

Standard Life UK Smaller Companies Trust plc

**Annual Report and Accounts
30 June 2014**

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Financial Calendar

2 September 2014	Announcement of results for year ended 30 June 2014
9 October 2014	Annual General Meeting
16 October 2014	Payment of final dividend on Ordinary shares
February 2015	Announcement of Half-Yearly Financial Report for six months ending 31 December 2014
April 2015	Payment of interim dividend on Ordinary shares

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Corporate Summary

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 50 individual holdings representing the Investment Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5 per cent. of total assets at the time of acquisition.</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	<p>Standard Life Investments (Corporate Funds) Limited</p> <p>Portfolio Manager: Harry Nimmo</p> <p>Head of Investment Companies: Gordon Humphries</p>
Equity shareholders' funds	£ 219.4 million at 30 June 2014.
Market capitalisation	£ 200.8 million at 30 June 2014.
Capital structure	<p>The Company's issued share capital, as at 30 June 2014, consisted of 71,383,586 Ordinary shares of 25 pence each and £20,584,450 nominal amount of Convertible Unsecured Loan Stock 2018. There were no Ordinary shares held in treasury as at 30 June 2014. Each Ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.</p>
Management fee	<p>The management fee is calculated at 0.85% per annum of the Company's gross assets and there is no performance fee. The Investment Management Agreement is currently terminable by either party on not less than one year's notice. In the event of termination on less than the agreed notice period, compensation is payable in lieu of the unexpired notice period.</p>
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 • how to invest in the Company via the savings plan • strategic and economic reviews by the Investment Manager

Strategy

Financial Highlights

Year to 30 June 2014	
Diluted net asset value total return	7.7%
Share price total return	1.6%
Benchmark total return	20.3%
Increase in total dividends	11.1%

Note: 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							
Overweight Stocks	Company %	B'mark %	Relative %	Overweight Stocks	Company %	B'mark %	Relative %
Telecom Plus	4.7	0.7	4.0	Supergroup	3.2	0.5	2.7
Hargreaves Lansdown	3.7	0.0	3.7	Paypoint	3.1	0.5	2.6
Dunelm Group	2.8	0.0	2.8	Emis Group	2.6	0.0	2.6
Rightmove	2.7	0.0	2.7	Workspace	2.9	0.5	2.4
Ted Baker	3.2	0.5	2.7	Abcam	2.2	0.0	2.2

Source: Standard Life Investments and Thomson Datastream

Strategy Financial Highlights

	30 June 2014	30 June 2013	% change
Capital			
Net asset value per Ordinary share (statutory)			
Basic	307.38p	290.23p	5.9%
Diluted	298.92p	281.58p	6.2%
Share price	281.25p	280.50p	0.3%
Benchmark capital return	6,476.55	5,525.53	17.2%
Discount of Ordinary share price to net asset value			
Basic	8.5%	3.4%	
Diluted	5.9%	0.4%	
Total assets (£m) ¹	239.14	217.05	10.2%
Shareholders' funds (£m)	219.42	193.48	13.4%
Ordinary shares in issue	71,383,586	66,665,988	7.1%
Gearing			
(Net cash)/net gearing ²	(4.6%)	8.8%	
CULS			
CULS in issue	£20,584,450	£24,896,887	(17.3%)
CULS yield	2.9%	3.0%	
CULS price	122.00p	116.13p	5.1%
Earnings and Dividends			
Revenue return per Ordinary share			
Basic	5.05p	4.58p	10.3%
Diluted	4.66p	4.19p	11.2%
Interim dividend paid for the year	1.27p	1.15p	10.4%
Proposed final Ordinary dividend for the year	3.23p	2.90p	11.4%
Total dividends for the year	4.50p	4.05p	11.1%
Dividend yield	1.6%	1.4%	
Expenses			
Ongoing charges ³	1.19%	1.28%	

¹Total assets less current liabilities, after excluding short-term debt of nil (2013 - nil).

²Net gearing ratio calculated as the total liability component of £19.7m 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.

³Ongoing 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.

Strategy

Chairman's Statement

It gives me great pleasure to address shareholders for the first time as Chairman following my appointment on 26 February 2014.

David Woods

Performance

For the year ended 30 June 2014, the Company's diluted net asset value total return was 7.7%, compared with a total return of 20.3% for the Company's benchmark. The last quarter has been a particularly difficult performance period for the Company. The valuations of quality growth smaller company stocks have been hit hard since 7 March 2014 with the prospect of higher interest rates earlier than the market had previously anticipated.

Despite this recent underperformance, the Company's long term performance remains strong. Indeed, since Standard Life Investments took over as Investment Manager on 1 September 2003, the Company has delivered a net asset value total return of 410.4%, representing an annualised return of 16.2% per annum and outperforming the Company's benchmark, the Numis Smaller Companies Index (excluding investment companies), by 3.3% per annum.

The Company continues to perform well against its peer group over five years and since Standard Life Investments' appointment, as reflected in the table below.

	3 years	5 years	10+ years (since SLI appointment)
Net asset value total return	30.1%	189.4%	410.4%
Share price total return	24.2%	202.1%	586.4%
Benchmark total return	52.1%	161.2%	274.6%
Peer group ranking	10/12	6/12	1/12

Sources: Thomson Datastream and JP Morgan Cazenove

The Investment Manager's Report on pages 6 to 9 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 Manager's view that steady growth stocks should outperform cyclical stocks over the long term.

Earnings and Dividend

The undiluted (or basic) revenue return per share for the year ended 30 June 2014 was 5.05p (2013 – 4.58p). Underlying earnings per share have increased by 10.3% this year as dividend growth from the portfolio remained strong. Income from investments increased by 14.9% in the period. The Company has, again, benefitted from high levels of special dividends, which totalled £874,000 for the year (1.26p per share).

The Board is recommending a final dividend of 3.23p per share, an increase on last year's final dividend of 11.4%. If approved, the final dividend, together with the interim dividend of 1.27p paid in April, will give a total dividend for the year of 4.50p and will represent an increase of 11.1% on last year.

Subject to shareholder approval at the Annual General Meeting on 9 October 2014, the final dividend will be paid on 16 October 2014 to shareholders on the register as at 19 September 2014 with an associated ex-dividend date of 17 September 2014.

Investment Manager

The Board believes that the appointment of Standard Life Investments continues to be in the long-term interests of shareholders. Harry Nimmo, Head of Smaller Companies at Standard Life Investments, has been the lead investment 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. The Company was one of the first investment companies to simplify its investment management fee arrangements ahead of the implementation of the Retail Distribution Review. The performance fee was removed from 1 July 2012 and the investment management fee now comprises only a basic fee of 0.85% of total assets.

Strategy

Chairman's Statement

Awards

The Company won the Moneywise UK Smaller Companies Trust of the year for the seventh year in a row and at the Grant Thornton Quoted Companies Awards on 29 January 2014, Harry Nimmo won Fund Manager of the Decade, reflecting the excellent share price performance of the Company over that period.

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 £20.58million 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 2014, the net cash level was 4.6%.

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.

Discount

The discount at which the Company's shares trade relative to the underlying diluted net asset value was 5.9% at 30 June 2014. The Company's shares have traded at an average premium of 0.4% over the year ended 30 June 2014 (source: Winterflood Securities) and the Board will continue to monitor the discount level closely. This discount compares very favourably with the peer group average, which was 13.4% at 30 June 2014.

Issue of Shares

During the period the Company issued over 2.9m new ordinary shares at a premium to net asset value and a further 1.8m new ordinary shares as a result of CULS conversions, increasing the capital base by 7.0%. The current market capitalisation is now £205m with total assets of over £244m. The Board continues to seek ways of improving the size and liquidity of the Company's ordinary shares.

Regular Tender Offers

The Board exercised its discretion and did not conduct a tender offer at either of the 31 December 2013 or 30 June 2014 tender dates as the Company's shares have traded at a small average premium over the year as discussed in the discount section above.

AIFMD

The European Alternative Investment Fund Managers Directive (AIFMD) is effective, with the final implementation date of 22 July 2014 now passed. The Board has appointed its Investment Manager to undertake the necessary regulatory returns and ongoing compliance. This appointment became effective on 7 July 2014, the date of the Investment Manager's authorisation as an AIFM. BNP Paribas has been appointed as depositary to the Company.

