance and Regulation

The Company is an investment company as defined with the meaning of Section 833 of the Companies Act 2006 and manages its affairs so as to qualify as an investment trust under Section 1158 of the Corporation Tax Act 2010 It has share capital consisting of Income Shares and Capital Shares The Company is listed and its two share classes trade on the London Stock Exchange Furthermore the Company is subject to the laws and regulations relating to UK listed companies It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs In common with the majority of investment trusts, the Company has neither executive directors nor any employees However, the Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company The Corporate Governance Report within this annual report contains a thorough review of the Company's stance on corporate governance

Duration of the Company

The Directors are obliged by the Company's Articles of Association to convene an Extraordinary General Meeting of the Company between 1 October 2011 and 31 December 2011 (both dates inclusive) at which an Ordinary Resolution will be proposed to wind up the Company voluntarily on the planned winding up date – being 31 December 2011 In the event that such resolution or any other resolution to wind up, reconstruct or reorganise the Company is not passed at such a meeting or any subsequent meeting, the Directors are obliged to convene an Extraordinary General Meeting for the same date (or the immediately preceding business day) in each succeeding year at which a resolution to wind up the Company on the next anniversary of the planned winding up date will be proposed Income Shareholders shall have no vote on such resolutions A winding up will enable Capital Shareholders to realise the residual capital value of their investment after the payment of the creditors, liquidation costs and the capital and dividend entitlements of the Income Shareholders The Directors shall not be required to convene such an Extraordinary General Meeting if a resolution shall previously have been passed to reconstruct or reorganise the Company In the event that such a resolution for reconstruction is put to the Company at any time in the period after 1 April 2011 then Income Shareholders shall have no vote on such resolution if the proposals contained in it would result in the Income Shareholders receiving not less than 100 0p in cash (in addition to any entitlement to undistributed revenue reserve) for each Income Share held (whether or not an option may be given to elect to receive such entitlement otherwise than in cash)

Investment Trust Status

The Company is exempt from corporation tax on capital profits, provided it qualifies as an investment trust In summary, this requires that

- the Company's revenue (including dividend and interest income but excluding profits/losses on sale of investments) should be derived wholly or mainly from shares and securities,
- the Company must not retain in respect of each accounting period more than 15% of its income from shares and securities,
- no investment in a company may represent more than 15% by value of the Company's investment portfolio at time of purchase,
- realised profits on sale of shares and securities may not be distributed by way of a dividend, and
- the Company must not be a close company

The Company has been approved by HM Revenue & Customs under Section 842 of the ICTA 1988 as an investment trust up to 31 December 2009 It is the opinion of the Directors that the Company has subsequently conducted its affairs so as to enable it to continue to seek such approval The Company will seek approval under Section, 1158 of the Corporation Tax Act 2010

Directors' Report

Management

Aberforth Partners LLP, a limited liability partnership, provides investment management, administration and company secretarial services to the Company These services can be terminated by either party at any time by giving six months' notice of termination Compensation fees would only be payable in respect of this six month period if termination were to occur sooner Aberforth Partners LLP receive a quarterly management fee, payable in advance, equal to 0 25% of the lower of the Company's Shareholders' funds and the market capitalisation of the Company, plus 5 0% of the total income (excluding any tax credit) per annum Based on the balance sheet as at 31 December 2010 and the income for the year then ended, the annualised fee would be approximately 0 9% of Total Assets, or 1 2% of funds attributable to Income and Capital Shareholders However, the total fee rate each year may be higher or lower than 1 2% depending on movements in the value of the Company's assets The total management fee for the period to 31 December 2010 was £769,000, and of this, 70% was charged to the capital reserves and 30% to the revenue account Aberforth Partners LLP also received a quarterly secretarial fee, payable in advance, amounting to £14,036 (plus irrecoverable VAT thereon) per quarter during 2010 The secretarial fee is adjusted annually in line with the Retail Prices Index The Board considers the Company's investment management and secretarial arrangements on an ongoing basis and a formal review is conducted annually by the Audit and Management Engagement Committee (the "Committee") The Committee considers the following topics in its review investment performance in relation to the investment policy and strategy, the continuity of personnel managing the assets and reporting to the Board, the level of service provided in terms of the accuracy and timeliness of reports to the Board, and the frequency and quality of both verbal and written communications with Shareholders Following the most recent review the Board, upon the recommendation of the Committee, is of the opinion that the continued appointment of Aberforth Partners LLP as investment managers, on the terms agreed, is in the best interests of Shareholders as a whole

Capital Structure

At 31 December 2010, the Company's authorised share capital consisted of 46 2 million Income Shares of 1p of which 24 5 million were issued and fully paid and 24 8 million Capital Shares of 1p of which 10 5 million were issued and fully paid The Income Shares represent 70% of the Company's issued share capital and 65% of the Company's authorised share capital The Capital Shares represent 30% of the Company's issued share capital and 35% of the authorised share capital There were no changes in the year and no shares are held in treasury

Income Shares

All net income earned by the Company is attributable to the Income Shares It is the intention to distribute substantially the whole of the net income each year in accordance with the objective to provide a high dividend yield The total dividend on the Income Shares is 14 0p in respect of the year ended 31 December 2010 The 14 0p reflects the first interim dividend of 6 5p paid on 20 August 2010 and the second interim dividend of 7 5p which will be paid on 25 February 2011

The Directors aim to increase dividends over the planned life of the Company Dividends will be paid half yearly The Income Shares were issued with an initial capital entitlement upon a winding up of 50 0p per Income Share, which increases daily, from the date of issue, on a straight line basis until 31 March 2011 at such a rate as will give a final entitlement of 100 0p In the event that the Company is not wound up on the planned winding up date of 31 December 2011, the capital entitlement of the Income Shares will continue at a value of 100 0p The Income Shares will rank after repayment of the bank debt and any other liabilities of the Company but before any payment on the Capital Shares In the event that the value of the investment portfolio falls significantly then it is possible that the Income Shares will have no underlying value at the planned winding up date The Board has concluded that the amount of £24 5 million raised through the issue of the Income Shares falls under the definition of a financial liability within Financial Reporting Standard 25 — Financial Instruments Disclosure and Presentation Consequently this amount has been recorded as a liability in the Company's Balance Sheet

As at 31 December 2010 the middle market price of an Income Share was 112 5p

Directors' Report

Capital Shares

The Capital Shares have a return that is entirely in the form of capital and they have no entitlement to income Capital Shareholders will be entitled to all the Company's remaining net assets at the planned winding up date after providing for payment in full of the final capital entitlement of 100 0p per Income Share There are two methods that can be used to calculate a Net Asset Value (NAV) of a Capital Share The difference between the two relates to the NAV assumed for the Income Shares and the valuation of the interest rate swap As described above the Income Shares have an initial capital entitlement of 50 0p which increases daily, on a straight line basis to 100 0p on 31 March 2011 The NAV of the Income Shares on 31 December 2010 was 109 71p, reflecting a capital entitlement of 98 67p and revenue reserves of 11 04p The NAV of a Capital Share is therefore 522 82p at 31 December 2010, or alternatively 529 42p if one assumes a capital entitlement of 100 0p for an Income Share and nil swap valuation In the event that the value of the investment portfolio falls significantly then it is possible that the Capital Shares will have no underlying value at the planned winding up date of 31 December 2011

As at 31 December 2010 the middle market price of a Capital Share was 450 0p

Please note that the above is a summary only Full details of the rights attached to the Income Shares and Capital Shares are set out in the Company's Articles of Association A copy of the Articles of Association can be obtained from Aberforth Partners (see page 3)

Voting Rights

On a show of hands, each holder of Income Shares or Capital Shares who being an individual, is present in person or by proxy or being a corporation, is present by a duly authorised corporate representative has upon a show of hands one vote and on a poll one vote for every Income Share and every Capital Share he/she holds

