Standard Life UK Smaller Companies Trust plc

Annual Report and Accounts 30 June 2010

STANDARD LIFE INVESTMENTS

Exceptional investments, extraordinary world

Contents

Financial Calendar

7 September 2010	Announcement of results for year ended 30 June 2010
12 October 2010	Annual General Meeting
15 October 2010	Payment of final dividend on Ordinary shares
February 2011	Announcement of Half-Yearly Financial Report for six months ending 31 December 2010

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

Corporate Summary

Investment objective	To achieve long-term capital growth by investment in UK quoted smaller companies.
Investment policy	The Directors intend to achieve the investment objective by investing in a diversified portfolio consisting mainly of UK quoted smaller companies. The portfolio will normally comprise around 50 individual holdings representing the Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5% of total assets. The Directors expect that, in normal market conditions, gearing will be between -5% and 20% of net assets. The Directors have delegated responsibility to the Manager for the operation of the gearing level within the above range. The maximum level of gearing is 100%. The Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management and dealing. The investment process is research-intensive and is driven by the Manager's distinctive "focus on change", which recognises that different factors drive individual stocks and markets at different times in the cycle. This flexible, but disciplined process ensures that the Manager has the opportunity to perform in different market conditions.
Benchmark	Hoare Govett Smaller Companies Index (excluding Investment Companies) (Capital Return).
Manager	Standard Life Investments (Corporate Funds) Limited – Investment Manager, Harry Nimmo.
Equity shareholders' funds	£97.3 million at 30 June 2010.
Market capitalisation	£86.2 million at 30 June 2010.
Capital structure	The Company's issued share capital, as at 6 September 2010, consisted of 60,005,214 Ordinary shares of 25 pence each (30 June 2010 - 63,163,381). Each Ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every share held. A further 3,717,342 Ordinary shares of 25 pence each are held in treasury.
Management fee	The management fee is calculated at 0.65% per annum of the gross assets of the Company and 0.2% per annum of the cash or non-equity securities of the Company. There is also a performance fee payable to the Manager if the Company's net asset value outperforms its benchmark by at least 1% per annum on a capital returns basis. The amount of the performance fee will be 20% of the Company's outperformance, capped at 0.60% per annum of the gross asset value of the Company at the period end. The Investment Management Agreement is currently terminable by either party on not less than one year's notice. In the event of termination on less than the agreed notice period, compensation is payable in lieu of the unexpired notice period.
ISA status	The Company's Ordinary shares are eligible for ISAs and ISA transfers.
AIC membership	The Company is a member of The Association of Investment Companies.
Website	The Company's website may be accessed from the Manager's Investment Trust website, www.standardlifeinvestments.com/its The website offers investors comprehensive information on the Company and its related products. Just some of the available features are: • the latest share price and net asset value • performance figures, charts and commentary • product information • how to invest in the Company • strategic and economic reviews by the Manager

Financial Highlights

	At 30 June 2010	2009	% change
Performance			
Total Return			
Net asset value per Ordinary share			41.4%
Hoare Govett Smaller Companies Index (excluding Investment Companies)			28.0%
Capital return			
Net asset value (statutory) per Ordinary share	154.04p	111.23p	38.5%
Ordinary share price (mid-market)	136.50p	100.50p	35.8%
Discount of Ordinary share price to net asset value	11.4%	9.6%	—
Hoare Govett Smaller Companies Index Capital Return (excluding Investment Companies)	3,544.30	2,848.96	24.4%
Total assets (£m)[1]	99.30	76.26	30.2%
Equity shareholders' funds (£m)	97.30	70.26	38.5%
Total expense ratio (TER)[2]	1.17%	1.17%	
Revenue return per Ordinary share	2.86p	2.56p	
Dividend yield	1.8%	1.6%	
Interim Ordinary dividend paid for year	1.00p	0.50p	100.0%
Proposed final Ordinary dividend for year	1.50p	1.10p	36.4%
Ordinary shares in issue with voting rights (excluding shares held in treasury)	63,163,381	63,163,381	—
Ordinary shares held in treasury	559,175	559,175	—
Gearing (ratio of borrowings to equity shareholders' funds)			
Actual gearing ratio[3]	1.0%	3.7%	
Potential gearing ratio[4]	10.3%	14.2%	

Year's Highs/Lows	High	Low
Net asset value per Ordinary share	157.02p	108.61p
Ordinary share price	142.50p	100.00p
Discount of Ordinary share price to net asset value	14.0%	5.6%

[1] Gross assets less current liabilities, after excluding short-term debt of £2.0m (2009 - £6.0m).
[2] Total expense ratio calculated as the total of the investment management fee and administrative expenses divided by the average of equity shareholders' funds throughout the year.
[3] Actual gearing ratio is calculated as the total of the bank loan, less the cash invested in AAA money market funds, cash and short term deposits, divided by total assets less current liabilities.
[4] Potential gearing ratio is calculated as the value of the maximum bank loan facility (£10.0m) divided by net assets.

Review of the year ended 30 June 2010

The Company's net asset value per share rose by 38.5% to 154.04p during the year ended 30 June 2010 compared to a rise of 24.4% in the Hoare Govett Smaller Companies Index (excluding Investment Companies) (all figures in capital return terms). The Company's Ordinary share price increased by 35.8% to 136.50p, from 100.50p, over the same period. Total dividends increased by 56.3%.

The Company has won a number of awards during the last year and has consistently remained a top performer in its peer group since Standard Life Investments' appointment as Manager.

Donald MacDonald

Earnings and Dividend

The Company's primary objective is capital growth and it is very pleasing that the net asset value has increased by 38.5% over the last financial year. The Company pays a dividend based on the receipts from underlying investments during the year, which may be higher or lower than in previous years. The revenue return per share for the year ended 30 June 2010 was 2.86p (2009 - 2.56p). The Board is recommending to shareholders a final Ordinary dividend of 1.50p per share which would result in total dividends for the year of 2.50p following the payment, on 19 March 2010, of an interim dividend of 1.0p. This compares with the final Ordinary dividend of 1.10p per share in respect of the year ended 30 June 2009 and total dividends of 1.60p per share for that year. If approved, this will represent an increase in the final dividend of 36.4% and an increase in total dividends for the year of 56.3%.

Subject to shareholder approval at the Annual General Meeting on 12 October 2010, the final Ordinary dividend will be paid on 15 October 2010 to shareholders on the register as at 17 September 2010; the ex-dividend date is 15 September 2010.

VAT on management fees

Further to negotiations with the Company's former manager, the Board is pleased to report the receipt of £374,000 during the year representing repayment of VAT charged to the Company between January 2001 and the transfer of the investment management contract in September 2003. This equates to a contribution to revenue return per share of 0.3p during the year.

Performance

As mentioned above, the Company's capital net asset value increased by 38.5% over the year ended 30 June 2010, compared with an increase of 24.4% in the Hoare Govett Smaller Companies Index (excluding Investment Companies), all figures in capital return terms.

During the period under review, the Manager continued to focus on investing in companies with proven business models and exposure to international markets. This led the Company's investment portfolio to outperform the wider smaller companies market over the year. For example, a preference for companies that display resilience, low risk and growth led to strong outperformance in the final quarter of the financial year.

The Company retains a record of successful long-term investment performance since the appointment of Standard Life Investments as Manager in September 2003, as the table below illustrates:

Per Ordinary share	1 year	3 years	5 years
Net asset value [1]	+39.7%	-2.3%	+78.8%
Share price	+35.8%	+4.2%	+97.1%
Peer group ranking	6/18	2/18	1/18

Source: Morningstar/Standard Life Investments

[1] Statutory Net Asset Value

Chairman's Statement

Robust trading spurred the Company's major holdings, including online retailer ASOS, online antibodies distributor Abcam, retail Independent Financial Adviser Hargreaves Lansdown and Domino's Pizza. As a result, these companies were key contributors towards performance over the period. Power systems firm Chloride Group also boosted performance as it received an improved bid offer from US industrial technology company Emerson, while fashion retailer SuperGroup added to returns after listing on the FTSE 250 Index. On the downside, online security firm Datacash underperformed following lacklustre results, while BATM Advanced Communications was also weak following disappointing results.

Further details on portfolio activity and performance during the year, as well as the Manager's outlook for smaller companies, are included in the Manager's Report on pages 8 to 10.

Manager

The Board believes that its appointment of Standard Life Investments continues to be in the long-term interests of shareholders. Harry Nimmo, Head of Smaller Companies at Standard Life Investments, continues to be the lead manager of the Company's investment portfolio. The Manager's clear approach to small company stock selection and very good long term performance record give the Board confidence in the ability of the Manager to deliver excellent long-term returns for shareholders.

Awards

The Company won the Small Capitalisation ("Small Cap") fund of the year award at the Growth Company Awards 2009, Best UK Small Cap category at the Money Observer Investment Trust awards 2009 (second year in a row) and the UK Smaller companies category at the Moneywise Investment Trust awards 2010 (fourth year in a row).

Gearing

The Manager has discretion to vary the gearing level between -5% and 20% depending on its view of the prospects for smaller companies. The Company actively managed its gearing level during the year ended 30 June 2010. Gearing was increased during the last quarter of 2009 as the Manager became more confident on the outlook for UK smaller companies triggered by very low interest rates, attractive valuations and significant director buying as well as a more confident outlook for the prospects of the Company's portfolio.

The Company had drawn down £2.0m of its £10.0m bank loan facility as at 30 June 2010 (2009 – £6.0m). The Company currently has no borrowings and its bank loan facility expired on 23 August 2010. The Board is in the process of negotiating an increased £15m bank loan facility.

Discount

The discount to net asset value (on a capital only basis) at which the Company's shares trade relative to their underlying net asset value widened over the year ended 30 June 2010 from 9.6% to 11.4% which compares to an arithmetic sector average for the UK smaller companies peer group of 16.5% (2009 – 16.6%). The average discount for the Company was 9.6% over the last financial year. As at 1 September 2010, the latest practicable date prior to publication, the share price was 152.75p per Ordinary share which represented a discount of 9.0% to the latest published capital net asset value per share (including income) of 167.87p.

Regular tender offers and Share capital

Following shareholder approval at the last AGM for the Company to embark on regular tender offers, the Company published a circular to Shareholders on 23 April 2010 setting out details of a tender offer for up to 5% of the Company's issued share capital at 30 June 2010. On 7 July 2010, the Company announced that a total of 4,731,822 Ordinary shares, representing approximately 7.5% of the Company's issued share capital at 30 June 2010, were validly tendered. Following scaling back, 3,158,167 Ordinary shares were repurchased into treasury by the Company at a price of 144.84p per share. Following the implementation of the tender offer, and as at the date of this Report, the Company had 60,005,214 Ordinary shares in issue with voting rights. Payments were made to tendering shareholders on 14 July 2010.

The next proposed tender offer should take effect on 31 December 2010 prior to which a circular and tender form would be sent to shareholders and holders of shares via the Company's savings scheme. To participate in the 31 December 2010 tender offer shareholders would require to be on the share register at the record date of 10 September 2010. In light of the experience and costs of the 30 June 2010 tender offer, the tender price for future tender offers should be realisable value less a 2% exit charge.

During the year ended 30 June 2010, the Company did not buy back any of its Ordinary shares.

On 31 March 2010, the Scottish Court of Session granted the Company's application to approve the cancellation of the entire share premium account and capital redemption reserve and the creation of a capital reserve ('the reserve'), in the amount of approximately £25,620,000. The reserve is available to be used in any manner in which the Company's profits available for distribution may be applied, including the funding of tender offers and share buy backs.

Marketing activities

The Manager continues to broaden the shareholder base. Further information about Ordinary shares held in the Plans and how to invest in the Company through the Plans may be found on page 46 of this Report.

Prospects

With the new Government setting tough goals for cutting public expenditure in order to seek to stabilise the country's finances, growth in many areas of the economy will be hard to achieve while the overall performance of the economy is likely to be fairly weak. In addition, markets are likely to be volatile with regular changes in sentiment.

Despite this background, however, the Board shares the Manager's belief in the good prospects for the Company. This reflects the Manager's proven and consistent success in selecting and investing in high quality companies with strong, sustainable and well-managed businesses with good growth prospects even in tough markets.

Donald MacDonald
Chairman

6 September 2010

Board of Directors

Donald MacDonald CBE
Chairman
Donald MacDonald, appointed a director on 12 July 1993, is a chartered accountant with more than 40 years' experience of corporate finance and venture capital. He is co-founder and Vice Chairman of City Inn, Chairman of Dunfermline Press Group and a number of private companies. He is a director of The National Trust for Scotland and Chairman of the Scottish Chamber Orchestra.

Lynn Ruddick
Director
Lynn Ruddick, appointed a Director on 4 February 2009, is Chairman of the Audit and Management Engagement Committee, and is a fellow of the Chartered Association of Certified Accountants. She is a Trustee of the Scottish & Newcastle Pension Plan, a member of the Investment Committees of The Pearson Group Pension Plan and Western Provident Association and Chairman of the WPA Pension Fund Trustee Board. She is also Chairman of British Assets Trust plc and Fidelity Special Values plc.

Carol Ferguson
Director
Carol Ferguson, appointed a Director on 4 February 2009, is a chartered accountant. Her non-executive appointments include the Chartered Accountants Compensation Scheme Limited and The Association of Investment Companies ('AIC'), where she is Chairman, as well as acting as Trustee of the AIC Pension Scheme and as a Member of the Panel on Takeovers and Mergers. She is also a director of BlackRock Greater Europe Investment Trust plc, Invesco Asia Trust plc, Monks Investment Trust plc, and Vernalis plc.

David Woods
Senior Independent Director
David Woods, appointed a Director on 5 May 2005, qualified as a Fellow of the Institute of Actuaries in 1973 and has spent more than 40 years working in the life insurance and investment industries both in the UK and abroad. He is currently non-executive Chairman of Royal Liver Assurance and a non-executive director of Murray Income Trust PLC, Phoenix Group Holdings plc, and of The Moller Centre for Continuing Education. He is also Chairman of the Pension Fund Trustees for all of the UK companies in the Steria Group and a trustee of the Scottish Provident Pension Fund.

