Standard Life UK Smaller Companies Trust PLC

Half Yearly Report 31 December 2010

STANDARD LIFE INVESTMENTS

Exceptional investments, extraordinary world

Contents

Investment Objective

To achieve long term capital growth by investment in UK quoted smaller companies.

Investment Policy

The Directors intend to achieve the investment objective by investing in a diversified portfolio consisting mainly of UK quoted smaller companies. The portfolio will normally comprise around 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 date of acquisition.

The Directors expect that, in normal market conditions, gearing will be between -5% and 20% of net assets. The Directors have delegated responsibility to the Manager for the operation of the gearing level within the above range. The maximum level of gearing is 100%.

The Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management and dealing. The investment process is research-intensive and is driven by the Manager's distinctive "focus on change", which recognises that different factors drive individual stocks and markets at different times in the cycle. This flexible, but disciplined process ensures that the Manager has the opportunity to perform in different market conditions.

Financial Highlights

for six months ended 31 December 2010

Total Return	Six months ended 31 December 2010
Net asset value	+36.3%
Hoare Govett Smaller Companies Index (ex Investment Trusts)	+27.0%

Capital return	31 December 2010	30 June 2010	% change
Net asset value per ordinary share	207.89p	154.04p	+35.0%
Ordinary share price (mid-market)	212.00p	136.50p	+55.3%
Premium/(discount) of share price to net asset value (including net revenue)	2.0%	(11.4%)	—
Hoare Govett Smaller Companies Index (ex Investment Trusts)	4447.60	3544.30	+25.5%
Total assets (£m)[1]	146.47	99.30	+47.5%
Equity shareholders' funds (£m)	132.47	97.30	+36.1%
Revenue return per ordinary share	1.82p[2]	1.13p[3]	+61.1%
Interim dividend per ordinary share	1.00p	1.00p[3]	—

[1] Calculated as Total Assets less Current Liabilities, excluding short-term bank loan of £14.0m (30 June 2010 - £2.0m)

[2] Includes 0.77p per ordinary share relating to a VAT refund

[3] For the six months ended 31 December 2009

Directors' Responsibility Statement

The Directors are responsible for preparing the Half-Yearly Financial Report in accordance with applicable law and regulations. The Directors confirm that to the best of their knowledge –

- the condensed set of Financial Statements have been prepared in accordance with the Accounting Standards Board's statement "Half-Yearly Financial Reports"; and
- the Interim Management Report includes a fair review of the general conditions required by 4.2.7R and 4.2.8R of the Financial Services Authority's Disclosure and Transparency Rules.

The Half-Yearly Financial Report, for the six months ended 31 December 2010, comprises an Interim Management Report, in the form of the Chairman's Statement, the Directors' Responsibility Statement and a condensed set of Financial Statements, which has not been audited or reviewed by the auditors pursuant to the APB guidance on Review of Interim Financial Information.

For and on behalf of the Directors of Standard Life UK Smaller Companies Trust PLC

Donald MacDonald
Chairman
25 February 2011

Chairman's Statement

Performance

I am pleased to report that the Company's net asset value total return was 36.3% for the six months to 31 December 2010. This compared favourably with a rise of 27.0%, on a total return basis, in the Company's benchmark, the Hoare Govett Smaller Companies Index (excluding investment trusts). Over the same period, the total return for the FTSE All-Share Index was 22.0%.

The Company's Ordinary share price total return was 56.7% for the six months to 31 December 2010. The discount to net asset value narrowed substantially over that period and at the period end, the Ordinary shares were trading at a 2.0% premium to net asset value.

Additional information on the economic background and on the changes to the Company's investment portfolio may be found in the Manager's Report.

Earnings and Dividend

The revenue return was 1.82 pence per share for the six months ended 31 December 2010, of which 1.05 pence per share is from investment income and 0.77 pence per share relates to a VAT refund, as explained below. This compares to 1.13 pence per share for the same period in the prior year. An unchanged interim dividend of 1.00 pence per share (2009 – 1.0 pence) will be paid on 18 March 2011 to those shareholders on the register as at 11 March 2011 with an associated ex-dividend date of 9 March 2011.

VAT on management fees

Following continued negotiations with the Company's former manager, a further VAT refund of £561,000 was received during the period. The Company has now received a total refund of £934,000, representing the VAT charged to the Company for the periods from 1990 to 1996 and from 2001 to the date of transfer of the management contract in September 2003. The funds received in this six month period represent a 0.77p contribution to the revenue return per share.