Succession Planning

I am delighted to welcome Allister Langlands as a new non-executive director following his appointment on 1 July 2014. Allister has a wealth of business experience having served as chairman, chief executive and finance director of Wood Group over a twenty-three year period. He will succeed Lynn Ruddick as the Audit Committee Chairman during the course of the next year.

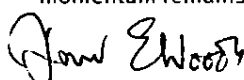
Having taken over as Chairman of the Company it is appropriate that I pay tribute to the work of my predecessor in this role, Donald MacDonald. Donald has been Chairman since the Company's launch in 1993 and has guided us through some turbulent events and difficult times. His wise counsel and excellent chairmanship have been of enormous value to us, and it is pleasing to see that as he leaves the chair, the Trust has established such a strong position.

AGM

Following the success of last year's AGM in London the Board has decided to keep the same location for this year. The AGM will be held at the Investment Manager's offices at 30 St. Mary Axe, London (the Gherkin) on Thursday 9 October 2014. The meeting will start at 12:30pm and will include a presentation from the Investment Manager.

Outlook

The Investment Manager's investment process has delivered excellent returns for shareholders and the Board remains confident in the outlook for the Company over the long term. 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

1 September 2014

Strategy

Investment Manager's Report

The UK smaller companies sector, as represented by the Numis Smaller Companies Index (excluding Investment Companies), returned 20.3% in total return terms over the year. This compares with a diluted net asset value total return for the Company of 7.7% and a share price total return of 1.6%. Over the same period the total return of the FTSE 100 Index of the largest UK listed companies was 12.3%. The reasons for this performance are explained in the Equity Markets and Performance sections below.

Harry Nimmo

Equity Markets

The performance of UK smaller company equities can be divided into two periods, with 7 March 2014 being the turning point. This coincided with the new US Federal Reserve (the Fed) Chair Janet Yellen raising the possibility of an earlier than anticipated increase in US interest rates. The market seized on her rather laconic comments that the time difference between the end of Quantitative Easing (QE) and the first rate increase could be six months, thus bringing forward the market's expectation of such an event by around nine months. While not earth shattering in itself it did cause investors particularly in the US, the UK and Japan to re-examine the risk profiles in their portfolios in what turned out to be a dramatic fashion. At the same time the crisis in Crimea and Ukraine unfolded, causing further market turbulence. By June, Iraq and the activities of the Islamic State of Iraq and the Levant had also gripped the attention of markets.

From the start of the Company's financial year until 6 March 2014, the market was happy to take on risk and in particular support high growth companies, with valuation a secondary consideration. In general, markets took the view that the smaller the stock, the better the performance. This is typical of a bull market: stocks exhibiting earnings and price momentum were favoured. All this was supported by a buoyant economic backdrop, especially in the UK, but also in the US. Indeed an unusually strong confluence of economic growth and recovery was evident all round the world including Japan, China and even continental Europe. This was a vintage period for smaller companies, with this part of the market up by 27% in the period to 6 March 2014.

Following that date and Fed Chair Yellen's comments, investors, including the increasingly influential multi-asset, global macro segment, moved to reduce risk by exiting small and mid

sized companies. This was often achieved by indirect methods such as derivatives or selling exchange traded funds (ETFs). This, in turn, caused selling in the underlying holdings and prompted downwards share price pressure in particular on the smaller constituents of the FTSE 250 which also coincide with some of our larger holdings. At the same time the new issues market was unusually active, particularly with retail new issues. Fund managers who wish to participate in these new issues tend to sell previous winners, especially existing retail holdings. High growth stocks that did particularly well in the preceding period were sold due to being seen as high risk. The microcap segment, in which this Company is only a small participant, was exempt from this major rotation as there are no derivatives in this part of the market. Microcaps were not weighed down by new issues. Indeed, there were strong money flows into this sub-sector during the year.

After a barren period, bid activity started to pick up towards the end of the financial year, culminating in a bid for Kentz towards the end of June. The oil price remained stable throughout the year.

Performance

The period to 6 March 2014 saw the Company perform roughly in line with the very strong showing for smaller companies as a whole - a good result given the strength of the microcap segment. However, following that date, a period of severe underperformance set in. After 6 March, the Company suffered under the onslaught of derivative-related selling activity at the lower end of the FTSE 250. Our approach is to identify companies which exhibit strong quality, earnings visibility and price or earnings momentum and in this environment these companies underperformed. Also some of our erstwhile growth winners, such as Asos and Ocado, came off dramatically. The extremely benign

nature of the economic backdrop in the UK and worldwide meant that quality, strong balance sheets, cashflow and earnings visibility were no longer regarded by some investors as positives. Indeed given the maturity of the recovery, which after all began in 2009, our favoured holding type looked pedestrian when compared with the performance of the more cyclical recovery segment. Underperformance was prodigious, to the extent that the return for the year in question was most disappointing.

Our five leading performers in the year were as follows:-

Kentz Corp, an oil services company specialising in engineering and technical services agreed a bid from SNC Lavalin, a Canadian engineering services conglomerate. The shares were up 152% in the year. The share price is up just over four times since our first purchase in April 2010.

Hargreaves Lansdown, the on-line financial services provider continued to perform well even though their business environment was rendered uncertain by regulatory change. We continue to scale out of this holding as it has moved right on through to the FTSE 100 Index.

Safestyle, the provider of replacement windows was an unlikely but spectacularly successful new issue. Listed at 100p, the shares traded at 189p by the year end.

Andor Technologies, the specialist microscopic camera designer received a 525p bid from Oxford Instruments. Our ownership dates back to the listing of the company in December 2004 when a stake was bought at 90p.

GB Group is an ID verification company both for internet transactions but also for the recruitment into sensitive employment areas. GB is developing a strong franchise in this market.

The poorest performers included **PaddyPower** the on-line bookmaker. Its UK markets have become more competitive in the last year due to tougher regulation. **Waterlogic**, the innovative water purification company suffered setbacks in product development. **Abcam**, the on-line antibody distributor faced slowing growth in its end markets. **Blinkx** suffered an onslaught of selling as a consequence of a vexatiously written short sell sponsored research note and **Xaar** warned of slower profits growth due to increased competition.

Our growth orientated retailers and high growth companies performed extremely well prior to 7 March 2014 and then extremely badly for the rest of the year in question when being overweight in this sector was very negative. New issue activities in 2014 were generally positive with **Gulf Marine Services**, **Safestyle**, **FDM** and **Poundland** being standouts. Our preference for high quality stocks with dependable earnings and strong characteristics was badly out of favour in an environment of rampant economic and market optimism.

Dealing and Activity

The most significant new additions to the portfolio were as follows:-

The Company bought back a stake in **Big Yellow Group**, the self-storage operator in the south east of England. Significant capital investment has been made and it is simply a case of seeing the company benefit from increased utilisation rates. **Keller**, the international ground services company, was bought as high quality exposure to international construction recovery. **Cranswick**, the meat products company, was purchased. Its consistency fits well with our investment process. **Blinkx**, the on-line video advertising company, was added. The shares were subsequently sold at a substantial loss and represents one of the worst investments the Company has made in the last ten years, as a short sell sponsored research note destabilised the customer base. **Ocado**, the on-line food retailer was purchased following the deal with Morrisons. The shares were subsequently sold for a handsome profit.

Our key sales were:-

Asos was sold in its entirety during the year taking in over £13m for an investment of just over £0.4m. Latterly the company has encountered issues controlling its pace of growth. Furthermore, Asos can no longer be described as a smaller company. **Domino's Pizza (UK & Ireland)** was sold following a successful nine years in the portfolio. Its UK business was becoming mature and the expansion into Germany had been problematic. Profits were also taken in **Xaar**, the laser printhead technology company, following strong share price appreciation as it took the ceramic tile printing market by storm worldwide. The Company reduced the size of its holding in **Hargreaves Lansdown** following strong performance. Again, this is a company that has done its job and no longer can be defined as a smaller company. Likewise, **PaddyPower** has moved into large company territory and profits have been taken.

Strategy

Investment Manager's Report

Indeed, the Company has been going through somewhat of a process of renewal, as successful larger holdings are being sold on account of their size and the proceeds recycled into the new larger companies of tomorrow. The stock selection process remains constant throughout.