All Directors are members of the Nomination Committee and Audit and Management Engagement Committee.

Year ended 30 June	Equity Shareholders' funds £m	Per Ordinary share Net asset value[1] p	Share price p	Dividend p	Revenue return p	Discount[1] %	Expenses as a % of average shareholders' funds	Actual gearing ratio %	Maximum potential gearing ratio %
2000	175	252.48	198.50	0.75	0.81	19.1	1.71	16.9	17.1
2001	117	170.60	134.50	0.75	(0.34)	19.8	1.61	29.4	33.7
2002	60	91.65	69.25	0.75	(0.49)	24.4	1.81	26.3	64.8
2003	39	58.29	37.50	0.75	0.49	35.7	1.68	15.8	48.9
2004	47	71.23	51.25	0.75	0.72	28.1	1.50	11.5	38.9
2005[2]	58	86.86	69.25	0.80	1.01	20.3	1.10	3.2	32.3
2006	79	118.43	101.50	0.80	0.51	14.3	1.50	3.2	23.6
2007	52	159.01	131.00	0.80	0.10	17.6	1.50	8.3	19.6
2008	46	142.68	119.50	1.60	1.94	16.2	1.30	4.7	21.9
2009	70	111.23	100.50	1.60	2.56	9.6	1.17	3.7	14.2
2010	97	154.04	136.50	2.50	2.86	11.4	1.17	1.0	10.3

[1] Calculated with debt at par value and not diluted for the effect of warrants in issue for the years ended 30 June 2000 to 30 June 2008.
[2] Restated for revised UK GAAP.

Between 1 July 1997 and 30 June 2007, 50% of the investment management fee and relevant finance costs were allocated to capital reserve. With effect from 1 July 2007, 75% of the investment management fee and relevant finance costs were allocated to capital reserve. The performance fee is allocated 100% to capital reserves.

Manager's Report

The UK smaller companies sector, as represented by the Hoare Govett Smaller Companies Index (excluding Investment Trusts), rose by 24.4%, in capital return terms, over the year. This compares with a rise in net asset value for the Company of 38.5%, while the share price rose by 35.8% (all figures in capital return terms). Meanwhile, the FTSE 100 Index of the largest UK listed companies rose by 15.7%, (in capital return terms). At year end, the Company's share price had surpassed the previous high of 134p on 6 April 2007 since our appointment as Manager. This is in sharp contrast to our benchmark and the blue chip FTSE 100 Index, both of which remain approximately 28% below their high points at the Company's year end.


Harry Nimmo

UK economy and equity market

There were three distinct market phases over the year in question. Between July and October there was a rapid recovery in markets. Early indicators of improvement around the world translated into significantly better trading across a wide range of corporate sectors. Equity markets continued to respond rapidly to the reversal of sentiment. This upswing was led by risky recovery stocks and was accompanied by a slew of fund raisings as companies repaired their balance sheets.

From October, investors became more discerning about stock selection after the initial bounce. Markets moved up more slowly while businesses with greater visibility and growth characteristics started to lead the way. By the end of the first quarter of 2010 markets took fright at the implications of the sovereign debt crisis when Greece required a bail out as it became increasingly difficult for it to refinance its government debt. In the UK, the election was an issue as the potential for a hung parliament scared investors. In the event, the coalition has looked solid and the emergency budget has done enough for the UK to retain its AAA credit rating. The final quarter of the financial year was one of extremely strong relative Company performance. The Company benefited from a further bout of risk aversion as investors searched for reliable and predictable growth stocks that could buck the trend of what looked likely to be a period of sluggish growth for the remainder of 2010. It became clear that the scale of government cutbacks and tax increases required to stabilise the national balance sheet would restrain economic and corporate recovery.

Performance

The Company underperformed during the first phase of the year as high-quality growth companies remained out of favour. From October onwards, however, performance gradually improved and finished the year on a very high note indeed, as companies with resilient, proven business models and international market exposure started to outperform significantly.

More normal market conditions have resumed during 2010 with the return of bid activity and the new issues market. Following Kraft's bid for Cadbury, an increasing bid momentum almost entirely from trade buyers helped markets make progress. The Company's holdings in Emerald Energy and Chloride received bids during the year, with the latter being contested which led to a very significant premium being paid.

A number of new issues, the lifeblood of the smaller companies sector, were well received by the market. The Company particularly benefited from a very strong performance from SuperGroup, the owner of the "Superdry" clothing brand. The other new issue of note, CPP (Card Protection Plan), performed well following its listing in March 2010.

Our high exposure to successful online business models was strongly beneficial to performance. ASOS, the online clothing retailer, was easily the best performer of the year, up 153%. ASOS has consistently beaten expectations and is now developing a very strong international presence. Abcam, the world's leading online antibody distributor and the Company's second largest position, also continued to deliver on expectations.

Our third online business, online property company Rightmove, forged ahead as advertising moved from the printed page to the internet.

Other areas of strength included our electronic and electrical holdings. These included Andor Technologies, the Ulster-based specialist digital camera company, electronic measurement probes firm Renishaw and LED lighting company Dialight. Growth retailers such as JD Group and Dunelm performed well while there were a number of stand out branded goods companies, albeit at different ends of the spectrum. These were healthcare products manufacturer PZ Cussons, soft drinks firm AG Barr and handbag company Mulberry. All of these companies retained strong balance sheets during the recession and were able to pick up cheap assets and grow through that difficult period.

On the other hand, some of our more recent investments proved disappointing, notably Axis Shield, the Dundee-based medical test kit company, set-top box company Pace and mid-sized investment bank Evolution Group. Goals Soccer Centres also proved a disappointment, even though it has successfully opened its first centre in the US.

Dealing and activity

The Company bought back into First Quantum, a copper miner with assets in Zambia, Australia, Mauritania and Finland. Another key purchase was Mulberry Group, the handbag brand, which has performed strongly and has the potential to become an international brand. We also bought Hikma Pharmaceuticals, the Jordanian generic pharmaceuticals company listed in London. Hikma is the leading pharmaceutical company across the Middle East, where spending on healthcare is rising rapidly. A further new issue, electronic patient records software firm EMIS, was added to the portfolio. Immunodiagnostics Systems Holdings based in Gateshead, a world leader in Vitamin D test kits was another purchase. The product is receiving a lot of attention at the moment as a marker for a range of bone-related diseases as well as hypertension, resulting from a shortage of Vitamin D.

On the sell side, Emerald Energy, which was subject to a bid, was sold to Sinopec. Profits were taken in ASOS for risk reduction reasons as it became too large a position in the portfolio. We also took profits in Ultra Electronics which had become too large for the Company. Other sales included Paypoint, the electronic payments system, property company Hansteen, gaming software firm Playtech and social housing maintenance provider Connaught.

In terms of sector exposure, the Company remains heavy in software companies with earnings visibility, healthcare, leading engineers and capital goods specialists, growth retailers and personal branded goods companies. We are light in support services, insurance, financial, real estate and building and construction companies. The Company has only minimal exposure to government spending which is likely to be under pressure for years to come. As usual, our focus is on high-quality growth stocks with a surplus of earning visibility and the potential to become large companies.

It is also notable that founders are often still running the companies that we hold. Indeed, 15 out of the top 30 holdings have a founder as chief executive. In 23 out of 30 the chief executive has been in place for more than 10 years. This brings an entrepreneurial spirit, strong focus and the ability to take companies from start up to having hundreds of employees and substantial profits.

Gearing

Gearing was 3.7% at the start of the year under review. It was increased to near the maximum level by November 2009. In May, the gearing was reduced rapidly to 1.0% where it remained at the end of the period.

Tender Offer

In June, 7.49% of the outstanding shares were tendered, therefore requiring 5% of the Company's assets to be sold. A price of 144.84p was achieved for exiting shareholders. This transition was achieved in an orderly fashion albeit that market conditions were difficult at the beginning of July 2010 as investors turned risk averse and dealing spreads widened.

Outlook

Whereas 2009 was a year of rapid recovery from the turmoil of the previous year, the first half of 2010 saw the realisation sink in that an extended period of belt tightening would be required to make good the losses stemming from the banking crisis and excess of the previous decade.

Manager's Report

Our view is that the disaster of depression has been averted and enough has been done to ensure that recovery is sustainable. The emerging markets of China, India, Brazil and Russia are on a continuing growth path and are driving the world economy forward. However, this recovery is likely to be slow and somewhat anaemic in its character. In addition, the sovereign debt crisis and issues around the stability of the euro may return periodically to haunt the greater European economy. There looks to be a structural mismatch in the ability of a number of weaker European economies to solve their budgetary excesses within the euro.

So, what does this all mean for the UK stock market and particularly smaller companies? It is likely that risk aversion will be the dominant theme and the market may generally find it hard to make substantial progress. The good news is that this is a particularly positive environment for our investment style. We expect a continuation of the strong performance that has been seen in the closing months of the year under review. If we are correct in our view on the economy then the Company is likely to generate significant returns.

It is notable that our holdings generally performed well through the downturn of 2008 and early 2009. There were no dividend cuts; indeed dividend increases were significant which, in turn, allowed the Company's dividend payment to move ahead substantially. Our expectation is for more to follow in future years.

Furthermore, the top 20 largest listed companies in the UK face major structural problems. Led by BP and the banks, dividends have been slashed at the top end of the market. Many of these companies are in decline or ex-growth, following many years of merger and excess. Investment attention is quite rightly moving down to the smaller companies, which are the larger companies of tomorrow. It is likely that this will mean an increase in bid activity as these large companies look to add more dynamic mid and smaller companies to their portfolios in an effort to restart growth.

This underscores our opinion that our process is right for this market and that the outlook for Standard Life UK Smaller Companies Trust is bright in the short, medium and long term. Our focus on growth, quality and sustainable business models is right for a period when underlying economic growth is hard to come by.

Harry Nimmo
Standard Life Investments Limited, Manager

6 September 2010

Top Twenty Investments

As at 30 June 2010

Stock	Sector	Valuation as at 30 June 2010 £'000	Weight %	Valuation as at 30 June 2009 £'000
ASOS	General Retailers	5,209	5.3	2,909
Abcam	Pharmaceuticals & Biotechnology	4,170	4.2	2,472
Domino's Pizza	Travel & Leisure	3,688	3.8	1,997
Chloride Group	Electronic & Electrical Equipment	3,632	3.7	1,544
Paddy Power	Travel & Leisure	2,982	3.0	1,803
PZ Cussons	Personal Goods	2,921	3.0	1,496
Hargreaves Lansdown	Financial Services	2,876	2.9	1,433
Victrex	Chemicals	2,587	2.6	1,217
Telecom Plus	Fixed Line Telecommunications	2,485	2.5	2,108
Homeserve	Support Services	2,421	2.5	1,534
Top ten investments		**32,971**	**33.5**	**18,513**
Computacenter	Software & Computer Services	2,280	2.3	1,948
Aveva Group	Software & Computer Services	2,232	2.3	1,165
JD Sports Fashion	General Retailers	2,144	2.2	1,811
New Britain Palm Oil	Food Producers	2,132	2.2	875
ITE Group	Media	2,107	2.1	1,469
Andor Technology	Electronic & Electrical Equipment	2,046	2.1	—
Barr	Beverages	2,023	2.1	986
Craneware	Software & Computer Services	1,978	2.0	1,367
Robert Wiseman Dairies	Food Producers	1,974	2.0	1,310
Cineworld Group	Travel & Leisure	1,952	2.0	1,407
Top twenty investments		**53,839**	**54.8**	**30,851**

All investments are equity investments.

Sector Distribution of Investments

As at 30 June 2010

	Hoare Govett Smaller Companies (excluding Investment Companies) Index weightings	Portfolio weighting 2010	Portfolio weighting 2009
Oil & Gas			
Oil and Gas Producers	3.7	1.5	3.2
Oil Equipment, Services & Distribution	1.2	0.7	0.5
Alternative Energy	—	—	0.1
Basic Materials			
Chemicals	2.4	2.6	1.7
Industrial Metals	2.0	1.7	—
Mining	1.5	1.1	0.6
Industrials			
Construction and Materials	1.6	—	—
Aerospace & Defence	3.0	1.8	4.1
General Industrials	1.5	—	1.0
Electronic & Electrical Equipment	4.4	7.3	2.1
Industrial Engineering	3.8	1.0	0.2
Industrial Transportation	2.5	—	—
Support Services	13.2	5.3	11.1
Consumer Goods			
Beverages	1.2	2.1	1.4
Food Producers	2.9	6.0	4.7
Household Goods	3.2	—	—
Leisure Goods	0.4	—	—
Personal Goods	1.2	4.7	2.1
Health Care			
Health Care Equipment & Services	0.8	2.7	1.1
Pharmaceuticals and Biotechnology	2.7	5.7	7.5
Consumer Services			
Food & Drug Retailers	0.9	—	—
General Retailers	6.8	13.6	11.3
Media	4.4	3.6	3.3
Travel and Leisure	9.6	10.5	8.2
Telecommunications			
Fixed Line Telecommunications	0.4	2.5	2.9
Utilities			
Electricity	—	0.8	0.9
Technology			
Software & Computer Services	4.2	14.4	18.4
Technology Hardware & Equipment	2.6	2.2	1.7
Financials			
Nonlife Insurance	4.5	—	1.3
Life Insurance	0.4	—	—
Real Estate Investment & Services	3.5	—	1.2
Real Estate Investment Trusts	2.6	2.6	3.4
Financial Services	6.9	5.6	6.0
Total	**100.0**	**100.0**	**100.0**

The Company's authorised share capital on incorporation was £15,000,000, divided into 60,000,000 Ordinary shares of 25 pence each. On 19 August 1993, 50,000,000 Ordinary shares (with one warrant attached for every five Ordinary shares) were issued at £1 each. On 25 March 1994, the authorised share capital of the Company was increased to £75,000,000 by the creation of 50,000,000 limited Conversion ("C") shares of £1 each and 40,000,000 Ordinary shares of 25 pence each. On 28 March 1994, a further 21,428,000 'C' shares were issued at £1 each, at par. On 7 June 1994, the C shares of £1 each were converted into Ordinary shares, resulting in the issue of 19,436,770 Ordinary shares (with one warrant for every five Ordinary shares).