Awards

The Company won the UK Smaller Companies category at the Investment Week Investment Trust of the Year awards, recognising the successful long term performance record of Standard Life Investments since appointment as Manager.

Gearing

The Manager has been given discretion by the Board to vary the level of the net gearing between -5% and 20% of net assets depending on the Manager's view of the outlook for smaller companies.

The Company renewed its bank loan facility in October 2010 and put in place a £15m one- year credit facility with an interest rate of 1.25% over LIBOR. With the Manager positive on the prospects for smaller companies, £14m of the facility was drawn down in December, resulting in a gearing level of 10.6% at the period end.

Chairman's Statement - continued

Convertible Unsecured Loan Stock

The Board is publishing a circular in connection with a proposed issue of up to £25 million of convertible unsecured loan stock to replace the existing loan facility and to introduce structural gearing to the Company, aligning the Company's gearing policy with the Manager's long term investment philosophy.

Discount

The Company's discount to net asset value narrowed from 11.4% at 30 June 2010 to a premium of 2.0% at 31 December 2010. The size-weighted average discount for UK smaller companies was 15.1% at 31 December 2010, indicating that the Company's shares are on a significant premium rating to the average UK smaller companies trust.

Regular Tender Offer

The Company conducted its second periodic tender offer on 31 December 2010. On 12 January 2011, the Company announced that 512,076 ordinary shares, or 0.8% of the Company's issued share capital, were validly tendered and repurchased into treasury by the Company at a price of 193.4p per share. On 31 January 2011, the Company sold 512,076 ordinary shares from treasury at a price per share of 209.0p. As at 17 February 2011, the ordinary share price was 217.0p.

Marketing

Marketing activities have continued to focus on the broadening of the shareholder base. Further details about investing in the Manager's savings plans may be found online at www.standardlifeinvestments.co.uk/its

Outlook

We are positive on the prospects for UK smaller companies in 2011, although returns may not reach the levels of the last couple of years. There is potential for the strong performance seen in the second half of 2010 to continue over the first few months of the year, with investors preferring AIM-listed, 'blue sky' stocks. This may detract from the Company's relative performance in the short term given our preference for companies with solid earnings streams and sound business models.

However, investors should be mindful that problems arising from the credit crunch, such as sovereign debt issues, are still prevalent. In addition, as the consequences of quantitative easing take hold, this could mean an increase in interest rates and inflation in the second half of 2011. This should be beneficial for our investment style, as investors become more selective and seek companies that offer some resilience and momentum.

Donald MacDonald
Chairman
25 February 2011

Manager's Report

The UK smaller companies sector, as represented by the Hoare Govett Smaller Companies Index (excluding Investment Trusts), rose by 27.0%, in total return terms, over the six months. This compares with a net asset value total return for the Company of 36.3% and a share price total return of 56.7%. Over the same period the total return of the blue-chip FTSE 100 Index was 21.6%.

At 31 December 2010, the Company's share price was 212.00p, surpassing by 64% its previous high of 134p on 6 April 2007 since Standard Life Investments was appointed Manager in September 2003. This is in sharp contrast to the benchmark and the FTSE 100 Index, which remained approximately 8% and 11% below their respective high points at year end.

UK economy and equity markets

The UK market was quick to shake off worries about sovereign debt and government spending cuts soon after the start of the period under review. Upward progress has been remorseless ever since. The Alternative Investment Market (AIM) took up the running in September, ending the year strongly.

Reasons for this performance included some recovery in the UK economy, with little evidence of the widely predicted 'double-dip' recession following the poor weather at the end of 2010. Corporate results were resilient across a wide range of sectors, particularly capital goods sectors such as engineering, electricals and electronics. The emerging market or BRIC economies, led by China, were especially strong. The Chinese domestic market has begun to take up the running as a source of world demand. This, in turn, boosted a wide range of commodity prices including oil & gas and metals such as copper, as well as demand for capital equipment. In particular, the oil price enjoyed a spectacular run, rising from $73 to $99 during the period. This was the major driver for the AIM market, which is the natural home of high octane oil & gas exploration companies.

Bid activity was rampant, particularly in the smaller company space with a number of active bid situations including Northern Foods, Wellstream, Biocompatibles, Mouchel, Nestor and Clyde Process Solutions. In addition, equity issues started to return in size, reflecting market and corporate confidence over economic growth.

