



Standard Life UK Smaller Companies Trust plc

**Annual Report and Financial Statements
30 June 2016**

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Financial Calendar

1 September 2016	Announcement of results for year ended 30 June 2016
27 October 2016	Annual General Meeting
3 November 2016	Payment of final dividend on Ordinary shares
February 2017	Announcement of Half-Yearly Financial Report for six months ending 31 December 2016
April 2017	Payment of interim dividend on Ordinary shares

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Investment objective	To achieve long-term capital growth by investment in UK quoted smaller companies.
Investment policy	<p>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 60 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% of total assets at the time of acquisition.</p> <p>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).</p> <p>Within the Company's Articles of Association, the maximum level of gearing is 100% of net assets. The Directors have set parameters of between 5% net cash and 25% net gearing (at time of drawdown) for the level of gearing that can be employed in normal market conditions. The Directors have delegated responsibility to the Investment Manager, Standard Life Investments (Corporate Funds) Limited ("Investment Manager"), for the operation of the gearing level within the above parameters.</p> <p>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.</p>
Benchmark	Numis Smaller Companies Index (excluding Investment Companies)
Peer Group	UK Smaller Companies
Investment Manager	Standard Life Investments (Corporate Funds) Limited Portfolio Manager: Harry Nimmo Head of Investment Companies: Evan Bruce-Gardyne
Equity shareholders' funds	£240.6 million at 30 June 2016
Market capitalisation	£213.1 million at 30 June 2016
Capital structure	The Company's issued share capital, as at 30 June 2016, consisted of 67,421,054 Ordinary shares of 25 pence each and £16,276,812 nominal amount of Convertible Unsecured Loan Stock 2018. As at 30 June 2016, there were 4,206,121 Ordinary shares held in treasury. 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	From 1 July 2015 to 31 December 2015, the management fee was calculated at 0.85% per annum of the Company's total assets and there is no performance fee. From 1 January 2016, the management fee is charged applying the rate of 0.85% to the first £250m of total assets, reducing to 0.65% on total assets above this threshold, and there is no performance fee. From 1 January 2016, the Investment Management Agreement is terminable by either party on not less than six months' 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	<p>The Company's website may be accessed from the Investment Manager's Investment Trust website, www.standardlifeinvestments.com/its</p> <p>The website offers investors comprehensive information on the Company and its related products. Some of the available features are:</p> <ul style="list-style-type: none"> • the latest share price and net asset value • performance figures, charts and commentary • product information • strategic and economic reviews by the Investment Manager.

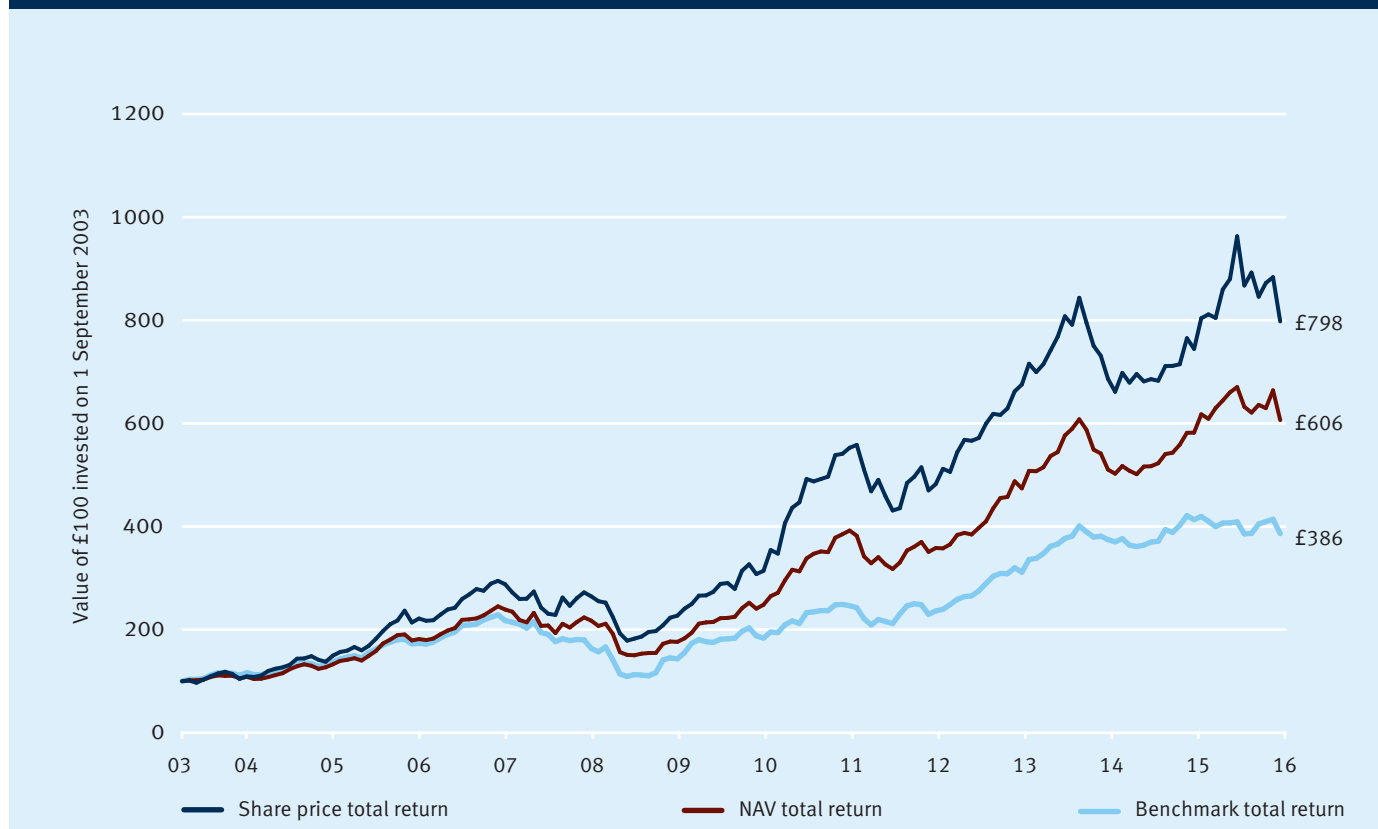
Strategic Report

Financial Highlights

Total Return	Year to 30 June 2016
Diluted net asset value total return	4.1%
Share price total return	7.2%
Benchmark total return	-6.6%

The Company's benchmark is the Numis Smaller Companies Index (excluding Investment Companies).
Total return assumes that dividends paid to shareholders are re-invested in shares at the time the shares are quoted ex-dividend.

Over a Decade of Strong Performance



Ten Largest Positions Relative to the Benchmark as at 30 June 2016

Overweight Stocks	Company %	B'mark %	Relative %	Overweight Stocks	Company %	B'mark %	Relative %
NMC Health	3.9	0.0	3.9	Workspace	2.9	0.0	2.9
JD Sports	3.3	0.0	3.3	First Derivatives	2.7	0.0	2.7
Moneysupermarket.com	3.2	0.0	3.2	Ted Baker	3.4	0.7	2.7
Abcam	3.1	0.0	3.1	Fevertree Drinks	2.7	0.0	2.7
Emis	2.9	0.0	2.9	Accesso Technology	2.6	0.0	2.6

Source: Standard Life Investments and Thomson Datastream

Performance	30 June 2016	30 June 2015	% change
Capital			
Net asset value per Ordinary share (statutory)			
Basic	356.90p	349.73p	2.1%
Diluted	345.43p	336.89p	2.5%
Share price	316.00p	300.00p	5.3%
Benchmark capital return	6,298.17	6,930.22	(9.1%)
Discount of Ordinary share price to diluted net asset value	8.5%	10.9%	
Total assets (£m) ¹	256.59	261.94	(2.0%)
Shareholders' funds (£m)	240.63	242.78	(0.9%)
Ordinary shares in issue	67,421,054	69,418,600	(2.9%)
Gearing			
Gearing ²	3.6%	4.1%	
CULS			
CULS in issue	£16,276,812	£19,772,582	(17.7%)
CULS yield	2.7%	2.8%	
CULS price	131.50p	125.00p	5.2%
Earnings and Dividends			
Revenue return per Ordinary share	6.76p	6.76p	-
Interim dividend paid for the year	1.40p	1.40p	-
Proposed final Ordinary dividend for the year	5.20p	4.40p	18.2%
Total dividends for the year	6.60p	5.80p	13.8%
Dividend yield	2.1%	1.9%	
Expenses			
Ongoing charges ³	1.13%	1.19%	

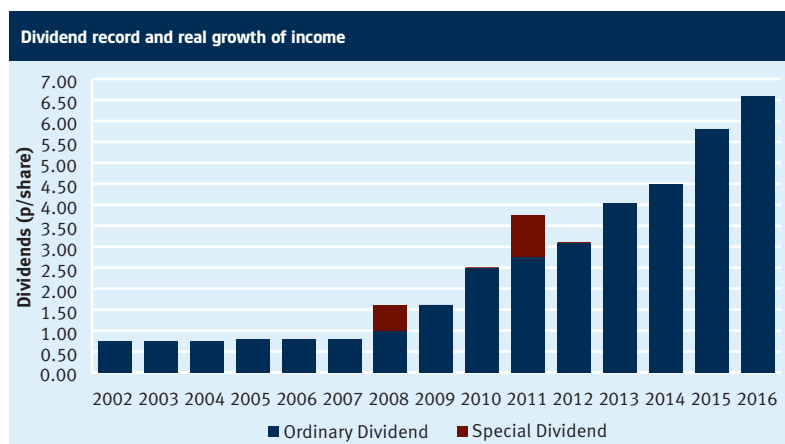
¹ Total assets less current liabilities, after excluding short-term debt of nil (2015 - nil).

² Net gearing ratio calculated as the total liability component of £16.0m (2015 - £19.2m) 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.

³ 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.

Strategic Report

Chairman's Statement



David Woods

Performance

For the year ended 30 June 2016, the Company's diluted net asset value total return was 4.1%, compared with a total return of -6.6% for the Company's benchmark. Despite recent market volatility, the Company's long-term performance remains strong. Indeed, since the appointment of Standard Life Investments on 1 September 2003, the Company has delivered a diluted net asset value total return of 506.5%, representing an annualised return of 15.1% and outperforming the Company's benchmark, the Numis Smaller Companies Index (excluding investment companies), by 4.0% per annum.

	1 year	5 years	10 years	Since SLI Inception
Diluted net asset value total return	4.1%	54.6%	233.7%	506.5%
Share price total return	7.2%	44.3%	260.1%	697.8%
Benchmark total return	-6.6%	56.7%	122.6%	286.1%
Peer group ranking	1/13	8/11	1/10	1/9

Sources: Thomson Datastream and JP Morgan Cazenove

The Investment Manager's Report on the following pages provides further information on stock performance and portfolio activity during the year, as well as the Investment Manager's outlook for smaller companies. The Board agrees with the Investment Manager's view that our emphasis on risk aversion, resilience, growth and momentum still feels right for the future but also that patient investors will be rewarded in the longer term.

Earnings and Dividend

The revenue return per share for the year ended 30 June 2016 was 6.76p (2015 – 6.76p). Despite a significant reduction in special dividends received this year, (£579,000 compared to £1,428,000 last year), underlying income from investments remained strong and increased

by 13.5%. The Board is recommending a final dividend of 5.20p per share, an increase on last year's final dividend of 18.2%. If approved, the final dividend, together with the interim dividend of 1.40p paid in April, will give a total dividend for the year of 6.60p and will represent an increase of 13.8% on last year.

Subject to shareholder approval at the Annual General Meeting on 27 October 2016, the final dividend will be paid on 3 November 2016 to shareholders on the register as at 23 September 2016 with an associated ex-dividend date of 22 September 2016.

Investment Manager

The Board believes that the appointment of Standard Life Investments as Investment Manager continues to be in the long-term interests of shareholders. Harry Nimmo, Head of the Smaller Companies investment team at Standard Life Investments, has been the lead manager of the Company's investment portfolio since 2003 and his strong performance record gives the Board confidence in the ability of the Investment Manager to continue to deliver attractive long-term returns for shareholders. Harry has confirmed his current intention to manage the Company's assets on behalf of Standard Life Investments for at least the next six years.

With effect from 1 January 2016 a tiered management fee was introduced with 0.85% per annum applying to the first £250m of the Company's total assets and a reduced fee of 0.65% per annum applying above this £250m threshold.

Gearing

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

The Company currently has £16.3 million 3.5% Convertible Unsecured Loan Stock 2018 (CULS) in issue and the Investment Manager is able to vary net gearing by adjusting the level of cash held by the Company. At 30 June 2016, the net gearing or borrowing level was 3.6%.

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.

Issue of Shares

During the year the Company issued 1,473,384 Ordinary shares from treasury as a result of CULS conversions.

Discount

The discount at which the Company's shares trade relative to the diluted net asset value was 8.5% at 30 June 2016. The Company's shares have traded at an average discount of 4.3% over the year ended 30 June 2016. This compares with the average peer group discount of 9.1% for the same period.

Share Buy-Backs and Tender Offers

The Board aims to maintain a discount level of less than 8% to diluted net asset value under normal market conditions. In pursuit of this objective, the Board closely monitors the level of the discount and buys back shares in the market when it believes it is in the best interests of shareholders as a whole to do so. At each AGM, the Board seeks shareholder approval to buy-back up to 14.99% of the Company's share capital.

The Company also has a tender offer mechanism in place and the Board intends to continue to seek shareholder approval to enable it to carry out tender offers on a discretionary basis in circumstances where the Board believes that share buy-backs are not sufficient to maintain the discount at an appropriate level.

The Board last exercised its discretion and conducted a tender offer in July 2015. 3,470,930 shares were tendered on 28 July 2015 at a price of 322.66p per share and placed into treasury.

Board Succession Planning

Immediate past Chairman, Donald MacDonald retired from the Board in February 2016 and I acknowledged his contribution to the Company in my statement at the time of the interim results. At that time I also intimated Lynn Ruddick's intention to retire from the Board following the conclusion of the AGM in October. Lynn was a director of the

Gartmore Smaller Companies Trust and joined our Company when the two trusts merged in 2009. Lynn has been a thoughtful, hardworking Director whose contributions have always been of huge value. Additionally she chaired the Audit Committee for a period and was a powerful force for modernisation and positive change in the work of that Committee.

Mindful of the loss of these Directors during this year, the Nominations Committee implemented a search for two appropriate replacements and I am pleased to tell you that Caroline Ramsay was appointed to the Board on 22 August 2016 and will be proposed for election at the AGM. Caroline is a chartered accountant who has spent most of her executive career in the financial services industry with Aviva Plc and RSA Plc. I am confident that Caroline will make a large contribution to the work of your Board.

We hope to be able to update you on a second appointment later this year.

AGM and London Presentation

The Annual General Meeting of the Company will be held at the offices of the Investment Manager, Standard Life Investments, 30 St Mary Axe, London EC3A 8EP on Thursday, 27 October 2016. The meeting will start at 12.30pm and will include a presentation from the Investment Manager. The Notice of Annual General Meeting can be found on pages 67 to 72 of this Annual Report.