On 9 November 2006, shareholders approved a tender offer to buy back and cancel 32,629,217 of the Ordinary shares and 117,791 of the Company's warrants in issue. In the year ended 30 June 2007, the Company also bought back and cancelled an additional 2,194,000 Ordinary shares.

During the year ended 30 June 2008, 559,175 Ordinary shares were bought back into treasury by the Company.

On 14 October 2008, 1,164,545 warrants were exercised as a result of the last exercise date of the warrants on 30 September 2008, which resulted in the issue of the same number of Ordinary shares by the Company. A total of 1,732,965 warrants lapsed without value on 14 October 2008.

On 4 February 2009, as part of the merger with Gartmore Smaller Companies Trust p.l.c. ("Gartmore"), 31,189,825 Conversion ("C") shares were issued to former Gartmore shareholders. On 14 April 2009, 27,545,948 of the C shares were converted into 26,273,612 Ordinary shares. On 11 June 2009, the remaining 3,643,877 C shares were converted into 3,687,639 Ordinary shares, which resulted in there being only one class of share in issue as at 30 June 2009 and 30 June 2010; being 63,163,381 Ordinary shares of 25 pence each, with voting rights.

On 7 July 2010, the Company bought back into treasury 3,158,167 Ordinary shares which resulted in 60,005,214 Ordinary shares with voting rights and a further 3,717,342 Ordinary shares in treasury.

Year ended 30 June	Warrants exercised	Warrants bought back	Warrants lapsed	Total Warrants in issue	Ordinary shares bought back for cancellation	Ordinary shares bought back into treasury	Ordinary shares issued	Ordinary shares in issue (excluding treasury shares)
1994	—	—	—	13,886,996	—	—	—	69,436,770
1995	89,026	—	—	13,797,970	—	—	—	69,525,796
1996	1,880	—	—	13,796,090	—	—	—	69,527,676
1997	980	1,592,201	—	12,202,909	—	—	—	69,528,656
1998	1,061	6,075,144	—	6,126,704	—	—	—	69,529,717
1999	550	1,350,000	—	4,776,154	—	—	—	69,530,267
2000	13,723	1,671,143	—	3,091,288	—	—	—	69,543,990
2001	57,695	—	—	3,033,593	—	—	—	69,601,685
2002	1,961	—	—	3,031,632	2,200,000	—	—	67,403,646
2003	—	—	—	3,031,632	—	—	—	67,403,646
2004	—	—	—	3,031,632	—	—	—	67,403,646
2005	1,000	—	—	3,030,632	—	—	—	67,404,646
2006	100	—	—	3,030,532	—	—	—	67,404,746
2007	2,261	117,791	—	2,910,480	34,823,217	—	—	32,583,790
2008	12,970	—	—	2,897,510	—	559,175	—	32,037,585
2009	1,164,545	—	1,732,965	—	—	—	29,961,251	63,163,381
2010	n/a	n/a	n/a	n/a	—	—	—	63,163,381
2011[A]	n/a	n/a	n/a	n/a	—	3,158,167	—	60,005,214

[A] As at 6 September 2010

Directors' Report

The Directors present their Report and the audited financial statements of the Company for the year ended 30 June 2010.

Results and Dividend

The Company's results and performance for the year are detailed in the Financial Highlights on page 2.

The total revenue return attributable to Ordinary shareholders for the year ended 30 June 2010 amounted to £1,809,000 (2009: £990,000).

An interim dividend of 1.00 pence per share (2009 – 0.50 pence) was paid on 19 March 2010 to shareholders on the register as at 5 March 2010.

The Directors are recommending to shareholders that a final Ordinary dividend of 1.50 pence per share (2009 – 1.10 pence) be paid on 15 October 2010 to shareholders on the share register as at the close of business on 17 September 2010. The ex-dividend date is 15 September 2010. Details of the final Ordinary and Interim dividends paid during the year ended 30 June 2010 are disclosed in Note 7 to the Financial Statements.

Principal Activity and Status

The Company was incorporated on 9 July 1993 and its Ordinary shares were listed on the London Stock Exchange on 19 August 1993. The Company is registered as a public limited company in Scotland under company number SC145455. The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and carries on business as an investment trust and is a member of The Association of Investment Companies.

The Company has been approved by HM Revenue & Customs as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 ("Section 842") for the year ended 30 June 2009. The Directors are of the opinion, under advice, that the Company has conducted its affairs for the year ended 30 June 2010 so as to be able to continue to obtain approval as an investment trust under Section 1158 of Corporation Tax Act 2010 (formerly Section 842) that year. The Company intends to manage its affairs so that its Ordinary shares continue to be a qualifying investment for inclusion in the stocks and shares component of an Individual Savings Account.

Business Review

With the rest of the Annual Report and Financial Statements, this Review is intended to provide shareholders with the information and measures which the Directors use to assess, direct and oversee Standard Life Investments ("the Manager") in the management of the Company's activities.

The investment objective and investment policy of the Company are set out in the Corporate Summary on page 1.

The Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management, and dealing. The investment process is research-intensive and is driven by the Manager's distinctive "focus on change" which recognises that different factors drive individual stocks and markets at different times in the business cycle. This flexible, but disciplined process ensures that the Manager has the opportunity to out-perform in different market conditions. The Top Twenty Investments are set out on page 11 with further sector analysis on page 12.

The Board regularly reviews gearing (calculated as the bank loan less cash balances, as a proportion of total assets less current liabilities) which fell to 1.0% at 30 June 2010 from 3.7% the previous year end.

Oversight and Review of Performance

For the year ended 30 June 2010, the Company's net asset value rose 38.5%, in capital terms, which was greater than the rise of 24.4% in the Company's benchmark, the Hoare Govett Smaller Companies Index (excluding Investment Companies), in capital terms.

The Board considers performance with the Manager at every meeting. As well as carrying out the matters reserved to the Board as set out in the Statement of Corporate Governance (pages 21 to 25), the Board receives a detailed portfolio report for each meeting, sets the overall strategy for the Company and establishes the extent to which the Company is successful in achieving its objectives, as measured by three key performance indicators ("KPIs") which are as follows:

- net asset value relative to the Company's benchmark with particular attention to long-term performance, which is considered by the Board to be over a period of five years;
- Ordinary share price (total return); and
- discount or premium of the Ordinary share price to net asset value.

A record of these KPIs, for the year under review, is included in the Financial Highlights on page 2. The five year performance is shown on page 27 and the ten year record is included on page 7.

A review of the Company's performance, market background, investment activity and portfolio strategy during the year under review, as well as the Manager's investment outlook, is provided in the Manager's Report which may be found on pages 8 to 10.

Future Trends

The Company's smaller company portfolio features high quality growth stocks with visible, recurring revenue, which exhibit both earnings and price momentum. Given the availability of high quality companies at sustainable valuations, the Company continues to be positive about the long-term outlook for smaller companies.

Principal Risks and Uncertainties

The Board regularly reviews the principal risks facing the Company which the Board and the Manager have identified and the Board sets out delegated controls designed to manage those risks. Key risks within investment strategy, including inappropriate stock selection and gearing, are managed by the Board through a defined investment policy, guidelines and restrictions and by the process of oversight at each Board meeting. Operational disruption, accounting and legal risks are also covered at least annually and regulatory compliance is reviewed at each Board meeting.

The Directors have adopted a robust framework of internal controls which is designed to monitor the principal risks and uncertainties facing the Company and to provide a monitoring system to enable the Directors to mitigate these risks as far as possible. A description of the Directors' system of internal controls is set out in the Statement of Corporate Governance on pages 21 to 25.

The major risks associated with the Company are:

- **Investment and market risk:** The Company is exposed to the effect of variations in share prices due to the nature of its business. A fall in the value of its investment portfolio will have an adverse effect on the value of Shareholders' funds.
- **Capital structure and gearing risk:** The Company's capital structure consisted of equity share capital comprising Ordinary 25p shares as at 30 June 2010. Further details may be found under 'Share Capital' on page 16. There was a three-year revolving credit facility with Lloyds Banking Group plc for up to £10m at an interest rate fixed at 0.35% above LIBOR, which expired on 23 August 2010. The Board is in the process of negotiating an increased £15m bank loan facility. In rising markets, the effect of the bank borrowings would be beneficial, but in falling markets the gearing effect would adversely affect returns to shareholders.

  The Manager is able to increase or decrease the gearing level by repaying or drawing down periodically from the bank facility subject to Board restrictions which require gearing to remain between -5% and 20% of net assets, under normal market conditions.
- **Revenue and dividend risk:** In view of the Company's investment objective, which is to generate long-term capital growth by investment in UK quoted smaller companies, the Manager is required to strike a balance more in favour of capital growth than revenue return. In normal circumstances, the Board intends to pay a dividend commensurate with the year's income. The Board receives regular updates as to the progress made by the Manager in generating a revenue return and the consequent level of the Company's anticipated dividend.
- **Regulatory risk:** The Company operates in a complex regulatory environment and faces a number of regulatory risks. A breach of Sections 1158-1159 of Corporation Tax Act 2010 (formerly Section 842 of Income and Corporation Taxes Act 1988) would result in the Company being subject to capital gains tax on portfolio investments. Breaches of other regulations, including the Companies Act 2006, the UKLA Listing Rules or the UKLA Disclosure and Transparency Rules, could lead to a number of detrimental outcomes and reputational damage. Breaches of controls by service providers, such as the Manager and the Administrators, could also lead to reputational damage or loss.

  There is also a regulatory risk in the form of the Alternative Investment Fund Managers Directive ("AIFMD") published by the European Commission. The AIFMD would, if implemented into UK legislation as proposed, introduce a new authorisation and supervisory regime for all investment trust fund managers in the European Union creating additional regulatory costs and other potentially adverse consequences for the Company.

- **Supplier risk:** in common with most investment trusts, the Company has no employees. The Company therefore relies upon services provided by third parties, including the Manager in particular, to whom responsibility for the management of the Company has been delegated under an Investment Management Agreement, further details of which may be found on page 17.

Share Capital

The Company's issued share capital at 30 June 2010 consisted of 63,163,381 Ordinary shares of 25 pence, with voting rights and with a further 559,175 Ordinary shares held in treasury. Subsequent to the year end the Company announced, on 7 July 2010, that 3,158,167 Ordinary shares had been bought back into treasury by the Company which resulted in 60,005,214 Ordinary shares in issue, with voting rights, and 3,717,342 Ordinary shares in treasury at the date of approval of this report. During the year no Ordinary shares were bought back by the Company into treasury (2009 - nil) or for cancellation (2009 - nil). Each holder of an Ordinary share, excluding treasury shares, is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.

Cancellation of Share premium account and Capital Redemption Reserve

On 31 March 2010, the Scottish Court of Session granted the Company's application to approve the cancellation of the entire share premium account and capital redemption reserve and the creation of a reserve ('the reserve'), in the amount of approximately £25,620,000. The reserve is available to be used in any manner in which the Company's profits available for distribution may be applied, including the funding of tender offers and share buy backs.

Regular Tender Offer

Following shareholder approval at the last Annual General Meeting ("the AGM") on 13 October 2009 for the Company to embark on regular tender offers, the Company published a circular to Shareholders on 23 April 2010 setting out details of a tender offer for up to 5% of the Company's issued share capital at 30 June 2010 at realisable asset value less an exit charge of 2%. On 7 July 2010, the Company announced that a total of 3,158,167 Ordinary shares were repurchased by the Company into treasury at a price of 144.84 pence per share. This equated to 5% of the Company's shares in issue at 30 June 2010. Following the implementation of the tender offer, the Company had 60,005,214 Ordinary shares in issue (excluding treasury shares) and held a further 3,717,342 Ordinary shares in treasury.

The next tender offer will take effect on 31 December 2010 prior to which a circular and tender form should be sent to shareholders and holders of shares via the Company's savings scheme. To participate in the 31 December 2010 tender offer shareholders would require to be on the share register at the record date of 10 September 2010.

Environmental Policy

As an investment trust, the Company has no direct social, community or environmental responsibilities. Its focus is on ensuring that its portfolio is properly managed and invested. The Company has, however, adopted a Socially Responsible Investment policy, details of which are set out in the Statement of Corporate Governance on page 25.

Directors

Biographies of the current Directors of the Company, all of whom served throughout the year ended 30 June 2010, are shown on page 6.

The Directors' interests in the Ordinary share capital of the Company at 30 June 2010 and 1 July 2009, which were unchanged as at the date of this Report, are shown in Table 1.

	Ordinary shares	
	30 June 2010	**1 July 2009**
Donald MacDonald	127,000	127,000
Lynn Ruddick	15,891	15,891
Carol Ferguson	31,727	31,727
David Woods	5,000	5,000
	179,618	**179,618**

Table 1: Directors' interests in Ordinary shares.

Carol Ferguson, will retire, and being eligible, will offer herself for election as a Director at the next AGM to be held on 12 October 2010.

Notwithstanding the Articles of Association, the Board has established a policy on tenure which specifies that any Director with in excess of nine years' service will voluntarily retire and seek re-election at each AGM. Accordingly, Donald MacDonald, who has served in excess of nine years, will retire and, being eligible, offers himself for re-election as a Director at the AGM.

No contract or arrangement subsisted during the period in which any of the Directors was materially interested and no Director had a service contract with the Company.

Directors' and Officers' Insurance

The Company's Articles of Association provide for each of the Directors to be indemnified out of the assets of the Company against any liabilities incurred by them as a Director of the Company in defending proceedings, or in connection with any application to the Court in which relief is granted. Directors' and Officers' liability insurance cover has been maintained throughout the year at the expense of the Company.