The holders of Capital Shares have no entitlement to vote on any resolution declaring a dividend on the Income Shares

Information on the deadlines for proxy appointments can be found on page 59

Gearing

The Company seeks to enhance the returns to its Shareholders by utilising gearing in the form of bank borrowing Accordingly, it has a bank debt facility with Bank of Scotland under which it is entitled to draw down an aggregate principal amount of up to £34 3 million Of the facility, £30 million is linked to LIBOR and has been matched with a swap transaction, which has the effect of fixing the total interest cost at 6 47% for the period to 30 September 2011 The interest rate applying to borrowings in the period 30 September 2011 to 31 December 2011 will be LIBOR + 1% Borrowings in this period will be unhedged The swap transaction is not included in the Company's investment portfolio but changes in its fair value are recognised on the Income Statement and Balance Sheet The fair value of the interest rate swap based on market values at 31 December 2010 was a liability of £1,017,000 Changes to the fair value of the interest rate swap are allocated 100% to Capital Shareholders

The balance of the debt facility, which amounts to £4 3 million has a variable rate of interest linked to bank base rate and is utilised as required The bank debt facility amounting to £34 3 million is repayable on 31 December 2011, although it may be repayable earlier if an event of default occurs The bank debt facility agreement contains, amongst others, a financial covenant (tested annually at 31 December) that the Company's total borrowings and creditors (excluding Income Shares and Interest Rate Swap) are not more than 70% of the Company's permitted investments As at 31 December 2010 the percentage of total borrowings and creditors to permitted investments was 27%

It is intended that the long-term facility will be used close to its full extent throughout the life of the Company The effect of this structure is to increase the yield and to provide the potential for a growing level of dividend income for Income Shareholders, and the potential for geared capital appreciation for the Capital Shareholders

Interest on the bank debt is charged 70% to the capital reserves of the Company and 30% to the revenue account of the Company

Directors' Report

Return and Dividends

The total return attributable to Shareholders for the year amounted to £22,809,000 (2009 £21,711,000) As at 31 December 2010 the net asset value per Income Share was 109 71p (2009 104 75p) and per Capital Share (Articles basis) was 522 82p (2009 317 17p)

Your Board is pleased to declare a second interim dividend of 7 5p per Income Share, which produces total dividends for the year of 14 0p representing a 11 1% increase on the previous year The second interim dividend will be paid on 25 February 2011 to Income Shareholders on the Register at close of business on 4 February 2011 No final dividend will be declared in respect of the year ended 31 December 2010

	£'000	£'000
Revenue return for the year available for dividends		3,131
Dividends in respect of the revenue available		
First interim dividend of 6 5p per Income Share paid 20 August 2010	(1,592)	
Second interim dividend of 7 5p per Income Share payable 25 February 2011	(1,838)	(3,430)
Transfer from reserves		(299)

Key Performance Indicators

At each Board meeting the Board assesses the Company's performance in meeting its objective against the following key performance indicators

(i) Total asset value total return

(ii) Capital Share price total return

(iii) Income Share price total return

(iv) Performance attribution

(v) Share price discount

(vi) Revenue and dividend position

A record of these measures is shown on pages 1, 8, 18 and 19

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

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

A comprehensive review can be found in the Chairman's Statement on pages 4 and 5 and the Managers' Report on pages 6 to 11

Principal Risks and Risk Management

The Directors have established an ongoing process for identifying, evaluating and managing the key risks faced by the Company This process was in operation during the year and continues in place up to the date of this report A summary of the Company's system of internal control and management of risk is set out in the Corporate Governance Report

As the Company's investments consist of small UK quoted companies, the principal risks facing the Company are market related and include market price, interest rate, credit and liquidity risk An explanation of these risks and how they are managed is contained in Note 18 to the Accounts

Additional risks faced by the Company, together with the approach taken by the Board towards them, have been summarised as follows

(i) *Investment objective* – is to provide Income Shareholders with a high level of income payable half yearly with the potential for income growth and to provide Capital Shareholders with geared capital growth The performance of the investment portfolio may in short periods not achieve this objective However, the Board's aim is to achieve the investment objective whilst managing risk by ensuring the investment portfolio is managed appropriately

(ii) *Investment policy* – a risk facing the Company is inappropriate sector and stock selection leading to a failure in achieving the investment objective The Managers have a clearly defined investment philosophy and manage a diversified portfolio, investing only in shares of companies that are considered capable of meeting the Company's objective Furthermore, performance against the index of the Investment Universe and the peer group is regularly monitored by the Board The Company may also be affected by events or developments in the economic environment generally, for example, inflation or deflation, recession and movements in interest rates

(iii) *Share price volatility* – the Capital Shares can trade at a discount or premium to their underlying net asset value The highly geared nature of the Company makes the share price of the Capital Shares more volatile than other less highly geared Investment Trusts The Directors have decided a share buy-in policy is not appropriate for the Company after taking into account factors such as the planned wind-up date of the Company and the anticipated natural dissipation of the Capital Share discount prior to the planned wind-up date

(iv) *Regulatory risk* – breach of regulatory rules could lead to suspension of the Company's share price listing, financial penalties or a qualified audit report Breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to capital gains tax The Board receives quarterly compliance reports from the Secretaries to monitor compliance with regulations

(v) *Operational/Financial risk* – failure of the Managers' accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring, or potentially lead to the misappropriation of assets The Board reviews regular reports on the internal controls of the Managers and other key third party providers

(vi) *Gearing risk* – the Board believes that the Company has a relatively high-risk profile in the context of the investment trust industry This belief arises from the Company employing a significant level of gearing to increase its yield and to provide the potential for a growing level of dividend income and the potential for geared capital appreciation The Board intends that the Company remains geared throughout its life

Some mitigating factors in the Company's risk profile include the facts that the Company

- has a relatively simple capital structure,
- invests only in a diversified portfolio of small UK quoted companies, and
- outsources all of its main operational activities to recognised, well-established firms

Investment in small companies is generally perceived to carry more risk than investment in large companies While this is reasonable when comparing individual companies, it is much less so when comparing the volatility of returns from diversified portfolios of small and large companies The Board believes that the Company's portfolio is diversified In addition, since returns from small and large companies are not perfectly correlated, there is an opportunity for investors to reduce overall risk by holding portfolios of both small and large companies together In summary, the Board regularly considers risks associated with the Company, the measures in place to monitor them and the possibility of any other risks that may arise

Other Matters

Going Concern

In accordance with the Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009 issued by the Financial Reporting Council, the Directors have undertaken and documented a rigorous assessment of whether the Company is a going concern and the Directors considered all available information when undertaking the assessment

In particular the Directors considered the implications of the proximity to the planned winding up date of 31 December 2011 in determining the most appropriate basis of preparing the financial statements and concluded that as a number of realistic alternatives to a wind up exist and the continuation of the Company remains a viable option it is reasonable to prepare the financial statements on a going concern basis

If at some point in the future any proposals for the continuation of the Company were not approved by shareholders or the Directors concluded no realistic alternative to a wind-up existed then adjustments would be required to reclassify all assets as current, and a provision for further liabilities, including liquidation costs, would be made In the Directors' opinion the impact of these adjustments on the financial statements is not expected to be significant Further information on the duration of the Company is set out in page 22

Directors' Report

The Company's assets comprise mainly readily realisable equity securities which, if necessary, can be sold to meet any funding requirements though funding flexibility can typically be achieved through the use of the bank debt facility The Company has appropriate financial resources to enable it to meet its day-to-day working capital requirements and the Directors believe that the Company is well placed to continue to manage its business risks Notwithstanding the planned winding-up date of 31 December 2011 the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future

Taking into consideration all available information the Directors have concluded it is appropriate to continue to prepare the financial statements on a going concern basis

Further information on going concern is set out in Note 1(a)