Outlook

Shareholders will be aware of the result of the recent referendum, in which the electorate expressed the wish that the UK should leave the European Union. Although the full impact of this decision will become clearer over the coming months, the Board remains confident in the outlook for the Company over the long term.

The Investment Manager's investment process has delivered excellent returns for shareholders. We expect the portfolio to continue to deliver strong earnings and dividend growth. The emphasis on risk aversion, quality and resilience, growth and momentum remains intact.

David Woods

Chairman

31 August 2016

Strategic Report

Investment Manager's Report

The UK smaller companies sector as represented by the Numis Smaller Companies Index (excluding Investment Companies) fell by 6.6% in total return terms over the year to 30 June 2016. This compares with a net asset value total return for the Company of 4.1% and a share price total return of 7.2%. Over the same period the FTSE100 Index of the largest UK listed companies rose by 3.8%. Standard Life Investments has managed the Company since 1 September 2003. The Company's share price at that time was 47.75p. The share price total return has been 697.8% from then to the current period end compared with our benchmark total return of 286.1%. The FTSE100 total return was 148.6% over the same period.



Harry Nimmo

Equity markets

Equity markets commenced the year by drifting downwards as investors obsessed about the slow-down in the Chinese economy. A general theory took hold that this was due to the Chinese Authorities displaying naivety and ineptitude in stage-managing their economy. The oil and copper prices were barometers of pessimism surrounding the Chinese economic slowdown. As China develops they no longer require the ever increasing amounts of energy and industrial minerals to grow their economies as the pace of urbanisation and infrastructure projects wind down.

The oil price fell to a low of \$28 in January 2016, nearly a 75% decline on the price at the middle of 2014 and bears close comparison with the 1986 collapse to which there are real parallels. The January low point however heralded a recovery by June 2016 to over \$50. At last the fall in oil price had an impact on the rig count and production in the US where the new technique of "fracking" has had such an impact on US production capacity.

By contrast the UK performed well under the management of the "safe hands" of Chancellor George Osborne and Governor of the Bank of England Mark Carney. Clearly this was also helped by record low unemployment and the low oil price consumer spending dividend. The Autumn reporting season was a benign one for UK orientated businesses.

There was also general concern over the search for income in an era of very low inflation and the rise of high yield low grade debt. Banks internationally have been aggressive lenders again and at very fine terms. We saw the first interest rate rise in the US at the end of the year which concentrated the mind of investors on the prospect of a more normal interest rate environment and the probability of steadily rising rates.

By January 2016 worry about the Chinese economy had waned and been replaced by concern over opinion polls suggesting that the "leave" vote in the UK's European Union (EU) Referendum was closing in on the "remain" majority. Mineral prices started to rise at the same time as oil with modest gains for copper and iron ore. The gold price also moved ahead. This had more to do with fears over the UK leaving the EU.

The EU Referendum vote result was not widely predicted by financial markets and sent small and medium sized companies with exposure to the UK economic cycle into an instant tailspin and led to dramatic outperformance by the internationally orientated FTSE100 larger companies index over the UK heavy smaller companies indices, by as much as 10% in 2016. The political chaos that ensued was only stemmed by the announcement of the appointment of Theresa May as the new United Kingdom Prime Minister just after the year end.

Corporate profits from the UK Consumer sector were starting to run out of steam by the second quarter of calendar 2016 with warnings from leaders Next and Marks & Spencer.

Performance

The second half of calendar 2015 was a period of exceptional out-performance for the Company in terms of the net asset value but especially for the share price which rose 27.8% as the benchmark Numis Smaller companies Index (ex-investment trusts) actually fell by 2.4%. This glorious period of out-performance was magnified by a dramatic narrowing of the discount. By December the Company's shares regained the status of trading at a premium to net asset value albeit for a brief period. The key drivers were the Company's lack of exposure to **Oil & Gas, Mining and Engineering** stocks. Helpfully the Company was heavily exposed to the UK consumer, through

Retailers, Leisure and Media, also growth sectors like **Software** and **Healthcare** and UK orientated sectors in general such as **Real Estate** and **Financials**.

Bid activity played a part. Our substantial holding in **Quintain Estates and Development** was acquired by Lone Star of Texas. Furthermore, the **PaddyPower/Betfair** combination was seen as a very powerful player in the on-line sports betting market going forward. Not owning retailer **Darty** and electronics distributor **Premier Farnell** hurt performance in June.

January however brought a change of fortune. What had been good in 2015 became bad in 2016 and vice versa. Our extreme underweight position in **Resource** stocks was very negative. Also of note was that selected **Real Estate, Consumer Cyclical** and **Financial** stocks held back performance. It is fair to say that our overweight position in **Retailers**, albeit high quality growth retailers, held back performance.

Our five leading performers in the year were:-

Fevertree Drinks managed to come out with at least three “profit warnings” where they stated that earnings would be significantly ahead of expectations as they continue to gain share as a result of the premium gin revolution around the world. Consumers have been impressed by the quality and provenance of Fevertree in comparison with erstwhile market leaders Schweppes and Britvic and the shares rose by 153% over the year.

Accesso Technologies, the world leader in “queuing technologies” through smart phones for visitor attractions, signed a breakthrough contract with the world’s second biggest theme park operator Merlin. This deal promises to be transformational. The shares rose by 106% during the period in question.

NMC Healthcare, the Abu Dhabi based healthcare provider traded strongly as it started to benefit from changes in the law in Dubai which now obliges companies to provide health cover for all their foreign workers.

Abcam, the leading supplier of antibodies on-line to research scientists worldwide, performed very strongly. As a UK exporter of over 90% of their products, the weakness of Sterling is very beneficial. It may be of interest to shareholders that these shares were first purchased in 2007 at a price of around 65p compared with 770p on the 30 June 2016.

PaddyPower, has rocketed following the merger announcement with Betfair. Paddy’s superlative marketing prowess combined with Betfair’s unique betting exchange capabilities opens up intriguing “price rush” and margin enhancement possibilities. This share has returned in excess of 1100% since it was first bought in December 2004.

Other strong performers included **GB Group**, the identity verification company, **JD Sports Fashion**, the branded footwear led retailer who is expanding rapidly into Continental Europe, **Mattioli Woods**, the wealth manager, **Sanne Group**, the specialist fund administrator and **First Derivatives**, the financial regulation big data software provider.

Unusually for this Company it is Numis benchmark constituents that we didn’t own that caused the problems. Not owning **Al Noor**, the other Abu Dhabi based healthcare group that was acquired by **Mediclinic**, was negative. This vast combined entity with a market capitalisation of over £8 billion performed strongly as it trades in non-Sterling jurisdictions. Not owning **Evrax**, the Russian integrated iron & steel company was negative as ore price rose in 2016. **Centamin plc**, which operates a single gold mine in Egypt, rose strongly alongside the gold price in 2016.

Restaurant Group announced a series of profit warnings as its lead format Frankie & Bennys started to run out of steam. **Workspace**, the London based managed work centre company, has been sold off as it is perceived to be exposed to the weakness in the secondary London property market.

Dealing and Activity

The five largest additions to the portfolio were as follows:-

Dart Group:- This founder run business (Philip Meeson) is the owner of Jet2 airlines and Jet2holidays.com. Their business is flights and holidays from seven northern UK airports mainly to the western Mediterranean. The shares have been hit by the weakness of Sterling since 23 June. However their results of 14th July stated that the new financial year had started strongly. 50% of the seats on their flights are filled by customers who take the hotel package through Jet2holidays.com. Jet2 focuses on service and value, having a higher net promoter score than its competitors. They hedge oil & currency 12 months ahead and will benefit when they take delivery of their soon to arrive newer, more efficient aircraft.

Strategic Report

Investment Manager's Report

Headlam Group:- This company dominates the distribution of floor coverings in the UK focusing on service levels and stocks holding. Margins are still significantly below their peak in 2007. The company has started to pay special dividends with excess cash.

Next Fifteen Communications:- This is an IT led PR firm with the bulk of sales in North America. It has strong relationships with leading technology firms and is a beneficiary of a weaker Sterling.

JD Sports Fashion:- This branded footwear fashion led sports retailer is starting to gain traction in Continental Europe, which now accounts for 20% of sales. The UK business is performing strongly in contrast to others in this sector.

Hill & Smith:- The company manufactures and supplies a range of products, much of it related to safety that one might find in the construction and maintenance of road infrastructure. They also have a major regional galvanising business in north east USA. Plenty of growth is likely as infrastructure spend in the UK is seen as a priority.

The year in question was a big year for new issues in the Company. An unusually large number of high quality founder run businesses have been listing. Our view is that founders who have been able to build their businesses to the size when they can list on the stock market have very special and positive characteristics for the future development of these businesses. These companies normally have strong and stable corporate cultures. The businesses have generally grown organically without the need to resort to private equity. A feature of these businesses has been customer service, product provenance and long-term brand development. (It should be noted that **Fevertree Drinks** which was easily the best performer in the Company this year was a new issue from late 2014.)

The new issues the Company bought into include:- **Motorpoint**, the used car dealer, **Midwich**, the distributor of technology led, large scale audio-visual products and European market leader, **Hotel Chocolat**, the upscale chocolate products retailer, **Joules Group**, the British premium lifestyle brand, **The Gym Group**, in value for money gyms and **Kainos**, the Ulster based Government orientated digital services company.

Our key sales were:-

The largest sale in the period in question was **PaddyPower/Betfair**. Special mention is required for this on-line brand led sport betting pioneer. This holding has been in the portfolio since December 2004 and has made twelve times the money invested over the period. Our view is that they are a good example of the adage that the real money in smaller companies is made owning great companies for extended periods. **Quintain Estates & Development** was sold following a cash bid from the private equity firm Lone Star of Texas. **Clinigen**, the emerging pharmaceutical company was sold following a deteriorating matrix score. Likewise **Clarkson** the ship broker and **Restaurant Group** was sold as its restaurant formats ran out of steam.

Eight other holdings were sold completely. **BTG**, the research led pharmaceutical company, was sold as it no longer qualifies as a small company. **Latchways** was sold following the cash bid from MSA safety. **Moss Bros** was sold as the matrix score fell, likewise **Staffline** in recruitment, **Amerisur Resources** the Colombian oil producer, **Gulf Marine Services**, **Cambian Group** in psychiatric care and **Skyepharma**, the drug developer. Good profits were made selling our long-term holding in **AG Barr**, the owner of the Barr's Irn Bru brand.

Outlook

A future outside the EU and a tortuous process of disengagement does not, on the face of it, bode well for UK Listed Smaller Companies. Economists are working overtime trying to make sense of it all and many different answers are forthcoming although the overwhelming preponderance is towards the negative. The IMF has reduced its UK GDP growth forecast by 0.2% in 2016 followed by 1.3% growth in 2017. This hardly seems like the end of the world. None of them see it as a good thing except perhaps a small minority in the very long term. That said things will not grind to a halt, there will be winners and losers. Our hunch is that the strong will get stronger and the weak will get weaker.

Our prognosis on the oil price is that it will remain in a trading range of \$30 to \$60 for a number of years. A similar pattern may become apparent in industrial minerals although gold may remain firm in this rather uncertain period.

The most recent economic data is unsurprisingly weak both in terms of consumer and business confidence. Although on the positive side the political vacuum seems to have been filled there still remains the uncertainty of the disentanglement process.

Within Europe the economic outlook seems uncertain. An EU without the UK is a weaker entity. Many small European nations, particularly in Northern Europe were counting on the UK as a counterweight to the might of Germany. The Italian banking industry is in a mess. The Euro may yet have to face up to further crises if Greece and other peripheral economies can't mend their ways.

The immediate aftermath of the EU Referendum vote displayed indiscriminate selling which impacted the Company as much as anyone else. Our view is that as companies report it will be "as the shepherd sorts the sheep from the goats". Our high quality growth companies should continue to report resilient progress as the lower grade businesses struggle. Our best period of relative performance was during the very challenging 2007 and 2008 period. That said, at the time of going to print, there has been a recovery in consumer and business confidence in the UK which suggests that the impact of the EU referendum vote may be muted in the near term.

It sometimes feels that capitalism is failing when one reviews the list of well documented scandals surrounding some of UK's largest companies. However I remain very positive on the outlook for UK Smaller Companies. This view has been strengthened over the last 20 months by an unusual succession of high quality companies newly listing on the London Stock Exchange leading me to the view that for smaller companies at least capitalism is alive and kicking and creating wealth and jobs within the United Kingdom and beyond where innovation and business development are being correctly rewarded. The Company has participated in nine high quality new issues in that period. Indeed 19 new holdings in the sub £250m (when purchased), have been added, representing very much the "new wave" of British smaller companies. They now make up around a third of the portfolio from the bottom 20% of the size band described by the Numis Smaller Companies Index (ex- Investment Companies). Fully twelve out of these nineteen companies are founder run. A preponderance of them are technology

led. Out of the other seven the chief executive has been on the board for on average 11 years. A preponderance of them are technology, customer service and brand led. These are tomorrow's larger companies.

The process remains unchanged. The emphasis on risk aversion, resilience, growth and momentum still feels right for the future. Caution should be the watch-word however. The surprisingly good out-turn of smaller companies since the referendum on the EU may wilt if there is any sign of real weakness in the UK economy.

Smaller company investing should be viewed as a long-term investment and we have no doubt that patient investors will be rewarded in the longer term. Our stable process has been seasoned by fully four economic cycles. I remain very optimistic about the long-term performance of the Company.