Investment Management Agreement

Since 1 September 2003, investment management services have been provided to the Company by Standard Life (Corporate Funds) Limited under an Investment Management Agreement ("IMA") dated 15 August 2003, restated on 30 January 2009, which is terminable by either party on not less than one year's notice. Company secretarial and administrative services are provided by Aberdeen Asset Management PLC ("Aberdeen") under a separate agreement with the Manager.

Investment management fees payable to the Manager under the IMA are charged on the following basis:

- a quarterly fee, payable in arrears, calculated on an annual rate of 0.65% of gross assets and an annual rate of 0.20% on uninvested cash and cash equivalents; and
- a performance fee, which will be payable if the Manager outperforms the Company's benchmark by at least 1% per annum on a capital returns basis. The amount of the performance fee will be 20% per annum of the Company's outperformance, capped at 0.60% per annum of the gross assets of the Company. The Company's benchmark is the Hoare Govett Smaller Companies (excluding Investment Companies) (Capital Return) index. The performance fee will be subject to protections in respect of any underperformance such that, if the net asset value ("NAV") per Ordinary share at the end of the relevant period is lower than the NAV per Ordinary share on the Effective Date of the Scheme, no performance fee will be payable. The entitlement to a performance fee will be further restricted so that, if the NAV per Ordinary share at the end of the relevant period is less than the NAV per Ordinary share at the start of the financial year two years prior to the current year, increased at an annualised rate of 1% above the benchmark, no performance fee is payable (i.e. a three-year rolling period).

Within the Income Statement, 75% of the investment management fee has been charged to capital for the year ended 30 June 2010 and details of the fees charged during the year are shown in Note 3 to the Financial Statements. A performance fee of £619,000 (2009 - nil) was payable to the Manager in respect of the year ended 30 June 2010.

During the year ended 30 June 2010, the Board reviewed the performance of the Manager and the terms of the IMA and is of the opinion that the continuing appointment of the Manager, on the terms agreed in the IMA, is in the best interests of shareholders as a whole. The key factors taken into account in reaching this decision were the commitment, investment skills and experience of the Manager's personnel and the long-term record of its performance in managing smaller company equities.

Corporate Governance

The Statement of Corporate Governance, which forms part of the Directors' Report, appears on pages 21 to 25.

Substantial Interests

Table 2 sets out the interests in 3% or more of the issued share capital of the Company, of which the Board was aware, as at the date of this Report.

Name of shareholder	Number of Ordinary Shares	%
M&G Investment Management	10,694,287	17.8
Standard Life Investments	7,172,543	12.0
East Riding of Yorkshire	3,523,519	5.9
Standard Life Savings Limited – retail planholders	2,450,445	4.1
Legal & General Investment Management	2,259,627	3.8
Transact Private Clients	1,939,060	3.2
Rathbones	1,900,335	3.2

Table 2: Substantial interests

Going Concern

The Company's assets consist of equity shares in companies listed on recognised stock exchanges and are considered by the Board to be realisable within a short timescale under normal market conditions.

The Board has set overall limits for borrowing and regularly reviews the Company's level of gearing, cash flow projections and compliance with banking covenants. The Company's bank loan facility, which was unused, expired on 23 August 2010. The Company has opened renewal negotiations with its bankers.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Creditor Payment Policy

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant market in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. The Directors do not consider any creditors to represent trade creditors.

Independent Auditor

The Company's Independent Auditor, Ernst & Young LLP, is willing to continue in office and resolution 6 will be proposed at the Annual General Meeting to re-appoint the Auditor and to authorise the Directors to fix the Auditors remuneration.

The Directors who held office at the date of approval of this Directors' Report confirmed that, so far as they are each aware, there is no relevant audit information needed of which the Company's Independent Auditor was unaware, and that each Director had taken all the steps that they might reasonably be expected to have taken as a Director to make themselves aware of any relevant audit information, and to establish that the Company's Independent Auditor was aware of that information.

Important events during the year and between 30 June 2010 and the date of this Report, including the tender offer result announced on 7 July 2010, are set out in the Chairman's Statement on pages 3 to 5 and in the Manager's Report on pages 8 to 10.

Additional Information

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

There are no restrictions on the transfer of Ordinary shares in the Company other than certain restrictions which may from time to time be imposed by law (for example, insider trading law). The Company is not aware of any agreements between shareholders that may result in a transfer of securities and/or voting rights.

The rules governing the appointment of Directors are set out in the Statement of Corporate Governance on pages 21 to 25. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

The Company is not aware of any significant agreements to which it is a party that take effect, alter or terminate upon a change of control of the Company following a takeover. Other than the IMA with the Manager, further details of which are set out on page 17, the Company is not aware of any contractual or other agreements which are essential to its business which could reasonably be expected to be disclosed in the Directors' Report.

Political and Charitable Donations

The Company makes no political donations or expenditures or donations for charitable purposes and, in common with most investment trusts, has no employees.

Annual General Meeting

The Notice of the Annual General Meeting ("AGM"), which will be held on Tuesday 12 October 2010, may be found on pages 47 to 52 of this Annual Report.

Issue of Ordinary Shares by the Company

Among the Resolutions being put to the Annual General Meeting as Ordinary Business, Resolution 7, which is an Ordinary Resolution, will, if passed, renew the Directors' authority to allot new Ordinary shares up to a nominal value of £1,500,130. This will allow the Directors to allot up to 6,000,521 Ordinary shares (being approximately 10% of the issued share capital of the Company as at the date of this Notice, excluding treasury shares). Resolution 8, which is a Special Resolution, will, if passed, renew the Directors' existing authority to allot new shares or sell treasury shares for cash without the shares first being offered to existing shareholders in proportion to their existing holdings. This will give Directors authority to make limited allotments or sell shares from treasury of up to a nominal value of £1,500,130, being up to 6,000,521 Ordinary shares, representing approximately 9.4% of the total Ordinary issued share capital including treasury shares and approximately 10% of the total Ordinary issued share capital, excluding treasury shares. The authority to issue shares on a non pre-emptive basis includes shares held in treasury (if any) which the Company sells or transfers, including pursuant to the authority conferred by Resolution 9. Since the introduction of The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 on 1 December 2003, a listed company is able to hold shares that it has repurchased in treasury rather than cancel them.

New Ordinary shares will only be issued at prices representing a premium to the last published net asset value per share.

As at the date of approval of this Report, 3,717,342 Ordinary Shares were held in treasury, being 6.2% of the total issued share capital (excluding treasury shares) as at the latest practicable date prior to the date of this Report (30 June 2010 - 559,175; 30 June 2009 - 559,175).

The authorities being sought under Resolutions 7 and 8 shall expire at the conclusion of the next Annual General Meeting in 2011 or, if earlier, on the expiry of 15 months from the date of the passing of the Resolutions, unless such authority is renewed prior to such time. The Directors have no current intention to exercise these authorities and will only do so if they believe it is advantagous and in the best interests of shareholders.

Purchase of the Company's Ordinary Shares
The Company's buy back authority was last renewed at the AGM on 13 October 2009. Special Resolution 9 renews the Board's authority to make market purchases of the Company's Ordinary shares in accordance with the provisions contained in the Companies Act and the UKLA's Listing Rules. Accordingly, the Company will seek the authority to purchase up to a maximum of 14.99% of the issued share capital (excluding treasury shares) at the date of passing of the Resolution (being approximately 8,994,781 Ordinary Shares as at the latest practicable date prior to the publication of this document) at a minimum price of not less than 25 pence per share (being the nominal value). Under the Listing Rules, the maximum price that may be paid on the exercise of this authority must not exceed the higher of; (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares over the five business days immediately preceding the date of purchase; and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue on which the purchase is carried out.

The Board does not intend to use this authority to purchase the Company's shares unless to do so would result in an increase in the net asset value per share and would be in the best interests of the shareholders. Any shares purchased shall either be cancelled or held in treasury. The authority being sought shall expire at the conclusion of the Annual General Meeting in 2011 or, if earlier, on the expiry of 15 months from the passing of Resolution 9 unless such authority is renewed prior to such time.

Sale of treasury shares
Subject to the passing of Resolution 8, Resolution 10 will give the Directors authority to sell Ordinary shares out of treasury for cash at a price below the then prevailing net asset value of the shares provided always that the shares will only be sold or transferred out of treasury at prices (a) in excess of the average price at which the shares were bought into treasury; and (b) at a narrower discount to the net asset value than the average level of discount the shares were purchased at. Any dilution to the net asset value resulting from (b) above shall be restricted to no more than 0.5% in any financial year.

Regular Tender Offers
The Board intends, on a six-monthly basis, to offer shareholders the opportunity to exit some or all of their investment in the Company. The initial tender offer was on 30 June 2010 and the next tender offers are expected to be on 31 December 2010 and on 30 June 2011. Investors should note that the operation of the regular tender offers is discretionary.

Subject to certain limitations set out below, the Directors intend to invite shareholders to tender for cash all or part of their holdings of shares. The price at which shares will be purchased will be an amount equal to the realisation value of the assets attributable to the shares tendered as at the close of business on the relevant tender offer calculation date, less an exit charge of 2%.

Subject to the Directors' discretion being exercised on any relevant occasion, the tender offers will be effected such that the tender offer calculation dates will be 30 June and 31 December of each year (or the preceding business day). It is the Directors' current intention that each six-monthly tender offer will be restricted to a maximum of 5% in aggregate of the shares in issue as at the relevant tender offer calculation date (excluding any shares held in treasury), provided that any amount unused at the 30 June tender date can be carried forward to the 31 December tender date and up to 5%, of the 10% in any calendar year that remains unused, can be carried forward to the next calendar year only. Accordingly, the maximum limit of shares which can be tendered in any calendar year will be up to 15% of the shares in issue (including a full carry-forward of 5% from the previous calendar year).

Therefore, in addition to the authority that is being sought by the Company under Resolution 9 to purchase its own shares of 25 pence each, Special Resolution 11 grants the Board the authority to implement the next tender offers on 31 December 2010 (the "First Tender") and 30 June 2011 (the "Second Tender") and at the First Tender to repurchase up to a maximum of 5% of the Company's issued share capital as at 31 December 2010 and at the Second Tender to repurchase up to an aggregate 5% of the Company's issued share capital at 30 June 2011 plus any unused authority from the First Tender. If Resolution 11 is passed the tender offer will be structured by way of an on market offer by a market-maker and the price will be an amount equal to the realisation value of the assets attributable to the shares tendered as at close of business on 31 December 2010, and 30 June 2011, less an exit charge of 2%. The shares will subsequently be bought back by the Company from the market-maker at the same price and cancelled or held in treasury.

If Resolution 11 is passed such authority will expire at the conclusion of the Company's next Annual General Meeting in 2011 unless renewed prior to that date. It is expected that a further special resolution will be proposed at the AGM in 2011 in respect of the tender offer dates on 31 December 2011 and 30 June 2012.

The tender offer will be conducted in accordance with the UKLA's Listing Rules and the rules of the London Stock Exchange. A separate circular and tender form will be sent to shareholders prior to each tender offer 31 December 2010 and 30 June 2011 which will set out the full terms and conditions of the tender offer and the procedure for tendering shares.

Directors' Remuneration

An Ordinary resolution will be put to the Annual General Meeting to increase to a maximum of £150,000 the aggregate limit of Directors' annual remuneration that is currently set out in Article 114 of the Company's Articles of Association.

Recommendation

Your Board considers Resolutions 7, 10 and 12, all of which are Ordinary resolutions, and Resolutions 8, 9 and 11, all of which are Special Resolutions, to be in the best interests of the Company and most likely to promote the success of the Company for the benefit of its members as a whole. Accordingly, your Board unanimously recommends that shareholders vote in favour of Resolutions 7, 8, 9, 10, 11 and 12 to be proposed at the AGM on 12 October 2010.

By order of the Board,
Aberdeen Asset Management PLC
Company Secretaries

Edinburgh, 6 September 2010

Introduction

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles identified in the Combined Code on Corporate Governance (the "Combined Code") issued in June 2008. The Association of Investment Companies has published its own Code on Corporate Governance© ("the AIC Code"), revised in March 2009, which forms a comprehensive guide to best practice in certain areas of governance where the specific characteristics of investment trusts suggests alternative approaches to those set out in the Combined Code that may be preferable. There is a certain amount of overlap with the Combined Code, although the focus of attention is on the points of difference.

Application of the Principles of the Codes

This statement describes how the principles identified in the Combined Code and the AIC Code have been applied by the Company throughout the year.

The Listing Rules of the UK Listing Authority require the Board to report on compliance with the Combined Code provisions throughout the year. In instances where the Combined Code and AIC Code differ, an explanation will be given as to which Code has been applied, and the reason for that decision.

The Board is of the opinion that the Company has complied fully with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code.

The Board

The Board currently consists of a non-executive Chairman, Donald MacDonald, and three non-executive Directors. The names and biographies of those Directors who held office at 30 June 2010 and at the date of this Report, appear on page 6 and indicate their range of investment, industrial, commercial and professional experience. Mr Woods has been appointed Senior Independent Director.

All Directors are considered under the Codes to be independent of Standard Life Investments (Corporate Funds) Limited ("the Manager") and free of any relationship which could materially interfere with the exercise of their independent judgement on issues of strategy, performance, resources and standards of conduct.

The Board sets the Company's values and objectives and ensures that its obligations to its shareholders are met. It has formally adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues.

These matters include:

- the maintenance of clear investment objectives and risk management policies;
- the monitoring of the business activities of the Company ranging from analysis of investment performance through to annual budgeting and quarterly forecasting and variance analysis;
- Companies Act requirements such as the approval of the Half-Yearly Financial Report and Annual Report and Financial Statements and approval of any dividends;
- setting the range of gearing in which the Manager may operate;
- major changes relating to the Company's structure including mergers, share buy-backs and share issuance;
- Board appointments and removals and the related terms;
- authorisation of Directors' conflicts or possible conflicts of interest;
- terms of reference and membership of Board Committees;
- appointment and removal of the Manager and the terms and conditions of the Investment Management Agreement relating thereto; and
- Stock Exchange/UK Listing Authority/Financial Services Authority - responsibility for approval of all circulars, listing particulars and other releases concerning matters decided by the Board.