In terms of sector exposure the proportion of the Company exposed to **on-line businesses** and **retailers**, although still significant, has come down. Likewise the **electrical & electronics** sector has been reduced, signifying the end of the explosive capital investment boom in China. Areas of increased sector exposure include **support services** reflecting a wide array of different types of business in the largest sector in the smaller companies universe. This sector is often fertile ground for new smaller companies. A particular subsector of interest here is represented by Smart Metering Systems and Utilitywise, companies that are beneficiaries of rising energy prices.

Financial services now feature prominently after an absence of many years, notably in the shape of holdings in two "challenger banks", Secure Trust Bank, purchased just after the year end, and Paragon. These companies are beneficiaries of the government's wish to boost diversity and competition in banking following the disasters of the banking crisis. **Software** remains a heavyweight component given the growth and predictability characteristics. **Healthcare** has increased following a number of recent additions, including interesting growth companies in discrete niches such as Cambian in mental health rehabilitation and CVS in veterinary medicine.

Outlook

The interest rate environment has been incredibly benign during the year, with base rates in the UK remaining at half of one percent for more than five years now. A similar pattern is evident in the US, Europe and Japan. Under the influence of continued injections of QE across the developed world, strong economic growth in the UK and US and recovery in Europe and Japan have been established. In the UK, consumer confidence and industrial production are very buoyant. The housing market in London and the south east is showing signs of overheating. The ripple of higher house prices is spreading across the UK as the Government's help-to-buy scheme is starting to take effect. Corporate profit growth, particularly in the more cyclical sectors, is accelerating. The Chinese economy is slowing but still showing 6% plus growth. Oil prices have remained quite stable at around \$110 per barrel, even though political instability in the Ukraine, Syria and Iraq has

made the world a more dangerous place. Partly in response to this sterling has strengthened against most international currencies over the past year.

The constantly improving economic backdrop driven by ultra low interest rates and QE has helped smaller companies markets to rise by around 300% from the lows of early December 2008 with some commentators suggesting that an asset bubble is in the process of being formed. First sight of a future of rising interest rates caused significant weakness in smaller companies from March 2014 onwards. Monetary authorities are now seen as being more cunning in their ability to pull the levers that drive the world economy. There is growth in the belief that, to paraphrase Gordon Brown, 'the economics of boom and bust have been banished'. We do not share this view.

At this time many of the more cyclical industries are moving towards profit margin levels that are quite close to those last seen in 2007. Cyclical stocks, after five years of recovery, have now delivered strong long term earnings records that make the earnings growth track record of our consistent quality growth holdings look quite pedestrian.

The new issues market since March 2014 until recently has been remorseless. While providing new investment opportunities, it has seriously sapped the strength of markets as investors have had to sell existing holdings to buy the new companies. Summer provides a lull to these activities which will return in the autumn.

Acquisition activity is likely to increase from very low levels over the next 12 months. The Company has benefitted from three in the year (Andor Technology, Declam and Kentz). There is no shortage of well financed large companies looking to bolster growth further down the marketcap spectrum.

Whilst investment returns should be good over the next five years, it is unlikely that smaller companies will deliver the spectacular returns of the previous five years. A period of rising interest rates may begin later this year which should temper the extraordinarily supportive current business environment. 'Boom and Bust' is not over. The interconnectedness of global markets and banking systems, the very high levels of sovereign and personal debt and increased levels of geopolitical instability, particularly in regions where vital oil & gas resources are to be found, all suggest that caution should be the watchword.

Strategy

Investment Manager's Report

To this end nothing has changed with our process. It has generally worked well over the past ten years and we see no reason for this to change. The vast majority of our companies have net cash positions and can grow from internally generated cashflows in a predictable way. Dividend growth is strong and special dividends are quite plentiful without compromising growth prospects. This all gives us great confidence in the long term outlook for the Company. Our aim is to be exposed to predictable growth, but in a lower risk way as there is always risk in markets particularly in this interdependent global financial system. Given that uncertainty remains around every corner, our emphasis on risk aversion, resilience, growth and momentum still feels right for the future.

Harry Nimmo

Standard Life Investments, Manager

1 September 2014

Strategy

Portfolio Investments

As at 30 June 2014

Stock	Key Sector	Valuation as at 30 June 2014 £'000	Weight %	Valuation as at 30 June 2013 £'000
Telecom Plus	Fixed Line Telecommunications	9,920	4.7	10,043
Hargreaves Lansdown	Financial Services	7,772	3.7	8,880
Ted Baker	General Retailers	6,852	3.2	6,432
Supergroup	Household Goods & Home Construction	6,722	3.2	3,276
Paypoint	Support Services	6,594	3.1	6,330
Workspace	Real Estate Investment Trusts	6,270	2.9	4,268
Dunelm Group	Household Goods & Home Construction	5,991	2.8	6,794
Rightmove	Media	5,789	2.7	8,753
Kentz Corp	Oil Equipment Services & Distribution	5,593	2.6	2,265
Emis Group	Software & Computer Services	5,406	2.6	5,710
Top ten investments		66,909	31.5	
Fisher (J) & Sons	Industrial Transportation	5,306	2.5	3,731
Computacenter	Software & Computer Services	4,864	2.3	3,427
Abcam	Pharmaceuticals & Biotechnology	4,758	2.2	7,719
Paragon	Financial Services	4,270	2.0	3,199
Aveva Group	Software & Computer Services	4,245	2.0	5,805
Lookers	General Retailers	4,064	1.9	3,125
Smart Metering Systems	Electronic & Electrical Equipment	3,989	1.9	3,204
Big Yellow	Real Estate Investment Trusts	3,930	1.9	—
GB Group	Software & Computer Services	3,907	1.8	2,432
XP Power	Electronic & Electrical Equipment	3,893	1.8	2,358
Top twenty investments		110,135	51.8	
Diploma	Support Services	3,818	1.8	3,619
Fusionex International	Software & Computer Services	3,658	1.7	1,176
Moneysupermarket.com	Media	3,608	1.7	7,307
Barr	Beverages	3,540	1.6	3,063
Esure	Non-Life Insurance	3,434	1.6	4,512
Pressure Technologies	Industrial Engineering	3,400	1.6	—
Nichols	Beverages	3,350	1.6	3,468
Quintain Estates	Real Estate Investment & Services	3,098	1.5	2,340
Paddy Power	Travel & Leisure	3,084	1.5	9,219
BTG	Support Services	3,059	1.4	1,552
Top thirty investments		144,184	67.8	
Moss Bros Group	General Retailers	2,875	1.4	—
Mattioli Woods	Financial Services	2,789	1.3	1,495
Amerisur Resources	Oil & Gas Producers	2,784	1.3	1,521
Keller Group	Construction & Materials	2,763	1.3	—
Safestyle UK	General Retailers	2,663	1.3	—

Strategy Portfolio Investments

As at 30 June 2014

Stock	Key Sector	Valuation as at 30 June 2014 £'000	Weight %	Valuation as at 30 June 2013 £'000
Accesso Technology	Software & Computer Services	2,600	1.2	—
Brainjuicer Group	Support Services	2,583	1.2	1,562
Victrex	Chemicals	2,577	1.2	2,107
Shaftesbury	Real Estate Investment Trusts	2,482	1.2	2,697
Gulf Marine Services	Oil Equipment & Services	2,408	1.1	—
Top forty investments		170,708	80.3	
Xaar	Electronic & Electrical Equipment	2,326	1.1	8,227
4Imprint Group	Media	2,261	1.1	—
Dechra Pharmaceuticals	Health Care Equipment & Services	2,170	1.0	2,070
Cranswick	Food Producers	2,150	1.0	—
CSR Group	Technology Hardware & Equipment	2,131	1.0	—
Harvey Nash Group	Support Services	2,131	1.0	1,396
Halma	Industrial Engineering	2,063	1.0	2,014
Hilton Food	Food Producers	1,971	0.9	—
Avon Rubber	Aerospace & Defense	1,881	0.9	—
Poundland	General Retailers	1,832	0.9	—
CVS Group	General Retailers	1,635	0.8	—
Rotork	Industrial Engineering	1,586	0.7	3,204
Clinigen Group	Pharmaceuticals & Biotechnology	1,585	0.7	—
Staffline Group	Support Services	1,498	0.7	—
Brammer	Support Services	1,470	0.7	—
Utilitywise	Support Services	1,465	0.7	—
Cambian Group	Health Care Equipment & Services	1,413	0.7	—
FDM Group	Software & Computer Services	1,374	0.6	—
Optimal Payments	Support Services	1,288	0.6	—
Boohoo.com	General Retailers	1,175	0.6	—
Boot (Henry)	Construction & Materials	1,175	0.6	—
Globo	Software & Computer Services	1,115	0.5	—
Vectura Group	Pharmaceuticals & Biotechnology	1,109	0.5	—
Latchways	Support Services	1,070	0.5	1,180
Sprue Aegis	Electronic & Electrical Equipment	725	0.3	—
Clarkson	Industrial Transportation	657	0.3	—
Mysale Group	General Retailers	639	0.3	—
Total Portfolio		212,603	100.0	

All investments are equity investments.