Meanwhile, base rates remained unchanged at remarkably low levels during 2010. This helped trade among retailers to remain surprisingly strong all year, even in the snow-impacted Christmas period.

Manager's Report - continued

Performance

The Company performed well through the bulk of the period before running out of steam in the last couple of weeks of the year. Strong performance was mainly due to a number of specific stock selections which were somewhat offset by a lack of exposure to AIM–listed, highly-speculative oil & gas explorers.

In sector terms, the two main positives were exposure to strongly-performing 'growth' retailers Mulberry, Asos, Supergroup and Dunelm. In particular, Mulberry rose by a quite astonishing 273% over the six months, following some quite excellent trading performances. Asos, the online retailer, rose 85% as strong trading continued and the Danish retailer Bestsellers.com built a 17% stake. Supergroup, owner of the 'Superdry' brand, raced ahead as its international expansion plans took shape.

In addition, electrical and electronics stocks were particularly positive, helped by the constant upgrading of the Chinese manufacturing base. The two main beneficiaries within the Trust were XP Power and Renishaw, up 80% and 70% respectively.

Areas of weakness included a significant exposure to food manufacturers. Robert Wiseman Dairies was a notable negative. Although it is a well run business, it was obliged to cut prices to Tesco among others as competition remained fierce. AG Barr and Cranswick were also weak.

Dealing and Activity

The most significant new additions to the portfolio included IG Group, the fast-growing spread betting company. Spirax-Sarco Engineering was added given its significant exposure to emerging market economies. We also purchased Lamprell, the Dubai based oil platform designer and fabricator, and Gulfsand, who are an oil producer in Syria. XP Power, the designer and supplier of highly reliable small electric motors, was another addition. Finally, we purchased IQE, the specialist semiconductor manufacturer with exposure to smart-phones, and Xaar, the specialist print-head manufacturer.

Regarding sales, by far the largest was power systems firm Chloride Group, which was subject to a contested bid from Emerson and ABB. It is worth noting that the Company received proceeds of £3.58 million on a book cost of £0.79 million. Likewise, profits were taken in Asos to keep the holding to a manageable size. In this case, proceeds were £1.83 million on a book cost of £0.24 million.

The stock remains the Company's largest holding. In addition, the longstanding holding in Chemring, the diversified defence company, was sold for a good profit, while we also took profits in our significant holding in Mulberry following very strong performance. Elsewhere, Robert Wiseman Dairies was sold as it looks like fierce competition may be a continuing feature of this industry. Restaurant company Carluccios was subject to a bid from Dubai based Landmark Group.

Outlook

2011 has started strongly, with some follow through from the euphoria of the second half of 2010. The strength of AIM and particularly the 'blue sky' component is very much in evidence. This trend may have some months to run, particularly if the oil price goes above the important $100 barrier. It is significant that investors are happy to back what are really more ideas than businesses. This is normally a period of strong markets and relative underperformance for our process, which prefers companies with earnings and dividend visibility. This type of market tends to last for less than a year, therefore a rotation away from 'blue sky' is likely to occur before the end of the Company's financial year.

The continued strength of emerging markets, particularly China, is of key importance for markets. Thus far there are ample signs that China will be the mainstay of world economic growth for years to come. Many UK smaller companies are able to tap into this, particularly in the engineering, electrical and electronic sectors.

The aftermath of the banking crisis is still lurking in the shadows. Sovereign debt and national budget stress will continue to hold back the more domestically-focused sectors of the UK economy, particularly those dependent on government spending. The side effects of quantitative easing may mean that inflation and interest rates will rise in the second half of the year. This would mean a return to leadership for our style of investing that emphasises risk aversion, resilience, growth and momentum.

We anticipate that 2011 will be a positive year but is unlikely to match 2009 and 2010, which were boosted by a strong and sustained recovery.

Harry Nimmo
Manager
Standard Life Investments
25 February 2011

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.