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest as required by the regime introduced by the Companies Act 2006. As part of this process, the Directors prepare a list of other positions held and all other conflict situations that may need authorising either in relation to the Director concerned or his/her connected persons. The Board considers each Director's situation and decides whether to approve any conflict, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretaries of any potential or actual conflict situations which will require authorising by the Board. Authorisations given by the Board will be reviewed at each Board meeting.

Statement of Corporate Governance

There is an agreed procedure for Directors to take independent professional advice, if necessary, at the Company's expense. The Directors have access to the advice and services of the corporate Company Secretaries through its appointed representatives who are primarily responsible to the Board:

- for ensuring that Board procedures are complied with;
- under the direction of the Chairman, for ensuring good information flows with the Board and its Committees, as well as facilitating induction and assisting with professional development as required; and
- for advising, through the Chairman, on all corporate governance matters.

The Board meets formally at least four times a year, and more frequently where business needs require. The Board met on five occasions during the year ended 30 June 2010. Details of attendance by each of the Directors and Committee members at these Board and other Committee meetings are shown in Table 3. Between meetings, the Board maintains regular contact with the Manager. The primary focus at regular Board meetings is a review of investment performance and associated matters including gearing, marketing and investor relations, peer group information and industry issues.

	Board Meetings	Audit and Management Engagement Committee Meetings	Nomination Committee Meeting
Donald MacDonald (Chairman)	5 (5)	3 (3)	1 (1)
Carol Ferguson	5 (5)	3 (3)	1 (1)
Lynn Ruddick	5 (5)	3 (3)	1 (1)
David Woods	5 (5)	3 (3)	1 (1)

Table 3: Directors' attendance at Board and Committee meetings with the number of meetings which they were eligible to attend in brackets

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including the Manager's report and discussion documents regarding specific matters. Directors have made further enquiries where necessary.

External Agencies

The Board has contractually delegated to external agencies, including the Manager and other service providers, certain services: the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the share registration services and the day to day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered in so far as they relate to the affairs of the Company. In addition ad hoc reports and information are supplied to the Board as requested.

Board Committees

The terms of reference for each of the two Board Committees, which are reviewed annually, are available from the Company's webpage (www.standardlifeinvestments.com/its).

Audit and Management Engagement Committee

The Directors have established an Audit and Management Engagement Committee, comprising all four current non-executive directors, which was chaired throughout the year by Lynn Ruddick.

The matters considered by the Committee during the year included:

- the review of the effectiveness of the internal control environment of the Company – to assist in this the Committee received reports from the internal audit and compliance departments of the Manager and the Administrators ("Aberdeen");
- the review of the Annual Report and Half-Yearly Financial Report;
- the review of the terms of appointment of the Auditor together with their remuneration as well as the review of any non-audit services provided by the Auditor;
- the review of the scope and the results of the audit, its cost effectiveness and the independence and objectivity of the auditors, with particular regard to non-audit fees (it should be noted that the Auditor, Ernst & Young LLP, in accordance with regulatory requirement, rotates the partner responsible for the audit every five years);
- the review of the Auditor's management letter and the management response; and
- meetings with representatives of the Manager and the Auditor.

During the year ended 30 June 2010, Ernst & Young LLP received no non-audit fees (2009: £1,000 excluding VAT). The Committee considers Ernst & Young LLP, the Company's Auditor, to be independent of the Company.

Management Engagement matters

In relation to its responsibilities for management engagement, the Audit and Management Engagement Committee annually reviews matters concerning the Investment Management Agreement ("IMA") between the Company and the Manager. Details of the IMA and the annual review performed by the Committee may be found on page 17 in the Directors' Report.

Nomination Committee

A Nomination Committee has been established comprising the full Board and whose Chairman is the Chairman of the Company.

As permitted under the UKLA's Listing Rules, which allow the Company to dispense with appointing a separate remuneration committee, the Nomination Committee fulfils the requirement to review regularly the level of Directors' remuneration. The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Company. The Company's policy on Directors' remuneration, together with details of the remuneration of each Director, is detailed in the Directors' Remuneration Report on page 27.

The Committee reviews regularly the composition, experience and commitment of the Directors, particularly in relation to succession planning and recommendations for individual re-election at each Annual General Meeting ("AGM"). For new appointments, a description of the required role is prepared and nominations for Directors sought in the appropriate industry sector. If required, external search consultants may be used to ensure that a wide range of candidates are considered.

The Committee also ensures that appropriate induction is arranged by the Manager for a newly appointed Director. This involves meetings about the Company, its Manager, legal responsibilities of Directors and investment trust industry matters. Directors are provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors are also able to participate in training courses run by the AIC.

All non-executive Directors are initially appointed until the third AGM following their date of appointment, after which they are subject to re-election at every third subsequent AGM. In accordance with the Company's Articles of Association, Directors appointed by the Board since the last AGM are required to retire and seek election at their first AGM.

The Board and Committees undertook an annual performance evaluation in May 2010, using questionnaires and discussion, to ensure that the Directors have all devoted sufficient time and contributed adequately to the work of the Board and Committees and to consider each Director's independence.

The Board's policy on tenure is that Directors need not serve on the Board for a limited period of time only.

The Board does not consider that the length of service of a Director is as important as the contribution he or she has to make, and therefore the relevance of individual length of service will be determined on a case by case basis.

In line with the AIC Code and the Board's stated policy on tenure, Donald MacDonald will retire and, being eligible, submits himself for re-election at the next AGM. Carol Ferguson will retire at the AGM, and being eligible, offers herself for re-election.

In their absence, each of Donald MacDonald and Carol Ferguson have been evaluated by their fellow Directors. The Board considers that none of their other commitments (as set out on page 6 of this Report) interfere with the discharge of their responsibilities to the Company and is satisfied that they individually make sufficient time available to serve the Company effectively. There have been no significant changes to the other commitments of either Donald MacDonald or Carol Ferguson. The outcome of this evaluation was satisfactory in each case. The Board considers that, due to their individual skills, experience and commitment, Donald MacDonald and Carol Ferguson merit re-election and shareholders are encouraged to support the relevant AGM resolutions.

Statement of Corporate Governance

Communication with Shareholders

The Company places a great deal of importance on communication with its institutional and private client shareholders. The Manager has an annual programme of meetings with institutional shareholders and reports back to the Board on these meetings.

As recommended best practice under the Combined Code, the Annual Report is normally posted to shareholders at least 20 business days before the AGM.

The Notice of Meeting on pages 47 to 51 sets out the business of the meeting and the resolutions are explained more fully in the Directors' Report on pages 18 to 20. Separate resolutions are proposed for each substantive issue.

The Board is conscious that the AGM is an event which all shareholders are encouraged to attend and to participate in. The Manager makes a presentation to the meeting outlining the key investment issues that affect the Company. All shareholders have the opportunity to put questions to both the Board and Manager at the AGM. The number of proxy votes is relayed to shareholders at the Annual General Meeting after each resolution has been dealt with on a show of hands and details will subsequently be made available on the Company's webpage.

Shareholders have direct access to the Company either via the Customer Services Department operated by the Manager, or by contacting the Company Secretaries. Contact details may be found on page 44.

The Company has adopted a nominee code, which ensures that, when shares are held in the name of nominee companies and notification has been received in advance, nominee companies will be provided with copies of shareholder communications for distribution to their clients. Nominee investors may attend, speak and vote at general meetings.

Participants in the Standard Life Savings Limited Share Plan and ISA, whose shares are held in the nominee name of the plan administrator, are given the opportunity to vote by means of a Letter of Direction enclosed with the Annual Report. The Letter of Direction is forwarded to the administrator of the Share Plan and ISA, who will complete a proxy on behalf of the participants and forward it to the Company's registrars for inclusion in the voting figures.

A webpage, hosted by the Manager, from which the Company's statutory reports and other publications can be downloaded, is maintained at www.standardlifeinvestments.com/its

Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. In practice, many of the day-to-day measures have been delegated to the Manager and the Company Secretaries with an effective process of reporting to the Board for supervision and control.

Following publication by the Financial Reporting Council of "Internal Control: Revised Guidance for Directors on the Combined Code" ('the FRC Guidance'), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of this Annual Report and Financial Statements and is regularly reviewed by the Board and accords with the FRC Guidance. The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and policies by which these risks are managed.

The significant risks faced by the Company are as follows:

- financial;
- operational; and
- compliance with regulation and company law.

The key components designed to provide effective internal control are outlined below:

- the Manager prepares management reports which allow the Board to assess the Company's activities and review its performance;
- the Board and Manager have agreed a defined investment policy and relevant reports, including performance statistics and investment valuations, are submitted to each Board meeting;
- as a matter of course the Manager's internal audit and compliance department continually reviews the operations of the Manager and other service providers;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers;
- the Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place at the Manager, has decided to rely upon the Manager's systems and internal audit procedures; and

- twice annually the Audit and Management Engagement Committee formally carries out an assessment of internal controls by considering documentation from the Manager and the Company Secretaries, including the internal audit and compliance functions and taking account of risk management problems or compliance breaches identified previously, and reports to the Board on its conclusions. At the conclusion of these reviews, the Board decides whether any changes to the system of internal control are required.

Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, by their nature, can only provide reasonable and not absolute assurance against mis-statement and loss.

Corporate Governance and Socially Responsible Investment Policy

Responsibility for actively monitoring the activities of investee companies has been delegated by the Directors to the Manager. The Manager undertakes constructive engagement with investee companies on governance and socially responsible issues in order to influence positively developments in these areas. The Manager's specific policies are outlined in a set of their Corporate Governance Guidelines which are applied with appropriate care and flexibility. The Manager gives due weight to that which it considers to be socially responsible when taking investment decisions, but the overriding objective is to produce good investment returns for shareholders.

Exercise of Voting Powers as an Institutional Shareholder

The Company operates a corporate governance voting policy which, in summary, is based on the governance recommendations of the Revised Code with the intention of voting in accordance with best practice, while retaining a primary focus on financial returns. In the case of the Company's investments, the Company has given discretionary voting powers to the Manager who will always seek to vote in a manner consistent with the Company's best interests as a shareholder in the underlying investments, both now and in the future.

Accountability and Audit

The Statement of Directors' Responsibilities in respect of the Financial Statements is on page 26 and the Statement of Going Concern is included in the Directors' Report on page 18. The Independent Auditor's Report is on page 28.

By order of the Board,
Aberdeen Asset Management PLC
Company Secretaries

Edinburgh, 6 September 2010

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards. 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 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

Directors' Responsibilities Statement
Each Director confirms, to the best of their knowledge, that:

- the financial statements have been prepared in accordance with UK Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit; and that
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

For and on behalf of the Board of Standard Life UK Smaller Companies Trust plc

Donald MacDonald
Chairman

6 September 2010

The Board has prepared this report in accordance with the requirements of Section 421 to the Companies Act 2006. An Ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

The law requires your Company's Auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Independent Auditor's opinion is included in the report on page 28.

Unaudited Information

Remuneration Policy

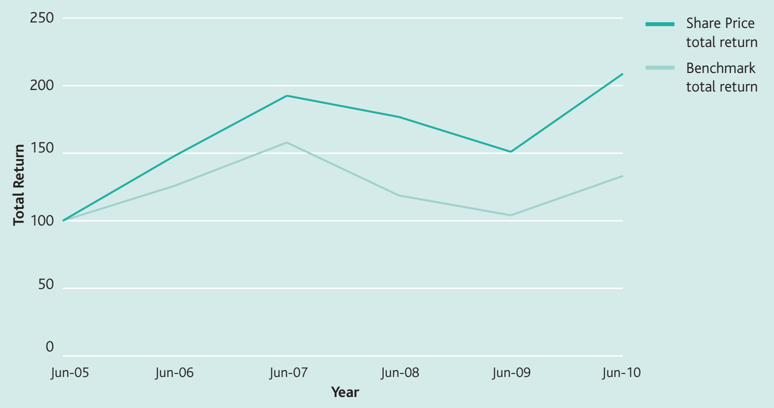
The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £100,000 per annum. Subject to the overall limit, the Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole and be fair and comparable to that of other investment trusts that are similar in size, with a similar capital structure and investment objective. It is intended that this policy will continue for the year to 30 June 2011 and subsequent years. The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association and they are not eligible for pension benefits, share options, long-term incentive schemes or other benefits. The Board's policy is to carry out a review of the level of Directors' fees each year and, following this year's review, it was concluded that the following fees would be payable to Directors each year, with effect from 1 July 2010: Chairman, £22,000 (formerly £20,000), Chairman of the Audit and Management Engagement Committee, £17,500 (formerly £16,000) and £15,500 (formerly £14,000) for each other Director.

No Director has a service contract with the Company. The Company's Articles of Association provide that Directors shall retire and be subject to election at the first Annual General Meeting after their appointment, and at least every three years after that. Notwithstanding the Articles, the Board has agreed that all Directors with more than nine years' service should retire annually and seek re-election at the Annual General Meeting. The terms of a Director's appointment also provide that a Director may be removed without notice and that compensation will not be due on leaving office. No Director had an interest in contracts with the Company during the period or subsequently. Directors' and officers' liability insurance cover is maintained by the Company on behalf of the Directors.

A resolution to receive and adopt the Directors' Remuneration Report will be proposed at the Annual General Meeting.

Performance of the Company

Total cumulative Ordinary share price total return for the five year period ended 30 June 2010 (rebased to 100 at 30 June 2005)



The graph above compares the total return (assuming all dividends are reinvested) to Ordinary shareholders in the Company compared to the total return from the Hoare Govett Smaller Companies Index (excluding Investment Companies). This index was chosen for comparison purposes only and is a widely used indicator for the equity market of which the Company is a constituent.

Audited Information

Directors' Emoluments

The Directors who served in the year received the fees which are set out in Table 4 and which exclude employers' NI and any VAT payable.