Corporate Governance Report

The Corporate Governance Report, which details compliance with the UK Corporate Governance Code, can be found on pages 29 to 33 and forms part of the Directors' Report

Directors

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

		Income Shares		Capital Shares	
Directors	Nature of Interest	31 December 2010	1 January 2010	31 December 2010	1 January 2010
A C Dempster	Beneficial	—	—	55,800	55,800
T M Foulkes	Beneficial	220,000	220,000	160,000	160,000
J S Richards	Beneficial	—	—	16,000	15,000
A J Ritchie	Beneficial	22,500	22,500	26,000	22,500

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

In accordance with the Company's Articles of Association, Mr Foulkes retires as a Director at the Annual General Meeting to be held on 2 March 2011 Mr Foulkes, whose biographical details are shown on page 3, being eligible, therefore offers himself for re-election

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

Substantial Share Interests

The Board has received notifications in accordance with the FSA's Disclosure and Transparency Rules of the following interests in 3% or more of the total voting rights of the Company as at 26 January 2011 The percentage calculation is based on the total voting rights of 35,000,000 (Income Shares of 24,500,000 and Capital Shares of 10,500,000)

Interested person	Percentage of Voting Rights Held
Nicholas H Lewis	9 1%
Artemis Investment Management Ltd	8 4%
Lloyds Banking Group	7 2%
East Riding of Yorkshire Council	5 7%
Sarah A Lewis	4 9%

Directors' Report

Creditors Payment Policy

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

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, loan facility, the derivative held to manage the Company's interest rate risk, Income Shares, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement, and accrued income The main risks that the Company faces arising from its financial instruments are disclosed in Note 18 to the accounts

Section 992 of the Companies Act 2006

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

- The Company's capital structure and voting rights are summarised on pages 23 and 24
- Details of the substantial Shareholders in the Company are listed above
- The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are set out on pages 30 to 31
- Amendment of the Company's Articles of Association and powers to issue on a non pre-emptive basis or buy back the Company's shares require a special resolution to be passed by Shareholders
- There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company and no agreements which the Company is party to that might affect its control following a takeover bid
- There are no agreements between the Company and its Directors concerning compensation for loss of office

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all steps that he ought to have taken as a Director to make him aware of any relevant audit information, and to establish that the Company's Auditors are aware of that information

Electronic Voting

Your Board is pleased to offer electronic proxy voting, including CREST voting capabilities, in connection with the forthcoming Annual General Meeting You may therefore complete the enclosed form of proxy and return it to Capita Registrars, the Company's registrar, or alternatively, you may register your vote on-line by visiting the Capita Registrars' website at www capitaregistrars com In order to register your vote online, you will need to enter your name, postal code and ICV code which can be obtained from Capita Registrars (Tel 0871 664 0300 – Calls cost 10p per minute plus network charges) If you are a member of CREST, you may register the appointment of a proxy by using the CREST electronic appointment service For further details refer to the CREST manual Completion of a form of proxy or the appointment of a proxy electronically will not stop you attending the meeting and voting in person should you so wish

Donations

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

Auditors

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

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

Corporate Governance Report

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance The UK Listing Authority requires all listed companies to detail how they have applied the principles set out in The UK Corporate Governance Code ("The Code") issued by the Financial Reporting Council in June 2010

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (the AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (the AIC Guide) The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of The Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company The AIC Code can be obtained from the AIC's website at www theaic co uk

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

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

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

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

The Board

The Board is responsible for the effective stewardship of the Company's affairs Strategic issues and all operational matters of a material nature are determined by the Board A formal schedule of matters reserved for decision of the Board has been adopted The Board of Directors comprises four independent non-executive Directors of which Mr Dempster acts as Chairman The Company has neither executive Directors nor any employees However, the Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company Documented contractual arrangements are in place between the Company and these firms, which clearly set out the areas where the Board has delegated authority to them

The Board meets at least quarterly to review the overall business of the Company and to consider the matters specifically reserved for it Detailed information is provided by the Managers and Secretaries for these meetings and additionally at regular intervals to enable the Directors to monitor compliance with the investment objective and the Company's investment performance both in an absolute sense and relative to the RBS HGSC (XIC) and other investment trusts The Directors also review several key areas including the Company's investment activity over the quarter relative to its investment policy, the stockmarket environment, the revenue and balance sheet position, gearing, performance in relation to comparable investment trusts, share price discount or premium (both absolute levels and volatility), and relevant industry issues The Board also receives regular reports from the Managers analysing and commenting on the composition of the Company's share register and monitors significant changes to Shareholders

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

Corporate Governance Report

The following table sets out the number of Board and Committee meetings held during the financial year and the number of meetings attended by each Director (whilst a Director or Committee member)

Director	Board of Directors		Audit and Management Engagement Committee		Sub-Committee Meeting	
	Held	Attended	Held	Attended	Held	Attended
Alastair C Dempster[1]	4	4	3	3	–	–
T Michael Foulkes	4	4	3	3	–	–
John S Richards[2]	4	4	3	3	–	–
Alastair J Ritchie	4	4	3	3	–	–

[1] Chairman of the Board Mr Dempster is not a member of the Audit and Management Engagement Commitee but was invited to and attended each Committee meeting held during the year

[2] Chairman of the Audit and Management Engagement Committee

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

The Board carefully considers the various guidelines for determining the independence of non-executive Directors, placing particular weight on the view that independence is evidenced by an individual being independent of mind, character and judgement An individual can therefore be considered to be independent even though their length of service exceeds nine years No limit on the overall length of service of any of the Directors, including the Chairman, has therefore been imposed and all Directors are considered to be independent Each Director has signed a letter of appointment to formalise their terms of engagement, which provides for an initial period of approximately three years and is then subject to renewal The Directors' letters of appointment are available on request and at the Company's AGM

All Directors are entitled to receive appropriate training when required Directors, in the furtherance of their duties, may seek independent professional advice at the expense of the Company No Director took such advice during the financial year under review

All Directors have access to the advice and services of the company secretarial services provided by Aberforth Partners LLP, who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with

Conflicts of Interest

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

Board performance and re-appointment of Directors

The Board undertakes a formal annual self-assessment of its collective performance on a range of issues including the Board's role (including Committees), processes and interaction with the Managers The Directors also evaluate the performance of the Board and each Director by way of an evaluation questionnaire The Board then considers the results of this exercise, together with other discussion areas The appraisal of the Chairman is led by Mr Richards as Chairman of the Audit and Management Engagement Committee

The Board conducts an annual review of its composition having regard to the present and future needs of the Company Should it be concluded that additional Directors are required the appointment process is initiated During the appointment process, the Board would review its structure, including the balance of expertise and skills brought by individual Directors and their length of service, where continuity and experience can add significantly to the strength of the Board Potential directors are then invited to meet the members of the Board prior to a decision on their appointment being made by the Board as a whole To date, the Board has not found it necessary to appoint external search consultants nor use open advertising

Corporate Governance Report

Directors appointed by the Board are subject to election by Shareholders at the first General Meeting following their appointment Directors are required to submit themselves for re-election at least every three years in accordance with the AIC Code and under the Company's Articles of Association Mr Foulkes, whose biographical details are shown on page 3, being eligible, offers himself for re-election The Board recommends the re-election of Mr Foulkes

Relations with Shareholders

The Board believes that regular contact with Shareholders is essential and receives regular reports from the Managers on their meetings with Shareholders The Managers endeavour to meet all of the larger Shareholders twice a year and provide them with a detailed report on the progress of the Company Directors of the Company are always available to meet with any Shareholder In addition to the annual and interim reports, Weekly Net Asset Values of the Company's share classes, Monthly Factsheets and other relevant information is published on the Managers' website www aberforth co uk The Directors may be contacted through the Secretaries whose details are shown on page 3 or through the Chairman's email address which is alastair dempster@aberforth co uk

