Standard Life UK Smaller Companies Trust plc

Annual Report and Accounts
30 June 2012

Contents

Financial Calendar

31 August 2012	Announcement of results for year ended 30 June 2012
11 October 2012	Annual General Meeting
18 October 2012	Payment of final dividend on Ordinary shares
February 2013	Announcement of Half-Yearly Financial Report for six months ending 31 December 2012

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Corporate Summary

Investment objective	To achieve long-term capital growth by investment in UK quoted smaller companies.
Investment policy	The Company intends to achieve its 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 Investment 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 per cent. of total assets at the time of acquisition. The Company may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing, transferring or eliminating the investment risks in its investments in order to protect the Company's portfolio). Within the Company's Articles of Association, the maximum level of gearing is 100 per cent of net assets. The Directors' policy is that gearing will be between -5 per cent. and 25 per cent. of net assets (at the time of drawdown) in normal market conditions. The Directors have delegated responsibility to the Investment Manager for the operation of the gearing level within the above parameters. The Investment 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 Investment 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 Investment Manager has the opportunity to perform in different market conditions.
Benchmark	Numis Smaller Companies Index (excluding Investment Companies). The benchmark was renamed on 11 April 2012, having previously been named the RBS Hoare Govett Smaller Companies Index (excluding Investment Companies).
Manager	Standard Life Investments (Corporate Funds) Limited – Investment Manager, Harry Nimmo. Head of Investment Companies, Gordon Humphries.
Equity shareholders' funds	£140.1 million at 30 June 2012.
Market capitalisation	£132.0 million at 30 June 2012.
Capital structure	The Company's issued share capital, as at 30 June 2012, consisted of 64,999,905 Ordinary shares of 25 pence each and £24,935,071 nominal amount of Convertible Unsecured Loan Stock 2018. There were no Ordinary shares held in treasury as at 30 June 2012. Each Ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.
Management fee	Up to 30 June 2012, the management fee was calculated at an annual rate of 0.65% of the gross assets after deducting current liabilities and reduced to an annual rate of 0.20% on uninvested cash and cash equivalents. There was also a performance fee payable to the Manager if the Company's net asset value outperformed its benchmark by at least 1% per annum on a capital return basis. The amount of the performance fee would 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. With effect from 1 July 2012, a new management fee arrangement will be in place. The management fee will be calculated at 0.85% per annum of the Company's gross assets and there will be no performance fee. 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 2012	2011	% change
Performance			
Total Return			
Net asset value per Ordinary share			-7.6%
Numis Smaller Companies Index (excluding Investment Companies)			-4.1%
Capital return			
Net asset value (statutory) per Ordinary share	215.61p	240.65p	-10.4%
Ordinary share price (mid market)	203.00p	237.00p	-14.3%
Discount of Ordinary share price to net asset value	5.8%	1.5%	
Numis Smaller Companies Index Capital Return (2011 - RBS Hoare Govett Smaller Companies Index Capital Return) (excluding Investment Companies)	4,318.73	4,637.03	-6.9%
Convertible Unsecured Loan Stock price	103.50p	109.00p	-5.0%
Total assets (£m)[1]	163.47	178.37	-8.4%
Equity shareholders' funds (£m)	140.15	155.33	-9.8%
Ongoing charges ratio[2]	0.96%	1.00%	
Revenue return per ordinary share	3.50p	4.35p[3]	
Dividend yield	1.5%	1.6%	
Interim dividend paid for year	1.00p	1.00p	—
Proposed final Ordinary dividend for the year	2.10p	1.75p	20.0%
Proposed special dividend for the year	—	1.00p	
Ordinary shares in issue (excluding shares held in treasury)	64,999,905	64,547,556	0.7%
Ordinary shares held in treasury	—	—	—
Gearing (ratio of Borrowings to Shareholders' funds)			
Net gearing ratio[4]	5.8%	8.8%	
Maximum potential gearing ratio[5]	16.6%	14.8%	

Year's Highs/Lows	**High**	**Low**
Net asset value per Ordinary share	245.33p	187.62p
Ordinary share price	245.00p	179.38p
Premium/(discount) of Ordinary share price to net asset value	7.2%	-9.5%
Convertible Unsecured Loan Stock Price	115.00p	100.00p
Gearing	8.8%	1.1%

[1] Total assets less current liabilities, after excluding short-term debt of nil (2011 - nil).
[2] Ongoing charges ratio calculated in accordance with guidance issued by the AIC as the total of the investment management fee and administrative expenses divided by the average cum income net asset value throughout the year. The figures for 2011 have been restated.
[3] Revenue return per ordinary share for 2011 includes 1.38p of non recurring VAT refunds and related interest.
[4] Net gearing ratio calculated as the total of the liability component of £23.3m of the Convertible Unsecured Loan Stock less the cash invested in AAA money market funds and cash and short term deposits, divided by net assets.
[5] Potential gearing ratio is calculated as the total of the liability component of £23.3m of the Convertible Unsecured Loan Stock divided by net assets.

Chairman's Statement

Donald MacDonald

Since Standard Life Investments took over as Manager on 1 September 2003, the Company has delivered a net asset value total return of 253%, representing an annualised return of 15.3% per annum and outperforming the Company's benchmark, the Numis Smaller Companies Index (excluding Investment Companies), by 4.6% per annum.

Since 2003, the Board and the Manager have taken several significant steps to strengthen the framework of the Company, most notably the successful merger with Gartmore Smaller Companies Trust in 2009 which increased the size of the Company and put in place active discount control measures to enhance shareholder value. The Company's debt has been restructured by the issuance of Convertible Unsecured Loan Stock, with an interest cost of 3.5% per annum, and dividend growth for the past five years has been 31.1% per annum (excluding specials).

In recognition of the excellent long term performance and the positive impact of the structural enhancements mentioned above, the Company won the 'Best Shareholder Value' award, across the whole investment company sector, at the Investment Week Investment Trust of the Year Awards 2011. The Company also won the 'UK Smaller Companies' category for the third year out of the past four, as well as a number of other awards including Moneywise UK Smaller Companies Trust of the year for the sixth year in a row.

Performance

Notwithstanding the good long term performance, continued market volatility has created a challenging environment over the past year. Following the sharp sell off last August, markets recovered some ground at the start of 2012, responding to the European Central Bank's support of the banking system. The rally was led by recovery and cyclical stocks. The Company's focus on risk aversion combined with its strong preference for high quality, growth orientated stocks caused it to underperform during this period.

For the year ended 30 June 2012, the Company's net asset value total return was -7.6%, compared with a total return of -4.1% for the Company's benchmark, the Numis Smaller Companies Index (excluding Investment Companies).

The Manager's Report on pages 7 to 9 provides further information on the Company's performance over the year, as well as portfolio activity and the Manager's outlook for smaller companies.

Despite losing some ground this year, the Company's long term performance remains strong and it continues to compare well against its peer group, as illustrated in the table below:

	3 years	5 years
Net asset value total return	+100.4%	+49.7%
Share price total return	+112.3%	+67.4%
Benchmark total return	+64.8%	+8.6%
Peer group ranking	6/16	1/15

Earnings and Dividend

The revenue return per share for the year ended 30 June 2012 was 3.50p (2011 – 4.35p). Last year's figure included 1.38p in respect of VAT refunds and related interest received from HM Revenue & Customs. Removing the effect of this, the underlying earnings per share has increased by 17.8% this year as dividend growth from the underlying portfolio remained strong. Income from investments increased by 21.5% in the period.

The Board is recommending a final dividend of 2.10p per share, an increase on last year's final dividend of 20.0%. If approved, the final dividend, together with the interim dividend of 1.0p paid in March, will give a total dividend for the year of 3.10p and will represent an increase of 12.7% on last year (excluding the special dividend paid last year in relation to the VAT refunds).

Subject to shareholder approval at the Annual General Meeting on 11 October 2012, the final dividend will be paid on 18 October 2012 to shareholders on the register as at 21 September 2012 with an associated ex-dividend date of 19 September 2012.

Manager

The Board believes that the 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, has been the lead manager of the Company's investment portfolio since 2003 and his excellent performance record gives the

Chairman's Statement

Board confidence in the ability of the Manager to continue to deliver strong long term returns for shareholders.

Management Fee Arrangements

One of the key aims of the FSA's Retail Distribution Review (RDR) is that investment products offer transparent charging structures. The Board recognises the importance of the Company having a clear and easily understood fee basis to ensure that it remains competitive and fair to shareholders in the post RDR environment.

With this in mind, the Board and the Manager have agreed to simplify the management fee structure by removing the performance fee element and reverting to a basic management fee arrangement.

The Manager was previously able to earn up to 1.25% of total assets less current liabilities in any one year. This was made up of a basic management fee of 0.65% (reduced to 0.2% on any uninvested cash) plus a performance fee of up to 0.6%.

With effect from 1 July 2012, the Manager will receive a basic management fee of 0.85% per annum of the Company's total assets less current liabilities. The Manager will no longer receive a performance fee.

Gearing

The Board has given the Manager discretion to vary the level of net gearing between -5% and 25% of net assets, depending on the Manager's view of the outlook for smaller companies.

The Company currently has £24.9 million 3.5% Convertible Unsecured Loan Stock 2018 (CULS) in issue and the Manager is able to vary net gearing by adjusting the level of cash held by the Company.

At 30 June 2012, the net gearing level was 5.8%, with approximately £10 million of the £24.9 million CULS invested. Net gearing has been maintained around this level throughout the year, reflecting the short term uncertainties in the market but optimism over the longer term.

As a reminder to holders of the CULS, these can be converted into Ordinary shares on 30 September and 31 March of each year up to March 2018, at a fixed price per Ordinary share of 237.2542p.

Discount

The discount at which the Company's shares trade relative to the underlying net asset value was 5.8% at 30 June 2012. The Company's shares traded at a small premium for much of the first half of the reporting period but risk aversion in the market at the end of 2011 caused a widening of discounts across the UK Smaller Companies sector. The Company's discount does, however, compare very favourably with the peer group average, which was 17.4% at 30 June 2012.

Since the year end, the Company's discount has narrowed and, at the time of writing, its shares were trading at a small premium.

Regular Tender Offers

The Board exercised its discretion and did not conduct a tender offer at either of the 31 December 2011 or 30 June 2012 tender dates. This reflected the fact that the Company's shares had traded, on average, at a discount of less than 2% during the previous twelve month period. The costs of the first two tenders, held in 2010, ranged from 6.0% to 6.5% of the net asset value of shares tendered.