Harry Nimmo

Standard Life Investments, Investment Manager

31 August 2016

Strategic Report

Portfolio Investments

As at 30 June 2016

Stock	Key Sector	Valuation as at 30 June 2016 £'000	Weight %	Valuation as at 30 June 2015 £'000
NMC Health	Health Care Equipment & Services	9,601	3.9	4,531
Ted Baker	Personal Goods	8,465	3.4	11,033
JD Sports Fashion	General Retailers	8,129	3.3	1,768
Moneysupermarket.com	Media	7,896	3.2	8,485
Telecom Plus	Fixed Line Telecommunications	7,732	3.1	7,346
Abcam	Pharmaceuticals & Biotechnology	7,712	3.1	6,486
Cranswick	Food Producers	7,513	3.0	5,267
Dechra Pharmaceuticals	Health Care Equipment & Services	7,290	2.9	6,114
Emis Group	Software & Computer Services	7,274	2.9	7,270
Workspace	Real Estate Investment Trusts	7,240	2.9	9,445
Top ten investments		78,852	31.7	
First Derivatives	Software & Computer Services	6,722	2.7	4,401
Fevertree Drinks	Beverages	6,610	2.7	2,620
CVS Group	General Retailers	6,471	2.6	6,455
Accesso Technology	Software & Computer Services	6,436	2.6	3,270
Big Yellow	Real Estate Investment Trusts	6,188	2.5	5,051
GB Group	Software & Computer Services	5,982	2.4	5,293
Mattioli Woods	Financial Services	5,768	2.3	4,457
Rightmove	Media	5,488	2.2	6,554
Paypoint	Support Services	5,418	2.2	5,946
Gamma Communication	Mobile Telecommunications	5,390	2.1	3,306
Top twenty investments		139,325	56.0	
Greggs	Food & Drug Retailers	5,238	2.1	5,915
Avon Rubber	Aerospace & Defence	5,238	2.1	5,463
Sanne Group	Support Services	5,042	2.0	2,042
Dominos Pizza	Travel & Leisure	4,985	2.0	3,885
Halma	Electronic & Electrical Equipment	4,577	1.8	4,191
4Imprint Group	Media	4,550	1.8	3,752
Nichols	Beverages	4,134	1.7	4,516
Computacenter	Software & Computer Services	4,063	1.6	7,021
FDM Group	Software & Computer Services	3,969	1.6	2,229
Dart	Travel & Leisure	3,815	1.6	—
Top thirty investments		184,936	74.3	

Stock	Key Sector	Valuation as at 30 June 2016 £'000	Weight %	Valuation as at 30 June 2015 £'000
Dunelm Group	General Retailers	3,813	1.6	5,138
Next Fifteen Communication	Media	3,788	1.5	—
XP Power	Electronic & Electrical Equipment	3,608	1.5	4,187
Midwich	Support Services	3,605	1.4	—
Hill & Smith Holdings	Industrial Engineering	3,341	1.4	—
Headlam	Household Goods & Home Construction	3,332	1.3	—
Paragon	Financial Services	3,305	1.3	6,059
Lookers	General Retailers	3,258	1.3	4,825
Shaftesbury	Real Estate Investment Trusts	3,106	1.2	3,284
Joules Group	General Retailers	3,051	1.2	—
Top forty investments		219,143	88.0	
Safestyle UK	General Retailers	3,042	1.2	3,162
Secure Trust Bank	Banks	2,886	1.2	3,735
Eckoh	Software & Computer Services	2,842	1.1	—
Victrex	Chemicals	2,481	1.0	6,590
Marshalls	Construction & Materials	2,410	1.0	299
Smart Metering Systems	Support Services	2,212	0.9	3,144
Motorpoint	General Retailers	1,988	0.8	—
Boot (Henry)	Construction & Materials	1,799	0.7	2,166
The Gym Group	Travel & Leisure	1,597	0.6	—
Servelec	Software & Computer Services	1,386	0.6	—
Top fifty investments		241,786	97.1	
Sprue Aegis	Electronic & Electrical Equipment	1,289	0.5	3,519
Kainos	Software & Computer Services	1,185	0.5	—
Hotel Chocolat	Food Producers	1,180	0.5	—
Harvey Nash Group	Support Services	1,141	0.5	2,030
Hostelworld	Travel & Leisure	969	0.4	—
Fusionex International	Software & Computer Services	946	0.3	2,624
Solid State	Electronic & Electrical Equipment	449	0.2	—
Total Portfolio		248,945	100.0	

All investments are equity investments.

Strategic Report

Sector Distribution of Investments

At 30 June 2016

	Portfolio weighting 2016 %	Numis Smaller Companies (excluding Investment Trusts) Index weightings 2016 %	Portfolio weighting 2015 %
Oil & Gas			
Oil & Gas Producers	—	3.2	0.3
Oil Equipment Services & Distribution	—	1.0	0.5
Alternative Energy	—	—	—
Basic Materials			
Chemicals	1.0	1.8	2.6
Industrial Metals	—	1.5	—
Mining	—	5.6	—
Industrials			
Construction & Materials	1.7	3.2	1.0
Aerospace & Defence	2.1	1.0	2.2
General Industrials	—	1.1	—
Electronic & Electrical Equipment	4.0	1.9	4.3
Industrial Engineering	1.4	2.3	1.7
Industrial Transportation	—	2.2	2.9
Support Services	7.0	11.9	7.4
Health Care			
Health Care Equipment & Service	3.9	3.0	5.0
Pharmaceuticals & Biotechnology	6.0	2.4	5.1
Consumer Goods			
Beverages	4.3	0.7	4.2
Food Producers	3.5	2.8	2.5
Household Goods & Home Construction	1.3	1.5	2.0
Leisure Goods	—	0.5	—
Personal Goods	3.4	2.2	—
Consumer Services			
Food & Drug Retailers	2.1	0.8	2.3
General Retailers	11.9	7.4	11.7
Media	8.7	3.9	7.5
Travel & Leisure	4.6	7.0	5.5
Telecommunications			
Fixed Line Telecommunications	3.1	1.0	2.9
Mobile Communications	2.2	—	1.3
Utilities			
Electricity	—	1.1	—
Financials			
Banks	1.2	1.4	1.5
Non-life Insurance	—	3.0	—
Life Insurance	—	0.8	—
Real Estate Investment & Services	—	5.2	1.4
Real Estate Investment Trusts	6.6	4.9	7.0
Financial Services	3.6	7.2	4.2
Technology			
Software & Computer Services	16.4	4.8	13.0
Technology Hardware & Equipment	—	1.7	—
	100.0	100.0	100.0

The Strategic Report, which includes this Business Review, the Financial Highlights, the Chairman's Statement and the Investment Manager's Report, has been prepared by the Directors in accordance with Section 414 of the Companies Act 2006, as amended. The Company's Auditor is required to confirm that this report is consistent with the Financial Statements. The Independent Auditor's Report can be found on pages 38 to 43.

The Board

The Board is responsible for setting and monitoring the Company's strategy. As at 30 June 2016, the Board consisted of four non-executive Directors, two men and two women. Ms Caroline Ramsay was appointed to the Board on 22 August 2016. The names and biographies of the Directors, as set out in the section on the Board of Directors on page 17, indicate their range of investment, commercial and professional experience. Further details are also provided in the Directors' Report on pages 18 to 23 and in the Statement of Corporate Governance on pages 27 to 33.

Investment Objective

The Company aims to achieve long-term capital growth by investment in UK quoted smaller companies.

Business Model and Investment Policy

The Company is an investment trust which invests in accordance with the objective stated above. It has no employees and outsources its management function to its Investment Manager, Standard Life Investments (Corporate Funds) Limited ('the Manager').

To achieve its investment objective the Company invests in a diversified portfolio consisting mainly of UK quoted smaller companies. The portfolio will normally comprise around 60 individual holdings representing the Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5% of total assets at the time of acquisition.

The Company may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing risk in its investments in order to protect the Company's portfolio).

The Company is adhering to its stated investment policy and is managing the risks arising from it. This is illustrated in various tables and charts

throughout this Annual Report, and from the information provided in the Chairman's Statement and in the Investment Manager's Report.

Gearing Policy

Within the Company's Articles of Association, the maximum level of gearing is 100% of net assets. The Directors' policy is that gearing will be between 5% net cash and 25% net gearing (at the time of drawdown) in normal market conditions. The Directors have delegated responsibility to the Manager for the operation of the gearing level within the above parameters.

The Board regularly reviews gearing which was a net geared position of 3.6% as at 30 June 2016 (2015: 4.1%). Gearing is calculated as the liability component of the Convertible Unsecured Loan Stock 2018 (CULS) less cash balances and money market funds, 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 Portfolio Investments are set out on pages 10 and 11 with further sector analysis on page 12.

Results and Dividend

The Company's results and performance for the year are detailed in the Financial Highlights on pages 2 and 3.

The total revenue return attributable to shareholders for the year ended 30 June 2016 amounted to £4,505,000 (2015: £4,784,000).

An interim dividend of 1.40 pence per share (2015: 1.40 pence) was paid on 7 April 2016 to shareholders on the register as at 11 March 2016. The ex-dividend date was 10 March 2016.

The Directors are recommending to shareholders that a final Ordinary dividend of 5.20 pence per share (2015: 4.40 pence) be paid on 3 November 2016 to shareholders on the share register as at the close of business on 23 September 2016. The ex-dividend date is 22 September 2016.

Strategic Report

Business Review

If approved, the final dividend together with the interim dividend paid in April will give a total dividend for the year of 6.60 pence per share (2015: 5.80 pence).

Details of the final Ordinary and Interim dividends paid during the year ended 30 June 2016 are disclosed in Note 7 to the Financial Statements.

Review of Performance

For the year ended 30 June 2016, the Company's diluted net asset value total return was 4.1%, compared to a total return of -6.6% for the Company's benchmark, the Numis Smaller Companies Index (excluding Investment Companies). For the five years to 30 June 2016, the Company's diluted net asset value total return was 54.6%, compared to 56.7% 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 27 to 33), 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 key performance indicators.

Key Performance Indicators (KPIs)

The three KPIs by which performance is measured are as follows:

- diluted 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 pages 2 and 3. The ten year record is included on page 16.

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 Investment Manager's Report which can be found on pages 6 to 9.

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 27 to 33.

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.

Regular reports are received from the Manager on stock selection, sector allocation, gearing and market outlook. Investment performance is reviewed in detail and discussed with the Manager at each Board meeting.
- **Capital structure and gearing risk:** The Company's capital structure, as at 30 June 2016, consisted of equity share capital comprising 67,421,054 Ordinary shares and £16,276,812 nominal amount of CULS. The Company also held 4,206,121 Ordinary shares in treasury.

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% net cash and 25% net gearing 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 aims 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 of the Corporation Tax Act 2010 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 ensuring compliance with the Alternative Investment Fund Managers Directive (AIFMD). In accordance with the requirements of the AIFMD, the Company appointed Standard Life Investments (Corporate Funds) Limited as its Alternative Investment Fund Manager (AIFM) and BNP Paribas Securities Services as its Depositary. The Board receives regular reporting from the AIFM and the Depositary to ensure both are meeting their regulatory responsibilities in relation to the Company.

On 3 July 2016 the EU's Market Abuse Regulation (MAR) came into force, replacing the Market Abuse Directive (MAD) in the UK, and is now applicable to all UK Listed and AIM quoted companies. The aim of MAR is to enhance market integrity and investor protection and, although on similar lines to MAD, its scope has been expanded to include financial instruments traded on multilateral trading facilities, organised trading facilities and certain 'over-the-counter' activities, and also introduced new rules on the disclosure of inside information, insider lists and share dealings by persons discharging managerial responsibilities. The Company anticipates that compliance with MAR will not have a significant impact but all relevant policies and procedures will be updated as appropriate.

- **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 19.
- **Geopolitical risk:** The Company is exposed to the effects of geopolitical instability or change, as this could have an adverse effect on stock markets. The Board and the Manager regularly review and discuss current geopolitical issues and seek appropriate expert advice, when necessary, in relation to managing any impacts on the Company.

The Board is mindful of the uncertainty following the UK's referendum decision to leave the EU and, along with the Manager, is closely monitoring any impact on the Company's share price, discount level and underlying investment performance.

Employee, Environmental and Human Rights Policy

As an investment trust, the Company has no direct employee or environmental responsibilities, nor is it responsible for the emission of greenhouse gases. Its principal responsibility to shareholders is to ensure that the investment portfolio is properly managed and invested. The Company has no employees and, accordingly, has no requirement to report separately on employment matters. The management of the portfolio is undertaken by the Manager. The Manager engages with the Company's underlying investee companies in relation to their corporate governance practices and in developing their policies on social, community and environmental matters and further information may be found in the Statement of Corporate Governance. The Manager's specific policies are outlined in their Governance and Stewardship Guidelines, which may be found on the Manager's website at http://www.standardlifeinvestments.com/CG_Corporate_Governance_Booklet/getLatest.pdf. In light of the nature of the Company's business, there are no relevant human rights issues and, therefore, the Company does not have a human rights policy.

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.

Future Strategy

The Board and Manager intend to maintain the strategic policies set out above for the year ending 30 June 2017 as it is believed that these are in the best interests of shareholders.

Approval of the Strategic Report

The Strategic Report was approved by the Board of Directors on 31 August 2016 and signed on its behalf by:

David Woods

Chairman

31 August 2016

Strategic Report

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 ⁽²⁾	Net gearing ratio ⁽³⁾ %
		Diluted Net asset value ⁽¹⁾ P	Share price P	Ordinary Dividends P	Special Dividends P				
2007	52	154.17	131.00	0.80	—	0.10	15.0	1.50	8.3
2008	46	139.14	119.50	1.60	0.60	1.94	14.1	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
2013	193	281.58	280.50	4.05	—	4.58	0.4	1.28	8.8
2014	219	298.92	281.25	4.50	—	5.05	5.9	1.19	(4.6)
2015	243	336.89	300.00	5.80	—	6.76	10.9	1.19	4.1
2016	241	345.43	316.00	6.60	—	6.76	8.5	1.13	3.6

⁽¹⁾ Calculated with debt at par value and diluted for the effect of warrants in issue for the years ended 30 June 2000 to 30 June 2009 and the effect of CULS conversion from 31 March 2011 onwards.

⁽²⁾ Calculated as an average of shareholders' funds throughout the year for the years ended 30 June 2007 to 30 June 2016

⁽³⁾ Net gearing ratio calculated as debt less cash invested in AAA money market funds 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 capital. With effect from 1 July 2007, 75% of the investment management fee and relevant finance costs were allocated to capital. The performance fee was removed on 1 July 2012 but up to 30 June 2012 it was allocated 100% to capital when payable.



David Woods
Chairman

David Woods, appointed as a Director on 5 May 2005 and is also the Chairman of the Nomination Committee. David 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 Santander (UK) Group Pension Scheme Trustees Limited. He is also Chairman of the Pension Fund Trustees for all of the UK companies in the Sopra Steria Group.



Lynn Ruddick
Director

Lynn Ruddick, appointed as a Director on 4 February 2009 and was Chairman of the Audit and Management Engagement Committee until 1 March 2015 when she was replaced by Allister Langlands. Lynn is a Fellow of the Chartered Association of Certified Accountants. She is a non-executive director of BlackRock Income Strategies Trust plc and BlackRock Frontiers Investment Trust plc. She is also Chairman of the Scottish & Newcastle Pension Plan and of the WPA Pension Fund Trustee Board and a member of the Investment Committee of The Pearson Group Pension Plan.



Carol Ferguson
Senior Independent Director

Carol Ferguson, appointed as a Director on 4 February 2009 and is the Company's Senior Independent Director. She is a chartered accountant. She is also Chairman of BlackRock Greater Europe Investment Trust plc and Invesco Asia Trust plc, and is a non-executive director of Vernalis plc.



Allister Langlands
Director

Allister Langlands, appointed as a Director on 1 July 2014 and appointed Chairman of the Audit and Management Engagement Committee on 1 March 2015. Allister is a chartered accountant and was, until 2014, Chairman of John Wood Group PLC, having served as chief executive from 2007 to 2012 and previously as deputy chief executive from 1999 and as group finance director from 1991. He is also independent non-executive Chairman of Maven Income and Growth VCT 5 plc, Chairman of Exova Group plc and a non-executive director of WS Atkins plc.