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

Internal Control

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

Corporate Governance Report

Audit and Management Engagement Committee

The Directors have appointed an Audit and Management Engagement Committee ("The Committee"), chaired by Mr Richards, who is a Chartered Accountant There is a range of recent and relevant financial experience amongst the members of the Committee This Committee, of which Messrs Foulkes and Ritchie are also members, specifically considers the accounting policies of, and financial reporting by the Company, the Company's key risks, the internal control principles adopted and the relationship with the Company's auditors including making recommendations to the Board on the appointment, reappointment or removal, and the terms of appointment, including remuneration, of the auditors In addition, it reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors, with particular regard to non-audit fees Such fees amounted to £2,000 in 2010 and related to the completion and submission of the corporation tax returns The Committee considers that the provision of these services is cost effective and does not impair the independence of the auditors Furthermore, non-audit work requires the prior approval of the Committee

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

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

The Committee has direct access to the Company's auditors, representatives of whom attend the Committee meeting at which the results of the audit and the Annual Report and Accounts are considered

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

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

Social, Environmental and Ethical Issues

The Company is normally a shareholder in over 60 small UK quoted companies Day to day management of the Company's investment portfolio is carried out by its Managers, Aberforth Partners LLP The Managers have a consistent and well-defined investment process based on fundamental analysis of the constituents of their investment universe The Managers' Corporate Governance Policy and Stewardship Code Statement are available from their website (www aberforth co uk)

The Managers' primary objective is to provide Income Shareholders with a high level of income payable half-yearly with the potential for income growth and to provide Capital Shareholders with geared capital growth The Directors, through the Company's Managers, also encourage investee companies to adhere to best practice in the area of Corporate Governance and Socially Responsible Investment (SRI) The Board and the Managers support the Statement of Principles of the Institutional Shareholders Committee which set out the responsibilities of institutional shareholders and agents

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

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

Corporate Governance Report

Voting Policy

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

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

Directors' Remuneration Report

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

The law requires the Company's Auditors to audit certain elements of this report These elements are described below as "audited" The Auditors' opinion is included in the Independent Auditors' Report on page 37

Remuneration Committee

The Board is composed wholly of non-executive Directors who together consider and determine all matters relating to the Directors' remuneration at the beginning of each financial year A Remuneration Committee has not been formed owing to the size of the Board

Statement of the Company's Policy on Directors' Remuneration

The Board's policy is that the remuneration of the Directors should reflect the experience of the Board, as a whole, and be comparable to that of investment trusts within the AIC's UK Smaller Companies sector This information is provided by the Secretaries, Aberforth Partners LLP, who were appointed by the Board It is intended that this policy will remain in place for the following financial year and subsequent periods It is the Company's policy to appoint non-executive Directors for an initial period of three years

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

There are no long-term incentive schemes

Directors' Service Contracts

Messrs Dempster, Foulkes, Ritchie and Richards have entered into a letter of appointment with the Company dated 6 December 2010 Their letters of appointment provide for a period of service expiring on the earlier of the winding-up of the Company and 31 March 2012, subject to renewal and confirmation of the terms and conditions of appointment at those times Directors are subject to election by Shareholders at the first General Meeting after their appointment and thereafter at least at every third subsequent Annual General Meeting The terms also provide that a Director may be removed without notice and that no compensation will be due on loss of office The terms and conditions of appointment of Directors are available for inspection at the office of Aberforth Partners LLP during normal business hours and at the registered offices of the Company on request

The following Directors held office during the year

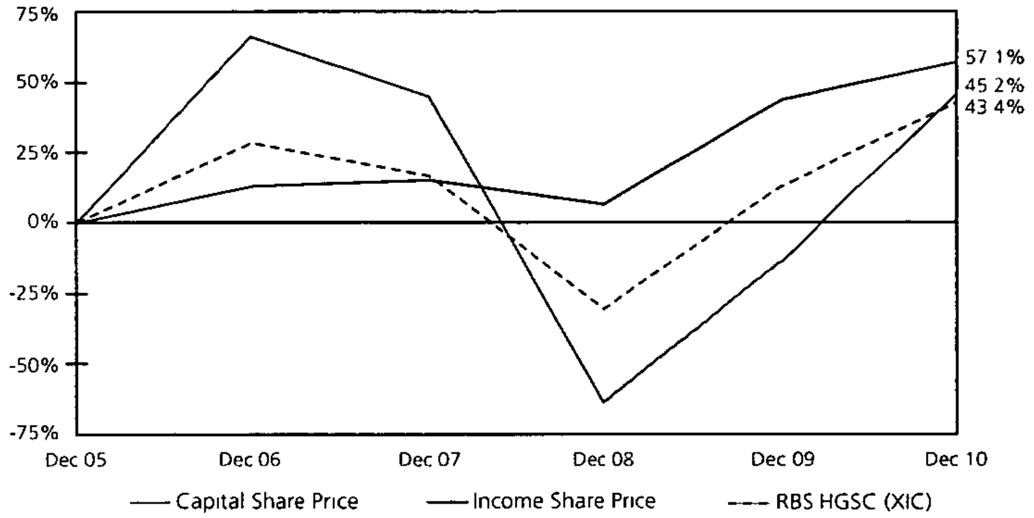
Director	Appointed	Unexpired Term
Alastair C Dempster, *Chairman*	28 November 2001	15 months
T Michael Foulkes	28 November 2001	15 months
John S Richards	29 October 2003	15 months
Alastair J Ritchie	28 November 2001	15 months

Further details on the Directors can be found on page 3

Share Price Performance

The graph opposite compares the performance of the Company's share price for each share class against the RBS HGSC (XIC), on a total return basis (assuming all dividends are reinvested) This index has been selected for the purpose of comparison as it contains the companies in which the Company may invest

Total Return Performance since 31 December 2005



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

Directors' Fees (Audited)

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

	Fees 2010 £	Fees 2009 £
Alastair C Dempster, *Chairman*	**23,400**	23,400
T Michael Foulkes	**17,000**	17,000
John S Richards, *Chairman of the Audit and Management Engagement Committee*	**19,200**	19,200
Alastair J Ritchie	**17,000**	17,000
	76,600	76,600

No other emoluments or pension contributions were paid by the Company to or on behalf of any Director

The Director's fees payable to Mr Richards were paid to The Miller Group Limited for making his services available as a Director of the Company

Approval

The Directors' Remuneration Report on pages 34 and 35 was approved by the Board on 27 January 2011 and signed on behalf of the Board by Alastair C Dempster, Chairman

A C Dempster

Directors' Responsibility Statement

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

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

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

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

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

The Annual Report is published on www aberforth co uk, which is the website maintained by the Company's Manager The work undertaken by the Auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions

Declaration

Each of the Directors confirms to the best of his knowledge that

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

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

On behalf of the Board
Alastair C Dempster
Chairman
27 January 2011

Independent Auditors' Report

To the Members of Aberforth Geared Capital & Income Trust plc

We have audited the financial statements of Aberforth Geared Capital & Income Trust plc for the year ended 31 December 2010 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 19 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibility Statement, set out on page 36, 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

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its return for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Company's ability to continue as a going concern The matters described in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

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

Under the Listing Rules we are required to review

- the directors' statement, set out on page 26, in relation to going concern,
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to the shareholders by the Board on directors' remuneration