The Board believes that the regular tender offer is an important mechanism for controlling the Company's discount and protecting shareholder value and will continue to consider a 5% tender offer at six monthly intervals, offering shareholders the opportunity to tender their shares when it is in their best interests to do so. The Board does not intend to carry forward any unused tender amounts. The next review by the Board will be in November 2012, prior to the 31 December 2012 tender date.

Outlook

The macroeconomic backdrop remains challenging, particularly in relation to the ongoing difficulties in the Euro-zone. Despite the economic uncertainties, many UK smaller companies are proving resilient, with strong balance sheets and the ability to grow through internally generated cash flows.

Although remaining cautious on the near term outlook, your Board and Manager are confident that investing in high quality UK smaller companies, particularly those able to harness new technologies, will continue to provide shareholders with attractive long term returns.

Donald MacDonald
Chairman

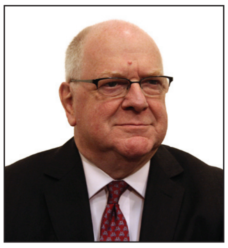
31 August 2012

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 a director of a number of private companies. He is also 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 Chairman of British Assets Trust plc and Fidelity Special Values plc and a non-executive director of Blackrock Frontiers Investment Trust plc and City of London Investment Group PLC. She is also 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.

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. She is also a non-executive 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 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.

Ten Year Record

Year ended 30 June	Equity shareholders' funds £m	Per Ordinary share				Revenue return p	Discount[1] %	Expenses as a % of average cum income net asset value[3]	Net gearing ratio[4] %
		Net asset value[1] p	Share price p	Ordinary dividend p	Special dividends p				
2003	39	58.29	37.50	0.75	—	0.49	35.7	1.68	15.8
2004	47	71.23	51.25	0.75	—	0.72	28.1	1.50	11.5
2005[2]	58	86.86	69.25	0.80	—	1.01	20.3	1.10	3.2
2006	79	118.43	101.50	0.80	—	0.51	14.3	1.50	3.2
2007	52	159.01	131.00	0.80	—	0.10	17.6	1.50	8.3
2008	46	142.68	119.50	1.60	0.60	1.94	16.2	1.30	4.7
2009	70	111.23	100.50	1.60	—	2.56	9.6	1.17	3.7
2010	97	154.04	136.50	2.50	—	2.86	11.4	1.17	1.0
2011	155	240.65	237.00	2.75	1.00	4.35	1.5	1.00	8.8
2012	140	215.61	203.00	3.10	—	3.50	5.8	0.96	5.8

[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 2009
[2] Restated for revised UK GAAP
[3] Calculated as average of shareholders funds throughout the year for the years ended 30 June 2002 to 30 June 2012
[4] Net gearing ratio calculated as debt less cash invested in AAA money market funds and cash and short term deposits divided by net assets.

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

Manager's Report 30 June 2012

Over the year, the Company's net asset value total return was -7.6%. This compares with the UK smaller companies sector as represented by the Numis Smaller Companies Index (excluding Investment Companies) which returned -4.1%, in total return terms. Over the same period the total return on the FTSE 100 Index of the largest UK listed companies was -2.7%.

The Company's share price at 30 June 2012 was 203p which is 16.7% below the high of 243.75p on 7 May 2011. Standard Life Investments has managed the Company since 1 September 2003, at which time the share price stood at 47.75p. The share price has risen by 325% from then to the current year end, compared with our benchmark which was up 84.2%.

Harry Nimmo

Equity markets

The major factor driving markets during the year in question has been the "Euro Crisis" and policy responses to that crisis. Markets fell sharply in the summer of last year as investors grew ever more concerned about a possible Greek exit from the Euro and potential economic collapse in that country. A further concern was contagion sweeping the whole southern part of Europe stretching from Cyprus to Portugal. By November 2011 some clarity started to appear with wholesale support for the Euro and the banking system from European monetary authorities. This in turn set off a market rally led by the more risky, recovery orientated stocks. This rally petered out by March 2012 when the Spanish economy in particular gave cause for concern, engendering some market weakness and a rotation into the better quality more stable names. By June markets again preferred riskier assets as further central support came in to help Spain shore up its banking sector.

Outside the Euro area economic growth has been sluggish at best. The UK at one point slipped back into technical recession and China has continued to slow all year ending up with interest rates being cut to head off further slowdown. In the US modest headway has been made. Germany's manufacturing sector has been the bright feature, benefitting from the weak Euro.

Oil prices stayed high for most of the year peaking at over $125, but falling to below $100 as worries over economic growth took hold in March 2012, only to recover on fears of growing political tensions in the Middle East. Sanctions against Iran have added to these fears. Metal prices have tended to trend down throughout the year as economic growth has remained sluggish.

Bid activity has been subdued in larger companies but there has been significant activity in smaller companies. Private equity activity has been absent. It is mainly about industry consolidation and trade buyers. The on/off Glencore/Xstrata situation is the only significant megacap bid situation.

Base rates have remained unchanged at rock bottom levels for yet another year in the US, Europe and the UK punctuated by periods of quantitative easing in what appear to be vain attempts to stimulate growth. This situation seems likely to continue for some time to come.

Performance

The first three quarters of the year were difficult for the Company. There were two reasons for this. The sharp sell off in August caused investors to sell stocks where they could book a profit. This caused some of our more highly rated growth stocks, such as Asos that had done very well, to trade off sharply. Following European Central Bank support for the European banking system in November, markets responded strongly into 2012 with a sharp return to risky recovery shares. The Company tends to de-emphasise that type of risky investment and, as a result, the net asset value was left behind as markets rallied strongly. The final quarter of the year saw stronger relative performance for the Company as gloom set in over the Spanish Banking system. This encouraged a return to form for our high quality, generally predictable growth stocks.

Four of the most resilient stocks led performance during the year. **Telecom Plus**, the multi-utility vendor, continued to beat expectations. **Rightmove** steadily gained market share in their business of advertising domestic property. Likewise, **Paddy Power** rapidly out-distanced

Manager's Report

the more traditional sports betting companies, a result of their leading internet and mobile betting operation. **Telecity**, the internet infrastructure company, performed strongly through the year. Indeed it is noteworthy that three out of these four winners are either on-line or internet businesses. The massive growth of 3G internet-enabled mobile phones was instrumental in driving this progress.

Bid activity was also a significant positive for the fund. **Cove Energy** was a spectacular success following a competitive bidding battle between Shell and PTT of Thailand. Bids also came in for **Globe Op Financial Services**, **Goals Soccer Centres** and **Group NBT**.

The negatives in the portfolio included **Kofax**, the document management software company, **Homeserve**, the domestic boiler insurance company, **Immunodiagnostic Systems Holdings**, the diagnostic testing company and **Lamprell** in oil services. All of these holdings have been sold. **Andor Technologies**, the Belfast based specialist camera manufacturer, was weak following setbacks at a couple of its largest customers. We have retained this holding.

Dealing and Activity

The most significant additions to the portfolio were as follows:

- The Company bought back into **Paypoint**, operators of the yellow payment terminals in convenience stores. This is a means of paying for a range of utility services with cash at the counter. Further growth is coming through as the ranks of the "unbanked" expand.
- **Diploma**, the specialist industrial and healthcare distributor was added to the portfolio. This high quality operator has good business visibility and very predictable revenue streams.
- **Oxford Instruments** was another significant purchase. This company has recently moved from turnaround to growth mode and has significant intellectual property.
- **Waterlogic**, the water purification company, was purchased when it listed on the stock market in July 2011. Waterlogic is a world leader in the provision of purified tap water.
- Finally **NCC Group**, the leader in what is sometimes called "ethical hacking" was added. They assist companies in maintaining the integrity of their IT systems against external attack.

On the sell side, the above mentioned **Cove Energy** was sold for a substantial profit following the bids. Other major sales not mentioned so far include **Intermediate Capital Group**, which is likely to continue to flounder as it depends on healthy deal flow in the Private Equity industry, and **Cineworld Group**, the multiplex cinema operator where trading has continued to be challenging.

Outlook

The outlook remains distinctly subdued in the short and medium term. Although Euro crisis part one was averted last November, it is as yet unclear whether there will be a happy outcome to this seemingly intractable problem. Our thinking is that certain weaker peripheral South European countries may ultimately leave the Euro. That outcome, we feel, will not be quite the Armageddon that many commentators are predicting.

On the positive side, the US may surprise on the upside, helped on by the windfall of shale oil and gas. It is likely that the rate of growth in China will slow as that country expands but will still be at a rate that leaves developed markets well behind.

Three themes are likely to influence the corporate environment in the UK in coming years. First, the level of regulatory scrutiny into the banking industry and their business practices is likely to continue at a high level and ultimately lead to significant re-regulation as to how that industry conducts itself and indeed its very structure. Second, the mining super-cycle of remorselessly rising raw material prices looks to be drawing to a close. China's growth in the future is more about changing consumer patterns and greater disposable income and less about building infrastructure. This is occurring just as huge newly developed mines are coming into production. Third, 3G, iPads and the mobile internet are likely to continue the current period of mass corporate extinction for businesses that have been slow to adapt to the on-line world, be it in retailing, sports betting, media, tourism, leisure, airlines or financial services.

These themes are bad for large companies and generally good for smaller companies. Banking and the extractive industries are to be found in the FTSE100 to a much greater extent than further down the market capitalisation range. Furthermore, on the issue of the internet, it is newer smaller companies that can build their businesses with new technologies and methodologies in mind. Older established businesses find it very difficult to adapt to the new environment. This all suggests that smaller and medium sized companies are likely to out-perform larger companies for another ten years. Our strong view is that investors should rebalance their portfolios to reflect this likelihood.

Although the business outlook looks rather tenuous, valuations are not stretched. Profitability, margins and cash-flows for many companies remain very strong. Furthermore balance sheets are in great shape. Indeed if one looks at the underlying corporate debt to equity ratio of the holdings in the Company one will find that there is on average a net cash position. The vast majority of our companies have net cash positions and can grow from internally generated cash-flows. Far from being at the mercy of the banks, they don't need banks. Another encouraging trend is the good rate of dividend growth and the use of special dividends without compromising growth prospects. This all gives us great confidence in the long term outlook for the Company.

Given that growth remains very hard to find and that uncertainty surrounds the key pillars of our financial system, our emphasis on risk aversion, resilience, growth and momentum still feels right for the future.