Strategy

Sector Distribution of Investments

At 30 June 2014

	Numis Smaller Companies (excluding Investment Trusts) Index weightings 2014 %	Portfolio weighting 2014 %	Portfolio weighting 2013 %
Oil & Gas			
Oil & Gas Producers	2.9	1.3	0.7
Oil Equipment Services & Distribution	2.0	3.7	1.1
Alternative Energy	0.1	—	—
Basic Materials			
Chemicals	2.1	1.2	1.0
Industrial Metals	0.6	—	—
Mining	3.8	—	—
Industrials			
Construction & Materials	3.0	1.9	—
Aerospace & Defence	2.9	0.9	—
General Industrials	1.6	—	—
Electronic & Electrical Equipment	3.8	5.1	10.3
Industrial Engineering	2.3	3.3	2.5
Industrial Transportation	1.9	2.8	1.8
Support Services	12.3	11.7	11.4
Health Care			
Health Care Equipment & Service	2.2	1.7	1.0
Pharmaceuticals & Biotechnology	1.4	3.4	3.7
Consumer Goods			
Beverages	0.9	3.3	3.1
Food Producers	3.0	1.9	1.8
Household Goods & Home Construction	2.4	6.0	4.8
Leisure Goods	0.5	—	—
Personal Goods	1.0	—	—
Consumer Services			
Food & Drug Retailers	0.9	—	—
General Retailers	5.6	10.4	10.1
Media	3.6	5.5	10.6
Travel & Leisure	8.5	1.5	7.4
Telecommunications			
Fixed Line Telecommunications	2.6	4.7	4.8
Utilities			
Electricity	0.6	—	—
Financials			
Banks	0.5	—	—
Non-life Insurance	2.5	1.6	2.1
Life Insurance	1.1	—	—
Real Estate Investment & Services	6.4	1.5	1.1
Real Estate Investment Trusts	2.9	5.9	3.3
Financial Services	5.7	7.0	6.4
Technology			
Software & Computer Services	5.3	12.7	11.0
Technology Hardware & Equipment	3.1	1.0	—
	100.0	100.0	100.0

This Strategic 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 37 and 38.

The Board

The Board is responsible for setting and monitoring the Company's strategy. As at 30 June 2014, the Board consisted of four non-executive Directors, two men and two women. Mr Allister Langlands was appointed to the Board on 1 July 2014. Following his appointment the Board consists of five non-executive Directors, three men and two women. 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 page 19 and the Statement of Corporate Governance on page 27.

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 50 individual holdings representing the Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5 per cent. of total assets at the time of acquisition.

The Company may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing 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 the Annual Report, and from the information provided in the Chairman's Statement and the Investment Manager's Report.

As detailed in the Investment Manager's Report, successful larger holdings are being sold on account of their size and the proceeds recycled into new holdings. As a result, the portfolio currently comprises a higher number of holdings than is envisaged in the investment policy.

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 Investment Manager for the operation of the gearing level within the above parameters.

The Board regularly reviews gearing which was a net cash position of 4.6% as at 30 June 2014. This compared to a net gearing figure of 8.8% as at 30 June 2013. Gearing is calculated as the liability component of the Convertible Unsecured Loan Stock 2018 ("CULS") less cash balances, as a proportion of net assets.

Manager's investment process

The Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management, and dealing. The investment process is research-intensive and is driven by the Manager's distinctive "focus on change" which recognises that different factors drive individual stocks and markets at different times in the business cycle. This flexible, but disciplined process ensures that the Manager has the opportunity to out-perform in different market conditions. The 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 2014 amounted to £3,500,000 (2013:£3,026,000).

An interim dividend of 1.27 pence per share (2013 – 1.15 pence) was paid on 7 April 2014 to shareholders on the register as at 14 March 2014. The ex-dividend date was 12 March 2014.

The Directors are recommending to shareholders that a final Ordinary dividend of 3.23 pence per share (2013– 2.90 pence) be paid on 16 October 2014 to shareholders on the share register as at the close of business on 19 September 2014. The ex-dividend date is 17 September 2014.

Strategy

Strategic Report

If approved, the final dividend together with the interim dividend paid in April will give a total dividend for the year of 4.50 pence per share (2013 – 4.05 pence)

Details of the final Ordinary and Interim dividends paid during the year ended 30 June 2014 are disclosed in Note 7 to the Financial Statements.

Review of Performance

For the year ended 30 June 2014, the Company's net asset value total return was 7.7 %, compared to a total return of 20.3 % for the Company's benchmark, the Numis Smaller Companies Index (excluding Investment Companies).

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:

- 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 five year performance is shown on page 25 and 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 may 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.
- **Capital structure and gearing risk:** The Company's capital structure, as at 30 June 2014, consisted of equity share capital comprising 71,383,586 Ordinary shares and £20,584,450 nominal amount of CULS.

The effect of gearing should be beneficial in rising markets but could adversely affect returns to shareholders in falling markets. The Manager is able to increase or decrease the Company's level of net gearing by holding a lower or higher cash balance subject to the Company's investment policy which requires that gearing should remain between 5% 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 is required to strike a balance more in favour of capital growth than revenue return. In normal circumstances, the Board intends to pay a dividend commensurate with the year's income. The Board receives regular updates as to the progress made by the Manager in generating a revenue return and the consequent level of the Company's anticipated dividend.
- **Regulatory risk:** The Company operates in a complex regulatory environment and faces a number of regulatory risks. A breach of Section 1158 would result in the Company being subject to capital gains tax on portfolio investments. Breaches of other regulations, including the Companies Act 2006, the UKLA Listing Rules, the UKLA Disclosure and Transparency Rules or the Alternative Investment Fund Managers Directive, 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.
- **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 pages 19 and 20.

Your Company and the Manager are registered in Scotland and it is acknowledged that there is some uncertainty arising from the referendum on Scottish independence due to take place on 18 September 2014. Should the vote be for independence, the Board considers that there will be a transition period during which there will be an opportunity to assess the impact and take any appropriate action.

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 Corporate Governance UK 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 2015 as it is believed that these are in the best interests of shareholders.



David Woods
Chairman

1 September 2014

Strategy 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 ⁽⁴⁾ %
		Net asset value ⁽³⁾ p	Share price p	Ordinary dividends p	Special dividends p				
2004	47	71.23	51.25	0.75	—	0.72	28.1	1.50	11.5
2005 ⁽²⁾	58	86.86	69.25	0.80	—	1.01	20.3	1.10	3.2
2006	79	118.43	101.50	0.80	—	0.51	14.3	1.50	3.2
2007	52	159.01	131.00	0.80	—	0.10	17.6	1.50	8.3
2008	46	142.68	119.50	1.60	0.60	1.94	16.2	1.30	4.7
2009	70	111.23	100.50	1.60	—	2.56	9.6	1.17	3.7
2010	97	154.04	136.50	2.50	—	2.86	11.4	1.17	1.0
2011	155	240.65	237.00	2.75	1.00	4.35	1.5	1.00	8.8
2012	140	215.61	203.00	3.10	—	3.50	5.8	0.96	5.8
2013	193	290.23	280.50	4.05	—	4.58	3.4	1.28	8.8
2014	219	307.38	281.25	4.50	—	5.05	8.5	1.19	(4.6)

⁽¹⁾ Calculated with debt at par value and not diluted for the effect of warrants in issue for the years ended 30 June 2000 to 30 June 2009 or CULS in issue for the years ended 30 June 2011 to 30 June 2014

⁽²⁾ Restated for revised UK GAAP

⁽³⁾ Calculated as average of shareholders funds throughout the year for the years ended 30 June 2004 to 30 June 2014

⁽⁴⁾ 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 the capital reserve. With effect from 1 July 2007, 75% of the investment management fee and relevant finance costs were allocated to the capital reserve. The performance fee was allocated 100% to the capital reserve.