	Date of Appointment to / (resignation from) the Board	30 June 2010 £	30 June 2009 £
Chairman of the Board: Donald MacDonald	12 July 1993	20,000	17,000
Chairman of the Audit and Management Engagement Committee: Lynn Ruddick (from 20 March 2009)	4 February 2009	16,000	5,199
Micky Ingall (until 28 February 2009 - deceased)	(28 February 2009)	n/a	8,500
Director Carol Ferguson	4 February 2009	14,000	5,199
Neil Dunn	(4 February 2009)	n/a	7,031
David Woods	5 May 2005	14,000	12,750
		64,000	**55,679**

Table 4: Directors' fees

Approval

The Directors' Remuneration Report was approved by the Board of Directors and signed on its behalf by:

By order of the Board,
Aberdeen Asset Management PLC
Secretary

Edinburgh, 6 September 2010

Independent Auditor's Report

Independent Auditor's Report to the Members of Standard Life UK Smaller Companies Trust plc

We have audited the financial statements of Standard Life UK Smaller Companies Trust plc for the year ended 30 June 2010 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and Auditor

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

Scope of the Audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2010 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept; 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 we require for our audit.

Under the Listing Rules we are required to review:

- The Directors' statement in relation to going concern (as set out on page 18); and
- The part of the Statement of Corporate Governance relating to the Company's compliance with the nine provisions of the 2008 Combined Code specified for our review.

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

Edinburgh, 6 September 2010

Income Statement

For the year ended 30 June 2010

	Notes	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Net gains/(losses) on investments held at fair value	9	—	27,633	27,633	—	(8,063)	(8,063)
Currency losses		—	(3)	(3)	—	(10)	(10)
Income	2	2,202	—	2,202	1,433	—	1,433
Investment management fee	3	(157)	(470)	(627)	(41)	(143)	(184)
Performance fee	3	—	(619)	(619)	—	—	—
VAT recovered on investment management fees	3	187	187	374	—	—	—
Other administrative expenses	4	(398)	—	(398)	(385)	—	(385)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		1,834	26,728	28,562	1,007	(8,216)	(7,209)
Finance costs	5	(18)	(54)	(72)	(13)	(40)	(53)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		1,816	26,674	28,490	994	(8,256)	(7,262)
Taxation	6	(7)	—	(7)	(4)	—	(4)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		1,809	26,674	28,483	990	(8,256)	(7,266)
RETURN PER ORDINARY SHARE:	8	2.86p	42.23p	45.09p	2.56p	(21.39p)	(18.83p)

The total column of this statement represents the profit and loss account of the Company.

A Statement of Total Recognised Gains and Losses has not been prepared as all gains or losses are recognised in the Income Statement.

All revenue and capital items in the above statement derive from continuing operations.

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

Balance Sheet

As at 30 June 2010

	Notes	2010 £'000	2009 £'000
NON-CURRENT ASSETS			
Investments at fair value through profit or loss	9	98,057	72,576
CURRENT ASSETS			
Loans and receivables	10	1,255	770
AAA Money Market funds	14	1,001	3,118
Cash and short term deposits	14	2	77
		2,258	3,965
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(3,017)	(6,285)
NET CURRENT LIABILITIES		(759)	(2,320)
NET ASSETS		97,298	70,256
CAPITAL AND RESERVES			
Called-up share capital	12	15,931	15,931
Share premium account		—	25,073
Capital redemption reserve		—	549
Special reserve		46,871	21,364
Capital reserve		32,737	6,063
Revenue reserve		1,759	1,276
EQUITY SHAREHOLDERS' FUNDS		97,298	70,256
NET ASSET VALUE PER ORDINARY SHARE	15	154.04p	111.23p

The financial statements on pages 29 to 43 were approved and authorised for issue by the Board of Directors on 6 September 2010 and were signed on its behalf by:

A.D.M. MACDONALD, Chairman

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

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 June 2010

For the year ended 30 June 2010

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Warrant reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2009	15,931	25,073	549	—	21,364	6,063	1,276	70,256
Return on ordinary activities after taxation	—	—	—	—	—	26,674	1,809	28,483
Tender offer costs (see note 18)	—	—	—	—	(115)	—	—	(115)
Cancellation of reserves (see note 12)	—	(25,073)	(549)	—	25,622	—	—	—
Dividends paid (see note 7)	—	—	—	—	—	—	(1,326)	(1,326)
BALANCE AT 30 JUNE 2010	15,931	—	—	—	46,871	32,737	1,759	97,298

For the year ended 30 June 2009

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Warrant reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2008	8,149	68	549	743	21,364	13,875	963	45,711
Return on ordinary activities after taxation	—	—	—	—	—	(8,256)	990	(7,266)
C shares issued	7,491	23,832	—	—	—	—	—	31,323
Exercise of warrants	291	1,173	—	(299)	—	—	—	1,165
Cancellation of warrants	—	—	—	(444)	—	444	—	—
Dividends paid (see note 7)	—	—	—	—	—	—	(677)	(677)
BALANCE AT 30 JUNE 2009	15,931	25,073	549	—	21,364	6,063	1,276	70,256

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

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

Cash Flow Statement

For the year ended 30 June 2010

	Notes	2010 £'000	2010 £'000	2009 £'000	2009 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	13		1,619		739
SERVICING OF FINANCE					
Interest paid			(74)		(45)
TAXATION			(15)		(12)
FINANCIAL INVESTMENT					
Purchase of Investments		(32,411)		(45,627)	
Sale if investments		34,041		42,468	
NET CASH INFLOW/(OUTFLOW) FROM FINANCIAL INVESTMENT			1,630		(3,159)
EQUITY DIVIDENDS PAID			(1,326)		(677)
NET CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING			1,834		(3,154)
FINANCING					
Share capital issued - C shares		—		1,480	
Exercise of warrants		—		1,165	
Tender offer costs		(23)		—	
(Repayment)/drawdown of bank loan		(4,000)		2,500	
NET CASH (OUTFLOW)/INFLOW FROM FINANCING			(4,023)		5,145
NET CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES			(2,189)		1,991
MANAGEMENT OF LIQUID RESOURCES					
Purchase of AAA Money Market funds		(32,000)		(37,296)	
Sale of AAA Money Market funds		34,117		35,386	
NET CASH INFLOW/(OUTFLOW) FROM MANAGEMENT OF LIQUID RESOURCES			2,117		(1,910)
(DECREASE)/INCREASE IN CASH	14		(72)		81
RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT					
(Decrease)/increase in cash as above	14	(72)		81	
Net change in liquid resources	14	(2,117)		1,910	
Net change in debt due within one year	14	4,000		(2,500)	
Other non-cash movements	14	(3)		(10)	
MOVEMENT IN NET DEBT IN YEAR			1,808		(519)
OPENING NET DEBT	14		(2,805)		(2,286)
CLOSING NET DEBT	14		(997)		(2,805)

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

1 Accounting policies

(a) Basis of accounting

The financial statements have been prepared on a going concern basis and in accordance with applicable UK Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in January 2009. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

(b) Valuation of investments

Investments have been designated upon initial recognition as fair value through profit or loss. Investments are recognised and de-recognised at trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are measured initially at fair value, which equals consideration receivable or payable less transaction costs. Subsequent to initial recognition, investments are valued at fair value. For listed investments, this is deemed to be bid market prices or closing prices for SETS stocks sourced from the London Stock Exchange. SETS is the London Stock Exchange electronic trading service covering most of the market including all FTSE 100 constituents and most liquid FTSE 250 along with some other securities. Gains and losses arising from changes in fair value are included in net profit or loss for the period as a capital item in the Income Statement and are ultimately recognised in the capital reserve.

(c) AAA money market funds

The AAA money market funds are used by the Company to provide additional short-term liquidity. As they are not listed on a recognised exchange and due to their short term nature, they are recognised in the financial statements at cost, which equates to fair value, and as a current asset.

(d) Income

Income from equity investments (other than special dividends), including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Special dividends are credited to revenue or capital in the Income Statement, according to the circumstances. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on short term deposits is accounted for on an accruals basis. Other income and underwriting income is recognised when their right to return is established.

(e) Expenses and interest payable

Expenses are accounted for on an accruals basis. Expenses are charged to the capital column of the Income Statement when they are incurred in connection with the maintenance or enhancement of the value of investments. In this respect, the investment management fee and relevant finance costs are allocated 25% to revenue and 75% to the capital columns of the Income Statement in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively (see note 3).

The performance fee is recognised 100% as a capital item in the Income Statement as it related entirely to the capital performance of the Company.

Transaction costs incurred on the purchase and disposal of investments are recognised as a capital item in the Income Statement.

(f) Dividends payable

Dividends are recognised in the period in which they are paid.

(g) Capital reserve

Gains and losses on realisation of investments and changes in fair values which are readily convertible to cash, without accepting adverse terms, are transferred to the capital reserve.

(h) Taxation

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 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 Financial Statements which are capable of reversal in one or more subsequent periods.

Notes to the Financial Statements

1 Accounting policies (continued)

Owing to the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

(i) Other reserves
The special reserve arose following Court approval for the cancellation of the then share premium account balance at 24 June 1999. In addition to this, on 31 March 2010 Court of Session approval was granted for the cancellation of the Company's entire share premium account and capital redemption reserve and subsequent creation of a special distributable capital reserve.

(j) Foreign currency
Overseas monetary assets and liabilities are converted into Sterling at the rate of exchange ruling at the Balance Sheet date. Transactions during the year involving foreign currencies are converted at the rate of exchange ruling at the transaction date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Income Statement.

2 Income

	2010 £000	2009 £000
Income from investments		
UK dividend income	1,963	1,102
Unfranked investment income	—	137
REIT income	57	34
Overseas dividend income	161	—
	2,181	1,273
Other income		
Interest from AAA Money Market funds	13	53
Interest from UK Treasury Bills	—	73
Deposit interest	—	1
Interest from HMRC	—	33
Underwriting commission	7	—
Other income	1	—
	21	160
Total income	2,202	1,433

3 Investment management and performance fees

	2010 £000	2009 £000
Investment management fee		
Investment management fee	627	184
Charged to capital reserve	(470)	(143)
	157	41
Performance fee		
Performance fee	619	—
Charged to capital reserve	(619)	—
	—	—

The Company has an agreement with Standard Life Investments ('SLI') for the provision of management services. The contract is terminable by either party on twelve months notice.

The management fee paid to SLI is 0.65% per annum (0.8% per annum prior to the final C share conversion on 11 June 2009) of the invested assets of the Company after deducting current liabilities but including any bank loans and 0.2% per annum for cash or non equity securities. The fee is chargeable 25% to revenue and 75% to capital.

In addition, SLI is entitled to a performance-related fee calculated annually at a rate of 20% of the amount by which the NAV's performance over the year (excluding current year income), exceeds the Company's Benchmark Index movement plus 1%. This is capped at 0.6% of the Gross Asset Value at the period end. During the year ended 30 June 2009, SLI agreed to make a contribution to the costs of the scheme of reconstruction and winding up of Gartmore Smaller Companies Trust plc for the benefit of the holders of C shares equal to 0.6% of the value of the continuation fund immediately following the implementation of the scheme. This contribution is broadly equivalent to the management fee on the continuation fund for a period of 9 months and was paid by means of a management fee waiver.

The total balance due to SLI at the year end was £779,000 (2009 - debtor of £12,000).

On 5 November 2007, the European Court of Justice ruled that management fees on investment trusts should be exempt from VAT. HMRC has announced its intention not to appeal against this ruling to the UK VAT Tribunal and therefore protective claims which have been made in relation to the Company will be processed in due course. The balance of these claims has not been finalised and the Company has made no further provision in these financial statements for further repayment.

In the meantime a refund of approximately £330,000 of VAT was made to the Company by Standard Life Investments plc, which was accounted for in the 2008 financial statements. In addition a further £374,000 has been received from Aberdeen Asset Management plc which has been accounted for in the current year. Both amounts have been allocated to revenue and capital respectively, in accordance with the accounting policy of the Company for the periods in which the VAT was charged.

4 Administrative expenses (inclusive of VAT)	2010 £000	2009 £000
Secretarial fees	100	100
Directors' fees	64	56
Auditor's remuneration		
- statutory audit	20	20
- other fees associated with issue of C shares	—	1
Registrar's fees	25	58
Professional fees	86	76
Other expenses	103	74
	398	385

The secretarial fee is paid to Standard Life Investments plc and adjusted annually in line with the Retail Price Index.

Irrecoverable VAT has been included under the relevant expense line above.

5 Finance costs	2010 £000	2009 £000
Bank loan arrangement fee	6	—
Bank loan interest	66	53
	72	53
Charged to capital reserve	(54)	(40)
	18	13

Notes to the Financial Statements

6 Taxation	Revenue 2010 £000	Capital 2010 £000	Total 2010 £000	Revenue 2009 £000	Capital 2009 £000	Total 2009 £000
(a) Analysis of charge for year						
Tax on ordinary activities	7	—	7	4	—	4

(b) Provision for deferred taxation

At 30 June 2010, the Company had unutilised management expenses and loan relationship losses of £31,253,000 (2009 - £29,979,000). No deferred asset has been recognised on the unutilised management expenses and loan relationship losses as it is unlikely there will be suitable taxable profits from which the future reversal of the deferred asset could be deducted.

(c) Factors affecting current tax charge for year

The tax assessed for the year is lower than the rate of corporation tax rate of 28% (2009 - 28%). The differences are explained below.

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Net return on ordinary activities before taxation	1,816	26,674	28,490	994	(8,256)	(7,262)
Corporation tax at 28% (2009 - 28%)	508	7,469	7,977	279	(2,312)	(2,033)
Effects of:						
Non-taxable UK dividend income	(550)	—	(550)	(309)	—	(309)
Non-taxable overseas dividends	(40)	—	(40)	—	—	—
Exchange losses not taxable	—	1	1	—	3	3
Income taxable in different years	(5)	—	(5)	—	—	—
Irrecoverable overseas taxes	7	—	7	4	—	4
Excess management expenses and loan relationship losses	58	267	325	30	51	81
Expenses not deductible for tax purposes	29	—	29	—	—	—
Capital (gains)/losses on investments not taxable	—	(7,737)	(7,737)	—	2,258	2,258
Current tax charge	**7**	**—**	**7**	**4**	**—**	**4**

7 Dividends	2010 £000	2009 £000
Amounts recognised as distributions to equity holders in the year:		
2009 final dividend of 1.10p per share (2008 - 1.00p) paid on 16 October 2009	695	320
2008 special dividend of 0.60 per share	—	192
2010 interim dividend of 1.00p per share (2009 - 0.50p) paid on 19 March 2010	631	166
Return of unclaimed dividends	—	(1)
	1,326	677

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

We set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Sections 1158 - 1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £1,809,000 (2009 - £990,000).