Harry Nimmo
Standard Life Investments Limited, Manager

31 August 2012

Top Twenty Investments

As at 30 June 2012

Stock	Key Sector	Valuation as at 30 June 2012 £'000	Weight %	Valuation as at 30 June 2011 £'000
Telecom Plus	Fixed Line Telecommunications	7,268	4.9	5,673
Paddy Power	Travel & Leisure	7,218	4.9	5,876
ASOS	General Retailers	7,112	4.8	10,577
Abcam	Pharmaceuticals & Biotechnology	7,102	4.8	7,093
Rightmove	Media	6,686	4.5	5,006
Hargreaves Lansdown	Financial Services	5,295	3.6	6,379
Telecity Group	Software & Computer Services	4,948	3.3	2,638
New Britain Palm Oil	Food Producers	4,393	3.0	5,291
Paypoint	Support Services	4,224	2.9	—
Domino's Pizza	Travel & Leisure	4,029	2.7	3,111
Top ten investments		**58,275**	**39.4**	
Emis Group	Software & Computer Services	3,908	2.6	2,435
Oxford Instruments	Electronic & Electrical Equipment	3,313	2.2	—
Mulberry Group	General Retailers	3,258	2.2	4,920
Waterlogic	Support Services	3,250	2.2	—
Dunelm Group	Household Goods & Home Construction	3,208	2.2	2,402
First Quantum	Industrial Metals	3,157	2.1	5,046
Aveva Group	Software & Computer Services	2,894	2.0	3,384
Diploma	Support Services	2,877	2.0	—
Ted Baker	General Retailers	2,859	1.9	2,846
Andor Technology	Electronic & Electrical Equipment	2,829	1.9	5,228
Top twenty investments		**89,828**	**60.7**	

All investments are equity investments.

Sector Distribution of Investments

At 30 June 2012

	Numis Smaller Companies (excluding Investment Trusts) Index weightings 2012 %	Portfolio weighting 2012 %	Portfolio weighting 2011 %
Oil & Gas			
Oil & Gas Producers	4.3	—	0.2
Oil Equipment Services & Distribution	1.4	1.6	4.0
Alternative Energy	0.1	—	—
Basic Materials			
Chemicals	2.8	1.6	2.1
Industrial Metals	0.4	2.1	3.0
Mining	4.7	—	—
Industrials			
Construction & Materials	1.6	—	—
Aerospace & Defence	2.6	—	—
Support Services	1.1	—	—
Electronic & Electrical Equipment	3.1	10.8	10.8
Industrial Engineering	1.7	4.0	4.1
Industrial Transportation	1.8	—	—
Support Services	13.9	12.8	10.2
Health Care			
Health Care Equipment & Service	0.6	—	1.7
Pharmaceuticals & Biotechnology	2.9	9.6	5.8
Consumer Goods			
Beverages	0.9	2.7	1.6
Food Producers	2.4	0.9	2.0
Household Goods & Home Construction	3.7	—	—
Leisure Goods	0.3	—	—
Personal Goods	0.2	2.2	3.1
Consumer Services			
Food & Drug Retailers	1.7	—	—
General Retailers	6.9	10.0	12.3
Media	4.1	8.5	4.9
Travel & Leisure	7.7	7.7	7.0
Telecommunications			
Fixed Line Telecommunications	3.8	5.0	3.3
Utilities			
Electricity	0.9	—	—
Financials			
Non-life Insurance	1.7	—	—
Life Insurance	0.9	—	—
Real Estate Investment & Services	3.1	—	—
Real Estate Investment Trusts	3.6	1.7	1.5
Financial Services	7.3	5.3	8.9
Technology			
Software & Computer Services	5.8	13.5	12.4
Technology Hardware & Equipment	2.0	—	1.1
	100.0	**100.0**	**100.0**

Company's History

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 32.6 million 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.

During the year ended 30 June 2011, the Company bought back 3.7 million Ordinary shares into treasury and sold 4.2 million Ordinary shares from treasury. The Company also issued £25 million nominal of 3.5% Convertible Unsecured Loan Stock 2018 ("CULS") and 825,000 new Ordinary shares during the year.

During the year ended 30 June 2012, 425,000 new Ordinary shares were issued under the Company's general block listing authority from 28 March 2011. In addition, in October 2011 22,003 new Ordinary shares were issued as a result of the first conversion of CULS as at 30 September 2011. A further 5,346 new Ordinary shares were issued in April 2012 as a result of the second conversion of CULS as at 31 March 2012.

As at 30 June 2012, there were 64,999,905 Ordinary shares in issue, with voting rights. There were no Ordinary shares in treasury. There was also £24,935,071 of CULS in issue.

Year ended 30 June	Ordinary shares bought back for cancellation	Ordinary shares bought back into treasury	Issued from treasury	Ordinary shares issued	Ordinary shares in issue (excluding treasury shares)	Convertible Unsecured Loan Stock Issued	Convertible Unsecured Loan Stock Exercised	Convertible Unsecured Loan Stock Total	Warrants exercised	Warrants bought back	Warrants lapsed	Total Warrants in issue
1994	–	–	–	–	69,436,770	–	–	–	–	–	–	13,886,996
1995	–	–	–	–	69,525,796	–	–	–	89,026	–	–	13,797,970
1996	–	–	–	–	69,527,676	–	–	–	1,880	–	–	13,796,090
1997	–	–	–	–	69,528,656	–	–	–	980	1,592,201	–	12,202,909
1998	–	–	–	–	69,529,717	–	–	–	1,061	6,075,144	–	6,126,704
1999	–	–	–	–	69,530,267	–	–	–	550	1,350,000	–	4,776,154
2000	–	–	–	–	69,543,990	–	–	–	13,723	1,671,143	–	3,091,288
2001	–	–	–	–	69,601,685	–	–	–	57,695	–	–	3,033,593
2002	2,200,000	–	–	–	67,403,646	–	–	–	1,961	–	–	3,031,632
2003	–	–	–	–	67,403,646	–	–	–	–	–	–	3,031,632
2004	–	–	–	–	67,403,646	–	–	–	–	–	–	3,031,632
2005	–	–	–	–	67,404,646	–	–	–	1,000	–	–	3,030,632
2006	–	–	–	–	67,404,746	–	–	–	100	–	–	3,030,532
2007	34,823,217	–	–	–	32,583,790	–	–	–	2,261	117,791	–	2,910,480
2008	–	559,175	–	–	32,037,585	–	–	–	12,970	–	–	2,897,510
2009	–	–	–	29,961,251	63,163,381	–	–	–	1,164,545	–	1,732,965	–
2010	–	–	–	–	63,163,381	–	–	–	–	–	–	–
2011	–	3,670,243	4,229,418	825,000	64,547,556	£25,000,000	–	£25,000,000	–	–	–	–
2012	–	–	–	452,349	64,999,905	–	£64,929	£24,935,071	–	–	–	–

The Directors present their Report and the audited financial statements of the Company for the year ended 30 June 2012.

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 2012 amounted to £2,273,000 (2011:£2,744,000 including £875,000 in relation to one off VAT refunds and related interest).

The total return attributable to Ordinary shareholders for the year ended 30 June 2012 amounted to (£13,703,000) (2011:£54,403,000).

An interim dividend of 1.00 pence per share (2011 – 1.00 pence) was paid on 30 March 2012 to shareholders on the register as at 9 March 2012. The ex-dividend date was 7 March 2012.

The Directors are recommending to shareholders that a final Ordinary dividend of 2.10p pence per share (2011 – 1.75pence) be paid on 18 October 2012 to shareholders on the share register as at the close of business on 21 September 2012. The ex-dividend date is 19 September 2012. Details of the final Ordinary and Interim dividends paid during the year ended 30 June 2012 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. The Company 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 1158 of the Corporation Tax Act 2010 ("Section 1158") for the year ended 30 June 2011. The Directors are of the opinion that the Company has conducted its affairs so as to be able to continue to obtain approval as an investment trust under Section 1158 for the year ended 30 June 2012. 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

Together 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 (Corporate Funds) Limited ("the Manager") in the management of the Company's activities.

Investment Objective and Investment Policy

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

The Company may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing, transferring or eliminating the investment risks in its investments in order to protect the Company's portfolio.) Within the Company's Articles of Association, the maximum level of gearing is 100 per cent. of net assets. The Directors' policy is that gearing will be between -5 per cent. and 25 per cent of net assets (at the time of drawdown) in normal market conditions. The Directors have delegated responsibility to the Investment Manager for the operation of the gearing level within the above parameters.

Gearing

The Board regularly reviews gearing which was 5.8% as at 30 June 2012. This compared to a figure of 8.8% as at 30 June 2011. Gearing is calculated as the liability component of the Convertible Unsecured Loan Stock 2018 ("CULS") less cash balances, as a proportion of net assets.

Manager's investment process

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 10 with further sector analysis on page 11.

Directors' Report

Oversight and Review of Performance
For the year ended 30 June 2012, the Company's net asset value total return was -7.6%, compared to a total return of -4.1% for the Company's benchmark, the Numis Smaller Companies Index (excluding Investment Companies). For the five years ended 30 June 2012 the Company's net asset value total return was 49.7% compared to a total return of 8.6% for the benchmark.

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 27), 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 total return 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 underlying 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 29 and the ten year record is included on page 6.

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 7 to 9.

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 and uncertainties facing the Company which the Board and the Manager have identified and the Board sets out delegated controls designed to manage those risks and uncertainties. Key risks within investment strategy, including inappropriate stock selection and gearing, are managed by the Board through a defined investment policy, with 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 27.

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, as at 30 June 2012 and the date of this Report, consisted of equity share capital comprising 64,999,905 Ordinary shares and £24,935,071 nominal amount of CULS. Further details may be found under 'Capital Structure' on page 15.

  In October 2010, the Company entered into a one-year multicurrency revolving credit facility with BNP Paribas for up to £15m. The credit facility was repaid in full on 28 March 2011 following the receipt of proceeds from the issue of the CULS.

  The effect of gearing should be beneficial in rising markets but could adversely affect returns to shareholders in falling markets. The Manager is able to increase or decrease the Company's level of net gearing by holding a lower or higher cash balance subject to the Company's investment policy which requires that gearing should remain between -5% and 25% of net assets at the time of drawdown.

- **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 Section 1158 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 to the Company could also lead to reputational damage or loss.

  There is also a further regulatory risk in the form of the Alternative Investment Fund Managers Directive ("AIFMD") which came into force in July 2011 and is due to be enacted in the national laws of member states of the European Union by July 2013. The AIFMD will introduce a new authorisation and supervisory regime for all investment trust fund managers and investment companies in the European Union. This is expected to create some additional regulatory costs 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.