George M Reid (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh

27 January 2011

Income Statement

For the year ended 31 December 2010

	Note	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Gains on investments	8	—	24,248	24,248	—	23,838	23,838
Income	2	4,201	—	4,201	3,805	150	3,955
Investment management fee	3	(231)	(538)	(769)	(177)	(412)	(589)
Other expenses	4	(244)	(382)	(626)	(233)	(285)	(518)
Net return before finance costs and taxation		3,726	23,328	27,054	3,395	23,291	26,686
Finance costs interest	6	(595)	(416)	(1,011)	(602)	(1,286)	(1,888)
		3,131	22,912	26,043	2,793	22,005	24,798
Finance costs Dividends on Income Shares classified as financial liabilities	6	(3,234)	—	(3,234)	(3,087)	—	(3,087)
Return on ordinary activities before tax		(103)	22,912	22,809	(294)	22,005	21,711
Tax on ordinary activities	5	—	—	—	—	—	—
Return attributable to Shareholders		(103)	22,912	22,809	(294)	22,005	21,711
Returns per share							
Income Share	7	12 78p	—	12 78p	11 40p	—	11 40p
Capital Share	7	—	218 21p	218 21p	—	209 57p	209 57p

The total column of this statement is the profit and loss account of the Company The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies All revenue and capital items in the above statement derive from continuing operations No operations were acquired or discontinued in the year

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement

The accompanying notes form an integral part of these accounts

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2010

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Shareholders' funds as at 31 December 2009	**105**	**50**	**9,674**	**21,830**	**2,808**	**34,467**
Return attributable to Shareholders	—	—	—	22,912	(103)	22,809
Shareholders' funds as at 31 December 2010	**105**	**50**	**9,674**	**44,742**	**2,705**	**57,276**

For the year ended 31 December 2009

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Shareholders' funds as at 31 December 2008	105	50	9,674	(175)	3,102	12,756
Return attributable to Shareholders	—	—	—	22,005	(294)	21,711
Shareholders' funds as at 31 December 2009	105	50	9,674	21,830	2,808	34,467

The movements in the Capital reserve and Revenue reserve represent the profit and loss of the Company

The accompanying notes form an integral part of these accounts

Balance Sheet

As at 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed Assets Investments			
Investments at fair value through profit or loss	8	**112,698**	93,514
Current assets			
Debtors	9	**310**	421
Cash at bank		**5**	1
		315	422
Creditors (amounts falling due within one year)	10	**(55,737)**	(46)
Net current (liabilities)/assets		**(55,422)**	376
TOTAL ASSETS LESS CURRENT LIABILITIES		**57,276**	93,890
Creditors (amounts falling due after more than one year)	11	—	(59,423)
TOTAL NET ASSETS		**57,276**	34,467
CAPITAL AND RESERVES EQUITY INTERESTS			
Called up share capital	12	**105**	105
Reserves			
Capital redemption reserve	13	**50**	50
Special reserve	13	**9,674**	9,674
Capital reserve	13	**44,742**	21,830
Revenue reserve	13	**2,705**	2,808
TOTAL EQUITY	13	**57,276**	34,467
NET ASSET VALUES	14		
PER INCOME SHARE (Income Shares classified as financial liabilities)		**109 71p**	104 75p
PER CAPITAL SHARE		**522 82p**	317 17p

Approved and authorised for issue by the Board of Directors on 27 January 2011
and signed on its behalf by Alastair C Dempster, *Chairman*

The accompanying notes form an integral part of these accounts.

Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Net cash inflow from operating activities		3,202	3,233
Returns on investments and servicing of finance	15	(5,211)	(5,093)
Capital expenditure and financial investment	15	4,788	847
Net cash inflow/(outflow) before financing activities		2,779	(1,013)
Financing activities			
Loans (repaid)/drawn down		(2,775)	1,150
Net cash (outflow)/inflow from financing activities		(2,775)	1,150
Change in cash during the period	16	4	137
Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities			
Net return before finance costs and taxation		27,054	26,686
Gains on investments		(24,248)	(23,838)
Expenses incurred in acquiring or disposing of investments		382	285
Decrease in debtors		5	133
Increase/(decrease) in other creditors		9	(33)
Net cash inflow from operating activities		3,202	3,233
Reconciliation of change in cash to movement in net debt			
Change in cash during the period	16	4	137
Loans repaid/(drawn down)	16	2,775	(1,150)
Change in fair valuation of interest rate swap	16	974	120
Amortisation of issue costs during the period	16	(9)	(10)
Change in net debt		3,744	(903)
Opening net debt		(59,422)	(58,519)
Closing net debt		(55,678)	(59,422)

The accompanying notes form an integral part of these accounts

Notes to the Financial Statements

1 Accounting Policies

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

(a) Basis of accounting

The accounts have been prepared in accordance with UK generally accepted accounting practice (UK GAAP) and the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in January 2009

The Company continues to adopt the going concern basis in the preparation of the financial statements The Directors considered the implications of the proximity to the planned winding-up date of 31 December 2011 in determining the most appropriate basis of preparing the financial statements and concluded that as a number of realistic alternatives to a wind-up exist and the continuation of the Company remains a viable option, and also taking into account the future expected cash flow and resources of the Company, it is reasonable to continue to prepare the financial statements on a going concern basis As set out in the Chairman's Statement it is the Directors' intention to put proposals to shareholders later in 2011 for the continuation, reconstruction, or winding-up of the Company The validity of the going concern basis depends on the Directors proposing the continuation of the Company and such a continuation vote being passed by shareholders This condition indicates the existence of a material uncertainty which may cast significant doubt on the ability of the Company to continue as a going concern The Directors, having considered the investment outlook, the objectives of both classes of shareholder, potential sources of funding to refinance the Company's bank debt facility and the future cash flows of the Company, are satisfied that it is appropriate to prepare the financial statements on a going concern basis If at some point in the future any proposals for the continuation of the Company were not approved by shareholders or the Directors concluded no realistic alternative to a wind-up existed then adjustments would be required to reclassify all assets as current, and a provision for further liabilities, including liquidation costs, would be made In the Directors' opinion the impact of these adjustments on the financial statements is not expected to be significant

(b) Investments

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

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

Purchases and sales of investments are accounted for on a trade date basis

(c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date Dividend income is shown excluding any related tax credit Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income Other income is accounted for on an accruals basis Interest on loan stock is accounted for on an effective yield basis

(d) Expenses

All expenses are accounted for on an accruals basis Expenses are charged to revenue except as follows

- expenses which are incidental to the acquisition and disposal of an investment are charged to the capital reserve

Where incurred in connection with the maintenance or enhancement of the value of the investments and taking account of expected returns from the investment portfolio of the Company, expenses are charged 70% to capital reserves and 30% to revenue for the following expenses

- investment management fees, and
- finance costs – bank interest

Notes to the Financial Statements

1 Accounting Policies *(continued)*

(e) Finance costs

Interest costs are accounted for on an accruals basis Finance costs of debt, insofar as they relate to the financing of the Company's investments or to financing activities aimed at maintaining or enhancing the value of the Company's investments, are allocated 70% to the capital reserve account and 30% to revenue, in line with the Board's expected split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company

The interest rate swap is accounted for on the Balance Sheet at its fair value and changes in the fair value are charged 100% to capital in the Income Statement

Finance costs arising from dividends on shares classified as financial liabilities are allocated 100% to revenue

Finance costs relating to the arrangement of the bank loan facility are amortised over its 10 year life on a straight line basis

(f) Called Up Share Capital

Represents the nominal value of authorised and allocated, called-up and fully paid Capital shares issued

(g) Capital redemption reserve

The purpose of the capital redemption reserve is to redeem or buy back shares in the Company

(h) Special reserve

The special reserve may be treated as distributable profits for all purposes, excluding the payment of dividends

(i) Capital reserve

The following are accounted for in this reserve

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

(j) Revenue reserve

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

(k) Taxation

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

(l) Income Shares

When shares are issued, any component that creates a financial liability of the company is presented as a liability in the balance sheet, measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption The corresponding dividends relating to the liability component are charged as Finance Costs in the Income Statement