Governance

Board of Directors

David Woods

Chairman

David Woods, appointed a Director on 5 May 2005, qualified as a Fellow of the Institute of Actuaries in 1973 and has spent more than 40 years working in the life insurance and investment industries both in the UK and abroad. He is a non-executive director of Murray Income Trust PLC, Phoenix Group Holdings plc, The Moller Centre for Continuing Education, Barbon Insurance Group Limited 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 Steria Group.

Lynn Ruddick

Director

Lynn Ruddick, appointed a Director on 4 February 2009, is Chairman of the Audit and Management Engagement Committee, and is a fellow of the Chartered Association of Certified Accountants. She is Chairman of British Assets Trust plc and Fidelity Special Values plc and a non-executive director of BlackRock Frontiers Investment Trust plc. 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 a Director on 4 February 2009, is a chartered accountant. Her non-executive appointments include the Chartered Accountants Compensation Scheme Limited. She is also Chairman of BlackRock Greater Europe Investment Trust plc and Invesco Asia Trust plc, and is a non-executive director of Monks Investment Trust plc and Vernalis plc.

Donald MacDonald CBE

Director

Donald MacDonald, appointed a Director on 12 July 1993, is a chartered accountant with more than 40 years' experience of corporate finance and venture capital. He is a director of a number of private companies. He is also Chairman of the Scottish Chamber Orchestra.

Allister Langlands

Director*

Allister Langlands, appointed as a Director on 1 July 2014, was until recently 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, the senior independent non-executive director for Exova Group plc and a non-executive director of WS Atkins plc.

*Allister Langlands was appointed as a Director on 1 July 2014.

All Directors are members of the Nomination Committee and 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 2014. Information pertaining to the business review (as was required under Section 417 of the Companies Act 2006, now repealed) is now 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 been accepted as an approved investment trust under sections 1158 and 1159 of the Corporation Taxes 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 2014, and as at the date of this Report, consisted of 71,383,586 Ordinary shares of 25 pence, with voting rights, and £20,584,450 nominal of CULS (2013 – 66,665,988 Ordinary shares and £24,896,887 nominal of CULS). The CULS are listed on the London Stock Exchange and are tradeable assets.

There were no shares held in treasury at 30 June 2014 (2013 – nil).

During the year the Company utilised the balance of its general block listing authority granted on 28 April 2011 ("April 2011 blocklisting"). On 3 January 2014, the Company was granted a further blocklisting of 3,370,000 ordinary shares of 25 pence each ("January 2014 blocklisting"). The January 2014 blocklisting may only be used to issue new shares to satisfy demand that cannot be satisfied in the secondary market and may not be used in relation to the conversion of CULS.

During the year the Company issued a total of 2,900,000 new Ordinary shares to meet market demand for its shares.

In October 2013, £2,463,662 nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 was converted into 1,038,382 new Ordinary shares as a result of the fifth CULS conversion at 30 September 2013. In April 2014, £1,848,775 nominal amount of 3.5% CULS was converted into 779,216 new Ordinary shares as a result of the sixth CULS conversion as at 31 March 2014.

During the year no Ordinary shares were bought back by the Company for cancellation (2013 – nil).

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

Tender Offer

On 6 May 2014, the Company announced that in light of the Company's Ordinary shares trading, on average, at a discount of 0.5% to net asset value per Ordinary share over the previous 12 months, the Board intended to exercise its discretion not to conduct a tender offer at the 30 June 2014 tender date.

The Company also announced that it remained the Board's intention to consider a regular tender at 6 monthly intervals and to offer shareholders the opportunity to tender their shares where it was in shareholders' interest to do so.

Investors should note that the operation of any periodic tender offers will be at the absolute discretion of the Board. The next review by the Board of the operation of the tender offer will be in November 2014. In any event, the Board considers that it is in the best interests of the Company as a whole to restrict any future periodic tender offers to a maximum of 5% in aggregate of the ordinary shares in issue as at the relevant tender offer calculation date (excluding any ordinary shares held in treasury). The maximum limit of shares which can therefore be tendered in any future six month period would be 5% of the shares in issue.

The price at which shares will be purchased will continue to be an amount equal to 98% of the realisation value of the assets attributable to the shares tendered as at the close of business on the relevant periodic tender offer calculation date. The realisation value will continue to be the NAV per ordinary share on the relevant tender offer

Governance Directors' Report

calculation date less the costs of the tender offer which for the avoidance of doubt includes portfolio realisation costs, advisory fees, VAT and stamp duty.

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

Convertible Unsecured Loan Stock

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

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

Shareholders were given the opportunity to invest in the CULS, which offered a coupon of 3.5% per annum and may be converted into Ordinary shares on 30 September and 31 March each year up to March 2018 at a fixed price per Ordinary share of 237.2542p. Any holder of CULS is entitled to convert part or all of their holding into Ordinary shares. Further information on conversion may be found in the announcement made by the Company on 26 August 2014, a copy of which may be downloaded from the Company's website (see page 57 for details) or by consulting the reverse side of the CULS certificate.

The sixth interest payment to holders of CULS, covering the period from 31 March 2014 to 29 September 2014, shall be made to holders of CULS on 30 September 2014. The payment will be made to holders of CULS on the CULS register as at close of business on 5 September 2014. The ex-dividend date is 3 September 2014.

Directors

Biographies of the current Directors of the Company at the date of this Report, all of whom served throughout the year ended 30 June 2014, are shown on page 17. Allister Langlands was appointed to the Board on 1 July 2014 and his 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 2014 and 1 July 2013, which were unchanged as at the date of this Report, are shown in the table on page 26.

Mr Langlands will offer himself for election as a director at the AGM on 9 October 2014. All of the other directors will retire and, being eligible will offer themselves for re-election as directors at the AGM on 9 October 2014. The Board's policy on tenure may be found in the Statement of Corporate Governance.

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

Directors' and Officers' Liability Insurance

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

Investment Management Agreement

Since 1 September 2003, investment management services have been provided to the Company by Standard Life 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 remained unchanged and, as previously, the IMA is terminable by either party on not less than one year's notice. Company secretarial and administrative services are provided by Maven Capital Partners UK LLP under a separate agreement with the Manager.

Governance

Directors' Report

The investment management fees payable to the Manager under the IMA are calculated at 0.85% per annum on the Company's gross assets and there is no performance fee.

The Board has reviewed both the terms of the IMA and the performance of the Manager for the year ended 30 June 2014 and is of the opinion that the continuing appointment of the Manager, on the terms set out in the IMA, 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 2014. Further details of the fees are shown in Note 3 to the Financial Statements.

Investment Managers' Holdings

	Ordinary Shares held at 30 June		CULS held at 30 June	
	2014	2013	2014	2013
Harry Nimmo ¹	151,900	151,900	38,680	38,680
Gordon Humphries	10,200	10,200	8,867	8,867

¹ Harry Nimmo purchased 26,220 Ordinary shares on 7 July 2014.

Substantial Interests

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	%
Brewin Dolphin	6,682,252	9.36
M&G Investment Management	5,322,940	7.46
Hargreaves Lansdown (Non-discretionary)	5,040,828	7.06
Standard Life Investments	4,534,290	6.35
Standard Life Savings Limited – retail plan holders	2,981,621	4.18
Transact (Non-discretionary)	2,870,794	4.02
Alliance Trust Savings	2,621,214	3.67
East Riding of Yorkshire	2,420,485	3.39

Table 2: Substantial interests

Going Concern

The Company's assets consist of equity shares in companies listed on recognised stock exchanges and are considered by the Board to be realisable within a short timescale under normal market conditions. The Board has set overall limits for borrowing and regularly reviews the Company's level of gearing, cash flow projections and compliance with banking covenants, when applicable.