Capital structure

The Company's issued share capital at 30 June 2012, and as at the date of this Report, consisted of 64,999,905 Ordinary shares of 25 pence, with voting rights, and £24,935,071 nominal of CULS (2011 – 64,547,556 Ordinary shares and £25m nominal of CULS).

There were no shares held in treasury at 30 June 2012 (2011 – nil).

During the year the Company issued a total of 452, 349 new Ordinary shares. This was comprised as follows:

In August and September 2011, 425,000 new Ordinary shares were issued by the Company under its general block listing authority granted on 28 March 2011.

In October 2011, £52,234 nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 was converted into 22,003 new Ordinary shares as a result of the first CULS conversion as at 30 September 2011.

In April 2012, £12,695 nominal amount of 3.5% CULS was converted into 5,346 new Ordinary shares as a result of the second CULS conversion as at 31 March 2012.

During the year no Ordinary shares were bought back by the Company for cancellation (2011 - nil).

Each Ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every Ordinary share held.

Tender Offer

On 9 November 2011, the Company announced that, in light of the Company's ordinary shares trading, on average, at a small premium to net asset value share for the last 12 months, the Board intended to exercise its discretion not to conduct a tender offer at the 31 December 2011 tender date.

On 8 May 2012, the Company announced that, in light of the Company's ordinary shares trading, on average, at a discount of under 2% to net asset value per Ordinary share for the last 12 months and continuing to trade at a low discount, the Board intended to exercise its discretion not to conduct a tender offer at the 30 June 2012 tender date. The Company also announced that it remained the Board's intention to consider a regular tender at 6 monthly intervals and to offer shareholders the opportunity to tender their shares where it was in shareholders' interest to do so.

Investors should note that the operation of any periodic tender offers will be at the absolute discretion of the Board. The next review by the Board of the operation of the tender offer will be in November 2012. In any event, the Board considers that it is in the best interests of the Company as a whole to restrict any future periodic tender offers to a maximum of 5% in aggregate of the ordinary shares in issue as at the relevant tender offer calculation date (excluding any ordinary shares held in treasury). The maximum limit of shares which can therefore be tendered in any future six month period would be 5% of the shares in issue.

The price at which shares will be purchased will continue to be an amount equal to 98% of the realisation value of the assets attributable to the shares tendered as at the close of business on the relevant periodic tender offer calculation date. The realisation value will continue to be the NAV per ordinary share on the relevant tender offer calculation date less the costs of the tender offer which for the avoidance of doubt includes portfolio realisation costs, advisory fees, VAT and stamp duty.

Furthermore, in light of the Company assuming structural gearing through the issue of the CULS, the Board may, after taking into account the outcomes of previous tender offers and the then current rating of the ordinary shares, amend the provisions of the periodic tender offers to further protect continuing shareholders' interests. For the avoidance of doubt in carrying out any periodic tender offers the Board will give careful consideration to the future cashflows and gearing levels of the Company as well as to the amount the Board resolves to commit to future investment opportunities. In addition, the Board will seek to ensure that shares are only bought back by the company at prices which are in the best interests of all shareholders.

Convertible Unsecured Loan Stock

The Company announced on 28 March 2011 that £25 million nominal of CULS were issued further to a circular published on 2 March 2011 and following shareholder approval at a General Meeting on 28 March 2011.

The Board believes that introducing structural gearing, which replaced the existing debt facility which was repayable in October 2011, further enhances the Manager's ability to increase capital returns. The net proceeds of the issue were used to repay the existing debt facility and the balance is available to be invested by the Manager in accordance with the Company's investment policy without any change in the Company's approach to investing in UK small cap opportunities.

Shareholders were given the opportunity to invest in the CULS, which pay a coupon of 3.5% per annum and may be converted into Ordinary shares on 30 September and 31 March each year up to March 2018, at a fixed price per Ordinary share of 237.2542p. Any holder of CULS is entitled to convert part or all of their holding into Ordinary shares. Further information on conversion may be found in the announcement made by the Company on 24 August 2012, a copy of which may be downloaded from the Company's website (see page 47 for details) or by consulting the reverse side of the CULS certificate.

The third interest payment to holders of CULS, covering the period from 31 March 2012 to 29 September 2012, shall be made to holders of CULS on 28 September 2012. The payment will be made to holders of CULS on the CULS register as at close of business on 7 September 2012. The ex-dividend date is 5 September 2012.

Directors

Biographies of the current Directors of the Company at the date of this Report, all of whom served throughout the year ended 30 June 2012, are shown on page 5.

The Directors' interests in the Ordinary share capital and CULS of the Company at 30 June 2012 and 1 July 2011, which were unchanged as at the date of this Report, are shown in Table 1.

	Ordinary shares held at 30 June		CULS held at 30 June	
	2012	**2011**	**2012**	**2011**
Donald MacDonald	127,000	127,000	24,911	24,911
Lynn Ruddick	17,263	16,949	6,618	6,618
Carol Ferguson	31,727	31,727	12,446	12,446
David Woods	5,000	5,000	980	980
	180,990	**180,676**	**44,955**	**44,955**

Table 1: Directors' interests in Ordinary shares and CULS

All of the directors will retire and, being eligible will offer themselves for re-election as directors at the next AGM. The Board's policy on tenure may be found in the Statement of Corporate Governance.

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' Liability 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 were provided up to and including 29 June 2012 by Aberdeen Asset Management PLC under a separate agreement with the Manager. With effect from close of business on 29 June 2012 Company Secretarial and administrative services are provided by Maven Capital Partners UK LLP under a separate agreement with the Manager.

Up to 30 June 2012 investment management fees payable to the Manager under the IMA were charged on the following basis:

- A quarterly fee, payable in arrears, calculated at an annual rate of 0.65% of gross assets after deducting current liabilities and reduced to 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 return 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 Numis Smaller Companies Index (excluding Investment Companies). The performance fee is 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 at the start of the relevant period, no performance fee will be payable. The entitlement to a performance fee will be further restricted so that no performance fee is payable 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, (i.e. a three-year rolling period). No performance fee will be payable to the Manager in respect of the year ended 30 June 2012 (2011 - £1,064,000).

From 1 July 2012 investment management fees payable to the Manager under the IMA will be charged on the following basis:

- A quarterly fee payable in arrears, calculated at an annual rate of 0.85% of gross assets after deducting current liabilities.
- There will be no performance fee.

The Board has reviewed both the terms of the IMA and the performance of the Manager for the year ended 30 June 2012 and is of the opinion that the continuing appointment of the Manager, on the terms set out in the IMA (as amended to give effect to the new fee arrangements), is in the best interest 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.

Within the Income Statement, 75% of the investment management fee has been charged to capital for the year ended 30 June 2012. Further details of the fees are shown in Note 3 to the Financial Statements.

Social, Community and Environmental Policy

As an investment trust, the Company has no direct social, community or environmental responsibilities. The Company's 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 27.

Corporate Governance

The Statement of Corporate Governance, which forms part of this Directors' Report, appears on pages 21 to 27.

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 30 June 2012.

Name of shareholder	Number of Ordinary Shares	%
M&G Investment Management	6,327,307	9.73
Brewin Dolphin	6,168,102	9.49
Standard Life Investments	4,962,984	7.64
Transact (Non-discretionary)	4,051,859	6.23
East Riding of Yorkshire	2,800,485	4.31
Hargreaves Lansdown (Non-discretionary)	2,726,090	4.19
Standard Life Savings Limited-retail plan holders	2,665,135	4.10
Henderson Global Investors	2,256,957	3.47
Legal & General Investment Management	2,143,841	3.30
Rathbones	1,962,906	3.02

Table 2: Substantial interests

Directors' Report

The Board is aware of the following changes in the substantial interests as at the date of this report.

Name of shareholder	Number of Ordinary Shares	%
Brewin Dolphin	6,230,263	9.58
Transact (Non- discretionary)	4,025,825	6.19
Hargreaves Lansdown (Non-discretionary)	2,730,724	4.20
Standard Life Savings Limited-retail plan holders	2,664,254	4.09
Legal & General Investment Management	2,179,121	3.35
Rathbones	1,920,223	2.95

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, when applicable.

The Company's one-year multicurrency revolving credit facility with BNP Paribas was repaid in full on 28 March 2011 and the Company has no bank borrowings at 30 June 2012 (2011: nil).

The Directors are mindful of the Principal Risks and Uncertainties disclosed in this Report (as set out on pages 14 and 15) and, having reviewed forecasts detailing revenue and liabilities, the Directors believe that the Company has adequate financial resources to continue its operational existence for the foreseeable future. Accordingly, the Directors believe that it is appropriate to 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 8 will be proposed at the Annual General Meeting to re-appoint the Auditor and to authorise the Directors to fix the Independent Auditor's remuneration.

The Directors who held office at the date of approval of this Report have confirmed that, so far as they are each aware, there is no relevant audit information 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

Important events during the year and between 30 June 2012 and the date of this Report are set out in the Chairman's Statement on pages 3 and 4 and in the Manager's Report on pages 7 to 9.

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 or CULS issued by 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 27. 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.

Annual General Meeting

The Notice of the Annual General Meeting ("AGM"), which will be held on Thursday 11 October 2012, and related notes may be found on pages 50 to 55 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 9, which is an Ordinary Resolution, will, if passed, renew the Directors' authority to allot new Ordinary shares up to a nominal value of £1,624,998. This will allow the Directors to allot up to 6,499,990 Ordinary shares (being approximately 10% of the issued share capital of the Company as at the date of this Notice, excluding treasury shares).

Resolution 10, 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 £1,624,998, being up to 6,499,990 Ordinary shares, representing 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 10. 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 30 June 2012, and the date of approval of this Report, there were no Ordinary Shares held in treasury (2011-nil).

The authorities being sought under Resolutions 9 and 10 shall expire at the conclusion of the next Annual General Meeting in 2013 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 advantageous 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 11 October 2011. Special Resolution 11 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 9,743,485 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 2013 or, if earlier, on the expiry of 15 months from the date of passing of Resolution 11 unless such authority is renewed prior to such time.

Sale of treasury shares
Subject to the passing of Resolution 10, Ordinary Resolution 12 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 discretionary basis, to offer shareholders the opportunity to exit some or all of their investment in the Company every 6 months. The initial tender offers were on 30 June 2010 and 31 December 2010. The Board opted to exercise its discretion not to operate a tender offer at 30 June 2011, 31 December 2011 and 30 June 2012. Investors should note that

the operation of the regular tender offer is discretionary. Subject to certain limitations set out below, the Directors intend to continue to invite shareholders to tender for cash all or part of their holdings of shares. The price at which shares will be purchased will continue to 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 should be restricted to a maximum of 5% of the shares in issue as at the relevant tender offer calculation date (excluding any shares held in treasury) and therefore going forward the Directors do not intend to carry forward any unused tender amount to the next tender offer calculation date. Accordingly, the maximum limit of shares which can be tendered in any calendar year going forward will be up to 10% of the shares in issue.