Notes to the Financial Statements

2 Income

	2010 £'000	2009 £'000
Income from investments (UK listed)		
Franked investment income (net)	4,109	3,682
Loan stock interest	—	30
Other investment income	83	79
	4,192	3,791
Other income		
Deposit interest	1	1
Underwriting/placing commission	8	13
	9	14
Total income	4,201	3,805
Total income comprises		
Dividends	4,192	3,761
Interest	1	31
Other income	8	13
	4,201	3,805

3 Investment Management Fee

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Investment management fee	231	538	769	177	412	589

The Company's investment managers are Aberforth Partners LLP The contract between the Company and Aberforth Partners LLP may be terminated by either party at any time by giving six months' notice of termination Aberforth Partners LLP receive a quarterly management fee, in advance, equal to 0 25% of the lower of the Company's Shareholders' funds and the market capitalisation of the Company, plus 5 0% of the total income (excluding any tax credit) per annum

4 Other Expenses

The following expenses have been charged to revenue

	2010 £'000	2009 £'000
Secretarial services	66	64
Directors' fees (refer to Directors' Remuneration Report)	77	77
Registrars fees	13	14
AIC fees	5	7
Custody fees	6	6
Directors and Officers liability insurance	6	6
Auditors' fee – for audit services (recurring)	21	20
– for non-audit taxation services (recurring)	2	2
Other	48	37
	244	233

The following expenses have been charged to capital

	2010 £'000	2009 £'000
Expenses incurred in acquiring or disposing of investments classified as fair value through profit or loss	382	285
	382	285

Notes to the Financial Statements

4 Other Expenses *(continued)*

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

	2010 £'000	2009 £'000
Analysis of total purchases		
Purchase consideration before expenses	28,167	24,203
Commissions	124	78
Taxes	132	95
Total acquisition expenses	256	173
Total purchase costs	28,423	24,376
Analysis of total sales		
Sales consideration before expenses	33,231	25,457
Total sales costs – commissions	126	112
Total sales net of expenses	33,105	25,345
Total transaction costs	382	285

5 Taxation

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

Factors affecting current tax charge for the year
The tax assessed for the period is lower than the standard rate of corporation tax in the UK for a large company (28%)

The differences are explained below

	2010 £'000	2009 £'000
Net income before taxation and dividends	26,043	24,798
Notional corporation tax at 28% (2009 28%)	7,292	6,943
Non-taxable UK dividends	(1,151)	(1,072)
Non-taxable capital gains	(7,062)	(6,708)
Non-taxable overseas dividend income	(23)	(12)
Expenses not deductible for tax purposes	107	80
Movement in unutilised excess expenses	837	769
Total current tax charge for the year	—	—

The Company has not recognised a potential asset for deferred tax of £7,163,000 (2009 £6,591,000) in respect of unutilised management expenses or finance costs, because it is unlikely that there will be suitable taxable profits from which the future reversal of a deferred tax asset may be deducted

Notes to the Fınancıal Statements

6 Fınance Costs

	2010 Revenue £'000	2010 Capıtal £'000	2010 Total £'000	2009 Revenue £'000	2009 Capıtal £'000	2009 Total £'000
Interest on base rate loans/overdrafts	11	25	36	20	48	68
Interest on LIBOR loans	584	1,365	1,949	582	1,358	1,940
Change ın faır valuatıon of ınterest rate swap	—	(974)	(974)	—	(120)	(120)
Total ınterest costs	595	416	1,011	602	1,286	1,888
Second ınterım dıvıdend for the year ended 31 December 2009 of 6 7p (2008 6 7p) paıd on 26 February 2010	1,642	—	1,642	1,642	—	1,642
Fırst ınterım dıvıdend for the year ended 31 December 2010 of 6 5p (2009 5 9p) paıd on 20 August 2010	1,592	—	1,592	1,445	—	1,445
Total dıstrıbutıon costs	3,234	—	3,234	3,087	—	3,087
Total fınance costs	3,829	416	4,245	3,689	1,286	4,975

The proposed second ınterım dıvıdend for the year ended 31 December 2010 of 7 5p per share payable on 25 February 2011 (2009 6 7p) has not been ıncluded as a lıabılıty ın these fınancıal statements

Set out below are the total dıvıdends payable ın respect of the fınancıal year whıch forms the basıs on whıch the revenue retentıon requırements of Sectıon 1159 of the Corporatıon Tax Act 2010 are consıdered

	2010 £'000	2009 £'000
Revenue avaılable for dıstrıbutıon by way of dıvıdend for the year	3,131	2,793
Fırst ınterım dıvıdend for the year ended 31 December 2010 of 6 5p (2009 5 9p)	1,592	1,445
Second ınterım dıvıdend for the year ended 31 December 2010 of 7 5p (2009 6 7p)	1,838	1,642
	3,430	3,087

Notes to the Financial Statements

7 Returns per share

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Return on ordinary activities	(103)	22,912	22,809	(294)	22,005	21,711
Add back dividends on Income Shares	3,234	—	3,234	3,087	—	3,087
Earnings attributable to Shareholders	3,131	22,912	26,043	2,793	22,005	24,798

	2010 Revenue	2010 Capital	2009 Revenue	2009 Capital
Number of shares				
Income shares	24,500,000	—	24,500,000	—
Capital shares	—	10,500,000	—	10,500,000
Returns per share	12 78p	218 21p	11 40p	209 57p

The revenue return per Income Share is based on the net revenue on ordinary activities before distributions, of £3 131 million for the financial year to 31 December 2010 (2009 £2 793 million) and on 24 5 million Income Shares being the weighted average number of Income Shares in issue during the respective financial periods The capital return per Capital Share is based on net capital profit of £22 912 million for the financial year to 31 December 2010 (2009 profit of £22 005 million) and on 10 5 million Capital Shares being the weighted average number of Capital Shares in issue during the respective financial periods

8 Investments

	2010 UK Listed £'000	2009 UK Listed £'000
Investments at fair value through profit or loss		
Opening book cost	98,546	106,662
Opening fair value adjustment	(5,032)	(35,732)
Opening valuation	93,514	70,930
Movements in the period		
Purchases at cost	28,167	24,203
Sales – proceeds	(33,231)	(25,457)
– realised gains/(losses) on sales	8,028	(6,862)
Increase in fair value adjustment	16,220	30,700
Closing valuation (all investments are in ordinary shares listed on the London Stock Exchange)	112,698	93,514
Closing book cost	101,510	98,546
Closing fair value adjustment	11,188	(5,032)
Closing valuation	112,698	93,514
Realised net gains/(losses) on sales	8,028	(6,862)
Increase in fair value	16,220	30,700
Gains on investments	24,248	23,838

9 Debtors

	2010 £'000	2009 £'000
Amounts due from brokers	—	106
Investment income receivable	297	302
Other debtors	13	13
	310	421

10 Creditors Amounts falling due within one year

	2010 £'000	2009 £'000
Loan facility	175	—
LIBOR loan facility	30,000	—
Less Unamortised issue costs	(9)	—
Income Shares	24,500	—
Interest rate swap	1,017	—
Other creditors	54	46
	55,737	46

Borrowing facility

The Company has an unsecured bank debt facility for £34 3 million with the Bank of Scotland which is repayable on 31 December 2011 Of the facility, £30 million is linked to LIBOR and has been matched with a swap transaction, which has the effect of fixing the total rate of interest at 6 47% until 30 September 2011, after which date the rate payable on borrowings will be LIBOR + 1% The balance of the facility, representing £4 3 million, is linked to the bank base rate, which at 31 December 2010 was 0 5% (2009 0 5%)

At the balance sheet date the facility was drawn down to £30 175 million (2009 £32 95 million)

There is a non-utilisation fee of 0 5% per annum in relation to the £34 3 million facility The Company paid non-utilisation fees of £13,000 in 2010 (2009 £7,000)