	2010	2009
	£000	£000
2010 interim dividend of 1.00p per share (2009 - 0.50p) paid on 19 March 2010	631	166
2010 final dividend of 1.50p per share (2009 - 1.10p) payable on 15 October 2010	900	695
	1,531	861

The amount payable for the proposed final dividend is based on the Ordinary shares in issue as at the date of approval of this report (60,005,214) which satisfies the requirement of s.1159 Corporation Tax Act 2010.

8 Return per Ordinary share	2010 p	2010 £000	2009 p	2009 £000
Revenue return	2.86	1,809	2.56	990
Capital return	42.23	26,674	(21.39)	(8,256)
Total return	45.09	28,483	(18.83)	(7,266)
Weighted average number of Ordinary shares in issue		63,163,381		38,598,545

9 Investments	2010 £000	2009 £000
Fair value through profit or loss		
Opening fair value	72,576	47,846
Opening fair value gains on investments held	(10,354)	(13,322)
Opening book cost	62,222	34,524
Additions at cost	32,275	75,606
Disposals – proceeds	(34,427)	(42,813)
– realised gains/(losses) on sales	5,314	(5,095)
Closing book cost	65,384	62,222
Closing fair value gains on investments held	32,673	10,354
Closing fair value	98,057	72,576
Gains/(losses) on investments		
Realised gains/(losses) on sales	5,314	(5,095)
Increase/(decrease) in fair value gains on investments held	22,319	(2,968)
	27,633	(8,063)

All investments are equity shares listed on the London Stock Exchange.

Transaction costs

During the year, expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains/(losses) on investments in the Income Statement. The total costs were as follows:

	2010 £000	2009 £000
Purchases	162	232
Sales	37	34
	199	266

10 Loans and receivables

	2010 £000	2009 £000
Amounts due from brokers	963	577
Net dividends and interest receivable	256	156
Investment management fee receivable	—	12
Other debtors	36	25
	1,255	770

11 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Bank loans	2,000	6,000
Amounts due to brokers	—	136
Interest payable	2	4
Investment management fee payable	160	—
Performance fee payable	619	—
Sundry creditors	144	145
Tender offer costs payable	92	—
	3,017	6,285

The Company had a revolving credit facility with Lloyds TSB until 23 August 2010. At the year end there was a balance of £2,000,000 (2009 - £6,000,000) drawn down at a rate of 0.93330% (2009 - 1.0234%) with a maturity date of 19 July 2010. Subsequent to the year end on 19 July 2010 the loan was repaid in full and the facility expired on 23 August 2010.

12 Called up share capital

	2010 £000	2009 £000
Authorised:		
149,998,996 (2009 - 149,998,996) Ordinary shares of 25p each - equity	37,500	37,500
Issued and fully paid:		
63,163,381 (2009 - 63,163,381) Ordinary shares of 25p each - equity	15,791	15,791
Held in treasury:		
559,175 (2009 - 559,175) Ordinary shares of 25p each - equity	140	140
	15,931	15,931

Following shareholders approval for the Company to embark on tender offers, the Company published a circular on 23 April 2010 for a tender offer of up to 5% of the Company's issued share capital at a discount of up to 2% of net asset value, as at 30 June 2010. On 7 July 2010, the Company announced that a total of 3,158,167 Ordinary shares were repurchased into treasury. Following the implementation of the tender offer, the Company had 60,005,214 Ordinary shares in issue and 3,717,342 Ordinary shares in treasury.

During the year the Company received Court approval to cancel its entire share premium account and capital redemption reserve and create a special reserve of £25,622,000.

The investment objective of the Company is to achieve long term capital growth by investment in UK quoted smaller companies.

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

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing which takes account of the Investment Manager's views on the market;
- the level of equity shares;
- the extent to which revenue in excess of that which is required to be distributed should be retained.

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

The Company does not have any externally imposed capital requirements.

13 Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

	2010 £000	2009 £000
Net return before finance costs and taxation	28,562	(7,209)
Adjusted for:		
(Gains)/losses on investments	(27,633)	8,063
Currency losses	3	10
Increase in accrued income	(100)	(54)
Decrease/(increase) in other debtors including investment management fee	9	(14)
Increase/(decrease) in sundry creditors including investment management fee	778	(57)
Net cash inflow from operating activities	1,619	739

14 Analysis of changes in net debt

	At 30 June 2009 £000	Cashflow £000	Currency and other movements £000	At 30 June 2010 £000
Cash and short term deposits	77	(72)	(3)	2
AAA Money Market funds	3,118	(2,117)	—	1,001
Debt due within one year	(6,000)	4,000	—	(2,000)
Net debt	(2,805)	1,811	(3)	(997)

15 Net asset value per share

Total shareholders' funds have been calculated in accordance with the provisions of applicable accounting standards. The analysis of total shareholders' funds on the face of the Balance Sheet reflects the rights, under the Articles of Association, of the Ordinary shareholders on a return of assets.

	2010	2009
Net assets attributable (£000)	97,298	70,256
Number of Ordinary shares in issue at year end (excluding shares held in treasury)	63,163,381	63,163,381
Net asset value per share	154.04p	111.23p

16 Financial instruments

The Company's financial instruments comprise securities and other investments, cash balances, loans and debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company also has the ability to enter into derivative transactions for the purpose of managing currency and market risks arising from the Company's activities.

The main risks the Company faces from its financial instruments are (i) market price risk (comprising interest rate risk, currency risk and other price risk), (ii) liquidity risk and (iii) credit risk.

The Board regularly reviews and agrees policies for managing each of these risks. The Manager's policies for managing these risks are summarised below and have been applied throughout the year. The numerical disclosures exclude short-term debtors and creditors, other than for currency disclosures, on the basis that their impact is considered immaterial.

(i) Market price risk

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

Interest rate risk

Interest rate movements may affect:

- the fair value of the investments in fixed interest rate securities;
- the level of income receivable on cash deposits;
- interest payable on the Company's variable rate borrowings.

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

It is the Company's policy to increase its exposure to equity market price risk through the judicious use of borrowings. When borrowed funds are invested in equities, the effect is to magnify the impact on shareholders' funds of changes - both positive and negative - in the value of the portfolio.

During the year ended 30 June 2010, the Company had in place a £10m revolving credit facility. The Board regulates the overall level of gearing by raising or lowering the level of the credit facility and is also able, if the circumstances warrant, to use derivatives or to purchase fixed interest securities in order to offset the effect of gearing.

Details of borrowings as at 30 June 2010 are shown in note 11.

Interest risk profile

The interest rate risk profile of the portfolio of financial assets and liabilities at the Balance Sheet date was as follows:

As at 30 June 2010	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £000
Assets			
AAA Money Market funds	—	0.66	1,001
Cash deposits	—	—	2
Total assets	—	—	**1,003**
Liabilities			
Bank loans	0.05	0.93	2,000
Total liabilities	—	—	**2,000**

As at 30 June 2009	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £000
Assets			
AAA Money Market funds	—	0.64	3,118
Cash deposits	—	—	77
Total assets	**—**	**—**	**3,195**
Liabilities			
Bank loans	0.10	1.02	6,000
Total liabilities	**—**	**—**	**6,000**

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on bank loans is based on the interest rate payable, weighted by the total value of the loans. The maturity date of the Company's loan is shown in note 11 to the financial statements.

The floating rate assets consist of AAA Money Market funds and cash deposits on call earning interest at prevailing market rates.

All financial liabilities are measured at amortised cost.

Interest rate sensitivity

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

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

- profit for the year ended 30 June 2010 would increase / decrease by £10,000 (2009 - increase / decrease by £32,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances and money market funds.

Foreign currency risk

A small proportion of the Company's investment portfolio is invested in overseas securities and the Balance Sheet can be affected by movements in foreign exchange rates. It is not the Company's policy to hedge this risk on a continuing basis. The Company only has borrowings denominated in sterling.

The revenue account is subject to currency fluctuation arising on overseas income. The Company does not hedge this currency risk.

Foreign currency risk exposure by currency of denomination:

	30 June 2010			30 June 2009		
	Overseas investments £000	Net monetary assets £000	Total currency exposure £000	Overseas investments £000	Net monetary assets £000	Total currency exposure £000
Euro	2,982	—	2,982	1,803	—	1,803

Foreign currency sensitivity

There is no sensitivity analysis included as the Company has no outstanding foreign currency denominated monetary items. Where the Company's equity investments (which are non-monetary items) are priced in a foreign currency, they have been included within the other price risk sensitivity analysis so as to show the overall level of exposure.

Other price risk

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

It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets and the stock selection process both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. The investments held by the Company are mainly listed on the London Stock Exchange.

Other price risk sensitivity

If market prices at the Balance Sheet date had been 10% higher or lower while all other variables remained constant, the return attributable to Ordinary shareholders for the year ended 30 June 2010 would have increased / decreased by £9,806,000 (2009 - increase / decrease of £7,258,000). This is based on the Company's equity portfolio held at each year end.

(ii) Liquidity risk

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

Liquidity risk is not considered to be significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. Short-term flexibility is achieved through the use of loan and overdraft facilities (note 11).

(iii) Credit risk

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

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

- where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default;
- investment transactions are carried out with a large number of brokers, whose credit rating is taken into account so as to minimise the risk to the Company of default;
- investment transactions are carried out with a large number of brokers, whose credit-standing is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker;
- cash is held only with reputable banks with high quality external credit enhancements.
- assets are ring fenced and protected in the event of custodian default.

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

Fair values of financial assets and financial liabilities

The fair value of borrowings has been calculated at £2,000,000 as at 30 June 2010 (2009 - £6,000,000) compared to an accounts value in the financial statements of £2,000,000 (2009 - £6,000,000) (note 11). The fair value of each loan is determined by aggregating the expected future cash flows for that loan discounted at a rate comprising the borrower's margin plus an average of market rates applicable to loans of a similar period of time and currency. All other assets and liabilities of the Company are included in the Balance Sheet at fair value.

17 Fair value hierarchy

The Company adopted the amendments to FRS 29 'Financial Instruments: Disclosures' effective from 1 January 2009. These amendments require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

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

The financial assets and liabilities measured at fair value in the Balance Sheet are grouped into the fair value hierarchy at 30 June 2010 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	98,057	—	—	98,057
Net fair value		98,057	—	—	98,057

a) Quoted equities

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

18 Post Balance Sheet events

The Company released a Tender Offer document to shareholders in April 2010. The Company announced on 7 July 2010 that the Tender Offer resulted in 4,731,822 Ordinary shares (representing approximately 7.49 per cent. of the Company's issued share capital) being tendered and, in accordance with the terms of the Tender Offer, the total number of shares to be bought back under the Tender Offer was 3,158,167 Ordinary shares, representing 5 per cent. of the Ordinary shares in issue on the Record Date.

The cost of the shares bought back was £4,574,000, excluding tender offer costs of £115,000, which has been charged against the special reserve during this year.

Following the implementation of the Tender Offer, the Company had 60,005,214 Ordinary shares in issue with a total number of voting rights of 60,005,214.

Information for Investors

Key contacts

Investment Manager
Standard Life Investments (Corporate Funds) Limited
1 George Street
Edinburgh EH2 2LL
(Authorised and regulated by the Financial Services Authority)

Website address:
www.standardlifeinvestments.com/its

Investor Services and Savings Scheme and ISA Plan Administrator
Standard Life Savings Limited
12 Blenheim Place
Edinburgh
EH7 5JH
Telephone: 0845 60 24 247
(Monday to Friday, 9am – 5pm)
(Authorised and regulated by the Financial Services Authority)

Company Secretaries and Registered office
Aberdeen Asset Management PLC
7th Floor
40 Princes Street
Edinburgh EH2 2BY
Telephone: 0131 528 4000

Registered in Scotland No. SC145455

Independent Auditor
Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

Solicitors
Dickson Minto
16 Charlotte Square
Edinburgh EH2 4DF

Custodian
The Bank of New York Mellon
1 Canada Square
London E14 5AL

Stockbrokers
Winterflood Investment Trusts
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Registrars
Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS99 7NH
Telephone: 0870 889 4076
Fax: 0870 703 6101
www.investorcentre.co.uk
Email via 'Contact Us' on the above website

Shareholders who hold their shares in certificated form can check their shareholding with the Registrars, Computershare Investor Services PLC, via www.investorcentre.co.uk

Please note that to gain access to your details on the Computershare website you will need the holder reference number on the top left hand corner of your share certificate or on your tax voucher.

Notifications of changes of address and all enquiries regarding certificates or dividend cheques should be sent in writing to the Registrars.

Disability Act

Copies of this Annual Report or other documents issued by the Company are available from the Company Secretaries.

If needed, copies can be made available in a variety of formats including Braille, in larger type or on audio tape.

Our Registrars have installed text phones to allow speech and hearing impaired people who have their own text phone to contact them directly without the need for an intermediate operator. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, you may use a "type talk" operator (provided by the Royal National Institute for the Deaf) on 0800 959598.

Share Information

The net asset value per Ordinary share of the Company is calculated on a daily basis and is published on the London Stock Exchange where the latest live Ordinary share price is displayed, subject to a delay of 15 minutes. "SLS" is the Code for the ordinary shares which may be accessed at www.londonstockexchange.com. Prices are also quoted daily in the Financial Times.

Details of the Company may also be found on the Manager's investment trust website at: www.standardlifeinvestments.com/its

Additional information relating to the Company, and other investment trusts, is published on the internet by TrustNet whose website address is www.trustnet.co.uk

Ordinary shares may be purchased or sold directly through a stockbroker or indirectly through a lawyer, accountant or financial adviser or through the Company's registrars or the Company's Savings Scheme and Individual Savings Account, details of which are shown on page 46 of this Annual Report.