Caroline Ramsay*
Director

Caroline Ramsay, appointed as a Director on 22 August 2016. Caroline is currently a non-executive Director of Aegon UK where she also chairs the Audit Committee; she is a non-executive director of Tesco Underwriting Limited and is a member of the Financial Conduct Authority's Regulatory Decisions Committee. Until June 2015, Caroline was the Group Chief Auditor for RSA plc having held previous senior positions at RSA plc including UK Chief Financial Officer. After qualifying and practising as a chartered accountant with KPMG, she held various roles within Aviva Plc including Strategy Director and Corporate Finance Director for Norwich Union Insurance before moving to RSA plc.

*Caroline Ramsay was appointed as a Director on 22 August 2016

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

Governance

Directors' Report

The Directors present their report and the audited financial statements of the Company for the year ended 30 June 2016. Information pertaining to the Business Review is included in the Strategic Report on pages 13 to 15.

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 applied for and has been accepted as an approved investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010 and Part 2 Chapter 1 of Statutory Instrument 2011/2999. This approval relates to accounting periods commencing on or after 1 July 2012. The Directors are of the opinion, under advice, that the Company has conducted its affairs so as to be able to retain such approval. 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.

Capital structure

The Company's issued share capital at 30 June 2016, consisted of 67,421,054 Ordinary shares of 25 pence, with voting rights, and £16,276,812 nominal of CULS (2015 – 69,418,600 Ordinary shares and £19,772,582 nominal of CULS). The CULS are listed on the London Stock Exchange and are tradeable assets.

Following the 30 June 2015 tender offer, which completed on 28 July 2015, 3,470,930 Ordinary shares were tendered and bought back into treasury (2015 – 2,307,155 Ordinary shares bought back).

As at 30 June 2016, there were 4,206,121 Ordinary shares held in treasury representing approximately 6.24% of the issued share capital as at that date (30 June 2015 – 2,208,575 (3.18%)). Post the year end the Company bought back 51,004 Ordinary shares into treasury and accordingly, as at the date of this Annual Report, there are 4,257,125 shares held in treasury representing approximately 6.32% of the current issued share capital (28 August 2015 – 5,679,505 (8.61%)).

As at the date of this Annual Report there are 67,370,050 Ordinary shares in issue.

During the year the Company issued a total of 1,473,384 Ordinary shares from treasury. This comprised 669,513 Ordinary shares issued from treasury as a result of the ninth conversion of CULS as at 30 September 2015 and 803,871 Ordinary shares issued from treasury as a result of the tenth conversion of CULS as at 31 March 2016.

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.

Discount Control

On 1 December 2015 the Board announced that it had decided to reduce the hard discount target level at which the Company operates from 10% to 8% of diluted net asset value. The Board also announced that, under normal market conditions, it would aim to use its 14.99% share buy-back authority approved by shareholders at the 2015 AGM to seek to maintain a discount level of less than 8% to diluted net asset value. Share buy-backs will only be made where the Board believes it to be in the best interests of shareholders as a whole and the making and timing of share buy-backs will be at the discretion of the Board. The Board is seeking to renew its buy-back authority at the forthcoming AGM. The Board also intends to continue to seek shareholder approval to enable it to carry out tender offers in circumstances where the Board believes that share buy-backs are not sufficient to maintain the discount at an appropriate level.

Convertible Unsecured Loan Stock

The Company issued £25 million nominal of CULS on 28 March 2011. The Board believes that this structural gearing 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.

The CULS offers a coupon of 3.5% per annum and may be converted into Ordinary shares on 30 September and 31 March each year up to 31 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 23 August 2016, a copy of which may be downloaded from the Company's website (see page 64: Key Contacts for details) or by consulting the reverse side of the CULS certificate.

The tenth interest payment to holders of CULS, covering the period from 31 March 2016 to 29 September 2016, shall be made to holders of CULS on 30 September 2016. The payment will be made to holders of CULS on the CULS register as at close of business on 2 September 2016. The ex-dividend date is 1 September 2016.

Directors

Biographies of the Directors of the Company who served throughout the year ended 30 June 2016 are shown on page 17. Caroline Ramsay was appointed to the Board on 22 August 2016 and her biographical details are also set out on page 17.

The Directors' interests in the Ordinary share capital and CULS of the Company at 30 June 2016 and 30 June 2015, which were unchanged as at the date of this Annual Report, are shown in the table on page 26.

As previously announced, Donald MacDonald retired from the Board on 16 February 2016 and Lynn Ruddick will retire from the Board following the conclusion of the 2016 AGM and will not seek re-election. Caroline Ramsay will offer herself for election as a Director at the 2016 AGM. All of the other Directors will retire and, being eligible will offer themselves for re-election as Directors at the 2016 AGM to be held on 27 October 2016. The Board's policy on tenure may be found in the Statement of Corporate Governance on page 29.

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 Investments (Corporate Funds) Limited. Up to 7 July 2014, this appointment was under the terms of an Investment Management Agreement (IMA) dated 15 August 2003, restated on 30 January 2009.

A new IMA was entered into on 7 July 2014, appointing Standard Life Investments (Corporate Funds) Limited as the Company's Alternative Investment Fund Manager (AIFM), as required by the Alternative Investment Fund Managers Directive (AIFMD). The commercial terms of the IMA were updated by way of a side letter to the IMA dated 16 and 22 March 2016 and provided for a new fee structure and new notice period. Accordingly, for the period 1 July 2015 to 31 December 2015, the management fee was calculated at 0.85% per annum of the Company's total assets with no performance fee and from 1 January 2016, the management fee is charged applying the rate of 0.85% to the first £250m of total assets, reducing to 0.65% on total assets above this threshold, and there is no performance fee. From 1 January 2016, the IMA is terminable by either party on not less than six months' notice (previously one years' notice). In the event of termination on less than the agreed notice period, compensation is payable in lieu of the unexpired notice period. Company secretarial and administrative services are provided by Maven Capital Partners UK LLP under a separate agreement with the Manager.

The Board has reviewed both the terms of the IMA and the performance of the Manager for the year ended 30 June 2016 and is of the opinion that the continuing appointment of the Manager, on the terms set out in the IMA (as amended), 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 2016. Further details of the fees are shown in Note 3 to the Financial Statements.

Investment Manager's Holdings

	Ordinary shares held at 30 June		CULS held at 30 June	
	2016	2015	2016	2015
Harry Nimmo	333,370	229,120	38,680	38,680

Substantial Interests

Information provided to the Company by major shareholders pursuant to the Financial Conduct Authority's Disclosure and Transparency Rules are published by the Company via a regulatory Information Service.

Governance

Directors' Report

The table below 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 2016.

Name of shareholder	Number of Ordinary shares	%
Hargreaves Lansdown, stockbrokers (Execution only)	6,143,641	9.11
Brewin Dolphin, stockbrokers	5,223,697	7.75
Alliance Trust Savings	4,905,278	7.28
M&G Investment Management	4,803,771	7.13
Standard Life Investments	3,763,923	5.58
Transact (Execution only)	3,169,808	4.70
Investec Wealth & Investment	3,052,545	4.53
West Yorkshire Pension Fund	2,059,694	3.05
Speirs & Jeffrey, stockbrokers	2,055,692	3.05

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

Name of shareholder	Number of Ordinary shares	%
Hargreaves Lansdown, stockbrokers (Execution only)	6,114,339	9.07
Brewin Dolphin, stockbrokers	5,296,911	7.86
Alliance Trust Savings	4,904,586	7.27
M&G Investment Management	4,803,771	7.13
Standard Life Investments	3,763,923	5.58
Investec Wealth & Investment	3,223,218	4.78
Transact (Execution only)	3,167,600	4.70
Speirs & Jeffrey, stockbrokers	2,109,269	3.13
West Yorkshire Pension Fund	2,059,694	3.05

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 had no bank borrowings at 30 June 2016 (2015: nil).

The Directors are mindful of the Principal Risks and Uncertainties disclosed in the Strategic Report on pages 13 to 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 a period of not less than 12 months from the

date of approval of the Financial Statements. Accordingly, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Financial Statements.

Viability Statement

In accordance with Provision C.2.2 of the UK Corporate Governance Code published in September 2014 and Principle 21 of the AIC Code of Corporate Governance published in February 2015, the Board has assessed the Company's prospects for a five year period. The Board considers five years to be an appropriate period for an Investment Trust company with a portfolio of equity investments and based on the financial position of the Company as detailed in the Chairman's Statement, the Investment Manager's Report and the Business Review of this Annual Report.

The Board has considered the Company's financial position and its ability to liquidate its portfolio and meet its liabilities and draws attention to the following points which the Board took into account in its assessment of the Company's future viability:-

- The Company's investments are traded on the London Stock Exchange and there is a spread of investments held.
- The Company is closed ended in nature and therefore does not require to sell investments when shareholders wish to sell their shares.
- The Company's cash balance (including money market funds) at 30 June 2016 was £7m.
- The Board has considered the principal risks faced by the Company, together with the steps taken to mitigate these risks, as detailed in the Business Review and in the Statement of Corporate Governance and referred to in Note 15 of the Financial Statements and has concluded that the Company would be able to take appropriate action to protect the value of the Company. The Company takes any potential risks to its ongoing success and ability to perform very seriously and works hard to ensure that risks are kept to a minimum at all times.
- Due to the nature of the business of the Company and the nature of its investments and to the Company's long history, the Board are able to conclude that expenses are predictable and modest in relation to asset values.
- There are no capital commitments currently foreseen that would alter the Board's view.

As detailed in the Financial Highlights on pages 2 and 3, the Company has performed strongly over the past year and since the appointment of the current Investment Manager in 2003. The Directors consider the Company's future prospects to be positive, as highlighted in the Chairman's Statement on pages 4 and 5.

In assessing the Company's future viability, the Board has assumed that investors will wish to continue to have exposure to the Company's activities, in the form of a closed ended entity, performance will continue to be satisfactory, and the Company will continue to have access to sufficient capital.

Therefore, after careful consideration of the Company's current position and future prospects and taking into account its risk-aware attitude, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of its assessment.

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 Annual 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.

Global Greenhouse Gas Emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emission producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

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 27 to 33. The Company's Articles of Association may only be amended by a Special Resolution passed 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 19, 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.

Annual General Meeting

The Notice of the Annual General Meeting (AGM), which will be held on Thursday, 27 October 2016, and related notes may be found on pages 67 to 72 of this Annual Report.

Issue of Ordinary Shares by the Company

Among the Resolutions being put to the AGM 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 £1,684,251. This will allow the Directors to allot up to 6,737,005 Ordinary shares (being approximately 10% of the issued share capital of the Company as at the date of this Annual Report) (excluding treasury shares).

Resolution 10, which is a Special Resolution, will, if passed, renew the Directors' existing authority to allot new Ordinary shares or sell treasury shares for cash without the new Ordinary 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 £1,684,251, being up to 6,737,005 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 9. Since the introduction of The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 on 1 December 2003, a listed company is able to hold shares that it has repurchased in treasury rather than cancel them.

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

As at 30 June 2016, there were 4,206,121 Ordinary shares held in treasury representing approximately 6.24% of the Company's issued capital as at 30 June 2016 (30 June 2015: 2,208,575 (3.18%)). As at the date of approval of this Annual Report there were 4,257,125 Ordinary shares held in treasury representing approximately 6.32% of the Company's current issued capital (28 August 2015: 5,679,505 (8.61%)).

The authorities being sought under Resolutions 9 and 10 shall expire at the conclusion of the next Annual General Meeting in 2017 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 22 October 2015. 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 2006 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 Resolution 11 (being approximately 10,098,770 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 Ordinary shares, unless to do so would result in an increase in the net asset value per Ordinary share and would be in the best interests of shareholders. Any Ordinary

shares purchased shall either be cancelled or held in treasury. The authority being sought shall expire at the conclusion of the AGM in 2017 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 Ordinary shares provided always that the Ordinary shares will only be sold or transferred out of treasury at prices (a) in excess of the average price at which the Ordinary shares were bought into treasury; and (b) at a narrower discount to the net asset value than the average level of discount the Ordinary 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.

Tender Offers

In addition to the authority that is being sought by the Company under Resolution 11 to purchase its own shares of 25 pence each, Special Resolution 13 grants the Board the authority to implement one or more tender offers and to repurchase up to a maximum of 10% of the Company's issued share capital in the financial year prior to the conclusion of the next Annual General Meeting to be held in 2017. If Resolution 13 is passed the tender offers 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 the latest practicable date before such tender, 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 AGM in 2017, unless renewed prior to that date.

Any future tender offer will be conducted at the Board's discretion in circumstances where the Board believes that share buy-backs are not sufficient to maintain the discount at an appropriate level. Any tender offers will be conducted in accordance with the UKLA's Listing Rules and the rules of the London Stock Exchange. If the Board decides to implement a tender offer, shareholders will be notified prior to each tender offer 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 considered to be 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 AGM in 2017 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 27 October 2016.

By order of the Board,

Maven Capital Partners UK LLP

Company Secretary

31 August 2016

Governance

Directors' Remuneration Report

This report has been prepared, in accordance with the requirements of Section 421 of the Companies Act 2006 and the Enterprise and Regulatory Reform Act 2013. An Ordinary Resolution for the approval of this report will be put to the members of the Company at the forthcoming AGM. The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such and the Auditor's opinion is included in their report on pages 38 to 43.

The Directors have not established a Remuneration Committee. Consideration of Directors' fees and remuneration policy is undertaken by the Nomination Committee. As all of the Directors are non-executive, the Company is not required to comply with the Principles of the UK Corporate Governance Code in respect of executive directors' remuneration.

As at 30 June 2016, the Company had four non-executive Directors and their biographies are shown in the Board of Directors section of this Annual Report on page 17. The names of the Directors who served during the year together with the fees paid during the year are shown in the table on page 26.

Remuneration Policy

The Company's policy is that the remuneration of the Directors, all of whom are non-executive, should reflect the experience of the Board as a whole and be fair and comparable to that of other investment trusts with a similar capital structure and similar investment objectives. Directors are remunerated exclusively in the form of fees, payable monthly in arrears to the Director personally. The fees for the Directors are determined within the limits set out in the Company's Articles of Association, (the "Articles") which limit the aggregate of the fees payable to the Directors to £150,000 and the approval of shareholders in a General Meeting would be required to change this limit. It is intended that the fees payable to the Directors should reflect their duties, responsibilities, and the value and amount of time committed to the Company's affairs, and should also be sufficient to enable candidates of a high quality to be recruited and retained. There is no performance related remuneration scheme and therefore Directors do not receive bonuses, pension benefits, share options, long-term incentive schemes or other benefits, and the fees are not specifically related to the Directors' performance, either individually or collectively.

At the 2014 AGM, Shareholders approved the Company's Remuneration Policy for the three-year period ending 30 June 2017 (99.73% of the votes were cast in favour of the Company's Remuneration Policy and 0.27% votes were cast against). It is the Board's intention that the Company's Remuneration Policy be put to a shareholders' vote at least once every three years. An Ordinary Resolution for the approval of the Company's Remuneration Policy will be proposed at the AGM in 2017.