The major risks associated with the Company are:

- **Investment and market risk:** The Company is exposed to the effect of variations in share prices due to the nature of its business. A fall in the value of its investment portfolio will have an adverse effect on the value of shareholders' funds.
- **Capital structure and gearing risk:** The Company's capital structure consisted of equity share capital comprising Ordinary 25p shares at 31 December 2010. There is a one-year revolving bank facility with BNP Paribas for up to £15m which has been in place since October 2010. In rising markets, the effect of the bank borrowings should be beneficial, but in falling markets the gearing effect could adversely affect returns to shareholders. The Manager is able to increase or decrease the gearing level by repaying or drawing down periodically from the bank facility subject to Board restrictions which require gearing to remain between -5% and 20% of net assets, under normal market conditions.
- **Revenue and dividend risk:** In view of the Company's investment objective, which is to generate long-term capital growth by investment in UK quoted smaller companies, the Manager is required to strike a balance more in favour of capital growth than revenue return. In normal circumstances, the Board intends to pay dividends commensurate with the year's income.

The Board receives regular updates as to the progress made by the Manager in generating a revenue return and the consequent level of the Company's anticipated dividend.

- **Regulatory risk:** The Company operates in a complex regulatory environment and faces a number of regulatory risks. A breach of Sections 1158 – 1159 of Corporation Tax Act 2010 (formerly Section 842 of Income and Corporation Taxes Act 1988) would result in the Company being subject to capital gains tax on portfolio investments. Breaches of other regulations, including the Companies Act 2006, the UKLA Listing Rules or the UKLA Disclosure and Transparency Rules, could lead to a number of detrimental outcomes and reputational damage. Breaches of controls by service providers, such as the Manager and the Administrators, could also lead to reputational damage or loss. There is also a new regulatory risk in the form of the Alternative Investment Fund Managers Directive ("AIFMD") which was ratified in November 2010 by the European Commission. The AIFMD will introduce a new authorisation and supervisory regime for all investment trust fund managers in the European Union. This is expected to create some additional regulatory costs for the Company.

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

Going Concern

The factors which have an impact on Going Concern are set out in the Going Concern section of the Directors' Report in the Company's Annual Report and Accounts to 30 June 2010. As at 31 December 2010, there have been no significant changes to these factors except that the borrowing facilities of £10m, which were previously committed to the Company, expired on 23 August 2010. A new borrowing facility of £15m was agreed with BNP Paribas which is committed to the Company until 13 October 2011. The Company will, at the appropriate time, open negotiations for a borrowing facility to follow on from the expiry of the present borrowing facility. The Directors are mindful of the principal risks and uncertainties disclosed above, and, having reviewed forecasts detailing revenue and liabilities, they believe that the Company has adequate financial resources to continue its operational existence for the foreseeable future. Accordingly, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the interim accounts.

Top Twenty Investments
at 31 December 2010

	Value £'000	% of Portfolio
ASOS	7,414	5.1
Hargreaves Lansdown	5,567	3.8
Abcam	5,447	3.8
Domino's Pizza	5,353	3.7
New Britain Palm Oil	4,915	3.4
Paddy Power	4,557	3.1
Mulberry Group	4,061	2.8
First Quantum Minerals	3,864	2.7
Renishaw	3,839	2.6
ITE	3,687	2.5
Victrex	3,506	2.4
Telecom Plus	3,335	2.3
Andor Technologies	3,274	2.3
Rightmove	3,272	2.3
Homeserve	3,206	2.2
Aveva Group	3,189	2.2
Dunelm	3,152	2.2
Computacenter	3,104	2.1
PZ Cussons	3,024	2.1
IG Group	2,958	2.0
	80,724	55.6

Sector Distribution

at 31 December 2010

	Portfolio Weightings %	Hoare Govett Smaller Companies Index (ex ITs) Weightings %
Oil & gas	4.5	4.9
Basic materials	5.7	8.2
Industrials	16.4	29.6
Consumer goods	10.6	8.7
Health care	7.3	3.5
Consumer services	27.0	21.0
Telecommunications	2.3	0.4
Utilities	–	0.1
Technology	15.8	6.8
Financials	10.4	16.8
Total equity investments	100.0	100.0

Income Statement

	Notes	Six months ended 31 December 2010 (unaudited) Revenue £'000	Capital £'000	Total £'000
Net gains on investments held at fair value		—	34,376	34,376
Currency gains/(losses)		—	1	1
Income	2	951	—	951
Investment management fee		(105)	(315)	(420)
Performance fee		—	(877)	(877)
VAT recovered on investment management fees	10	481	80	561
Administrative expenses		(185)	—	(185)
Net return before finance costs and taxation		1,142	33,265	34,407
Finance costs		(7)	(20)	(27)
Return on ordinary activities before taxation		1,135	33,245	34,380
Taxation		(1)	—	(1)
Return on ordinary activities after taxation		**1,134**	**33,245**	**34,379**
Return per ordinary share	5	**1.82p**	**53.44p**	**55.26p**

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

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

No operations were acquired or discontinued in the year.