The Company has no bank borrowings at 30 June 2014 (2013: 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 the foreseeable future. Accordingly, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Financial Statements.

Independent Auditor

The Company's Independent Auditor, Ernst & Young LLP, is willing to continue in office and resolution 10 will be proposed at the Annual General Meeting to re-appoint the Auditor and to authorise the Directors to fix the Independent Auditor's remuneration.

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

Global Greenhouse Gas Emissions

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

Governance Directors' Report

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 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 pages 19 and 20, 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 9 October 2014, and related notes may be found on pages 60 to 65 of this Annual Report.

Issue of Ordinary Shares by the Company

Among the Resolutions being put to the Annual General Meeting as Ordinary Business, Resolution 11, which is an Ordinary Resolution, will, if passed, renew the Directors' authority to allot new Ordinary shares up to a nominal value of £1,784,590. This will allow the Directors to allot up to 7,138,359 Ordinary shares (being approximately 10% of the issued share capital of the Company as at the date of this Notice, excluding treasury shares).

Resolution 12, which is a Special Resolution, will, if passed, renew the Directors' existing authority to allot new shares or sell treasury shares for cash without the shares first being offered to existing shareholders in proportion to their existing holdings. This will give Directors authority to make limited allotments or sell shares from treasury of up to a nominal value of £1,784,590, being

up to 7,138,359 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 11. 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 2014, and the date of approval of this Report, there were no Ordinary Shares held in treasury (2013-nil).

The authorities being sought under Resolutions 11 and 12 shall expire at the conclusion of the next Annual General Meeting in 2015 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 8 October 2013. Special Resolution 13 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 the Resolution (being approximately 10,700,399 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.

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The Board does not intend to use this authority to purchase the Company's shares unless to do so would result in an increase in the net asset value per share and would be in the best interests of the shareholders. Any shares purchased shall either be cancelled or held in treasury. The authority being sought shall expire at the conclusion of the Annual General Meeting in 2015 or, if earlier, on the expiry of 15 months from the date of passing of Resolution 13 unless such authority is renewed prior to such time.

Sale of treasury shares

Subject to the passing of Resolution 12, Ordinary Resolution 14 will give the Directors authority to sell Ordinary shares out of treasury for cash at a price below the then prevailing net asset value of the shares provided always that the shares will only be sold or transferred out of treasury at prices (a) in excess of the average price at which the shares were bought into treasury; and (b) at a narrower discount to the net asset value than the average level of discount the shares were purchased at. Any dilution to the net asset value resulting from (b) above shall be restricted to no more than 0.5% in any financial year.

Regular Tender Offers

The Board intends, on a discretionary basis, to offer shareholders the opportunity to exit some or all of their investment in the Company every 6 months. The initial tender offers were on 30 June 2010 and 31 December 2010. The Board opted to exercise its discretion not to operate a tender offer at 30 June 2011, 31 December 2011, 30 June 2012, 31 December 2012, 30 June 2013, 31 December 2013 and 30 June 2014 as the shares had traded close to net asset value for the corresponding previous six month period. Investors should note that the operation of the regular tender offer is discretionary. Subject to certain limitations set out below, the Directors intend to continue to invite shareholders to tender for cash all or part of their holdings of shares. The price at which shares will be purchased will continue to be an amount equal to the realisation value of the assets attributable to the shares tendered as at the close of business on the relevant tender offer calculation date, less an exit charge of 2%.

Subject to the Directors' discretion being exercised on any relevant occasion, the tender offers will be effected such that the tender offer calculation dates will be 30 June and 31 December of each year (or the preceding business day). Each six-monthly tender offer will

be restricted to a maximum of 5% of the shares in issue as at the relevant tender offer calculation date (excluding any shares held in treasury). There is no carry forward of any unused tender amount to the next tender offer calculation date. Accordingly, the maximum limit of shares which can be tendered in any calendar year is 10% of the shares in issue.

Therefore, in addition to the authority that is being sought by the Company under Resolution 13 to purchase its own shares of 25 pence each, Special Resolution 15 grants the Board the authority to implement the next tender offers on 31 December 2014 and 30 June 2015 and to repurchase up to a maximum of 5% of the Company's issued share capital as at 31 December 2014 and 30 June 2015 (as appropriate). If Resolution 15 is passed the tender offer will be structured by way of an on market offer by a market maker and the price will be an amount equal to the realisation value of the assets attributable to the shares tendered as at close of business on 31 December 2014, and 30 June 2015, 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 15 is passed, such authority will expire at the conclusion of the Company's next Annual General Meeting in 2015, unless renewed prior to that date. It is expected that a further special resolution will be proposed at the AGM in 2015 in respect of the tender offer dates on 31 December 2015 and 30 June 2016.

The tender offer will be conducted in accordance with the UKLA's Listing Rules and the rules of the London Stock Exchange. Shareholders will be notified prior to each tender offer on 31 December 2014 and 30 June 2015 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 16, 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.

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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 16 is passed, the authority to convene general meetings on not less than 14 clear days' notice will remain effective until the conclusion of the Annual General Meeting in 2014 or, if earlier, on the expiry of 15 months from the date of passing of Resolution 16, unless renewed prior to such time.

Recommendation

Your Board considers Resolutions 1 to 11 inclusive and Resolution 14, which are all Ordinary resolutions, and Resolutions 12, 13, 15 and 16, 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 16 inclusive to be proposed at the AGM on 9 October 2014.



By order of the Board,

Maven Capital Partners UK LLP

Company Secretaries

Glasgow, 1 September 2014

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 37 and 38.

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 Code on Corporate Governance in respect of executive directors' remuneration.

As at 30 June 2014, the Company had four non-executive Directors and their biographies are shown in the Board of Directors section of the 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, 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.

A copy of the Remuneration Policy may be inspected by the members of the Company at its registered office.

It is the Board's intention that the above remuneration policy will be put to a shareholders' vote at least once every three years and, accordingly, an Ordinary Resolution for its approval will be proposed at the forthcoming AGM.

During the year ended 30 June 2014, 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 2014, the Board carried out a review of the remuneration policy and the level of Directors' fees and recommended that, with effect from 1 July 2014, the rates of remuneration should be revised to: £28,000 for the Chairman (formerly £27,500), £22,500 for the Chairman of the Audit and Management Engagement Committee (formerly £22,000) and £19,500 (formerly £19,000) 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 re-election at the first Annual General Meeting after their appointment. The Company's Articles of Association 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 Annual General Meeting. 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 2014, 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 ended 30 June 2015.

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Directors' Remuneration Report

Relative Cost of Directors' Remuneration (audited)

To enable shareholders to assess the relative importance of spend on Directors' remuneration, the chart below shows for the years ended 30 June 2013 and 30 June 2014, the cost of Directors' fees compared with the level of dividend distribution.

Relative Cost of Directors' Remuneration (£'000)

As at the date of the 2013 AGM, a resolution to approve the Directors' remuneration policy was not required. However, at the 2014 AGM, separate Resolutions will be put to Shareholders to approve the Directors' Remuneration Report for the year ended 30 June 2014 and the remuneration policy for the three-year period ending 30 June 2017.

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.

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 Annual General Meeting held on 8 October 2013, the results in respect of an Ordinary Resolution to approve the Directors' Remuneration Report for the year ended 30 June 2013 were as follows:

Percentage of votes cast for	Percentage of votes cast against
99.79	0.21

The graph below compares the total returns on an investment of £100 in the Ordinary Shares of the Company for each annual accounting period for the five years to 30 June 2014, 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.

Total cumulative Ordinary share price total return
for the five year period ended 30 June 2014 (rebased to 100 at 30 June 2009)

Governance

Directors' Remuneration Report

Directors' Remuneration (audited)

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

	Year ended 30 June 2014 £	Year ended 30 June 2013 £
Dávid Woods	21,833	18,000
Donald MacDonald	24,667	26,250
Lynn Ruddick	22,000	21,000
Carol Ferguson	19,000	18,000
Total	87,500	83,250

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 has received any taxable expenses, compensation for loss of office or non-cash benefit for the year ended 30 June 2014 (2013: £nil).