During the year ended 30 June 2016, the Board was not provided with advice or services by any person in respect of its consideration of the Directors' remuneration. However, in the application of the Board's policy on Directors' remuneration, the Committee expects, from time to time, to review the fees paid to the directors of other investment trust companies.

During the year ended 30 June 2016, the Board carried out a review of the Remuneration Policy and the level of Directors' fees and recommended that the rates of remuneration should remain unchanged for the year to 30 June 2017 and will remain at the level agreed from 1 July 2015 being £30,000 for the Chairman, £23,000 for the Chairman of the Audit and Management Engagement Committee and £20,000 for each other Director.

Directors' Fees and Total Remuneration

The Company does not have any employees and Directors' remuneration comprises solely of Directors' fees, as stated above.

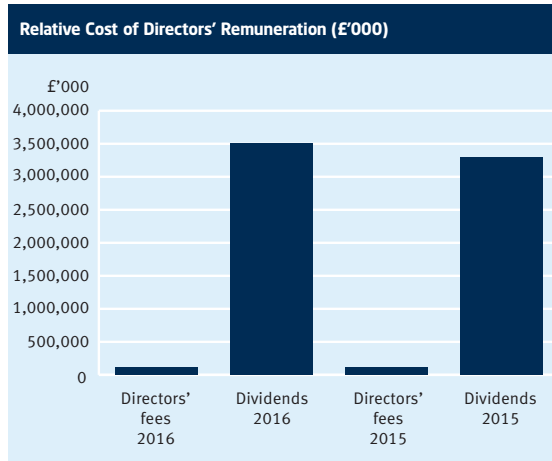
Directors do not have service contracts, but new Directors are provided with a letter of appointment. The terms of appointment provide that Directors should retire and be subject to election at the first AGM after their appointment. The Company's Articles require all Directors to retire by rotation at least every three years.

Notwithstanding the Articles, the Board has agreed that all Directors should retire annually and seek re-election at the AGM. There is no notice period and no provision for compensation upon early termination of appointment, save for any arrears of fees which may be due.

During the year ended 30 June 2016, no communication has been received from shareholders regarding Directors' remuneration. The Remuneration Policy and the level of fees payable is reviewed annually by the Board and it is intended that the current policy will continue for the year ending 30 June 2017.

Relative Cost of Directors' Remuneration

To enable shareholders to assess the relative importance of spend on Directors' remuneration, the chart below shows for the years ended 30 June 2015 and 30 June 2016, the cost of Directors' fees compared with the level of dividend distribution.



As noted in the Strategic Report, all of the Directors are non-executive and, therefore, the Company does not have a chief executive officer, nor does it have any employees. In the absence of a chief executive officer or employees, there is no related information to disclose.

At the AGM held on 22 October 2015, the results in respect of the Ordinary Resolution to approve the Directors' Remuneration Report for the year ended 30 June 2015 was as follows:

	Percentage of votes cast for	Percentage of votes cast against
Directors' Remuneration Report	99.86%	0.14%

A Resolution will be put to Shareholders at the 2016 AGM to approve the Directors' Remuneration Report for the year ended 30 June 2016. A resolution to approve the Directors' Remuneration Policy is not required to be put to shareholders at the 2016 AGM as the Remuneration Policy for the three-year period ending 30 June 2017 was previously approved by shareholders at the 2014 AGM.

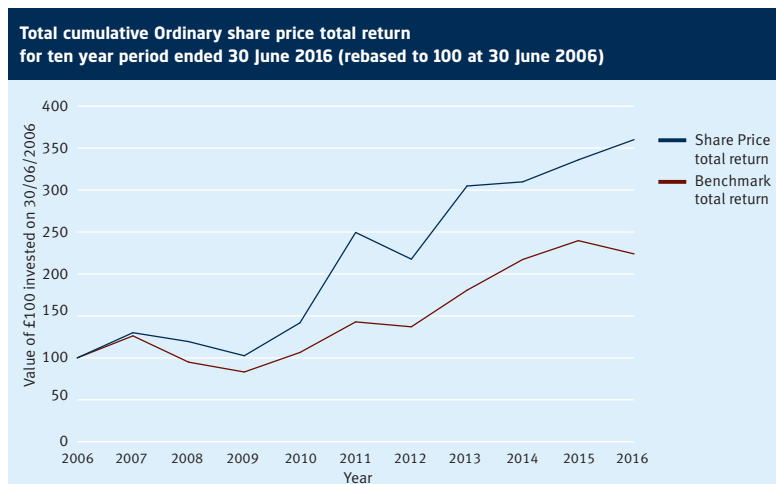
Directors' and Officers' Liability Insurance

The Company purchases and maintains liability insurance covering the Directors and Officers of the Company. This insurance is not a benefit in kind, nor does it form part of the Directors' remuneration.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Manager through the investment management agreement, as referred to in the Directors' Report.

The graph below compares the total returns on an investment of £100 in the Ordinary shares of the Company for the ten years to 30 June 2016, assuming all dividends are reinvested, with the total shareholder return on a notional investment of £100 from the Numis Smaller Companies Index (excluding Investment Companies). This index was chosen for comparison purposes as it is the Company's benchmark.



Source: Thomson DataStream

Governance

Directors' Remuneration Report

Directors' Remuneration (audited)

The Directors who served during the year received the following emoluments in the form of fees and taxable expenses:

	Year ended 30 June 2016 Fees £	Year ended 30 June 2016 Taxable expenses £	Year ended 30 June 2016 Total £	Year ended 30 June 2015 Total £
David Woods	30,000	—	30,000	28,000
Carol Ferguson	20,000	1,295	21,295	19,500
Allister Langlands	23,000	1,381	24,381	20,500
Donald MacDonald ¹	12,590	—	12,590	19,500
Lynn Ruddick	20,000	1,611	21,611	21,500
Total	105,590	4,287	109,877	109,000

¹Donald MacDonald retired on 16 February 2016.

The above amounts exclude any employers' national insurance contributions, if applicable. No other forms of remuneration were received by the Directors and none of the Directors received compensation for loss of office or non-cash benefits for the year ended 30 June 2016 (2015: £nil).

There are no outstanding Directors' fees payable at the year ended 30 June 2016 (2015: £nil).

Directors' Interests (audited)

The Directors' Interests in the Ordinary share capital and CULS of the Company are shown below. There is no requirement for Directors to hold shares in the Company.

	Ordinary shares held at 30 June		CULS held at 30 June	
	2016	2015	2016	2015
David Woods	5,000	5,000	980	980
Carol Ferguson	31,727	31,727	12,446	12,446
Allister Langlands	95,000	95,000	—	—
Lynn Ruddick	18,027	18,027	6,618	6,618
Total	149,754	149,754	20,044	20,044

Caroline Ramsay, appointed 22 August 2016, does not hold any shares in the Company.

Approval

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

David Woods

Director

31 August 2016

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 September 2014. 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"), (February 2015 editions), 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;
- executive directors' remuneration – Code provisions D2.1, D2.2 and D2.4; and
- the need for an internal audit function – Code provision C.3.6

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

Following the appointment of Caroline Ramsay on 22 August 2016, the Board consists of a non-executive Chairman, David Woods, and four non-executive Directors. The names and biographies of those Directors who held office at 30 June 2016 and at the date of this Annual Report, appear on page 17 and indicate their range of investment, industrial, commercial and professional experience. Carol Ferguson is the Company's 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 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 2006 requirements such as approval of 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;

Governance

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 Conduct 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 Secretary 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 also have access to the advice and services of the Company Secretary through its appointed representatives who is primarily responsible to the Board:

- for ensuring that Board procedures are complied with;
- under the direction of the Chairman, for ensuring good information flows to 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 formally met on five occasions during the year ended 30 June 2016. Details of attendance by each of the Directors and Committee members at Board and other Committee meetings are shown in the table below. 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.

	Audit and Management Engagement		
	Board Meetings	Committee Meetings	Nomination Committee
David Woods (Chairman)	5 (5)	2 (2)	2 (2)
Carol Ferguson	5 (5)	2 (2)	2 (2)
Allister Langlands	5 (5)	2 (2)	2 (2)
Donald MacDonald ¹	4 (4)	2 (2)	2 (2)
Lynn Ruddick	5 (5)	2 (2)	2 (2)
Caroline Ramsay ²	N/A	N/A	N/A

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

¹Donald MacDonald retired from the Board following the conclusion of the Board Meeting on 16 February 2016

²Caroline Ramsay was appointed on 22 August 2016

In addition, members of the Board attended a total of six additional meetings in the year including the AGM of the Company and other committee meetings dealing with matters such as the approval of the annual and interim results and the issue of Ordinary shares following CULS conversions.

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 Investment Manager's report and discussion documents regarding specific matters. Directors make 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 depositary services (which include the custody and 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

Information regarding the composition, responsibilities and activities of the Audit and Management Engagement Committee are detailed in the Report of the Audit Committee on pages 34 to 36.

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, diversity and gender) 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

- approving the re-appointment of any Director or the re-election, subject to the Governance Code, AIC Code, or the Articles, of any Director at the AGM, 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 AGM. For new appointments, a description of the required role is prepared and an external search consultancy would generally be used to ensure 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 during the year, 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.

Governance

Statement of Corporate Governance

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

Donald MacDonald, a Director who served during the year to 30 June 2016 retired from the Board following the conclusion of the Board Meeting held on 16 February 2016. Lynn Ruddick, a Director who served during the year to 30 June 2016, will retire from the Board following the conclusion of the 2016 AGM and accordingly will not stand for re-election.

During the year independent search consultancy Trust Associates Limited, was used to assist in the selection of a new Director. This company has no other relationship with the Company or with any of the Directors. The search was successful and Caroline Ramsay was appointed to the Board with effect from 22 August 2016.

Led by Carol Ferguson as Senior Independent Director, and in the absence of the Chairman, the other Directors have reviewed the skills, experience and commitment of David Woods. The other Directors consider that it is appropriate that David Woods 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 AGM resolution in respect of Mr Woods' re-election.

In their absence, each of Carol Ferguson and Allister Langlands have been evaluated by their fellow Directors. The Board considers that none of their other commitments (as set out on page 17 of this Annual 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 Carol Ferguson and Allister Langlands. The outcome of this evaluation was satisfactory in each case. The Board considers that, due to their individual skills, experience and commitment, Carol Ferguson and Allister Langlands each merit re-election as a Director and shareholders are encouraged to support the AGM resolutions in respect of their individual re-elections. The Board consider that due to her individual skills, experience and commitment, Caroline Ramsay merits election as a Director and shareholders are encouraged to support the AGM resolution for her election.

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 pages 24 to 26.

Although the Company does not have a formal policy on diversity, as detailed on page 29, consideration of Board diversity forms part of the responsibilities of the Nomination Committee.

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 monthly factsheet is published on the website of the Manager and is available to all shareholders on request: see Key Contacts (page 64) for details. The Company's net asset value is published each business day. In addition, details of all portfolio investments are published via the London Stock Exchange and the website of the Manager on a monthly basis (monthly in arrears).

Further details of the Company's policy on shareholder communications, including documents to be made available on the website, may be found on page 65.

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 64.

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 Board. The Manager makes a presentation to the meeting and all shareholders have the opportunity to put questions to both the Board and the 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.

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 67 to 72 sets out the business of the meeting and the resolutions are explained more fully in the Directors' Report on pages 18 to 23. 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 Secretary. See Key Contacts (page 64) 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 Secretary with an effective process of reporting to the Board for supervision and control.

Following publication by the Financial Reporting Council of "Guidance on Risk Management, Internal Control and Related Financial Business Reporting" ("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 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 detailed in the Strategic Report on pages 13 to 15.

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;
- the Board reviews Internal Control reports by BNP Paribas Securities Services as Depository and Custodian;
- the Board receives and reviews the annual Internal Control Reports published by the Manager and the Administrator; and

Governance

Statement of Corporate Governance

- 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 Secretary, 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.

With effect from 7 July 2014 (and as amended by side letter dated 16 and 22 March 2016), the Company entered into arrangements to comply with the Alternative Investment Fund Managers Directive (AIFMD). The Company appointed Standard Life Investments (Corporate Funds) Limited as its Alternative Investment Fund Manager (AIFM) and BNP Paribas Securities Services as its Depository.

The Depository's responsibilities include cash monitoring, safe keeping of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements.

The AIFM has a permanent risk management function to ensure that effective risk management policies and procedures are in place to monitor compliance with risk limits. The AIFM has a risk policy which covers the risks associated with the management of the portfolio and the adequacy and appropriateness of this policy is reviewed at least annually.

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 management 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) first published the UK Stewardship Code ("the Code") for Institutional Shareholders on 2 July 2010. The Code was revised in September 2012. 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/governance_and_stewardship/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 policies ("the Principles and Policies"), which may be found on the Manager's website at http://www.standardlifeinvestments.com/governance_and_stewardship/what_is_corporate_governance/principles_and_policies.html. These Principles and Policies 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 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.

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

31 August 2016

Governance

Report of the Audit Committee

Audit and Management Engagement Committee

The Directors have established an Audit and Management Engagement Committee.

Membership

The Audit and Management Engagement Committee comprises all five current non-executive Directors. Details of the experience and qualifications of the Directors are set out on page 17. The Board is satisfied that all members of the Committee have a sufficient level of recent and relevant financial experience. The Committee was chaired during the year by Allister Langlands, who was appointed Chairman of the Committee from 1 March 2015.

Responsibilities

The main responsibilities of the Committee include:

- 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 risk and compliance departments of the Manager;
- 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 guidance regarding the provision of non-audit services by the external audit firm;
- providing advice on whether the Annual Report and Financial Statements, taken as a whole is, fair, balanced, and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; 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.

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 19 of the Directors' Report.

Review of Key Risks

As the principal focus of the Company is to generate long-term capital growth from investment in UK quoted smaller company equities, the valuation, existence and ownership of the investment portfolio is a key risk that requires the particular attention of the Committee. Similarly, as dividend income is a major source of revenue for the Company and a significant element of the statement of comprehensive income, the recognition of dividend income is a further risk that requires the particular attention of the Committee. For both investments and the dividend income generated, the Committee establishes and monitors the application of appropriate accounting policies.

During its review of the Company's financial statements for the year ended 30 June 2016, the Committee considered the two key risks detailed below:

Valuation, existence and ownership of the investment portfolio

How the risk was addressed – The Company uses the services of an independent custodian (BNP Paribas Securities Services) to hold the assets of the Company. An annual internal control report is received from the custodian and reviewed by the audit committee. This provides details of the custodian's control environment. The investment portfolio is reconciled regularly by the Manager and the year end reconciliation is also reviewed by the Independent Auditor. The portfolio is reviewed and verified by the Manager on a regular basis and management accounts including a full portfolio listing are prepared quarterly and are considered at the quarterly meetings of the Board. The portfolio is reviewed by the Independent Auditor annually at the year end. The valuation of investments is undertaken in accordance with the accounting policies disclosed in notes 1 b) and 1c) to the financial statements on page 48.