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

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

Six months ended 31 December 2009 (unaudited)			Year ended 30 June 2010 (audited)		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
—	17,570	17,570	—	27,633	27,633
—	(3)	(3)	—	(3)	(3)
988	—	988	2,202	—	2,202
(77)	(231)	(308)	(157)	(470)	(627)
—	—	—	—	(619)	(619)
—	—	—	187	187	374
(184)	—	(184)	(398)	—	(398)
727	17,336	18,063	1,834	26,728	28,562
(8)	(25)	(33)	(18)	(54)	(72)
719	17,311	18,030	1,816	26,674	28,490
(5)	—	(5)	(7)	—	(7)
714	**17,311**	**18,025**	**1,809**	**26,674**	**28,483**
1.13p	**27.41p**	**28.54p**	**2.86p**	**42.23p**	**45.09p**

Reconciliation of Movements in Shareholders' Funds

Six months ended 31 December 2010 (unaudited)	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000
Balance at 30 June 2010	15,931	—	—
Return on ordinary activities after taxation	—	—	—
Issue of shares	—	—	—
Buyback of shares	—	—	—
Tender offer costs	—	—	—
Dividends paid (see note 4)	—	—	—
Balance at 31 December 2010	**15,931**	—	—

Six months ended 31 December 2009 (unaudited)	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000
Balance at 30 June 2009	15,931	25,073	549
Return on ordinary activities after taxation	—	—	—
Dividends paid (see note 4)	—	—	—
Balance at 31 December 2009	**15,931**	**25,073**	**549**

Year ended 30 June 2010 (audited)	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000
Balance at 30 June 2009	15,931	25,073	549
Return on ordinary activities after taxation	—	—	—
Tender offer costs	—	—	—
Cancellation of reserves	—	(25,073)	(549)
Dividends paid (see note 4)	—	—	—
Balance at 30 June 2010	**15,931**	—	—

Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
46,871	32,737	1,759	97,298
—	33,245	1,134	34,379
5,406	—	—	5,406
(3,645)	—	—	(3,645)
(59)	—	—	(59)
—	—	(907)	(907)
48,573	**65,982**	**1,986**	**132,742**

Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
21,364	6,063	1,276	70,256
—	17,311	714	18,025
—	—	(695)	(695)
21,364	**23,374**	**1,295**	**87,586**

Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
21,364	6,063	1,276	70,256
—	26,674	1,809	28,483
(115)	—	—	(115)
25,622	—	—	—
—	—	(1,326)	(1,326)
46,871	**32,737**	**1,759**	**97,298**

Balance Sheet

	Notes	As at 31 December 2010 (unaudited) £'000	As at 31 December 2009 (unaudited) £'000	As at 30 June 2010 (audited) £'000
Non-current assets				
Investments held at fair value through profit or loss		144,897	94,799	98,057
Current assets				
Debtors and prepayments		215	164	1,255
AAA Money Market funds		2,716	2,231	1,001
Cash and short term deposits		—	8	2
		2,931	2,403	2,258
Creditors: amounts falling due within one year				
Bank loans		(14,000)	(9,000)	(2,000)
Other creditors		(1,341)	(616)	(1,017)
Cash and short term deposits		(15)	—	—
Net current liabilities		(12,425)	(7,213)	(759)
Net assets		**132,472**	**87,586**	**97,298**
Capital and reserves				
Called-up share capital		15,931	15,931	15,931
Share premium account		—	25,073	—
Capital redemption reserve		—	549	—
Special reserve		48,573	21,364	46,871
Capital reserve		65,982	23,374	32,737
Revenue reserve		1,986	1,295	1,759
Equity shareholders' funds		**132,472**	**87,586**	**97,298**
Net asset value per ordinary share	8	**207.89p**	**138.67p**	**154.04p**