Other Information

The Company is a member of the Association of Investment Companies ("AIC"). The AIC publishes a Monthly Information Service which contains a wide range of detailed information including statistical and performance data on all its members. A sample copy can be obtained free of charge from The AIC, 9th Floor, 24 Chiswell Street, London EC1Y 4YY (telephone 020 7282 5555) along with full details of other publications available from The AIC. Alternatively, visit their website on www.theaic.co.uk

How To Invest in Standard Life UK Smaller Companies Trust plc

Introduction

Investors may purchase shares in the Company through Standard Life's Savings Scheme and Individual Savings Account ("ISA").

Alternatively, investors may buy shares in the Company directly through a stockbroker or indirectly through a lawyer, accountant or financial adviser.

Investment Trust Savings Scheme

Standard Life's Savings Scheme is a straightforward way to invest in the Company. The minimum investment through Standard Life's Savings Scheme is £100 per month or a £1,000 lump sum. As well as the 0.5% Government stamp duty, which is currently payable on all share purchases, there is an initial charge of 1.25% deducted from each investment made. A commission payment to a financial adviser of up to 3% of each investment may also be deducted at an investor's request. There is no maximum amount that can be invested in the Company through Standard Life's Savings Scheme and there is no annual management charge.

Investment Trust Stocks and Shares ISA

Standard Life's Stocks and Shares ISA is a tax efficient savings vehicle as investors pay no additional income tax or capital gains tax on any money generated by their investments. Investors will have the opportunity to invest in the Company up to £10,200 in the tax year 2010/2011 when they subscribe to a Stocks and Shares ISA. Like the Savings Scheme, the minimum investment is a £1,000 lump sum or £100 per month. 0.5% Government stamp duty and an initial charge of 1.25% are deducted from each investment made, however, there is no annual management charge.

Investment Trust ISA Transfer

Investors may also gain access to the Company by transferring any existing ISA investments to a Standard Life Stocks and Shares ISA.

How to invest

For further information on how to invest and to request an application pack containing full details of the products and their charges, please call Standard Life Investments on 0845 60 24 247. Lines are open from 9am to 5pm, Monday to Friday.

For information on Standard Life Investments' range of Investment Trusts and Standard Life's views on the markets, please call 0845 60 60 062.

This is not a recommendation to buy, sell or hold shares in the Company. Shareholders who are unsure of what action to take should contact a financial adviser authorised under the Financial Services and Markets Act 2000. Share values may go down as well as up which may result in a shareholder receiving less than he/she originally invested.

Risk Warnings – General

- Past performance is no guarantee of future performance.
- The value of your investment and any income from it may go down as well as up and you may not get back the amount invested. This is because the share price is determined by the changing conditions in the relevant stockmarkets in which the Company invests and by the supply and demand for the Company's shares.
- As the shares in an investment trust are traded on a stockmarket, the share price will fluctuate in accordance with supply and demand and may not reflect the underlying net asset value of the shares; where the share price is less than the underlying value of the assets, the difference is known as the 'discount'. For these reasons, investors may not get back the original amount invested.
- Although the Company's financial statements are denominated in sterling, it may invest in stocks and shares that are denominated in currencies other than sterling and to the extent they do so, they may be affected by movements in exchange rates. As a result, the value of your investment may rise or fall with movements in exchange rates.
- Investors should note that tax rates and reliefs may change at any time in the future.
- The value of ISA tax advantages will depend on personal circumstances. The favourable tax treatment of ISAs may not be maintained.

Notice is hereby given that the Seventeenth Annual General Meeting of Standard Life UK Smaller Companies Trust PLC will be held at 1 George Street, Edinburgh, EH2 2LL at 12.30pm on Tuesday 12 October 2010 for the following purposes:

ORDINARY BUSINESS

As Ordinary business to consider and, if thought fit, pass the following Resolutions, in the case of numbers 1 to 7 inclusive, as Ordinary Resolutions and in the case of numbers 8 and 9 inclusive, as Special Resolutions:

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 30 June 2010, together with the Independent Auditor's report thereon.
2. To receive and adopt the Directors' Remuneration Report for the year ended 30 June 2010.
3. To declare a final dividend of 1.50 pence per Ordinary share.
4. To re-elect Donald MacDonald as a Director of the Company.
5. To re-elect Carol Ferguson as a Director of the Company.
6. To re-appoint Ernst & Young LLP as Independent Auditor and to authorise the Directors to determine their remuneration.
7. Authority to allot shares

   THAT, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ("Securities") provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £1,500,130, being approximately 10% of the nominal net asset value of the issued share capital of the Company, as at the date of this Notice, such authority to expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously revoked, varied or extended or renewed by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

8. Disapplication of pre-emption rights

   THAT, subject to the passing of resolution 7 set out above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered (i), pursuant to Section 570 of the Companies Act 2006 (the "Act"), to allot equity securities (as defined in Section 560 of the Act), including the grant of rights to subscribe for, or to convert securities into Ordinary shares for cash pursuant to the authority given by resolution 7 set out above and (ii), pursuant to Section 573 of the Act to sell equity securities for cash out of treasury as if Section 561(1) of the Act did not apply to any such allotment, or sale out of treasury, of equity securities, provided that this power:

   a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this Resolution, whichever is the earlier, unless previously revoked, voted, extended or renewed by the Company in a general meeting save that the Company may, at any time prior to the expiry of this authority, make an offer or enter into an agreement which would or might require equity securities to be allotted or sold out of treasury after such expiry and the Directors may allot or sell out of treasury equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

   b) shall be limited to the allotment, or sale out of treasury, of equity securities up to an aggregate nominal value of £1,500,130, being approximately 10% of the nominal value of the issued share capital (excluding treasury shares) of the Company, as at the date of this Notice.

9. Authority to make market purchases of shares

That the Company be and is hereby generally and, subject as hereinafter appears, unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693(4) of the Act) of Ordinary shares of 25p each in the capital of the Company (the "Shares") either for retention as treasury shares for future reissue, resale, transfer or cancellation:

PROVIDED ALWAYS THAT:

(a) the maximum number of Shares hereby authorised to be purchased shall be 8,994,781 shares, representing 14.99% of the Company's issued share capital at the date of the passing of this resolution (excluding treasury shares);

(b) the minimum price which may be paid for each Share shall be 25p;

(c) the maximum price (exclusive of expenses) which may be paid for a Share is the higher of (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares over the five business days immediately preceding the date of purchase and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue which the purchase is carried out; and

(d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or on the expiry of 15 months from the passing of this Resolution, whichever is earlier, unless previously revoked, varied, extended or renewed by the Company in a general meeting, save that the Company may, at any time prior to the expiry of this authority enter into a contract to purchase shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

SPECIAL BUSINESS

As Special Business, to consider, and if thought fit, to pass Resolutions 10 and 12 as Ordinary Resolutions and Resolution 11 as a Special Resolution:

10. Authority to sell shares from treasury at a discount to net asset value

That, subject to the passing of Resolution 8 set out above, the Directors of the Company be authorised for the purposes of paragraph 15.4.11 of the Listing Rules of the UK Listing Authority to sell or transfer out of treasury Ordinary shares of 25p each in the capital of the Company (the "Share(s)") for cash at a price below the net asset value per Share of the existing Shares in issue (excluding treasury shares), provided always that:

(a) such sale or transfer will be limited to a sale or transfer at a price in excess of the average price at which the Shares were bought into treasury;

(b) where any treasury shares are sold pursuant to this power at a discount to the then prevailing net asset value of the Shares, such discount must be lower than the average discount to the net asset value per Share at which the Company acquired the Shares which it then holds in treasury;

(c) the aggregate net asset value dilution associated with all the sale of treasury shares in any one financial year does not exceed 0.5 per cent of net assets;

(d) this power shall be limited to the sale of shares having an aggregate nominal value of £1,500,130, being approximately 10% of the nominal value of the issued share capital of the Company, as at the date of this Notice and provided further that the number of shares to which this power applies shall be reduced from time to time by the number of Shares which are allotted or sold out of treasury for cash as if Section 561(1) of the Companies Act 2006 did not apply pursuant to the power conferred on the Directors by Resolution 8 set out above; and

(e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution, or on the expiry of 15 months from passing of this Resolution, whichever is earlier, unless previously revoked, varied, extended or renewed by the Company in a general meeting, save that the Company may, at any time prior to the expiry of this authority, make an offer or agreement which would or might otherwise require treasury shares to be sold after such expiry and the Directors may sell treasury shares pursuant to such offer or agreement as if the power conferred hereby had not expired.

11. Tender offer resolution

That, in addition to the authority given to the Company to purchase its own Ordinary shares of 25 pence each (the "Shares") pursuant to Resolution 9 set out above and in accordance with the terms and conditions of the tender offer which will be set out in a circular to be sent to Shareholders prior to 31 December 2010 (the "First Tender Circular") and a circular to be sent to Shareholders prior to 30 June 2011 (the "Second Tender Circular"), the Company be and is hereby authorised for the purpose of Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693(4) of the Act) of its issued Shares either for retention as treasury shares for future reissue, resale, transfer or cancellation provided that:

(a) the maximum number of Shares hereby authorised to be purchased (i) pursuant to the First Tender Circular is 5% of the Shares in issue as at 31 December 2010 excluding any shares held in treasury and (ii) pursuant to the Second Tender Circular is the aggregate of 5% of the Shares in issue as at 30 June 2011 (excluding any Shares held in treasury) plus any unused authority from the First Tender Circular;

(b) the price which shall be paid for a Share shall be an amount equal to 98% of realisation value of all the assets attributable to the Shares tendered as at close of business on 31 December 2010 and on 30 June 2011, as appropriate; and

(c) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or on the expiry of 15 months from the date of passing of this Resolution, whichever is earlier, unless previously revoked, varied, extended or renewed by the Company in a general meeting save that the Company may, prior to such expiry, enter into a contract to purchase Shares which will or may be completed or executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

12. Aggregate Directors' remuneration

To increase to £150,000 the maximum aggregate limit of remuneration of the Directors each year in respect of their ordinary services as Directors and that Article 114 of the Articles of Association of the Company be read and construed accordingly.

By order of the Board
Aberdeen Asset Management PLC
Company Secretaries

Registered office:
7th Floor
40 Princes Street
Edinburgh EH2 2BY

6 September 2010

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him/her or on his/her behalf at the meeting. A proxy need not be a shareholder. The shareholder may appoint more than one proxy, provided that each proxy is appointed to attend, speak and vote in respect of a different share or shares. If you wish your proxy to speak on your behalf at the meeting, you will need to appoint your own choice of proxy (not the chairman of the meeting) and give instructions directly to them. Appointing a proxy will not prevent a shareholder from attending in person and voting at the meeting. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should, or if you would like to appoint more than one proxy, please contact the Company's Registrar, Computershare Investor Services PLC on 0870 889 4076. In the case of joint holders, the vote of the first named in the register of members of the Company who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.

2. To be valid, the appointment of a proxy, and the original or duly certified copy of the power of attorney or other authority, if any, under which it is signed or authenticated, should be sent to the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY so as to arrive not less than 48 hours (excluding non-working days) before the time fixed for the Meeting.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company at 12.30 pm on 8 October 2010 (or, if the meeting is adjourned, 48 hours (excluding non-working days) before the time fixed for the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of Ordinary shares registered in their name at that time. In each case, changes to entries on the register of members of the Company after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. Any shareholder holding 3% or more of the total voting rights of the Company who appoints a person other than the chairman of the meeting as his or her proxy(ies) will need to ensure that both he or she and his/her proxy(ies) comply with their respective disclosure obligations under the UK Disclosure and Transparency Rules.

5. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

6. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (3RA50) by 12.30 pm on 8 October 2010 (or, if the meeting is adjourned, 48 hours (excluding non-working days) before the time fixed for the adjourned meeting). 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 Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

7. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. 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 service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

8. 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.

9. In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting then, on a poll, those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives who attend, who will vote on a poll, and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives - www.icsa.org.uk - for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.

10. A 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 him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in Notes (i) and (ii) above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.

11. The terms of appointment of the Directors of the Company are available for inspection on any day (except Saturdays, Sundays and bank holidays) from the date of this notice of until the date of the meeting during usual business hours at the registered office of the Company and will, on the date of the Meeting, be available for inspection at the venue of the Meeting from 15 minutes before the meeting until the conclusion of the Meeting.

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

13. Following the meeting, the results of the voting at the meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the resolutions will be announced via a Regulatory Information Service and placed on the Company's website **www.standardlifeinvestments.com/its**

14. Under Section 338 of the Companies Act 2006, members may require the Company to give, to members of the company entitled to receive this notice of meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting. Under Section 338A of that Act, members may request the company to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business.

15. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting: or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

16. As at 6pm on 6 September 2010 (being the last practicable date prior to publication of this notice) the Company's issued share capital comprised 63,722,556 Ordinary shares of 25p each of which 3,717,342 Ordinary shares are held in treasury. Each Ordinary share (other than those Ordinary shares held in treasury) carries the right to one vote at a general meeting of the Company. Accordingly, the total number of voting rights in the Company as at 6 September 2010 was 60,005,214.

17. There are special arrangements for holders of shares through the Company's Share Plan and ISA. These are explained in the separate 'Letter of Direction' which such holders will have received with this Annual Report.

18. If you wish to attend the meeting in person, there will be a Members' register for you to sign on arrival. Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:

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

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

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

    Information regarding the Annual General Meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's webpage at **www.standardlifeinvestments.com/its**

Registered Office
7th Floor
40 Princes Street
Edinburgh EH2 2BY
Telephone: 0131 528 4000

Managed by
Standard Life Investments Limited
1 George Street
Edinburgh EH2 2LL
Website: www.standardlifeinvestments.com/its
Investor Services: 0845 60 24 247
(Monday to Friday, 9am - 5pm)