The Committee satisfied itself that there were no issues associated with the valuation, existence and ownership of the investments which required to be addressed.

Recognition of dividend income

How the risk was addressed – The recognition of dividend income is undertaken in accordance with accounting policy note 1 (d) to the accounts on page 48. Special dividends are allocated to the capital or revenue accounts according to the nature of the payment and the specific circumstances. The management accounts are reviewed by the Board on a quarterly basis and discussions take place with the Manager regarding the allocation of any special dividends that have been received. The allocation of material special dividends is also reviewed by the Independent Auditor.

The Committee concluded that there were no issues associated with the recognition of dividend income which required to be addressed.

Review of Risk Reporting

The Committee met twice during the year under review, on 21 August 2015 and 16 February 2016 and at each Meeting considered the key risks detailed above and the corresponding internal control and risk reports provided by the Manager and the Company Secretary. No significant weaknesses in the control environment were identified and it was also noted that there had not been any adverse comment from the Auditor and that the Auditor had not identified any significant issues in its audit report. The Committee, therefore, concluded that there were no significant issues which required to be reported to the Board.

At its meeting in August 2016, the Committee reviewed the ongoing requirements for the 2016 Annual Report in relation to narrative reporting, enhanced audit reporting and the 2014 UK Corporate Governance Code. The Committee also reviewed the performance of the Manager and concluded that this was satisfactory and that the continued appointment of the Manager on the present terms was in the continued best interests of shareholders as a whole.

Review of Financial Reporting

The preparation and audit of the Company's Annual Report and Financial Statements is a comprehensive process which not only requires input from a number of different parties, but also requires high levels of review and verification.

The Committee, when considering the draft Annual Report and Financial Statements for the year ended 30 June 2016, reviewed the Company's financial statements and approved the Company's accounting policies and members of the Committee applying their recent and relevant financial

experience concluded that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In reaching this conclusion, the Committee has assumed that the reader of the Annual Report and Financial Statements would have a reasonable knowledge of the investment trust industry in general and of investments trusts in particular.

The Committee has reported on these findings to the Board who affirm the Committee's conclusions in the Statement of Directors' Responsibilities on page 37.

Review of the Effectiveness of the External Auditor

At its meeting in August 2016, the Committee also reviewed, for recommendation to the Board, the Audit Report from the Independent Auditor and the draft Annual Report and Financial Statements for the year ended 30 June 2016, along with the amount of the final dividend for the year then ended. At its meeting in February 2016, the Committee reviewed the Half Yearly Report and also considered the performance of Ernst & Young LLP as Auditor.

As part of its annual review of auditor services, the Committee reviews the performance, cost effectiveness and general relationship with the external auditor. In addition, the Committee reviews the independence and objectivity of the external auditor.

Key elements of these reviews include: discussions with the Manager and the Administrator regarding the audit service provided, separate meetings with the Independent Auditor, consideration of the completeness and accuracy of Ernst & Young LLP's reporting and a review of the relationships that the Independent Auditor has with the Manager.

The Independent Auditor's Report is on pages 38 to 43. It should be noted that Ernst & Young LLP will rotate the Audit partner responsible for the audit every five years. Ernst & Young LLP was appointed as the Company's Independent Auditor in 1995. The Audit partner was last changed in 2012. There are currently no contractual obligations that restrict the Committee's choice of auditor. However, in light of recent EU regulation and FRC guidance on audit tenders, the Board intends to put the audit out to tender in 2017

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Report of the Audit Committee

(for the audit for the year ending 30 June 2018) at the end of the current audit partner's five year term. The Board do not intend to invite Ernst & Young LLP to submit a tender in 2017. Details of the amounts paid to Ernst & Young LLP during the year for audit and non-audit services are set out in Note 4 to the Financial Statements.

The Company has in place a policy governing and controlling the provision of non-audit services by the external Auditor, so as to safeguard their independence and objectivity. Shareholders are asked to approve the re-appointment, and the Directors' responsibility for the remuneration, of the Auditor at each AGM. Any non-audit work, other than interim reviews, requires the specific approval of the Committee in each case. Non-audit work, where independence may be compromised or conflicts arise, is prohibited. The Board has concluded that Ernst & Young LLP is independent of the Company and that a resolution for the appointment of Ernst & Young LLP should be put to the 2016 AGM.

For and on behalf of the Committee

Allister Langlands

Chairman

31 August 2016

The Directors are responsible for preparing the Annual Report and 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 Strategic Report, 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 Investment 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.

The Directors are also responsible for ensuring that the Annual Report and Financial Statements, taken as a whole is fair, balanced and understandable and provides the information necessary to assess the Company's position and performance, business model and strategy.

Directors' Responsibilities Statement

Each Director confirms, to the best of their knowledge, that:

- the financial statements, prepared in accordance with UK Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Company as at 30 June 2016 and for the year to date;
- the Strategic Report includes a fair review of the development and performance of the business and the financial position of the Company together with a description of the principal risks and uncertainties that the Company faces; and
- the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary to assess the Company's position and performance, business model and strategy.

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

David Woods

Chairman

31 August 2016

Financial Statements

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

Our opinion on the 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 2016 and of the Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Standard Life UK Smaller Companies Trust plc's financial statements comprise:

Statement of Comprehensive Income for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Statement of Changes in Equity for the year ended 30 June 2016

Statement of Cash Flows for the year ended 30 June 2016

Related notes 1 to 19 to the financial statements

The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Overview of our audit approach

Risks of material misstatement	<ul style="list-style-type: none">• Incomplete or inaccurate income recognition through failure to recognize proper income entitlements or apply appropriate accounting treatment.• Incorrect valuation and existence of the investment portfolio.
Audit scope	<ul style="list-style-type: none">• All audit work was performed directly by the audit engagement team.
Materiality	<ul style="list-style-type: none">• Materiality of £2.4m which represents 1% of equity shareholders' funds (2015: £2.4m)

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

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those with the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
<p>Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or apply appropriate accounting treatment (as described on page 35 in the Report of the Audit Committee)</p> <p>The investment income receivable by the Company during the period directly drives the Company's ability to make a dividend payment to shareholders. The investment income receivable for the year to 30 June 2016 was £5.8m (as disclosed in Note 2 to the financial statements).</p> <p>If the Company is not entitled to receive the dividend income recognised in the financial statements or the income recognised does not relate to the current financial year, this could impact the perception of profits available to fund dividend distributions to shareholders.</p>	<p>We have performed the following procedures:</p> <p>We agreed a sample of dividends to the corresponding announcement made by the investee company and agreed cash received to bank statements.</p> <p>For all dividends accrued at year end, we reviewed the investee company announcements to assess whether the dividend obligation arose prior to 30 June 2016.</p> <p>We agreed a sample of accrued dividends to post year end bank statements to assess the recoverability of these amounts.</p> <p>We have reviewed the recognition criteria applied to the special dividends received during the year to ensure that the accounting treatment adopted is consistent with our interpretation of the underlying commercial circumstances giving rise to these dividends.</p> <p>We have placed reliance on the controls surrounding the recording and recognition of investment income at the fund administrator BNP Paribas Securities Services UK. This is based on our review of the relevant AAF0106 report and the further controls testing performed by our administrator team to 30 June 2016.</p>	<p>The results of our procedures are:</p> <p>We noted no issues on agreeing the sample of dividend receipts to and from an independent source and to the bank statements.</p> <p>We noted no issues in agreeing the sample of dividend declarations to the income entitlements recorded by the Company.</p> <p>We noted no issues in agreeing the sample of accrued dividend receipts to an independent source and to the subsequent bank statements.</p> <p>We ensured that the accounting treatment adopted for special dividends was consistent with the underlying company announcements provided and our understanding of the circumstances giving rise to the related dividends.</p>

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

Risk	Our response to the risk	What we concluded to the Audit Committee
<p>Incorrect valuation and existence of the investment portfolio (as described on pages 34 of the Report of the Audit Committee).</p> <p>The valuation of the portfolio at 30 June 2016 was £249m (2015: £253m), consisting of listed equities.</p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders.</p>	<p>We performed the following procedures:</p> <p>For all investments in the portfolio, we verified prices using internal EY pricing specialists. Where material differences were identified, we obtained additional further support from the administrator pricing team in the form of Bloomberg valuation outputs.</p> <p>We have reviewed the year end reconciliation of investments and have independently obtained confirmations from the Company's custodian and depositary (separate BNP Paribas teams). We have then performed a three way match with the Company's reported investments to confirm the existence of the assets held as at 30 June 2016.</p> <p>We have placed reliance on the controls surrounding the pricing of investments at the fund administrator BNP Paribas Securities Services UK. This is based on our review of the relevant AAF0106 report and the further controls testing performed by our administrator team to 30 June 2016.</p>	<p>The results of our procedures are:</p> <p>For all investments, we noted no material differences in market value or exchange rates.</p> <p>We noted no differences between the custodian and depositary confirmations and the Company's underlying financial records.</p>

There are no changes to the risks reported in the prior year.

The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic

decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined planning materiality for the Company to be £2.4m (2015: £2.4m), which is 1% of equity shareholders' funds. We derived our materiality calculation from a proportion of total equity as we consider that to be the most important financial metric on which shareholders judge the performance of the Company.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75% of planning materiality, being £1.8m (2015: £1.8m).

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

We have set performance materiality at this percentage due to our past experience of the audit that indicated a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate testing threshold of £0.23m (2015: £0.22m) for the revenue column of the Income Statement, being 5% of the revenue return on ordinary activities before taxation.

Reporting threshold

An amount below which identified misstatements are considered to be clearly trivial.

We agreed with the Audit Committee that we would report all audit differences in excess of £0.12m (2015: £0.12m) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

Scope of the audit of the financial statements

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 37 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.

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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 27 to 33 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

Matters on which we are required to report by exception

<p>ISAs (UK and Ireland) reporting</p>	<p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:</p> <ul style="list-style-type: none"> • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or • otherwise misleading. <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.</p>	<p>We have no exceptions to report.</p>
<p>Companies Act 2006 reporting</p>	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit; or • a Corporate Governance Statement has not been prepared by the Company. 	<p>We have no exceptions to report.</p>
<p>Listing Rules review requirements</p>	<p>We are required to review:</p> <ul style="list-style-type: none"> • the Directors' statement in relation to going concern set out on page 20, and longer-term viability, set out on pages 20 and 21; and • the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review 	<p>We have no exceptions to report.</p>

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

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

<p>ISAs (UK and Ireland) reporting</p>	<p>We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:</p> <ul style="list-style-type: none"> • the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the Directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. 	<p>We have nothing material to add or to draw attention to.</p>
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Matthew Price (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor

London

31 August 2016

Financial Statements

Statement of Comprehensive Income

For the year ended 30 June 2016

		2016			2015		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains on investments held at fair value	9	—	7,422	7,422	—	29,882	29,882
Currency gains		—	1	1	—	—	—
Income	2	5,865	—	5,865	6,123	—	6,123
Investment management fee	3	(566)	(1,699)	(2,265)	(521)	(1,563)	(2,084)
Other administrative expenses	4	(559)	—	(559)	(586)	—	(586)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		<u>4,740</u>	<u>5,724</u>	<u>10,464</u>	<u>5,016</u>	<u>28,319</u>	<u>33,335</u>
Finance costs	5	(209)	(628)	(837)	(232)	(697)	(929)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>4,531</u>	<u>5,096</u>	<u>9,627</u>	<u>4,784</u>	<u>27,622</u>	<u>32,406</u>
Taxation	6	(26)	—	(26)	—	—	—
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		<u>4,505</u>	<u>5,096</u>	<u>9,601</u>	<u>4,784</u>	<u>27,622</u>	<u>32,406</u>
RETURN PER ORDINARY SHARE:							
BASIC	8	<u>6.76p</u>	<u>7.66p</u>	<u>14.42p</u>	<u>6.76p</u>	<u>39.04p</u>	<u>45.80p</u>
DILUTED	8	<u>6.28p</u>	<u>7.51p</u>	<u>13.79p</u>	<u>6.25p</u>	<u>35.49p</u>	<u>41.74p</u>

The total column of this statement represents the profit and loss account of the Company. The 'revenue' and 'capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies.

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

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

Financial Statements

Statement of Financial Position

As at 30 June 2016

		2016		2015	
	Notes	£'000	£'000	£'000	£'000
NON-CURRENT ASSETS					
Investments held at fair value through profit or loss	9	248,945		252,517	
CURRENT ASSETS					
Debtors	10	1,280		1,105	
Investments in AAA Money Market funds		7,231		9,238	
Cash and short-term deposits		6		27	
		8,517		10,370	
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	11	(874)		(947)	
		(874)		(947)	
NET CURRENT ASSETS			7,643		9,423
TOTAL ASSETS LESS CURRENT LIABILITIES			256,588		261,940
Creditors: amounts falling due after more than one year					
3.5% Convertible Unsecured Loan Stock 2018	12	(15,959)		(19,164)	
			(15,959)		(19,164)
NET ASSETS			240,629		242,776
CAPITAL AND RESERVES					
Called-up share capital	13	17,907		17,907	
Share premium account		19,805		19,805	
Equity component of Convertible Unsecured Loan Stock 2018	12	1,470		1,470	
Special reserve		32,645		40,558	
Capital reserve		162,300		157,204	
Revenue reserve		6,502		5,832	
EQUITY SHAREHOLDERS' FUNDS			240,629		242,776
NET ASSET VALUE PER ORDINARY SHARE:					
BASIC	14		356.90p		349.73p
DILUTED	14		345.43p		336.89p

The financial statements on pages 44 to 61 were approved by the Board of Directors on 31 August 2016 and were signed on its behalf by:

David Woods, Chairman

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

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Statement of Changes in Equity

For the year ended 30 June 2016

For the year ended 30 June 2016

	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 2015	17,907	19,805	1,470	40,558	157,204	5,832	242,776
Return on ordinary activities after taxation	—	—	—	—	5,096	4,505	9,601
Issue of Ordinary Shares from Treasury from conversion of 3.5% Convertible Unsecured Loan Stock 2018	—	—	—	3,408	—	—	3,408
Repurchase of Ordinary Shares into Treasury from Tender Offer	—	—	—	(11,321)	—	—	(11,321)
Dividends paid (see note 7)	—	—	—	—	—	(3,835)	(3,835)
BALANCE AT 30 JUNE 2016	17,907	19,805	1,470	32,645	162,300	6,502	240,629

For the year ended 30 June 2015

	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 2014	17,846	19,309	1,470	46,871	129,582	4,340	219,418
Return on ordinary activities after taxation	—	—	—	—	27,622	4,784	32,406
Share Buybacks	—	—	—	(6,539)	—	—	(6,539)
Issue of new Ordinary Shares and/or shares from Treasury from conversion of 3.5% Convertible Unsecured Loan Stock 2018	61	496	—	226	—	—	783
Dividends paid (see note 7)	—	—	—	—	—	(3,292)	(3,292)
BALANCE AT 30 JUNE 2015	17,907	19,805	1,470	40,558	157,204	5,832	242,776

The revenue and capital reserves 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.