Directors' Interests (audited)

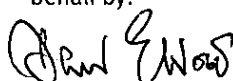
The Directors' Interests in the Ordinary share capital and CULS of the Company are shown below. There is no requirement for Directors to hold shares in the Company.

	Ordinary shares held at 30 June		CULS held at 30 June	
	2014	2013	2014	2013
Donald MacDonald	152,000	152,000	24,911	24,911
Lynn Ruddick	17,726	17,489	6,618	6,618
Carol Ferguson	31,727	31,727	12,446	12,446
David Woods	5,000	5,000	980	980
Total	206,453	206,216	44,955	44,955

Allister Langlands holds 45,000 Ordinary shares.

Approval

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



David Woods
Director

1 September 2014

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Statement of Corporate Governance

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 2012. The Governance Code is available from the website of the Financial Reporting Council at www.frc.org.uk. The Association of Investment Companies ("the AIC") has published its own Code on Corporate Governance ("the AIC Code"), by reference to the AIC Corporate Governance Guide for Investment Companies ("the AIC Guide"), both revised in February 2013, 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 Allister Langlands on 1 July 2014, 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 2014 and at the date of this Report, appear on page 17 and indicate their range of investment, industrial, commercial and professional experience. Carol Ferguson has been appointed Senior Independent Director.

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

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

These matters include:

- the maintenance of clear investment objectives and risk management policies;
- the monitoring of the business activities of the Company ranging from analysis of investment performance through to review of quarterly management accounts;
- monitoring Companies Act 2006 requirements such as approval of Interim Management Statements, the Half-Yearly Financial Report and Annual Report and Financial Statements and approval and recommendation of any dividend;
- setting the range of gearing in which the Manager may operate;
- major changes relating to the Company's structure including share buy-backs and share issuance;
- Board appointments and removals and the related terms;
- authorisation of Directors' conflicts or possible conflicts of interest;

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Statement of Corporate Governance

- terms of reference and membership of Board Committees;
- appointment and removal of the Manager and the terms and conditions of the Investment Management Agreement relating thereto; and
- Stock Exchange/UK Listing Authority/Financial 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 Secretaries of any potential or actual conflict situations which will require authorising by the Board. Authorisations given by the Board will be reviewed at each Board meeting.

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

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

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

The Board meets formally at least five times a year, and more frequently where business needs require.

The Board met on five occasions during the year ended 30 June 2014. Details of attendance by each of the Directors and Committee members at these 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.

	Board Meetings	Audit and Management Engagement Committee Meetings	Nomination Committee
David Woods (Chairman)	5 (5)	2 (2)	1 (1)
Carol Ferguson ¹	5 (5)	1 (2)	1 (1)
Lynn Ruddick	5 (5)	2 (2)	1 (1)
Donald MacDonald	5 (5)	2 (2)	1 (1)
Allister Langlands 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.

¹ Carol Ferguson only attended for part of the Board Meeting on 23 August 2013 due to illness.

² Allister Langlands was appointed on 1 July 2014

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 have made further enquiries where necessary.

External Agencies

The Board has contractually delegated to external agencies, including the Manager and other service providers, certain services including: the management of the investment portfolio, the 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.

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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 and 35.

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 Association, of any Director at the Annual General Meeting, having due regard to their performance, ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

The Committee reviews regularly the composition, experience and commitment of the Directors, particularly in relation to succession planning and recommendations for individual re-election at each Annual General Meeting ("AGM"). For new appointments, a description of the required role is prepared and an external search consultancy would generally be used to ensure a wide range of candidates is 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.

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

Led by Carol Ferguson as Senior Independent Director, and in the absence of the Chairman, the other Directors have reviewed the skill, 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 relevant AGM resolution.

In their absence, each of Donald MacDonald, Lynn Ruddick and Carol Ferguson have been evaluated by their fellow Directors. The Board considers that none of their other commitments (as set out on page 17 of this Report) interfere with the discharge of their responsibilities to the Company and is satisfied that they individually make sufficient time available to serve the Company effectively. There have been no significant changes to the other commitments of each of Donald MacDonald, Lynn Ruddick and Carol Ferguson. The outcome of this evaluation was satisfactory in each case. The Board considers that, due to their individual skills, experience and commitment, Donald MacDonald, Carol Ferguson, and Lynn Ruddick each merit re-election as a Director and shareholders are encouraged to support the relevant AGM resolutions. The Board considers that, due to his individual skills, experience and commitment Allister Langlands merits election as a Director and shareholders are encouraged to support the relevant AGM resolution for his 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.

During the year, independent search consultancy Fletcher Jones was used to assist in the selection of a new Director. This company has no other relationship with the Company or any of the Directors. The search was successful and Allister Langlands was appointed to the Board with effect from 1 July 2014. 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 quarterly factsheet is published on the website of the Manager and is available to all shareholders on request; see Key Contacts (page 57) for details. A monthly factsheet is published via the London Stock Exchange. An Interim Management Statement is published via the London Stock Exchange for the quarters ended 31 March and 30 September each year. The Company's net asset value is published each business day. 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 from the website, may be found on page 58.

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 57.

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

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

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

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

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

The Notice of Meeting on pages 60 to 65 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 Secretaries. See Key Contacts (page 57) for details.

Internal Control and Risk Management

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

Following publication by the Financial Reporting Council of "Internal Control: Revised Guidance for Directors on the Combined Code" ("the FRC Guidance"), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company.

This process has been in place for the year under review and up to the date of approval of this Annual Report and Financial Statements and is regularly reviewed by the Board and accords with the FRC Guidance. The Board has reviewed the effectiveness of the system of internal control and risk management. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and policies by which these risks are managed. The significant risks faced by the Company are 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;

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- the Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place at the Manager, has decided to rely upon the Manager's systems and internal audit procedures; and
- twice annually the Audit and Management Engagement Committee formally carries out an assessment of internal control and risk management by considering documentation from the Manager and the Company Secretaries, including the internal audit and compliance functions and taking account of risk management problems or compliance breaches identified previously, and reports to the Board on its conclusions. At the conclusion of these reviews, the Board decides whether any changes to the system of internal control are required.

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

Corporate Governance, Stewardship and Proxy Voting

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

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

The Board has delegated responsibility for actively monitoring the activities of portfolio companies to the Manager. The Board has reviewed and accepts the Manager's corporate governance principles and policies ("the Principles and Policies"), which may be found on the Manager's website at http://www.standardlifeinvestments.com/corporate_governance_sustainable_and_responsible_investing/what_is_corporate_governance/principles_and_policies.html. These Principles and 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.

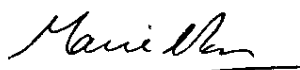
Governance

Statement of Corporate Governance

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 Secretaries

Glasgow, 1 September 2014

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 throughout the year by Lynn Ruddick.

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 internal audit 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 ethical 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 performance 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 pages 19 and 20 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 2014, the Committee considered the two key risks detailed above:

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. This provides details of the custodian's control environment. The investment portfolio is reconciled regularly by the Manager and 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 also reviewed annually by the Independent Auditor. The valuation of investments is undertaken in accordance with the accounting policies disclosed in notes 1 b) and 1c) to the accounts on page 43.

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

Governance

Report of the Audit Committee

page 43. 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 discussion takes 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 23 August 2013 and 26 February 2014 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.

In February 2014 and again in August 2014, the Committee reviewed the Company's risk framework in light of AIFMD and the related changes to the relationship between the Company, and its appointed AIFM. At its meeting in August 2014, the Committee reviewed the new requirements for the Annual Report in relation to narrative reporting, enhanced audit reporting and the 2012 Corporate Governance Code. The Committee also considered the draft Annual Report and Financial Statements for the year ended 30 June 2014, and provided advice to the Board that it considered that the Annual Report and Financial Statements, taken as a whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance and strategy. In August 2014, the Committee 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 the Effectiveness of the External Auditor

At its meeting in August 2014, the Committee also reviewed, for recommendation to the Board, the Audit Report from the Independent Auditor and the draft Annual Report and Accounts for the year ended 30 June 2014, along with the amount of

the final dividend for the year then ended. At its meeting in February 2014, 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.