The main covenant under the facility requires that, on 31 December each year, total creditors (including amounts due under the borrowing facility but excluding income shares and interest rate swap) shall not exceed 70% of the Company's permitted investments As at 31 December 2010, total creditors represented 27% of the Company's permitted investments

11 Creditors Amounts falling due after more than one year

	2010 £'000	2009 £'000
Loan facility	—	2,950
LIBOR loan facility	—	30,000
Less Unamortised issue costs	—	(18)
Income Shares	—	24,500
Interest rate swap	—	1,991
	—	59,423

Notes to the Financial Statements

12 Authorised and Issued Share Capital

Authorised	2010 Shares	2010 £'000	2009 Shares	2009 £'000
Capital Shares of 1p	24,800,000	248	24,800,000	248
Income Shares of 1p[1]	46,200,000	462	46,200,000	462
Total authorised	71,000,000	710	71,000,000	710

Issued	2010 Shares	2010 £'000	2009 Shares	2009 £'000
Capital Shares of 1p	10,500,000	105	10,500,000	105
Income Shares of 1p[1]	24,500,000	245	24,500,000	245
Total issued	35,000,000	350	35,000,000	350

[1] Income Shares are classified as financial liabilities and are accounted for within Creditors in the Balance Sheet

13 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	TOTAL £'000
At 31 December 2008	105	50	9,674	(175)	3,102	12,756
Retained net revenue for the period	—	—	—	—	(294)	(294)
Realised net losses on sales	—	—	—	(6,862)	—	(6,862)
Movement in fair value adjustment	—	—	—	30,700	—	30,700
Investment management fee charged to capital	—	—	—	(412)	—	(412)
Interest costs charged to capital	—	—	—	(1,406)	—	(1,406)
Transaction costs	—	—	—	(285)	—	(285)
Change in fair valuation of interest rate swap	—	—	—	120	—	120
Special dividends received	—	—	—	150	—	150
At 31 December 2009	105	50	9,674	21,830	2,808	34,467
Retained net revenue for the period	—	—	—	—	(103)	(103)
Realised net gains on sales	—	—	—	8,028	—	8,028
Movement in fair value adjustment	—	—	—	16,220	—	16,220
Investment management fee charged to capital	—	—	—	(538)	—	(538)
Interest costs charged to capital	—	—	—	(1,390)	—	(1,390)
Transaction costs	—	—	—	(382)	—	(382)
Change in fair valuation of interest rate swap	—	—	—	974	—	974
At 31 December 2010	105	50	9,674	44,742	2,705	57,276

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

Notes to the Financial Statements

14 Net asset value per share

Based on the Company's Articles of Association net assets attributable to Income Shares are £26 880 million (2009 £25 664 million) Net assets attributable to Capital Shares on the Articles basis are £54 896 million (2009 £33 303 million) The movements during the year of the assets attributable to each class of share were as follows

	Capital Shares £'000	Income Shares £'000	Total £'000
Net assets attributable at 31 December 2009	33,303	25,664	58,967
Return on ordinary activities before distributions	22,912	3,131	26,043
Dividends and other appropriations	—	(3,234)	(3,234)
Transfer of accrued value	(1,319)	1,319	—
Net assets attributable at 31 December 2010	54,896	26,880	81,776
Net assets per Balance Sheet	57,276	—	57,276
Revenue reserve distributable to Income Shareholders	(2,705)	2,705	—
Capital entitlement of Income Shares as at 31 March 2011 (valuation of Income Shares within Creditors)	—	24,500	24,500
Adjustments to reflect capital entitlement not yet transferred to Income Shareholders in accordance with Articles[1]	325	(325)	—
Net assets per Articles	54,896	26,880	81,776
Number of Shares	10,500,000	24,500,000	
NAV per Share (Articles basis)	522 82p	109 71p	

[1] Capital entitlement not yet transferred

$$\left(\frac{50\text{ pence}}{3{,}390\text{ days}} \times 90\text{ days}\right) \times 24{,}500{,}000\text{ Income Shares} = £325{,}221$$

The adjustment to reflect the capital entitlement not yet transferred to the Income Shareholders has been calculated by amortising the 50p accrual to Income Shares over the period from 18 December 2001 to 31 March 2011 (3,390 days) in accordance with the Articles As at 31 December 2010 there remained 90 days until 31 March 2011, upon which date the capital entitlement of the Income Shares will be 100p

15 Gross cash flows

	2010 £'000	2009 £'000
Returns on investments and servicing of finance		
Dividends paid	(3,234)	(3,087)
Interest and similar finance costs paid	(1,977)	(2,006)
	(5,211)	(5,093)
Capital expenditure and financial investment		
Payments to acquire investments	(28,423)	(24,392)
Receipts from sales of investments	33,211	25,239
	4,788	847

16 Analysis of changes in net debt

	Net debt at 1 January 2010 £'000	Cash flows £'000	Change in fair valuation of interest rate swap £'000	Amortisation of debt issue costs £'000	Net debt at 31 December 2010 £'000
Cash at bank	1	4	—	—	5
Loan facility	(32,932)	2,775	—	(9)	(30,166)
Interest rate swap	(1,991)	—	974	—	(1,017)
Income Shares	(24,500)	—	—	—	(24,500)
	(59,422)	2,779	974	(9)	(55,678)

17 Contingencies, guarantees and financial commitments

The Company had no contingencies, guarantees or financial commitments as at 31 December 2010 (2009 nil)

The Company has entered into an interest rate swap agreement to fix the interest rate cost of the LIBOR loan At 31 December 2010, the Company had an outstanding interest rate swap agreement of £30 million terminating on 30 September 2011 Under this agreement the Company pays 5 46% per annum and receives LIBOR, producing an effective total fixed rate (including a margin of 1 01%) under the loan of 6 47% per annum

This instrument is not included in the Company's investment portfolio and changes in its fair value are recognised in the Income Statement

The fair value of the interest rate swap based on market values as at 31 December 2010 was a liability of £1,017,000 (2009 liability £1,991,000)

18 Financial instruments and risk management

The Company's financial instruments comprise its investment portfolio (see note 8), cash balances, borrowing facility, interest rate swap, Income Shares, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income Note 1 sets out the accounting policies, including criteria for recognition and the basis of measurement applied to significant financial instruments excluding cash at bank and bank loans which are carried at fair value Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured

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

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

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

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

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

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

18 Financial instruments *(continued)*

(i) Interest rate risk

The Company has a bank debt facility amounting to £34 3m with the Bank of Scotland which it utilises on a regular and consistent basis Interest rate fluctuations on £30m of borrowings are managed through an interest rate swap agreement with Bank of Scotland which produces an effective total fixed interest rate of 6 47% Borrowings in excess of £30m are not covered by an interest rate swap agreement and are exposed to fluctuations in UK market interest rates

If LIBOR and bank base rate had increased by 1% the impact on profit or loss and therefore Shareholders' equity would have been negative £1,200 (2009 negative £29,500) If LIBOR and bank base rate had decreased by 0 5% the impact on profit or loss and therefore Shareholders' equity would have been positive £600 (2009 positive £14,750) The Company has no exposure to movements in LIBOR in respect of the £30 million referred to above, as it has been matched with a swap transaction There would be no direct impact on the portfolio valuation from changes in interest rates The calculations are based on the drawn down loan facility as at the respective Balance Sheet dates which may not be representative of the actual drawn down loan facility during the year

When the Company decides to hold cash balances, all balances are held on variable rate bank accounts yielding rates of interest linked to bank base rate, which as at 31 December 2010 was 0 5% (2009 0 5%) The Company's policy is to hold cash in variable rate bank accounts and not usually to invest in fixed rate securities The Company's investment portfolio is not directly exposed to interest rate risk

(ii) Liquidity risk

The Company's assets comprise mainly readily realisable equity securities which, if necessary, can be sold to meet any funding requirements though short term funding flexibility can typically be achieved through the use of the bank debt facility The Company's current liabilities all have a remaining contractual maturity of less than three months with the exception of the Bank of Scotland bank debt facility Further details of this facility can be found in the Interest rate risk section above, and the borrowing facility section in Note 10