Therefore, in addition to the authority that is being sought by the Company under Resolution 10 to purchase its own shares of 25 pence each, Special Resolution 13 grants the Board the authority to implement the next tender offers on 31 December 2012 and 30 June 2013 and to repurchase up to a maximum of 5% of the Company's issued share capital as at 31 December 2012 and 30 June 2013 (as appropriate). If Resolution 13 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 2012, and 30 June 2013, 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 13 is passed, such authority will expire at the conclusion of the Company's next Annual General Meeting in 2013, unless renewed prior to that date. It is expected that a further special resolution will be proposed at the AGM in 2013 in respect of the tender offer dates on 31 December 2013 and 30 June 2014.

The tender offer will be conducted in accordance with the UKLA's Listing Rules and the rules of the London Stock Exchange. Shareholders will be notified prior to each tender offer on 31 December 2012 and 30 June 2013 of the full terms and conditions of the tender offer and the procedure for tendering shares.

Notice of Meeting

Under the Companies Act 2006, the notice period for the holding of general meetings of the Company is 21 clear days unless shareholders agreed to a shorter notice period and certain other conditions are met. Resolution 14, which is a Special Resolution, will be proposed to authorise the Directors to call general meetings of the Company (other than Annual General Meetings) on not less than 14 clear days' notice, as permitted by the Companies Act 2006 amended by the Companies (Shareholders' Rights) Regulations 2009.

It is currently intended that this flexibility to call general meetings on shorter notice will only be used for non-routine business and where merited in the interests of all Shareholders. If Resolution 14 is passed, the authority to convene general meetings on not less than 14 clear days' notice will remain effective until the conclusion of the Annual General Meeting in 2013 or, if earlier, on the expiry of 15 months from the date of passing of Resolution 14, unless renewed prior to such time.

Recommendation

Your Board considers Resolutions 1 to 9 inclusive and Resolution 12, which are all Ordinary resolutions, and Resolutions 10, 11, 13 and 14, 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 1 to 14 inclusive to be proposed at the AGM on 11 October 2012.

By order of the Board,
Maven Capital Partners UK LLP
Company Secretaries

Glasgow, 31 August 2012

Introduction
The Board is accountable to the Company's shareholders for high standards of corporate governance and this statement describes how the Company applies the main principles identified in the UK Corporate Governance Code ("the Governance Code") issued in June 2010 and which was first in effect for the Company's year ended 30 June 2011. The Governance Code is available from the website of the Financial Reporting Council at www.frc.org.uk. The Association of Investment Companies ("the AIC") has published its own Code on Corporate Governance ("the AIC Code"), by reference to the AIC Corporate Governance Guide for Investment Companies ("the AIC Guide"), both revised in October 2010, which provide a comprehensive guide to best practice in certain areas of governance where the specific characteristics of investment trusts suggest alternative approaches to those set out in the Governance Code. Both the AIC Code and AIC Guide are available from the AIC website at www.theaic.co.uk.

Application of the Main Principles of the Governance Code and the AIC Code
This statement describes how the main principles identified in the Governance Code and the AIC Code ("the Codes") have been applied by the Company throughout the year as is required by the Listing Rules of the UK Listing Authority. In instances where the Governance Code and AIC Code differ, an explanation will be given as to which governance code has been applied, and the reason for that decision.

The Board is of the opinion that the Company has complied fully with the main principles identified in the Codes except as set out below:

- the role of the chief executive – Code provision A2.1; and
- executive directors' remuneration – Code provisions D2.1, D2.2 and D2.4.

For the reasons set out in the AIC Guide, and as explained in the Governance Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

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 2012 and at the date of this Report, appear on page 5 and indicate their range of investment, industrial, commercial and professional experience. David 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 review of quarterly management accounts;
- monitoring Companies Act requirements such as approval of Interim Management Statements, the Half-Yearly Financial Report and Annual Report and Financial Statements and approval and recommendation of any dividend;
- setting the range of gearing in which the Manager may operate;
- major changes relating to the Company's structure including 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;

Statement of Corporate Governance

- 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 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.

Following the implementation of the Bribery Act 2010, the Board adopted appropriate procedures designed to prevent bribery.

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 five times a year, and more frequently where business needs require.

The Board met on five occasions during the year ended 30 June 2012. 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
Donald MacDonald (Chairman)	5 (5)	2 (2)	1 (1)
Carol Ferguson	5 (5)	2 (2)	1 (1)
Lynn Ruddick	5 (5)	2 (2)	1 (1)
David Woods	5 (5)	2 (2)	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 including: 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 for download 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 the full Board, which was chaired throughout the year by Lynn Ruddick who is considered by the Board to have recent and relevant financial experience.

The main responsibilities of the Committee are:

- monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- reviewing the Company's internal financial controls and the Company's internal control and risk management systems; to assist in this the Committee receives reports from the internal audit and compliance departments of the Manager;
- reviewing an annual statement from the Manager detailing the arrangements in place whereby the Manager's staff may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters;
- making recommendations to the Board, for it to put to shareholders for their approval in general meeting, in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- reviewing the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;

and reporting to the Board, identifying any matters in respect of which the Committee considers that action or improvement is needed, and making recommendations as to the steps to be taken.

During the year ended 30 June 2012, the external auditor, Ernst & Young LLP, received no non-audit fees (2011: nil). Ernst & Young LLP, in accordance with regulatory requirements, rotates the Senior Statutory Auditor responsible for the audit every five years and the Committee considers that the external auditor is 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.

The main responsibilities of the Committee include:

- regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board;
- undertaking succession planning, taking into account the challenges and opportunities facing the Company and identifying candidates to fill vacancies;
- recruiting new directors, undertaking open advertising or engaging external advisers to facilitate the search, as appropriate, with a view to considering candidates from a wide range of backgrounds, on merit, and with due regard for the benefits of diversity on the Board, including gender, taking care to ensure that appointees have enough time available to devote to the position;
- ensuring that new appointees receive a formal letter of appointment and suitable induction and ongoing training;
- arranging for annual Board performance evaluation to ensure that Directors are able to commit the time required to properly discharge their duties;
- making recommendations to the Board as to the position of Chairman, Senior Independent Director and Chairmen of the Nomination and Audit and Management Engagement Committees;
- assessing, on an annual basis, the independence of each Director; and

Statement of Corporate Governance

- approving the re-appointment of any Director or the re-election, subject to the Governance Code, AIC Code, or the Articles of Association, of any Director at the Annual General Meeting, having due regard to their performance, ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

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, the 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 first AGM following their date of appointment.

The Board has considered the Governance Code recommendation for the annual re-election of directors and confirms that all Directors are subject to annual re-election at the AGM.

The Board and Committees undertook an annual performance evaluation in May 2012, 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.

Donald MacDonald, David Woods, Lynn Ruddick and Carol Ferguson, will retire, and being eligible, will each offer themselves for re-election as a Director at the next AGM.

Led by David Woods as Senior Independent Director, and in the absence of the Chairman, the other Directors have reviewed the skill, experience and commitment of Donald MacDonald. Having resigned from Mint Hotels, Donald MacDonald's other commitments have reduced during the year. The other Directors consider that it is appropriate that Donald MacDonald be recommended for re-election as a Director and that he continue to serve as Chairman of the Company. Accordingly shareholders are encouraged to support the relevant AGM resolution.

In their absence, each of David Woods, Lynn Ruddick and Carol Ferguson have been evaluated by their fellow Directors. The Board considers that none of their other commitments (as set out on page 5 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 each of David Woods, Lynn Ruddick 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, David Woods, Carol Ferguson and Lynn Ruddick each merit re-election as a Director and shareholders are encouraged to support the relevant AGM resolutions.

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 29.

Communication with Shareholders

The Company reports formally to shareholders twice a year by way of the Half-Yearly Financial Report and the Annual Report which each include an analysis of the risks and uncertainties facing the Company. A quarterly factsheet is also published on the website of the Manager and is available to all shareholders on request; see Key Contacts (page 47) for details. An Interim Management Statement is also published via the London Stock Exchange for the quarters ended 31 March and 30 September each year. The Company's net asset value is published each business day.

Further details of the Company's policy on shareholder communications, including documents to be made available from the website, may be found on page 48.

The Directors are always available to discuss issues of concern or areas of uncertainty with any shareholders and key contacts for the Company may be found on page 47.

The Company has adopted a nominee code, which ensures that, where notification has been received in advance, nominee operators will be provided with copies of shareholder communications for distribution to their customers.

The Company's AGM provides a forum for communication primarily with private shareholders and is attended by the Chairman of the Board and the Chairman of the Audit and Management Engagement Committee. The Manager makes a presentation to the meeting and all shareholders have the opportunity to put questions to both the Board and Manager at the AGM.

Each person attending the AGM as a proxy is entitled to vote on a show of hands. A separate resolution is proposed in respect of each substantially separate issue. The Chairman announces the level of proxies lodged on each resolution, and the balance for and against and votes withheld, where relevant, after the resolution has been put to a show of hands. The result of any poll will subsequently be made available on the Company's website. In order to ensure that detailed discussion of key issues is possible, the Company normally aims to circulate to shareholders the Annual Report and the notice of the AGM not less than 20 working days before the date of the meeting.

Members of the Standard Life Investments Savings Share Plan or Individual Savings Account, whose shares are held in the nominee names of the scheme or plan administrator, are given the opportunity to vote by means of an individual Form of Direction enclosed with the Annual Report. These Forms of Direction are forwarded to the scheme or plan administrator who collates the votes and prepares a proxy form on behalf of the scheme/plan member(s) which is forwarded to the Company's registrars for inclusion in the voting figures. Those members who attend the AGM and who wish to speak are entitled to do so provided that they are in possession of a representation letter issued by the scheme or plan administrator. Further information on how to obtain a representation letter may be found on the Form of Direction.

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.

The Notice of Meeting on pages 50 to 55 sets out the business of the meeting and the resolutions are explained more fully in the Directors' Report on pages 13 to 20. Separate resolutions are proposed for each substantive issue.

Shareholders have direct access to the Company, including the Chairman and the Senior Independent Director by contacting the Company Secretaries. See Key Contacts (page 47) for details.