Financial Statements

Statement of Cash Flows

For the year ended 30 June 2016

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
RETURN ON ORDINARY ACTIVITIES BEFORE FINANCE COSTS AND TAXATION	10,464	33,335
Adjustment for:		
Net gains on investments	(7,422)	(29,882)
Dividend income	(5,806)	(6,030)
Interest income	(59)	(93)
Dividends received	5,363	5,726
Interest received	58	101
Decrease in other debtors	2	1
(Decrease)/increase in other creditors	(43)	80
Overseas withholding tax	(3)	—
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>2,554</u>	<u>3,238</u>
INVESTING ACTIVITIES		
Purchases of investments	(52,800)	(73,049)
Sales of investments	64,038	59,813
Purchases of AAA Money Market funds	(56,938)	(45,040)
Sales of AAA Money Market funds	58,945	65,600
NET CASH INFLOW FROM INVESTING ACTIVITIES	<u>13,245</u>	<u>7,324</u>
FINANCING ACTIVITIES		
Bank and loan interest paid	(664)	(709)
Repurchase of Ordinary Shares	(11,321)	—
Purchase of own shares to treasury	—	(6,539)
Dividends paid	(3,835)	(3,292)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	<u>(15,820)</u>	<u>(10,540)</u>
(DECREASE)/INCREASE IN CASH	<u>(21)</u>	<u>22</u>
ANALYSIS OF CHANGES IN CASH DURING THE YEAR		
Opening balance	27	5
(Decrease)/increase in cash as above	(21)	22
CLOSING BALANCE	<u>6</u>	<u>27</u>

Financial Statements

Notes to the Financial Statements

For the year ended 30 June 2016

1 Accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 102 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. The financial statements have been prepared on a going concern basis. The Directors believe that this is appropriate for the reasons outlined in the Directors' Report on page 20.

These financial statements are the first time since FRS 102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland) came into effect for accounting periods beginning on or after 1 January 2015. An assessment of the impact of adopting FRS 102 has been carried out and found that no restatement of balances as at the transition date, 1 July 2014, or comparative figures in the Statement of Financial Position or the Statement of Comprehensive Income is considered necessary. The Company has early adopted Amendments to FRS 102 - Fair value hierarchy disclosures issued by the Financial Reporting Council in March 2016.

(b) Investments

Investments have been designated upon initial recognition as fair value through profit or loss in accordance with IAS 39. As permitted by FRS 102, the Company has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments (as adopted for use in the EU). This is done because all investments are considered to form part of a group of financial assets which is evaluated on a fair value basis, in accordance with the Company's documented investment strategy, and information about the grouping is provided internally on that basis.

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 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 Statement of Comprehensive Income 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. Due to their short-term nature, they are recognised in the financial statements as a current asset and are included at fair value through profit and loss.

(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 Statement of Comprehensive Income, according to the circumstances. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on short-term deposits and money market funds 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 notes 3 and 5).

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

(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. This reserve also includes gains and losses from foreign currency exchange differences. Additionally, expenses, including finance costs, are charged to this reserve in accordance with (e) above.

Revenue reserve

This reserve reflects all income and costs which are recognised in the revenue column of the Statement of Comprehensive Income.

(h) Taxation

Tax expense represents the sum of tax currently payable and deferred tax. Any tax payable is based on taxable profit for the period. Taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end date.

Deferred taxation is recognised in respect of all temporary differences that have originated but not reversed at the year end 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 year end 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 year end 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 Statement of Comprehensive Income.

(k) 3.5% Convertible Unsecured Loan Stock 2018

Convertible Unsecured Loan Stock (CULS) issued by the Company is regarded as a compound instrument, comprising 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.

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.

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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.

If, at any time after 30 June 2016, the middle market price of the Ordinary Shares is 30 per cent or more above the Conversion Price for at least 20 dealing days during a period of 30 consecutive dealing days, the Company will be able to require CULS Holders to redeem their CULS at par. In such event, CULS Holders would be given a final opportunity to convert their CULS into Ordinary Shares.

(l) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires the Company to make judgements, estimates and assumptions that affect amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. The nature of estimation means that the actual outcomes could differ from those estimates, possibly significantly. The judgements relate to the fair value of financial instruments.

(m) Cash and cash equivalents

Cash comprises bank balances and cash held by the Company. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	2016 £'000	2015 £'000
2 Income		
Income from investments		
Franked investment income	4,405	3,538
Overseas and unfranked investment income	822	1,064
Special dividends	579	1,428
	<u>5,806</u>	<u>6,030</u>
Other income		
Interest from AAA Money Market funds	59	93
	<u>59</u>	<u>93</u>
Total income	<u>5,865</u>	<u>6,123</u>
3 Investment management fee	2016 £'000	2015 £'000
Investment management fee	2,265	2,084
Charged to capital reserve	(1,699)	(1,563)
	<u>566</u>	<u>521</u>

The balance due to Standard Life Investments (Corporate Funds) Limited at the year end was £542,000 (2015 - £557,000).

For further details see note 17 Transactions with the Manager.

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Notes to the Financial Statements

4 Administrative expenses (inclusive of VAT)	2016 £'000	2015 £'000
Secretarial fees	181	169
Directors' fees	106	109
Auditor's remuneration:		
fees payable to the Company's auditor for the audit of the Company's annual accounts	22	22
fees payable to the Company's auditor and its associates for non audit services - iXBRL conversion	2	2
Registrar's fees	17	21
Professional fees	43	39
Custody fees	15	17
Depositary fees	52	44
Other expenses	121	163
	<u>559</u>	<u>586</u>

The balance due to the Company Secretary at the year end was £40,432 (2015: - £43,248)

5 Finance costs	2016 £'000	2015 £'000
Notional interest on 3.5% Convertible Unsecured Loan Stock 2018	634	703
Effective Interest Rate adjustments	131	154
Amortisation of 3.5% Convertible Unsecured Loan Stock 2018 issue expenses	72	72
	<u>837</u>	<u>929</u>
Charged to capital reserve	(628)	(697)
Charged to revenue reserve	209	232

6 Taxation	Revenue £'000	2016 Capital £'000	Total £'000	Revenue £'000	2015 Capital £'000	Total £'000
(a) Analysis of charge for year						
Overseas taxation	<u>26</u>	<u>—</u>	<u>26</u>	<u>—</u>	<u>—</u>	<u>—</u>

(b) Provision for deferred taxation

At 30 June 2016, the company had unutilised management expenses and loan relationship losses of £48,480,000 (2015 - £45,105,000). 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 20.00% (2015: 20.75%)

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Notes to the Financial Statements

The differences are explained below.

	Revenue £'000	2016 Capital £'000	Total £'000	Revenue £'000	2015 Capital £'000	Total £'000
Net profit on ordinary activities before taxation	<u>4,531</u>	<u>5,096</u>	<u>9,627</u>	<u>4,784</u>	<u>27,622</u>	<u>32,406</u>
Corporation tax at an effective rate of 20.00% (2015: 20.75%)	906	1,019	1,925	993	5,731	6,724
Effects of:						
Non-taxable UK dividend income	(959)	—	(959)	(1,030)	—	(1,030)
Non-taxable overseas dividends	(143)	—	(143)	(184)	—	(184)
REIT Income	—	—	—	4	—	4
Excess management expenses and loan relationship losses	199	465	664	217	469	686
Other capital returns (e.g. gains on investments not subject to tax)	—	(1,484)	(1,484)	—	(6,200)	(6,200)
Writing off prior year withholding tax	<u>23</u>	<u>—</u>	<u>23</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total tax charge	<u>26</u>	<u>—</u>	<u>26</u>	<u>—</u>	<u>—</u>	<u>—</u>

7 Dividends

Amounts recognised as distributions to equity holders in the period:

	2016 £'000	2015 £'000
2015 final dividend of 4.40p per share (2014 - 3.23p) paid on 29 October 2015	2,902	2,306
2016 interim dividend of 1.40p per share (2015 - 1.40p) paid on 7 April 2016	<u>933</u>	<u>986</u>
	<u>3,835</u>	<u>3,292</u>

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

We set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Section 1158 - 1159 of the Corporation Taxes Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £4,505,000 (2015 - £4,784,000).

	2016 £'000	2015 £'000
2016 interim dividend of 1.40p per share (2015 - 1.40p) paid on 7 April 2016	933	986
2016 final dividend of 5.20p per share (2015 - 4.40p) payable on 3 November 2016	<u>3,504</u>	<u>2,902</u>
	<u>4,437</u>	<u>3,888</u>

The amount payable for the proposed final dividend is based on the Ordinary shares in issue as the date of approval of this report (31 August 2016) which satisfies the requirement of Section 1159 Corporation Tax Act 2010.

Dividends have been paid out of revenue reserves.

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Notes to the Financial Statements

8 Return per ordinary share	2016		2015	
	p	£'000	p	£'000
Basic				
Revenue return	6.76	4,505	6.76	4,784
Capital return	7.66	5,096	39.04	27,622
Total return	<u>14.42</u>	<u>9,601</u>	<u>45.80</u>	<u>32,406</u>
Weighted average number of Ordinary shares in issue		<u>66,603,376</u>		<u>70,748,133</u>
Diluted				
Revenue return	6.28	4,665	6.25	4,949
Capital return	7.51	5,575	35.49	28,117
Total return	<u>13.79</u>	<u>10,240</u>	<u>41.74</u>	<u>33,066</u>
Weighted average number of Ordinary shares in issue		<u>74,281,569</u>		<u>79,224,144</u>

The calculation of the diluted total, revenue and capital returns per ordinary share are carried out in accordance with IAS 33. For the purpose of calculating total, revenue and capital returns per Ordinary share, the number of Ordinary shares used is the weighted average number used in the basic calculation plus the number of Ordinary shares deemed to be issued for no consideration on exercise of all Convertible Unsecured Loan Stock 2018 (CULS). The calculations indicate that the exercise of CULS would result in an increase in the weighted average number of Ordinary shares of 7,678,193 (2015 - 8,476,011) to 74,281,569 (2015 - 79,224,144) Ordinary shares.

Where dilution occurs, the net returns are adjusted for items relating to the Convertible Unsecured Loan Stock (CULS). Total earnings for the period are tested for dilution. Once dilution has been determined individual revenue and capital earnings are adjusted. CULS finance costs for the period £765,000 (2015 - £857,000) and unamortised issues expenses £126,000 (2015 - £197,000) are reversed.

9 Investments	2016 £'000	2015 £'000
Fair value through profit or loss		
Opening fair value	252,517	212,603
Opening fair value gains on investments held	<u>(96,282)</u>	<u>(78,185)</u>
Opening book cost	156,235	134,418
Additions at cost	52,800	69,307
Disposals - proceeds	<u>(63,794)</u>	<u>(59,275)</u>
- realised gains on sales	16,437	11,785
Closing book cost	<u>161,678</u>	<u>156,235</u>
Current year fair value gains on investments held	87,267	96,282
Closing fair value	<u>248,945</u>	<u>252,517</u>
Gains on investments		
Realised gains on sales	16,437	11,785
(Decrease)/increase in fair value gains on investments held	<u>(9,015)</u>	<u>18,097</u>
	<u>7,422</u>	<u>29,882</u>

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

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Notes to the Financial Statements

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 Statement of Comprehensive Income. The total costs were as follows:

	2016 £'000	2015 £'000
Purchases	178	308
Sales	59	47
	<u>237</u>	<u>355</u>

10 Debtors	2016 £'000	2015 £'000
Amounts due from brokers	—	244
Dividends receivable	1,235	791
Tax recoverable	31	54
Other debtors	14	16
	<u>1,280</u>	<u>1,105</u>

11 Creditors: amounts falling due within one year	2016 £'000	2015 £'000
Interest payable	142	172
Investment management fee payable	542	557
Sundry creditors	190	218
	<u>874</u>	<u>947</u>

12 Non-current liabilities	Nominal amount £'000	Liability Component £'000	Equity Component £'000
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3.5% Convertible Unsecured Loan Stock 2018 As at 30 June 2016

Opening balance	19,773	19,164	1,470
Conversion of 3.5% Convertible Unsecured Loan Stock 2018 into Ordinary Shares	(3,496)	(3,408)	—
Notional interest on 3.5% Convertible Unsecured Loan Stock 2018	—	131	—
Amortisation	—	72	—
Closing balance	<u>16,277</u>	<u>15,959</u>	<u>1,470</u>

	Nominal amount £'000	Liability Component £'000	Equity Component £'000
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3.5% Convertible Unsecured Loan Stock 2018 As at 30 June 2015

Opening balance	20,584	19,719	1,470
Conversion of 3.5% Convertible Unsecured Loan Stock 2018 into Ordinary Shares	(811)	(781)	—
Notional interest on 3.5% Convertible Unsecured Loan Stock 2018	—	154	—
Amortisation	—	72	—
Closing balance	<u>19,773</u>	<u>19,164</u>	<u>1,470</u>

On 8 October 2015 the Company converted £1,588,511 (30 September 2014 £577,944) nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 into 669,513 (2015 - 243,589) Ordinary Shares. Also on 14 April 2016 (31 March 2015) the Company converted £1,907,259 (2015 - £233,924) nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 into 803,871 (2015 - 95,580) Ordinary Shares.

As at 30 June 2016, there was £16,276,812 (2015 - £19,772,582) 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	2016 £'000	2015 £'000
Authorised:	37,500	37,500
Issued and fully paid:		
67,421,054 (2015 – 69,418,600) Ordinary shares of 25p each - equity	16,855	17,355
Held in treasury:		
4,206,121 (2015 - 2,208,575) Ordinary shares of 25p each - equity	1,052	552
	17,907	17,907
	2016	2015
	Ordinary shares	Ordinary shares
	Number	Number
Opening balance	69,418,600	71,383,586
Conversion of CULS	1,473,384	342,169
Share buybacks	—	(2,307,155)
Tender offer	(3,470,930)	—
Closing balance	67,421,054	69,418,600

During the year the Company issued 1,473,384 Ordinary shares from Treasury following the receipt of elections to convert by holders of the Company's 3.5% Convertible Unsecured Loan Stock 2018.

The Company released a periodic Tender Offer document to shareholders in June 2015. The Company announced on 24 July 2015 that the Offer resulted in 3,470,930 Ordinary shares (representing approximately 8.38 per cent of the Company's issued share capital) being tendered into Treasury.

The cost of the shares brought back was £11,199,000 excluding tender offer costs of £122,000 which have been charged against the special reserve during the year.

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.

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Notes to the Financial Statements

The Company's capital comprises the following:

	2016 £'000	2015 £'000
Equity		
Equity share capital	17,907	17,907
Reserves	<u>222,722</u>	<u>224,869</u>
Liabilities		
CULS	<u>15,959</u>	<u>19,164</u>
	<u>256,588</u>	<u>261,940</u>
	2016 £'000	2015 £'000
Investments at fair value through profit or loss	248,945	252,517
Current assets excluding cash and AAA Money Market funds	1,280	1,105
Current liabilities excluding bank loans	(874)	(947)
Total assets	<u>249,351</u>	<u>252,675</u>
Net assets	<u>240,629</u>	<u>242,776</u>
Gearing (%)	<u>3.6</u>	<u>4.1</u>

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 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 Statement of Financial Position reflects the rights, under the Articles of Association, of the ordinary shareholders on a return of assets.