(iii) Credit risk

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

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

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

(iv) Market price risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the investment managers in pursuance of the investment objective Further information on the investment portfolio is set out in the Managers' Report on pages 6 to 11

No derivative or hedging instruments are utilised to specifically manage market price risk If the investment portfolio valuation fell by 20% at 31 December 2010 the impact on profit or loss and therefore Shareholders' equity would have been negative £22 5m (2009 negative £18 7m) If the investment portfolio valuation rose by 20% at 31 December 2010 the impact on profit or loss and therefore Shareholders' equity would have been positive £22 5m (2009 positive £18 7m) The calculations are based on the portfolio valuation as at the respective Balance Sheet dates and are not representative of the year as a whole

18 Financial instruments *(continued)*

The fair value of the financial instruments held as at 31 December 2010 approximately equates to the carrying value The fair value of the Income Shares is based on the quoted market price of 112 50p whilst the carrying value reflects the projected final capital entitlement of 100p per Income Share The fair value of the interest swap is based on the 0 75 year (2009 1 75 year) bid swap rate supplied by the Bank of Scotland The investment portfolio consists of listed investments valued at their bid prices, which represents their fair value

The Company is a split capital investment trust In the Directors' opinion the Income Shares and Capital Shares are in aggregate the true equity of the Company although the Income Shares must be disclosed as a "financial liability" due to the existence of a contractual obligation on the Company to repay to Income Shareholders upon liquidation, a pre-determined amount The Shares are sterling denominated and further details of the rights attaching to them are given in the "Capital Structure" section on pages 23 and 24

Contractual maturity analysis for financial instruments
As at 31 December 2010

(All in £'000)	Due or due not later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Current Assets						
Cash at bank	5	—	—	—	—	5
Investment income receivable	262	35	—	—	—	297
Other debtors	13	—	—	—	—	13
Total current assets	280	35	—	—	—	315
Current Liabilities						
Other creditors	54	—	—	—	—	54
Loan facility	—	—	30,175	—	—	30,175
Unamortised issue costs	—	—	(9)	—	—	(9)
Income shares	—	—	24,500	—	—	24,500
Interest rate swap	—	—	1,017	—	—	1,017
Total current liabilities	54	—	55,683	—	—	55,737
Net liquidity of continuing operations	226	35	(55,683)	—	—	(55,422)

18 Financial instruments *(continued)*

Contractual maturity analysis for financial instruments
As at 31 December 2009

(All in £'000)	Due or due not later than 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Current Assets						
Cash at bank	1	—	—	—	—	1
Amounts due from brokers	106	—	—	—	—	106
Investment income receivable	243	59	—	—	—	302
Other debtors	13	—	—	—	—	13
Total current assets	363	59	—	—	—	422
Current Liabilities						
Other creditors	46	—	—	—	—	46
Total current liabilities	46	—	—	—	—	46
Non-Current Liabilities						
Loan facility	—	—	—	32,950	—	32,950
Unamortised issue costs	—	—	—	(18)	—	(18)
Income shares	—	—	—	24,500	—	24,500
Interest rate swap	—	—	—	1,991	—	1,991
Total non-current liabilities	—	—	—	59,423	—	59,423
Net liquidity of continuing operations	317	59	—	(59,423)	—	(59,047)

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

(All in £'000)	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Other creditors	—	54	—	—	—	54
Loan facility	—	485	31,632	—	—	32,117
Income shares	—	—	24,500	—	—	24,500
	—	539	56,132	—	—	56,671

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

(All in £'000)	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Other creditors	—	46	—	—	—	46
Loan facility	—	489	1,467	34,906	—	36,862
Income shares	—	—	—	24,500	—	24,500
	—	535	1,467	59,406	—	61 408

Notes to the Financial Statements

18 Financial instruments *(continued)*

Capital Management Policies and Procedures

The Company's capital management objectives are

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

This is achieved through the appropriate balance of equity capital and gearing Further details can be found in the Capital Structure section of the Directors' Report on pages 23 and 24 and the Principal Risks and Risk Management section of the Directors' Report on pages 25 and 26

19 Financial instruments measured at fair value

Description	2010 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2009 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investments	112,698	112,698	—	—	93,514	93,514	—	—

Level 1 reflects financial instruments quoted in an active market

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

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

Shareholder Information

Shareholder register enquiries

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

Shareholder Services Department
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Tel 0871 664 0300 (Calls cost 10p per minute plus network extras)
Fax 01484 600 911
Email shareholder services@ capitaregistrars com
Website www capitaregistrars com

Payment of dividends

Dividends can be received more quickly by instructing the Company's registrars, whose address is given above, to pay them directly into a bank account, with tax vouchers mailed separately This method is more efficient and avoids the risk of dividend cheques being either delayed or lost in the post

Sources of further information

The prices of the Capital Shares and Income Shares are quoted daily in the Financial Times These prices, together with the Net Asset Values and other financial data, can be found on the TrustNet website at www trustnet com Other websites containing useful information on the Company are www ft com, www theaic co uk and www splitsonline co uk Company performance and other information are available on the Aberforth Partners LLP website at www aberforth co uk

How to invest

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

Security Codes

	ISIN	SEDOL	Bloomberg	Reuters
Capital Shares of 1p	GB0031100141	3110014	AFHC LN	AFHC L
Income Shares of 1p	GB0031100034	3110003	AFHI LN	AFHI L

AIC

The Company is a member of The Association of Investment Companies which produces a detailed Monthly Information Service on the majority of investment trusts This can be obtained by contacting

The Association of Investment Companies
Durrant House
9th Floor
24 Chiswell Street
London EC1Y 4YY
Website www theaic co uk
Tel 020 7282 5555

Shareholder Information

Financial Calendar

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

Notice of the Annual General Meeting

Notice is hereby given that the ninth Annual General Meeting of Aberforth Geared Capital & Income Trust plc will be held at 14 Melville Street, Edinburgh on 2 March 2011 at 6 00 p m for the following purposes

Ordinary Business

To consider and, if thought fit, pass the following Ordinary Resolutions

1 That the Report and Accounts for the year to 31 December 2010 be adopted

2 That the Directors Remuneration Report for the year to 31 December 2010 be approved

3 That Mr T M Foulkes be re-elected as a Director

4 That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration

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

27 January 2011

Notes to the Notice of the Annual General Meeting

1 **Attending the Annual General Meeting in person**

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

2 **Appointment of Proxy**

A Form of Proxy for use by Shareholders is enclosed Completion of the Form of Proxy will not prevent a Shareholder from attending the meeting and voting in person To register your vote electronically, log on to the registrar's web site at www capitaregistrars com and follow the instructions on screen You will require your investor code CREST users should note they can lodge their proxy votes for the meeting through the CREST proxy voting system For further instructions users should refer to the CREST User Manual Any CREST personal members or other CREST sponsored members and other CREST members who have appointed a voting service provider(s) should contact their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf

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

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

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

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

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

3 **Entitlement to attend and vote**

To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6 00 p m on 28 February 2011 (or, if the Annual General Meeting is adjourned, at 6 00 p m on the day two days (excluding non working days) prior to the adjourned meeting) Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting

Notes to the Notice of the Annual General Meeting

4 **Questions and Answers**

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

5 **Total Voting Rights**

As at 28 January 2011, the latest practicable date prior to publication of this document, the Company had 24,500,000 Income Shares and 10,500,000 Capital Shares in issue with a total of 35,000,000 voting rights

6 **Shareholder disclosure obligations**

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

7 **Information on the Company's website**

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

8 **Nominated Persons**

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

9. **Audit concerns**

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

10 **Documents available for inspection**

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