Internal Control and Risk Management

The Board is ultimately responsible for the Company's system of internal control and risk management 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 and risk management. 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 and risk management 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 departments continually review 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 control and risk management 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.

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

Corporate Governance, Stewardship and Proxy Voting

The Financial Reporting Council ("FRC") published the UK Stewardship Code ("the Code") for Institutional shareholders on 2 July 2010. The purpose of the Code is to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and assist institutional investors with the efficient exercise of their governance responsibilities. The FRC is encouraging institutional investors to make a statement of their commitment to the Code.

The Board has reviewed the Manager's statement of compliance with the Code, which appears on the Manager's website, at http://www.standardlifeinvestments.com/corporate_governance_sustainable_and_responsible_investing/the_uk_stewardship_code/index.html.

The Board has delegated responsibility for actively monitoring the activities of portfolio companies to the Manager. The Board has reviewed and accepts the Manager's corporate governance principles and polices ("the Principles and Policies"), which may be found on the Manager's website at http://www.standardlifeinvestments.com/corporate_governance_sustainable_and_responsible_investing/what_is_corporate_governance/principles_and_policies.html. These Principles and Polices set out the Manager's framework on corporate governance, proxy voting and shareholder engagement in relation to the companies in which the Manager has invested or is considering investing.

The Manager is responsible for reviewing, on a regular basis, the annual reports, circulars and other publications produced by portfolio companies and for attending company meetings. The Manager, in the absence of explicit instruction from the Board, is empowered to use discretion in the exercise of the Company's voting rights.

The Board recognises and supports the Manager's policy of active engagement with investee companies and the voting of all of the shares held by the Company. The Board receives from the Manager regular reports on the exercise by the Manager of the Company's voting rights and discusses with the Manager any issues arising. It is the Board's view that having an active voting policy and a process for the monitoring by the Board of the Manager's exercise of those votes, especially in relation to controversial issues, aids the efficient exercise of the Company's governance responsibilities.

The Board is aware of its duty to act in the interests of the Company. The Directors, through the Manager, encourage companies in which investments are made to adhere to best practice in the area of corporate governance. The Manager believes that this can best be achieved by entering into a dialogue with company management, where practicable, to encourage them, where necessary, to improve their policies in this area.

Socially Responsible Investment Policy

The Manager undertakes constructive engagement with investee companies on issues of social, community and environmental responsibility in order to influence positively developments in these areas.

The Manager's specific policies are outlined in their Corporate Governance UK Guidelines, which may be found on the Manager's website at http://www.standardlifeinvestments.com/CG_Corporate_Governance_Booklet/getLatest.pdf

The Manager believes that a company run in the long-term interests of its shareholders should manage its relationships with its employees, suppliers and customers and behave responsibly towards the environment and society as a whole. Companies that demonstrate a commitment to environmental and social responsibility are considered by the Manager to be likely to enjoy comparative advantage in the long run.

Accountability and Audit

The Statement of Directors' Responsibilities in respect of the Financial Statements is on page 28 and the Statement of Going Concern is included in the Directors' Report on page 18. The Independent Auditor's Report is on page 30.

By order of the Board,
Maven Capital Partners UK LLP
Company Secretaries

Glasgow, 31 August 2012

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 are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that 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 Statement of Corporate Governance that comply with that law and those regulations.

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

The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

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

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

Donald MacDonald
Chairman

31 August 2012

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 their report on page 30.

Unaudited Information

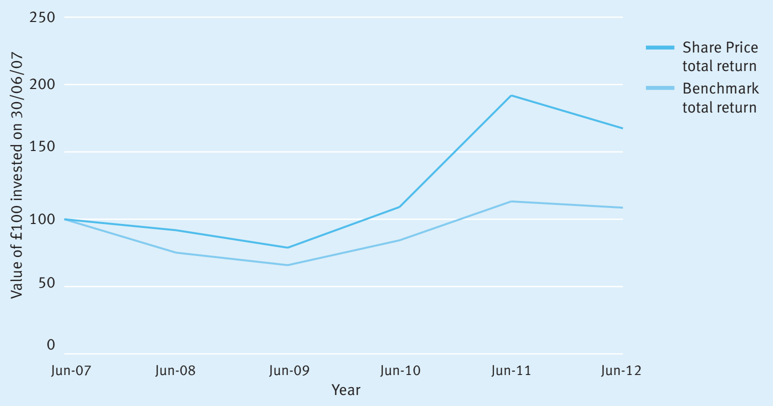
Remuneration Policy

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £150,000 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 2013 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 2012: Chairman, £26,250 (formerly £25,000), Chairman of the Audit and Management Engagement Committee, £21,000 (formerly £20,000) and £18,000 (formerly £17,000) 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. Notwithstanding the Articles, the Board has agreed that all Directors 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.

Performance of the Company

Total cumulative Ordinary share price total return for the five year period ended 30 June 2012 (rebased to 100 at 30 June 2007)



The graph above compares the total return (assuming all dividends are reinvested) to Ordinary shareholders in the Company to the total return from the Numis Smaller Companies Index (excluding Investment Companies) chosen as it is the Company's benchmark.

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.

	Date of appointment to / (resignation from) the Board	30 June 2012 £	30 June 2011 £
Chairman of the Board: Donald MacDonald	12 July 1993	25,000	22,000
Chairman of the Audit and Management Engagement Committee: Lynn Ruddick	4 February 2009	20,000	17,500
Director Carol Ferguson	4 February 2009	17,000	15,500
David Woods	5 May 2005	17,000	15,500
		79,000	**70,500**

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,
Maven Capital Partners UK LLP
Company Secretaries

Glasgow, 31 August 2012

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 2012 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 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities Statement set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2012 and of its loss 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 returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 18, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Directors' remuneration.

Caroline Gulliver (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London, 31 August 2012

Income Statement

For the year ended 30 June 2012

	Notes	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Net (losses)/gains on investments held at fair value	9	–	(14,397)	(14,397)	–	53,665	53,665
Currency gains		–	–	–	–	1	1
Income	2	3,192	–	3,192	2,942	–	2,942
Investment management fee	3	(238)	(713)	(951)	(237)	(711)	(948)
Performance fee	3	–	–	–	–	(1,064)	(1,064)
VAT recovered on investment management fees	3	–	–	–	480	81	561
Other administrative expenses	4	(367)	–	(367)	(329)	–	(329)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		2,587	(15,110)	(12,523)	2,856	51,972	54,828
Finance costs	5	(289)	(866)	(1,155)	(105)	(313)	(418)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		2,298	(15,976)	(13,678)	2,751	51,659	54,410
Taxation	6	(25)	–	(25)	(7)	–	(7)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		2,273	(15,976)	(13,703)	2,744	51,659	54,403
RETURN PER ORDINARY SHARE:	8	3.50p	(24.61p)	(21.11p)	4.35p	81.96p	86.31p

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 2012

	Notes	2012 £'000	2011 £'000
NON-CURRENT ASSETS			
Investments at fair value through profit or loss	9	147,937	170,172
CURRENT ASSETS			
Debtors	10	966	635
Investments in AAA Money Market funds	15	15,208	9,296
Cash and short term deposits	15	18	3
		16,192	9,934
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	11	(661)	(1,734)
NET CURRENT ASSETS/(LIABILITIES)		15,531	8,200
TOTAL ASSETS LESS CURRENT LIABILITIES		163,468	178,372
NON-CURRENT LIABILITIES			
3.5% Convertible Unsecured Loan Stock 2018	12	(23,321)	(23,040)
NET ASSETS		140,147	155,332
CAPITAL AND RESERVES			
Called-up share capital	13	16,250	16,137
Share premium account		3,722	2,881
Equity component of Convertible Unsecured Loan Stock 2018	12	1,470	1,470
Special reserve		46,871	46,871
Capital reserve		69,038	85,014
Revenue reserve		2,796	2,959
EQUITY SHAREHOLDERS' FUNDS		140,147	155,332
NET ASSET VALUE PER ORDINARY SHARE	16	215.61p	240.65p

The financial statements on pages 31 to 46 were approved by the Board of Directors on 31 August 2012 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 2012

For the year ended 30 June 2012

	Share capital £'000	Share premium account £'000	Equity component CULS 2018 £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2011	16,137	2,881	1,470	46,871	85,014	2,959	155,332
Return on ordinary activities after taxation	—	—	—	—	(15,976)	2,273	(13,703)
Issue of Ordinary Shares	106	790	—	—	—	—	896
Issue of new Ordinary Shares from conversion of 3.5% Convertible Unsecured Loan Stock 2018	7	51	—	—	—	—	58
Dividends paid (see note 7)	—	—	—	—	—	(2,436)	(2,436)
BALANCE AT 30 JUNE 2012	16,250	3,722	1,470	46,871	69,038	2,796	140,147

For the year ended 30 June 2011

	Share capital £'000	Share premium account £'000	Equity component CULS 2018 £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 June 2010	15,931	—	—	46,871	32,737	1,759	97,298
Return on ordinary activities after taxation	—	—	—	—	51,659	2,744	54,403
Issue of Ordinary Shares	206	2,881	—	—	6,244	—	9,331
Issue of 3.5% Convertible Unsecured Loan Stock 2018	—	—	1,470	—	—	—	1,470
Tender offer buybacks	—	—	—	—	(5,565)	—	(5,565)
Tender offer costs	—	—	—	—	(61)	—	(61)
Dividends paid (see note 7)	—	—	—	—	—	(1,544)	(1,544)
BALANCE AT 30 JUNE 2011	16,137	2,881	1,470	46,871	85,014	2,959	155,332

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 2012

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	14		878		1,539
SERVICING OF FINANCE					
Interest paid			(874)		(91)
TAXATION			(53)		6
FINANCIAL INVESTMENT					
Purchase of investments		(30,093)		(49,917)	
Sale of investments		37,609		32,229	
NET CASH INFLOW/(OUTFLOW) FROM FINANCIAL INVESTMENT			7,516		(17,688)
EQUITY DIVIDENDS PAID			(2,436)		(1,544)
NET CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING			5,031		(17,778)
FINANCING					
Shares issued		896		9,331	
Buyback of shares		—		(5,565)	
Tender offer expenses		—		(153)	
3.5% Convertible Unsecured Loan Stock 2018		—		24,460	
Repayment of bank loan		—		(2,000)	
NET CASH INFLOW FROM FINANCING			896		26,073
NET CASH INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES			5,927		8,295
MANAGEMENT OF LIQUID RESOURCES					
Purchase of AAA Money Market funds		(34,184)		(57,430)	
Sale of AAA Money Market funds		28,272		49,135	
NET CASH OUTFLOW FROM MANAGEMENT OF LIQUID RESOURCES			(5,912)		(8,295)
INCREASE IN CASH	15		15		—
RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT					
Increase in cash		15		—	
Net change in liquid resources		5,912		8,295	
Net change in debt due within one year		—		2,000	
Net change in debt due in more than one year		—		(24,460)	
Other non-cash movements		(281)		1,421	
MOVEMENT IN NET DEBT IN YEAR			5,646		(12,744)
OPENING NET DEBT			(13,741)		(997)
CLOSING NET DEBT			(8,095)		(13,741)

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'. 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. 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 equities 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 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.