	2016	2015
Basic net asset value per share		
Net assets attributable (£'000)	240,629	242,776
Number of Ordinary shares in issue at year end (excluding shares held in treasury)	67,421,054	69,418,600
Net asset value per share	<u>356.90p</u>	<u>349.73p</u>
Diluted net asset value per share		
Net assets attributable (£'000)	256,588	261,940
Potential number of Ordinary shares in issue at year end (excluding shares held in treasury)	74,281,549	77,752,523
Net asset value per share	<u>345.43p</u>	<u>336.89p</u>

The diluted net asset value per Ordinary share as at 30 June 2016 has been calculated on the assumption that £16,276,812 3.5% Convertible Unsecured Loan Stock 2018 are converted at 237.25p per share, giving a total of 74,281,549 Ordinary shares. Where dilution occurs, the net assets are adjusted for items relating to the convertible loan stock.

Net asset value per share - debt converted

In accordance with the Company's understanding of the current methodology adopted by the AIC, convertible financial instruments are deemed to be 'in the money' if the cum income (debt at fair value) net asset value (NAV) exceeds the conversion price of 237.25p per share. In such circumstances a net asset value is produced and disclosed assuming the convertible debt is fully converted. At 30 June 2016 the cum income (debt at fair value) NAV was 356.90p and thus the CULS 2018 were 'in the money'.

15 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. No such transactions took place during the year.

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 due to materiality.

(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 2016, the Company's 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.

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 Statement of Financial Position at amortised cost rather than at fair value.

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Interest risk profile

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

	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000
As at 30 June 2016				
<i>Assets</i>				
AAA Money Market funds	—	0.60	—	7,231
Cash deposits	—	—	—	6
Total assets	—	—	—	7,237
<i>Liabilities</i>				
3.5% Convertible Unsecured Loan Stock 2018	1.75	3.50	15,959	—
Total liabilities	—	—	15,959	—
As at 30 June 2015				
<i>Assets</i>				
AAA Money Market funds	—	0.54	—	9,238
Cash deposits	—	—	—	27
Total assets	—	—	—	9,265
<i>Liabilities</i>				
3.5% Convertible Unsecured Loan Stock 2018	2.75	3.50	19,164	—
Total liabilities	—	—	19,164	—

The weighted average interest rate is based on the current yield of each asset, weighted by its market value.

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 year end 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 2016 and net assets would increase / decrease by £72,000 (2015: 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 was invested in overseas securities and the Statement of Financial Position 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:

	Overseas investments £'000	30 June 2016 Net monetary assets £'000	Total currency exposure £'000	Overseas investments £'000	30 June 2015 Net monetary assets £'000	Total currency exposure £'000
Euro	—	—	—	3,940	—	3,940

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, as detailed on page 13, 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 year end 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 2016 would have increased / decreased by £24,895,000 (2015 - increase / decrease of £25,252,000). 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. The maturity of the Company's existing borrowings is set out in the credit risk profile section of this note.

	Expected cash flows £'000	Due within 3 months £'000	Due between 3 months and 1 year £'000	Due after 1 year £'000
As at 30 June 2016				
3.5% Convertible Unsecured Loan Stock 2018	17,413	285	284	16,844
	<u>17,413</u>	<u>285</u>	<u>284</u>	<u>16,844</u>
	Expected cash flows £'000	Due within 3 months £'000	Due between 3 months and 1 year £'000	Due after 1 year £'000
As at 30 June 2015				
3.5% Convertible Unsecured Loan Stock 2018	21,845	346	346	21,153
	<u>21,845</u>	<u>346</u>	<u>346</u>	<u>21,153</u>

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(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.

Credit risk exposure

In summary, compared to the amounts in the Statement of Financial Position, the maximum exposure to credit risk at 30 June was as follows:

	2016		2015	
	Statement of Financial Position £'000	Maximum exposure £'000	Statement of Financial Position £'000	Maximum exposure £'000
Current assets				
Debtors	1,280	1,280	1,105	1,105
AAA Money Markets funds	7,231	7,231	9,238	9,238
Cash and short-term deposits	6	6	27	27
	<u>8,517</u>	<u>8,517</u>	<u>10,370</u>	<u>10,370</u>

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:

	In less than 1 year £'000	Between 1 year and 3 year £'000	In more than 3 years £'000
As at 30 June 2016			
3.5% Convertible Unsecured Loan Stock 2018	<u>15,959</u>	<u>16,277</u>	—

All the other financial assets and liabilities do not have a maturity date.

The full contractual liability for the CULS assuming no further conversions is £17,274,000 (2015 - £21,676,000)

16 Fair Value hierarchy

FRS 102 requires an entity to classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company has early adopted Amendments to FRS 102 - Fair value hierarchy disclosures issued by the Financial Reporting Council in March 2016. The fair value hierarchy shall have the following classifications.

- Level 1: unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.

- Level 2: inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

All of the Company's investments are in quoted equities (2015 – 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 (2016 – £248,945,000; 2015 - £252,517,000) 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 (2016 - £21,404,000; 2015 - £24,716,000) has therefore been deemed Level 1.

17 Transactions with the Manager

The Company has an agreement with Standard Life Investments (Corporate Funds) Limited ('SLI') for the provision of management services. During the 6 months ended 31 December 2015 the management fee paid to SLI was 0.85% per annum of the total assets of the Company after deducting current liabilities ('total assets'). The fee is chargeable 25% to revenue and 75% to capital. With effect from 1 January 2016, management fee has been charged applying the rate of 0.85% to the first £250m of total assets, reducing to 0.65% on total assets above this threshold. The contract is terminable by either party on six months' (previously twelve months') notice.

18 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 & 4. The Directors of the Company received fees for their services. Further details are provided in the Directors' Remuneration Report on pages 24 to 26. The Directors' shareholdings are detailed on page 26.

19 Post Balance Sheet events

On 5 August 2016 the Company bought back 38,651 Ordinary shares into treasury at a price of £3.3273 per share and on 26 August 2016 the Company bought back 12,353 Ordinary shares into treasury at a price of £3.5148 per share.

Additional Information

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.

During the year ended 30 June 2013, a total of 1,666,083 new Ordinary shares were issued under the block listing authority. This included 4,679 new Ordinary shares issued as a result of the third conversion of CULS as at 30 September 2012, and 11,404 new Ordinary shares issued as a result of the fourth conversion of CULS as at 31 March 2013.

On 3 January 2014, the Company was granted a new blocklisting of 3,370,000 ordinary shares of 25 pence each. This blocklisting may only be used to issue new shares to satisfy demand that cannot be satisfied in the secondary market.

During the year ended 30 June 2014, the Company issued a total of 4,717,598 new Ordinary shares. This included 1,038,382 new Ordinary shares issued as a result of the fifth conversion of CULS as at 30 September 2013 and 779,216 new Ordinary shares issued as a result of the sixth conversion of CULS as at 31 March 2014.

During the year ended 30 June 2015, the Company issued a total of 342,169 Ordinary shares. This included 243,589 new Ordinary shares issued as a result of the seventh conversion of CULS as at 30 September 2014 and 98,580 Ordinary shares issued from treasury as a result of the eighth conversion of CULS as at 31 March 2015. During the year ended 30 June 2015, 2,307,155 Ordinary shares were bought back by the Company and held in treasury.

During the year ended 30 June 2016, following the 30 June 2015 tender offer which completed on 28 July 2015, a total of 3,470,930 Ordinary shares were tendered and bought back into treasury. The Company issued a total of 1,473,384 Ordinary shares from treasury. This issue comprised 669,513 Ordinary shares issued from treasury as a result of the ninth conversion of CULS as at 30 September 2015 and 803,871 Ordinary shares issued from treasury as a result of the tenth conversion of CULS as at 31 March 2016.

As at 30 June 2016, there were 67,421,054 Ordinary shares in issue, with voting rights and 4,206,121 Ordinary shares held in treasury. There was also £16,276,812 of CULS in issue. During August 2016, the Company bought back 51,004 Ordinary shares into treasury, and accordingly as at the date of this Annual Report there are 67,370,050 Ordinary shares in issue and 4,257,125 Ordinary shares held in treasury.

Additional Information Company's History

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	—	—	—	—
2013	—	—	—	1,650,000	66,665,988	—	£38,184	£24,896,887	—	—	—	—
2014	—	—	—	4,717,598	71,383,586	—	£4,312,437	£20,584,450	—	—	—	—
2015	—	2,307,155	98,580	243,589	69,418,600	—	£811,868	£19,772,582	—	—	—	—
2016	—	3,470,930	1,473,384	—	67,421,054	—	£3,495,770	£16,276,812	—	—	—	—
2016*	—	51,004	—	—	67,370,050	—	—	£16,276,812	—	—	—	—

* Period from 1 July 2016 to 31 August 2016

Additional Information

Key Contacts

Investment Manager

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

Website address:
www.standardlifeinvestments.com/its

Company Secretary and Registered Office

Maven Capital Partners UK LLP
1st Floor
Kintyre House
205 West George Street
Glasgow G2 2LW
Telephone: 0141 306 7400

Website address:
www.mavencp.com

Registered Number

Registered in Scotland No. SC145455

Independent Auditor

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Solicitors

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Depository and Custodian

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10 Harewood Avenue
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Stockbrokers

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The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Registrars

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS99 6ZZ

Telephone: 0370 889 4076

Fax: 0370 703 6101

www.uk.computershare.com/investor

Email via 'Contact Us' on the above website

Buying Shares in the Company

The Company's shares are traded on the London Stock Exchange and can be bought and sold through a stock broker, financial adviser or via an investment platform.

Share Register Enquiries

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

Legislation allows the default option for receiving and accessing shareholder communications (including the Company's Annual Report) to be via the Company's website.

The Company decided to take advantage of these changes, with effect from the 30 June 2011 Annual Report. Shareholders had 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 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 and 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 Key Contacts detailed on page 64.

Savings Scheme and ISA

The Standard Life Investment Trust Savings Plan and ISA was closed on 5 June 2015 and transferred to Alliance Trust Savings. Investor enquiries about administration and applications should now be directed to Alliance Trust Savings on 01382 573737 or contact@alliancetrust.co.uk.

Disability Act

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

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 0370 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 Investment 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.

Additional Information

Shareholder Information

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

Alternative Investment Fund Managers ('AIFM') Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Standard Life Investments (Corporate Funds) Limited, is required to be made available to investors.

Leverage

The Company's maximum and average actual leverage levels at 30 June 2016 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	300.0%	200.0%
Actual	103.6%	106.6%

For the purposes of the AIFM Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Company's exposure to its net asset value and is calculated on both a gross and commitment method. Under the gross method, exposure represents the sum of the Company's position after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Association. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

Remuneration

The Company's AIFM is subject to the Remuneration requirements of the AIFM Directive on a proportionate basis in respect of its activities as

AIFM for a range of Alternative Investment Funds ('AIFs'). Total assets under management of the AIFM were £12.04billion at 31 December 2015, of which £4.58billion of assets were AIFs subject to the AIFM Directive. The NAV of the Company was £264.78million as at 31 December 2015.

The AIFM does not employ any direct staff. The board of the AIFM are employees of Standard Life Investments Limited ('SLI') and are subject to the SLI and Standard Life plc group policies as regulated by the Financial Conduct Authority ('FCA'). SLI is subject to the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') Remuneration Requirements under SYSC 19C on a proportionate basis. The board of the AIFM has responsibility for the risk management arrangements as they relate to the AIFM fund range.

The investment processes are subject to the governance structure of SLI and the board of the AIFM monitors the effectiveness in meeting strict criteria at an AIF level. The board of the AIFM discharges its duties via regular reporting and review at board meetings and via allocation of executive responsibilities, in relation to AIFM, within the SLI management team.

The AIFM has no identified staff outwith its board. The board of the AIFM has three individuals who are AIFM Remuneration Code Staff ('AIFM Code Staff'), i.e. individuals whose activities have a material impact on the risk profile of the AIFM, or the AIFs that it manages. The aggregate remuneration for these three individuals, apportioned for the AIFM duties they have performed, for the year 31 December 2015 is £429,512.

AIFM Code Staff are monitored in respect of their performance in line with the SLI Remuneration Policy which is designed to meet the regulatory requirements of BIPRU and the AIFM Directive. The Remuneration Committees of SLI and Standard Life plc review and approve remuneration for AIFM Code Staff. More information on the remuneration policies of Standard Life plc are disclosed on the following web page:

<http://www.standardlife.com/about/governance-remuneration-code.html>.

Notice is hereby given that the Annual General Meeting of Standard Life UK Smaller Companies Trust plc will be held at the offices of Standard Life Investments Limited, 30 St. Mary Axe, London EC3A 8EP at 12.30pm on Thursday, 27 October 2016 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 consider the Directors' Report and Financial Statements for the year ended 30 June 2016, together with the Independent Auditor's report thereon.
2. To receive and approve the Directors' Remuneration Report for the year ended 30 June 2016.
3. To declare a final dividend of 5.20 pence per Ordinary share.
4. To re-elect David Woods as a Director of the Company.
5. To re-elect Carol Ferguson as a Director of the Company.
6. To re-elect Allister Langlands as a Director of the Company.
7. To elect Caroline Ramsay 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 £1,684,251, 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

Annual General Meeting

Notice of Meeting

- b) shall be limited to the allotment, or sale out of treasury, of equity securities up to an aggregate nominal value of £1,684,251, 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 10,098,770 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, 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 £1,684,251, 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, 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 Offers

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 offer(s) which may be set out in the circular to be sent electronically or, if requested in hard copy form to shareholders, 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 cancellation or for retention as treasury shares for future reissue, resale or transfer provided that:

- (a) the maximum number of Shares hereby authorised to be purchased pursuant to one or more tender offer(s) is 6,737,005 shares representing 10% of the Shares in issue (excluding any Shares held in treasury) as at the date of this notice;
- (b) the price which shall be paid for a Share pursuant to any such tender offer made by the Company under the authority conferred hereby shall be an amount equal to 98% of realisation value of all the assets attributable to the Shares tendered as at the latest practicable time before such tender offer; 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 Secretary

Registered office:

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

31 August 2016

Annual General Meeting

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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 0370 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 close of business on 25 October 2016 (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 (ID number 3RA50) by 12.30pm on 25 October 2016 (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 2016 (being the last practicable date prior to publication of this notice) the Company's issued share capital comprised 67,370,050 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 2016 was 67,370,050.

Annual General Meeting

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15. 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.

16. 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



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Registered Office
Kintyre House
205 West George Street
Glasgow G2 2LW

Managed by
Standard Life Investments (Corporate Funds) Limited
1 George Street
Edinburgh EH2 2LL
Website: [standardlifeinvestments.com/its](https://www.standardlifeinvestments.com/its)