Cash Flow Statement

	Six months ended 31 December 2010 (unaudited) £'000	Six months ended 31 December 2009 (unaudited) £'000	Year ended 30 June 2010 (audited) £'000
Net return on ordinary activities before finance costs and taxation	34,407	18,063	28,562
Adjustment for:			
Gains on investments	(34,376)	(17,570)	(27,633)
Currency (gains)/losses	(1)	3	3
Revenue before finance costs and taxation	30	496	932
Decrease/(increase) in accrued income	75	13	(100)
(Increase)/decrease in other debtors	(1)	15	9
Increase in other creditors	349	135	778
Net cash inflow from operating activities	453	659	1,619
Net cash outflow from servicing of finance	(2)	(31)	(74)
Net overseas tax	2	(4)	(15)
Net cash (outflow)/inflow from financial investment	(11,500)	(3,882)	1,630
Equity dividends paid	(907)	(695)	(1,326)
Net cash (outflow)/inflow before management of liquid resources and financing	(11,954)	(3,953)	1,834
Net cash (outflow)/inflow from management of liquid resources	(1,715)	887	2,117
Net cash (outflow)/inflow before financing	(13,669)	(3,066)	3,951
Financing			
Issue of shares	6,335	—	—
Buyback of shares	(4,574)	—	—
Tender offer costs	(110)	—	(23)
Drawdown/(repayment) of bank loan	12,000	3,000	(4,000)
Net cash inflow/(outflow) from financing	13,651	3,000	(4,023)
Decrease in cash	**(18)**	**(66)**	**(72)**
Reconciliation of net cash flow to movements in net debt			
Decrease in cash as above	(18)	(66)	(72)
Net change in liquid resources	1,715	(887)	(2,117)
Net change in debt due within one year	(12,000)	(3,000)	4,000
Other non-cash movements	1	(3)	(3)
Movement in net debt in the period	(10,302)	(3,956)	1,808
Opening net debt	(997)	(2,805)	(2,805)
Closing net debt	**(11,299)**	**(6,761)**	**(997)**
Represented by:			
Cash and short term deposits	(15)	8	2
AAA Money Market funds	2,716	2,231	1,001
Debt due within one year	(14,000)	(9,000)	(2,000)
	(11,299)	**(6,761)**	**(997)**

Notes to the Financial Statements

1. Accounting policies

(a) Basis of accounting

The accounts have been prepared in accordance with applicable UK Accounting Standards, with pronouncements on half yearly reporting issued by the Accounting Standards Board and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in January 2009. The adoption of the January 2009 SORP has no effect on the financial statements of the Company, other than the requirement separately to disclose capital reserves that relate to the revaluation of investments held at the reporting date. These are disclosed in note 6. 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 financial statements and the net asset value per share figures have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

The half-year financial statements have been prepared using the same accounting policies as the preceding annual accounts.

(b) Dividends payable

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

2. Income	Six months ended 31 December 2010 £'000	Six months ended 31 December 2009 £'000	Year ended 30 June 2010 £'000
Income from investments			
UK dividend income	826	889	1,963
Overseas dividend income	62	85	161
Scrip dividends	54	—	—
REIT income	—	—	57
	942	974	2,181
Other income			
Interest from AAA Money Market funds	9	7	13
Underwriting commission	—	7	7
Other income	—	—	1
	9	14	21
Total income	**951**	**988**	**2,202**

3. Taxation

The taxation expense reflected in the Income Statement is based on management's best estimate of the weighted annual corporation tax rate expected for the full financial year. The estimated annual tax rate used for the year to 30 June 2011 is 27.75%.

4. Dividends

	Six months ended 31 December 2010 £'000	Six months ended 31 December 2009 £'000	Year ended 30 June 2010 £'000
Ordinary dividend on equity shares deducted from reserves:			
2010 final dividend of 1.50p per share (2009 - 1.10p)	907	695	695
2010 interim dividend of 1.00p per share	—	—	631
	907	**695**	**1,326**

5. Return per share

	Six months ended 31 December 2010 p	Six months ended 31 December 2009 p	Year ended 30 June 2010 p
Revenue return	1.82	1.13	2.86
Capital return	53.44	27.41	42.23
Total return	**55.26**	**28.54**	**45.09**
Weighted average number of ordinary shares	**62,208,888**	**63,163,381**	**63,163,381**

The figures above are based on the following:

	Six months ended 31 December 2010 £'000	Six months ended 31 December 2009 £'000	Year ended 30 June 2010 £'000
Revenue return	1,134	714	1,809
Capital return	33,245	17,311	26,674
Total return	**34,379**	**18,025**	**28,483**

Notes to the Financial Statements - continued

6. Capital reserve

The capital reserve reflected in the Balance Sheet at 31 December 2010 includes gains of £61,165,000 (31 December 2009 - £25,304,000; 30 June 2010 - £32,673,000) which relate to the revaluation of investments held at the reporting date.