(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).

Any performance fee is recognised 100% as a capital item in the Income Statement as it relates entirely to the capital performance of the trust.

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 temporary 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 temporary differences can be deducted. Temporary 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.

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 share premium account balance at 24 June 1999 and on 13 October 2009, 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.

(k) 3.5% Convertible Unsecured Loan Stock 2018
Convertible Unsecured Loan Stock ("CULS") issued by the Company is regarded as a compound instrument, comprising of a liability component and an equity component. At the date of issue, the fair value of the liability component was estimated by assuming that an equivalent non-convertible obligation of the Company would have a coupon rate of 4.83%. The fair value of the equity component, representing the option to convert liability into equity, is derived from the difference between the issue proceeds of the CULS and the fair value assigned to the liability. The liability component is subsequently measured at amortised cost using the effective interest rate and the equity component remains unchanged.

Direct expenses associated with the CULS issue are allocated to the liability and equity components in proportion to the split of the proceeds of the issue. Expenses allocated to the liability component are amortised over the life of the instrument using the effective interest rate.

The interest expense on the CULS is calculated according to the effective interest rate method by applying the assumed rate of 4.83% at initial recognition to the liability component of the instrument.

On conversion of CULS, equity is issued and the liability component is derecognised. The original equity component recognised at inception remains in equity. No gain or loss is recognised on conversion.

When CULS is repurchased for cancellation, the fair value of the liability at the redemption date is compared to its carrying amount, giving rise to a gain or loss on redemption that is recognised through profit or loss. The amount of consideration allocated to equity is recognised in equity with no gain or loss being recognised.

2 Income

	2012 £000	2011 £000
UK dividend income	2,504	2,178
REIT income	58	53
Overseas dividend income	501	272
UK stock dividend income	—	4
Overseas stock dividend income	—	14
	3,063	2,521
Other income		
Interest from AAA Money Market funds	129	26
Interest from HMRC	—	395
	129	421
Total income	3,192	2,942

3 Investment management fee	2012 £000	2011 £000
Investment management fee	951	948
Charged to capital reserve	(713)	(711)
	238	237
Performance fee		
Performance fee	–	1,064
Charged to capital reserve	–	(1,064)
	–	–

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

Up to 30 June 2012 the management fee was calculated at an annual rate of 0.65% of the gross assets after deducting current liabilities and reduced to an annual rate of 0.20% on uninvested cash and cash equivalents. The fee is chargeable 25% to revenue and 75% to capital.

In addition, SLI was 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), exceeded the Benchmark Index movement plus 1%. This was capped at 0.6% of the Gross Asset Value at the period end.

From 1 July 2012, the management fee payable to SLI will be 0.85% of the gross assets of the Company after deducting current liabilities but including any bank loans. There will be no performance fee.

The balance due to SLI at the year end was £245,000 (2011 - £1,343,000).

In 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 have now been processed.

A refund of £561,000 was received from AAM which was accounted for in 2011. The Company has now received all principal VAT due in respect of the claim against HMRC. All 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.

In addition, in 2011 an amount of £395,000 was received in respect of interest on the AAM settled claim and was credited wholly to revenue (see note 2).

4 Administrative expenses (inclusive of VAT)	2012 £000	2011 £000
Secretarial fees	113	106
Directors' fees	79	71
Auditor's remuneration		
- statutory audit	22	21
Registrar's fees	30	31
Professional fees	17	71
Other expenses*	106	29
	367	329

* Other expenses for 2011 include £54,000 of over accruals for previous years written back in 2011

The secretarial fee is paid to SLI and adjusted annually in line with the Retail Price Index.

Notes to the Financial Statements

5 Finance costs	2012 £000	2011 £000
Bank loan arrangement fee	–	9
Bank loan interest	–	80
Interest on 3.5% Convertible Unsecured Loan Stock 2018	870	225
Notional Interest on 3.5% Convertible Unsecured Loan Stock 2018	213	54
Issue expenses on 3.5% Convertible Unsecured Loan Stock 2018	–	32
Amortisation of 3.5% Convertible Unsecured Loan Stock 2018 issue expenses	72	18
	1,155	418
Charged to capital reserve	(866)	(313)
Charged to revenue reserve	289	105

6 Taxation	2012 Revenue £000	2012 Capital £000	2012 Total £000	2011 Revenue £000	2011 Capital £000	2011 Total £000
(a) Analysis of charge for year						
Tax on ordinary activities	25	–	25	7	–	7

(b) Provision for deferred taxation

At 30 June 2012, the company had unutilised management expenses and loan relationship losses of £35,273,000 (2011 - £33,012,000). 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

UK corporation tax at an effective rate of 25.5% (2011: 27.5%) The differences are explained below.

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Net profit on ordinary activities before taxation	2,298	(15,976)	(13,678)	2,752	51,657	54,409
Corporation tax at an effective rate of 25.5% (2011: 27.5%)	586	(4,074)	(3,488)	757	14,206	14,963
Effects of:						
Non-taxable UK dividend income	(639)	–	(639)	(599)	–	(599)
Non-taxable overseas dividends	(128)	–	(128)	(75)	–	(75)
Non-taxable stock dividends	–	–	–	(5)	–	(5)
Exchange losses not taxable	–	–	–	–	–	–
Income taxable in different years	(1)	–	(1)	(2)	–	(2)
Overseas taxes	25	–	25	7	–	7
Excess management expenses and loan relationship losses	182	403	585	(79)	407	328
Expenses not deductible for tax purposes	–	–	–	3	145	148
Other capital returns (e.g. gains on investments)	–	3,671	3,671	–	(14,758)	(14,758)
Current tax charge	25	–	25	7	–	7

7 Dividends	2012 £000	2011 £000
Amounts recognised as distributions to equity holders in the period:		
2011 final dividend of 1.75p per share (2010 - 1.50p) paid on 14 October 2011	1,137	907
2011 special dividend of 1.00p per share (2010 - nil) paid on 14 October 2011	649	—
2012 interim dividend of 1.00p per share (2011 - 1.00p) paid on 30 March 2012	650	637
	2,436	1,544

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.

The actual 2011 final dividend paid differs from the proposed 2011 final dividend due to additional Ordinary Shares issued in October 2011 – see note 13

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 Section 1158 - 1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £2,273,000 (2011 - £2,744,000).

	2012 £000	2011 £000
2012 interim dividend of 1.00p per share (2011 - 1.00p) paid on 30 March 2012	650	637
2012 final dividend of 2.10p per share (2011 - 1.75p) payable on 18 October 2012	1,365	1,136
2012 special dividend of nil (2011 - 1.00p)	—	649
	2,015	2,422

The amount payable for the proposed final dividend is based on the Ordinary shares in issue as the date of approval of this report (64,999,905) which satisfies the requirement of Section 1159 of the Corporation Tax Act 2010.

8 Return per ordinary share	2012 p	2012 £000	2011 p	2011 £000
Basic				
Revenue return	3.50	2,273	4.35	2,744
Capital return	(24.61)	(15,976)	81.96	51,659
Total return	(21.11)	(13,703)	86.31	54,403
Weighted average number of Ordinary shares in issue		64,926,950		63,029,147

Notes to the Financial Statements

9 Investments	2012 £000	2011 £000
Fair value through profit or loss		
Opening fair value	170,172	98,057
Opening fair value gains on investments held	(78,376)	(32,673)
Opening book cost	91,796	65,384
Additions at cost	30,180	49,917
Disposals – proceeds	(38,018)	(31,467)
– realised gains on sales	2,875	7,962
Closing book cost	86,833	91,796
Current year fair value gains on investments held	61,104	78,376
Closing fair value	147,937	170,172
Gains on investments		
Realised gains on sales	2,875	7,962
(Decrease)/increase in fair value gains on investments held	(17,272)	45,703
	(14,397)	53,665

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 on investments in the Income Statement. The total costs were as follows:

	2012 £000	2011 £000
Purchases	166	264
Sales	49	27
	215	291

10 Debtors	2012 £000	2011 £000
Amounts due from brokers	610	201
Net dividends and interest receivable	303	401
Tax recoverable	42	14
Other debtors	11	19
	966	635

11 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Bank loans	—	—
Interest payable	221	279
Investment management fee payable	245	279
Performance fee payable	—	1,064
Sundry creditors	108	112
Amounts due to brokers	87	—
	661	1,734

12 Non-current liabilities

	Nominal amount £000	Liability component £000	Equity component £000
3.5% Convertible Unsecured Loan Stock 2018			
Opening balance	25,000	23,040	1,470
Conversion of 3.5% Convertible Unsecured Loan Stock 2018 into Ordinary Shares	(65)	(58)	—
Notional interest on 3.5% Convertible Unsecured Loan Stock 2018	—	267	—
Amortisation	—	72	—
Closing balance	24,935	23,321	1,470

On 3 October 2011 the Company converted £52,234 nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 into 22,003 Ordinary Shares. Also on 3 April 2012 the Company converted £12,695 nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 into 5,346 Ordinary Shares.

As at 30 June 2012, there was £24,935,071 nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 in issue. The loan stock can be converted at the election of holders into Ordinary Shares during the months of March and September each year throughout their life up until 31 March 2018 at a fixed price per Ordinary share of 237.2542p. Interest is paid on the 3.5% Convertible Unsecured Loan Stock 2018 on 30 September and 31 March each year.

In the event of a winding-up of the Company the rights and claims of the Trustee and CULS holders would be subordinate to the claims of all creditors in respect of the Company's secured and unsecured borrowings, under the terms of the Trust Deed.

13 Called up share capital

	2012 £000	2011 £000
Authorised:		
	37,500	37,500
Issued and fully paid:		
64,999,905 (2011 – 64,547,556) Ordinary shares of 25p each - equity	16,250	16,137
Held in treasury:		
Nil (2011 - nil) Ordinary shares of 25p each - equity	—	—
	16,250	16,137

During the year the Company issued 425,000 Ordinary shares to satisfy shareholder demand for a total consideration received of £896,000. Also the Company issued 27,349 Ordinary shares following the receipt of elections to convert by holders of the Company's 3.5% Convertible Unsecured Loan Stock 2018.