7. Transaction costs

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

	Six months ended 31 December 2010 £'000	Six months ended 31 December 2009 £'000	Year ended 30 June 2010 £'000
Purchases	172	106	162
Sales	16	16	37
	188	**122**	**199**

8. Net asset value

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

These rights are reflected in the net asset value and the net asset value per share attributable to ordinary shareholders at the period end.

	Six months ended 31 December 2010	Six months ended 31 December 2009	Year ended 30 June 2010
Total shareholders' funds	£132,472,000	£87,586,000	£97,298,000
Number of ordinary shares in issue at the period end (excluding shares held in treasury)	63,722,556	63,163,381	63,163,381
Net asset value per share	207.89p	138.67p	154.04p

9. The financial information in this report does not constitute statutory accounts as defined in Sections 434 - 436 of the Companies Act 2006. The financial information for the year ended 30 June 2010 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditors on those accounts contained no qualification or statement under Section 498 (2), (3) or (4) of the Companies Act 2006. The interim accounts have been prepared using the same accounting policies as the preceding annual accounts.

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

    During the period, the former Manager refunded £561,000 to the Company for VAT charged on investment management fees and this amount has been included in these financial statements. Of this amount £139,000 relates to the period 1 January 2001 to 31 December 2003, and £422,000 relates to the period 1 January 1990 to 3 December 1996. The refunds have been allocated to revenue and capital in line with the accounting policy of the Company for the periods in which the VAT was charged.

    The reclaim for the period 4 January 1996 to 31 December 2000, the associated interest thereon and the timescale for receipt are at present uncertain and the Company has taken no account in these financial statements of any such repayment.

11. Post Balance Sheet events

The Company released a Periodic Tender Offer document to shareholders in September 2010. The Company announced on 12 January 2011 that, in accordance with the terms of the Tender Offer, the total number of shares to be bought back into treasury under the Tender Offer was 512,076 ordinary shares, representing 0.80 per cent. of the ordinary shares in issue on the record date, at a price per share of 193.4p. The cost of the shares bought back was £995,000. This sum excludes tender offer costs of £59,000, which have been charged against the special reserve during the period. Following the implementation of the periodic Tender Offer, the Company had 63,210,480 ordinary shares in issue with a total number of voting rights of 63,210,480.

On 31 January 2011, the Company sold 512,076 ordinary shares from treasury at a price per share of 209.0p which resulted in 63,722,556 ordinary shares in issue with voting rights of 63,722,556.

12. This Half-Yearly Report was approved by the Board on 25 February 2011.

How to Invest in Standard Life UK Smaller Companies Trust PLC

Investors may subscribe to Standard Life UK Smaller Companies Trust through Standard Life's Savings Scheme, Individual Savings Account ('ISA'). Alternatively, investors may buy shares in the Company directly through a stockbroker or indirectly through a lawyer, accountant or financial adviser.

Investment Trust Savings Scheme

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

Investment Trust ISA

Standard Life's ISA is a tax efficient savings vehicle as investors pay no additional income tax or capital gains tax on any money generated by their investments. Until 5 April 2011 the maximum investment into a Stocks and Shares ISA is £10,200 which rises to £10,680 in the tax year 2011/2012. As with Standard Life's Savings Scheme, the minimum investment in Standard Life's ISA is a £1,000 lump sum or £100 per month. ISAs attract tax reliefs which the Government may change in the future. The value of these reliefs to each investor depends on their own personal circumstances.

Investment Trust ISA Transfer

Investors may also gain access to the Company by transferring any existing ISA (including a former PEP 'Personal Equity Plan') investments to a Standard Life ISA.

How to invest

For further information on how to invest and an application pack containing full details of the products and their charges, please go online to www.standardlifeinvestments.co.uk/its or alternatively call Standard Life Investments on 0845 60 24 247. Lines are open from 9am to 5pm Monday to Friday. We recommend that you speak to your usual financial adviser to find out if Standard Life Investments' products are suitable for you.

Company Information and Contact Details

Directors
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David Woods (Senior Independent Director)
Lynn Ruddick (Chairman, Audit and Management Engagement Committee)
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