Capital Management

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.

14 Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities	2012 £000	2011 £000
Net return before finance costs and taxation	(12,523)	54,828
Adjusted for:		
Losses/(gains) on investments	14,397	(53,665)
Currency gains	—	(1)
Decrease/(increase) in accrued income	98	(145)
Decrease/(increase) in other debtors	8	(10)
(Decrease)/increase in sundry creditors including investment management fee and performance fee	(1,102)	532
Net cash inflow from operating activities	878	1,539

15 Analysis of changes in net debt	At 30 June 2011 £000	Cashflow £000	Currency and other movements £000	At 30 June 2012 £000
Cash and short term deposits	3	15	—	18
AAA money market funds	9,296	5,912	—	15,208
Debt due in more than one year	(23,040)	—	(281)	(23,321)
Net (debt)/cash	(13,741)	5,927	(281)	(8,095)

16 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.

	2012	2011
Basic net asset value per share		
Net assets attributable (£000)	140,147	155,332
Number of Ordinary shares in issue at year end (excluding shares held in treasury)	64,999,905	64,547,556
Net asset value per share	215.61p	240.65p

17 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.

(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 and money market funds;
- 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 2012, the Company had no revolving credit facility in place. 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.

The 3.5% Convertible Unsecured Loan Stock 2018 was issued by the Company at a fixed cost until its conversion. It is carried in the Company's balance sheet at amortised cost rather than at fair value.

Notes to the Financial Statements

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 2012	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £000
Assets			
AAA Money Market funds	—	0.69	15,208
Cash deposits	—	—	18
Total assets	—	—	15,226
Liabilities			
3.5% Convertible Unsecured Loan Stock 2018	6.25	3.50	23,321
Total liabilities	—	—	23,321

As at 30 June 2011	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Floating rate £000
Assets			
AAA Money Market funds	—	0.84	9,296
Cash deposits	—	—	3
Total assets	—	—	9,299
Liabilities			
3.5% Convertible Unsecured Loan Stock 2018	7.25	3.50	23,040
Total liabilities	—	—	23,040

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 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 2012 and net assets would increase / decrease by £152,000 (2011 : increase / decrease by £93,000). 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 2012			30 June 2011		
	Overseas investments £'000	Net monetary assets £'000	Total currency exposure £'000	Overseas investments £'000	Net monetary assets £'000	Total currency exposure £'000
Euro	7,218	—	7,218	5,876	—	5,876

The asset allocation between specific markets can vary from time to time based on the Investment Manager's opinion of the attractiveness of the individual markets.

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 2012 and net assets would have increased / decreased by £14,794,000 (2011 - increase / decrease of £17,017,000). 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.

(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 risk is not significant, and is managed as follows:

- where the investment 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-standing is reviewed periodically by the investment manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a monthly basis. In addition, both stock and cash reconciliations to the Custodians' records are performed on a daily basis to ensure discrepancies are investigated on a timely basis.
- cash is held only with reputable banks with high quality external credit enhancements.

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

Notes to the Financial Statements

Credit risk exposure
In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 30 June was as follows:

	2012		2011	
Current assets	Balance Sheet £'000	Maximum exposure £'000	Balance Sheet £'000	Maximum exposure £'000
Loans and receivables	966	966	635	635
AAA Money Markets funds	15,208	15,208	9,296	9,296
Cash and short term deposits	18	18	3	3
	16,192	16,192	9,934	9,934

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

Maturity of financial liabilities
The maturity profile of the Company's financial liabilities at 30 June was as follows:

	2012 £'000	2011 £'000
In more than one year	23,321	23,040
	23,321	23,040

The full contractual liability for the CULS assuming no further conversions is 29,953,000 (2011 – £30,906,000)

18 Fair Value hierarchy

FRS 29 'Financial Instruments: Disclosures' 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 has 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).

All of the Company's investments are in quoted equities (2011 – same) that are actively traded on recognised stock exchanges, with their fair value being determined by reference to their quoted bid prices at the reporting date. The total value of the investments (2012 – £147,937,000; 2011 – £170,172,000) have therefore been deemed as Level 1.

The Company's CULS are actively traded on a recognised stock exchange. The fair value of the CULS (2012 – £25,808,000; 2011 – £27,250,000) has therefore been deemed level 1.

19 Related party transactions

Standard Life Investments (Corporate Funds) Limited received fees for its services as investment manager and company secretary. Further details are provided in notes 3 and 4. The Directors of the Company received fees for their services. Further details are provided in the Directors' Remuneration Report on page 29. The Directors' shareholdings are detailed on page 16.

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 (Until 29 June 2012)
Aberdeen Asset Management PLC
7th Floor
40 Princes Street
Edinburgh EH2 2BY
Telephone: 0131 528 4000

Company Secretaries and Registered Office (From 29 June 2012)
Maven Capital Partners UK LLP
1st Floor
Kintyre House
205 West George Street
Glasgow G2 2LW
Telephone: 0141 306 7400

Registered Number
Registered in Scotland No. SC145455

Independent Auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF

Solicitors
Dickson Minto
16 Charlotte Square
Edinburgh EH2 4DF

Custodian
BNP Paribas Securities S.A.
55 Moorgate
London EC2R 6SA

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.uk.computershare.com/investor
Email via ‘Contact Us’ on the above website

Shareholder Information

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.

Shareholder Communications

Recent changes in legislation allow the default option for receiving and accessing shareholder communications (including the Company's Annual Report) to be via the Company's website.

With the Company having decided to take advantage of these changes, with effect from the 30 June 2011 Annual Report, shareholders now have the choice of either receiving an email when the Annual Report, and other shareholder communications, becomes available or opting in to receive a printed copy.

These new provisions offer a number of benefits for both shareholders and the Company: shareholders who receive their documentation electronically enjoy faster, more secure access to Company documentation; the Company makes substantial savings on both printing and postage costs for those who receive electronic communications and access the Annual Report online and, by offering electronic provisions alongside traditional paper-based communications, the Company and its shareholders are helping to make a valuable contribution to the environment.

Shareholders were sent an initial election form for electronic communications in March 2011; new Shareholders receive a welcome pack from the registrars on an initial purchase of shares in the Company.

If you wish to change your election for the Annual Report and other shareholder communications, please contact the Company's Registrars at www-uk.computershare.com/investor or via the contact details on page 47.

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 text phone facility - the universal telephone number for this service is 0870 702 0005.

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. The latest live prices for the Ordinary shares and Convertible Unsecured Loan Stock are displayed, subject to a delay of 15 minutes. "SLS" and "SLSC" are the codes for the Ordinary shares and CULS, respectively, which may be accessed at www.londonstockexchange.com. The Ordinary share price is 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 and CULS may be purchased or sold directly through a stockbroker or indirectly through a lawyer, accountant or financial adviser or through the Company's registrars. Ordinary shares may be also purchased or sold through the Company's Savings Scheme and Individual Savings Account, details of which are shown on page 49 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 Ordinary shares in the Company through Standard Life's Savings Scheme and Individual Savings Account ("ISA").

Alternatively, investors may buy Ordinary shares and/or CULS 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. 0.5% Government stamp duty, which is currently payable on all share purchases, is deducted from each investment made. There is no maximum amount that can be invested in the Company through Standard Life's Savings Scheme and there is no initial or 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 £11,280 in the tax year 2012/2013 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 is deducted from each investment made, however, there is no initial or 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 of Meeting

Notice is hereby given that the 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 Thursday 11 October 2012 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 9 inclusive, as Ordinary Resolutions and, in the case of numbers 10 and 11 inclusive, as Special Resolutions:

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 30 June 2012, together with the Independent Auditor's report thereon.
2. To receive and adopt the Directors' Remuneration Report for the year ended 30 June 2012.
3. To declare a final dividend of 2.10 pence per Ordinary share.
4. To re-elect Donald MacDonald as a Director of the Company.
5. To re-elect David Woods as a Director of the Company.
6. To re-elect Lynn Ruddick as a Director of the Company.
7. To re-elect Carol Ferguson as a Director of the Company.
8. To re-appoint Ernst & Young LLP as Independent Auditor and to authorise the Directors to determine their remuneration.
9. 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 £1,624,998, 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, 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.

10. Disapplication of pre-emption rights

    That, subject to the passing of Resolution 9 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 9 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 £1,624,998, being approximately 10% of the nominal value of the issued share capital of the Company, as at the date of this Notice.

11. 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 9,743,485 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 (exclusive of expenses) 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 Resolution 12 as an Ordinary Resolution and Resolutions 13 and 14 as Special Resolutions:

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

That, subject to the passing of Resolution 10 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 £1,624,998, 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 10 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,

Notice of Meeting

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.

13. Tender offer resolution

That, in addition to the authority given to the Company to purchase its own Ordinary shares of 25p each (the "Shares") pursuant to Resolution 11 set out above and in accordance with the terms and conditions of the tender offers which may be set out in the circulars to be sent electronically or, if requested in hard copy form to Shareholders prior to 31 December 2012 and 30 June 2013 (together the "Tender Offers"), 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 pursuant to each Tender Offer is 5% of the Shares in issue as at 31 December 2012 (excluding any shares held in treasury) or 30 June 2013 (excluding any Shares held in treasury) as appropriate;

(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 2012 and on 30 June 2013, 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.

14. Notice of General Meeting

That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By order of the Board
Maven Capital Partners UK LLP
Company Secretaries

Registered office:
1st Floor
Kintyre House
205 West George Street
Glasgow G2 2LW

31 August 2012

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 9 October 2012 (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 and/or by logging in to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

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 9 October 2012 (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. 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 1 and 2 above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.

10. 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 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.

11. 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 or form of direction) 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.

12. 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

13. 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 will be required to do so once it has received such requests either from members representing at least 5% of the voting rights of the Company or from at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the member's full name and address and be sent to the Company's registered office at 1st Floor Kintyre House 205 West George Street Glasgow G2 2LW. 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.

14. As at 6pm on 31 August 2012 (being the last practicable date prior to publication of this notice) the Company's issued share capital comprised 64,999,905 Ordinary shares of 25p each. Each Ordinary share (other than any Ordinary shares held in treasury) carries the right to one vote at a general meeting of the Company. The CULS do not have any voting rights at general meetings of the Company. Accordingly, the total number of voting rights in the Company as at 31 August 2012 was 64,999,905.

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

16. 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.

17. 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
Kintyre House
205 West George Street
Glasgow G2 2LW

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