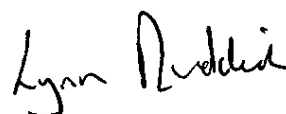
Key elements of these reviews include:- discussions with the Manager and the Administrator regarding the audit service provided, separate meetings with the Independent Auditor, consideration of the completeness and accuracy of Ernst & Young LLP's reporting and of FRC inspection reports on Ernst & Young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

The Independent Auditor's Report is on pages 37 and 38. 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 auditor tenders, the Board intends to put the audit out to tender in 2017 at the end of the current audit partner's five year term. Details of the amounts paid to Ernst & Young LLP during the year for audit and other 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 Annual General Meeting. 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 2014 AGM.

For and on behalf of the Committee

Lynn Ruddick
Chairman



1 September 2014

Governance

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a 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.

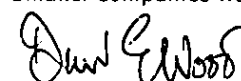
The Directors are also responsible for ensuring that the Annual Report and Financial Statements, taken as a whole are fair, balanced and understandable and provide the information necessary to assess the Company's performance, business model and strategy.

Directors' Responsibilities Statement

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

- the financial statements, prepared in accordance with UK Accounting Standards and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Company as at 30 June 2014 and for the year to date;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces; and
- the Annual Report and Financial Statements taken as a whole are fair, balanced and understandable and provide the information necessary to assess the Company's performance, business model and strategy.

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



David Woods

Chairman

1 September 2014

Financial Statements

Independent Auditor's Report

To the Members of Standard Life UK Smaller Companies Trust plc

We have audited the financial statements of Standard Life UK Smaller Companies Trust plc ("the Company") for the year ended 30 June 2014 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the Company's annual report and accounts 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2014 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our assessment of risks of material misstatement

We have identified the following risks of material misstatement that had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team:

- valuation, existence and ownership of the investment portfolio; and
- calculation of management fees in accordance with the Investment Management Agreement.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of misstatements on the audit and of uncorrected misstatements, if any, on financial statements and in forming our audit opinion.

We determined materiality for the Company to be £2,194,000 which is 1% of the total equity of the Company. This materiality calculation provided a basis for completing our risk assessment procedures; identifying and assessing the risk of material misstatement in the financial statements; and determining the nature, timing and extent of our audit procedures.

On the basis of our risk assessment, 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 materiality, namely £1,646,000. Our objective in adopting this performance materiality was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

Financial Statements

Independent Auditor's Report

We have agreed with the Audit Committee to report all audit differences in excess of £110,000, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our response to the risks identified above was as follows:

- we tested controls relevant to the pricing and reconciliation of the assets in the investment portfolio, and agreed the year end prices for all quoted investments to an independent source. Furthermore, we agreed the legal title of all investment holdings to a confirmation obtained directly from the custodian; and
- we independently recalculated the management fees for the year with reference to contractual arrangements and agreed the calculation inputs to source data.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- 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.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and

whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 20 in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Ernst & Young LLP

Matthew Price (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London

1 September 2014

Financial Statements

Income Statement

For the year ended 30 June 2014

	Notes	Revenue £'000	2014 Capital £'000	Total £'000	Revenue £'000	2013 Capital £'000	Total £'000
Net gains on investments held at fair value	9	—	14,399	14,399	—	50,634	50,634
Currency losses		—	(13)	(13)	—	(5)	(5)
Income	2	4,860	—	4,860	4,197	—	4,197
Investment management fee	3	(526)	(1,580)	(2,106)	(413)	(1,240)	(1,653)
Other administrative expenses	4	(566)	—	(566)	(459)	—	(459)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		<u>3,768</u>	<u>12,806</u>	<u>16,574</u>	<u>3,325</u>	<u>49,389</u>	<u>52,714</u>
Finance costs	5	(262)	(786)	(1,048)	(288)	(865)	(1,153)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>3,506</u>	<u>12,020</u>	<u>15,526</u>	<u>3,037</u>	<u>48,524</u>	<u>51,561</u>
Taxation	6	(6)	—	(6)	(11)	—	(11)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		<u>3,500</u>	<u>12,020</u>	<u>15,520</u>	<u>3,026</u>	<u>48,524</u>	<u>51,550</u>
RETURN PER ORDINARY SHARE:							
BASIC	8	<u>5.05p</u>	<u>17.33p</u>	<u>22.38p</u>	<u>4.58p</u>	<u>73.48p</u>	<u>78.06p</u>
DILUTED	8	<u>4.66p</u>	<u>15.90p</u>	<u>20.56p</u>	<u>4.19p</u>	<u>64.12p</u>	<u>68.31p</u>

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

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

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

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

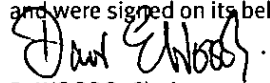
Financial Statements

Balance Sheet

As at 30 June 2014

	Notes	2014 £'000	2013 £'000
NON-CURRENT ASSETS			
Investments at fair value through profit or loss	9	212,603	210,492
CURRENT ASSETS			
Debtors	10	1,348	928
AAA Money Market funds	15	29,798	6,468
Cash and short term deposits	15	5	19
		31,151	7,415
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	11	(4,617)	(856)
NET CURRENT ASSETS		26,534	6,559
TOTAL ASSETS LESS CURRENT LIABILITIES		239,137	217,051
NON-CURRENT LIABILITIES			
3.5% Convertible Unsecured Loan Stock 2018	12	(19,719)	(23,567)
NET ASSETS		219,418	193,484
CAPITAL AND RESERVES			
Called-up share capital	13	17,846	16,666
Share premium account		19,309	7,225
Equity component of Convertible Unsecured Loan Stock 2018	12	1,470	1,470
Special reserve		46,871	46,871
Capital reserve		129,582	117,562
Revenue reserve		4,340	3,690
EQUITY SHAREHOLDERS' FUNDS		219,418	193,484
NET ASSET VALUE PER ORDINARY SHARE:			
BASIC	16	307.38p	290.23p
DILUTED	16	298.92p	281.58p

The financial statements on pages 39 to 55 were approved by the Board of Directors on 1 September 2014 and were signed on its behalf by:


D. WOODS, Chairman

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

Financial Statements

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 June 2014

For the year ended 30 June 2014

	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 2013	16,666	7,225	1,470	46,871	117,562	3,690	193,484
Return on ordinary activities after taxation	—	—	—	—	12,020	3,500	15,520
Issue of Shares	725	8,434	—	—	—	—	9,159
Issue of new Ordinary Shares from conversion of 3.5% Convertible Unsecured Loan Stock 2018	455	3,650	—	—	—	—	4,105
Dividends paid (see note 7)	—	—	—	—	—	(2,850)	(2,850)
BALANCE AT 30 JUNE 2014	17,846	19,309	1,470	46,871	129,582	4,340	219,418

For the year ended 30 June 2013

	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 2012	16,250	3,722	1,470	46,871	69,038	2,796	140,147
Return on ordinary activities after taxation	—	—	—	—	48,524	3,026	51,550
Issue of Shares	412	3,469	—	—	—	—	3,881
Issue of new Ordinary Shares from conversion of 3.5% Convertible Unsecured Loan Stock 2018	4	34	—	—	—	—	38
Dividends paid (see note 7)	—	—	—	—	—	(2,132)	(2,132)
BALANCE AT 30 JUNE 2013	16,666	7,225	1,470	46,871	117,562	3,690	193,484

The revenue and capital reserves represent 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

Cash Flow Statement

For the year ended 30 June 2014

		2014		2013	
	Notes	£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	14		2,654		1,763
SERVICING OF FINANCE					
Interest paid			(828)		(873)
TAXATION			(6)		(23)
FINANCIAL INVESTMENT					
Purchase of investments		(63,068)		(43,024)	
Sale of investments		<u>78,268</u>		<u>31,674</u>	
NET CASH INFLOW/(OUTFLOW) FROM FINANCIAL INVESTMENT			15,200		(11,350)
EQUITY DIVIDENDS PAID			<u>(2,850)</u>		<u>(2,132)</u>
NET CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING			14,170		(12,615)
FINANCING					
Shares issued		<u>9,159</u>		<u>3,881</u>	
NET CASH INFLOW FROM FINANCING			<u>9,159</u>		<u>3,881</u>
NET CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES			23,329		(8,734)
MANAGEMENT OF LIQUID RESOURCES					
Purchase of AAA Money Market funds		(68,530)		(28,860)	
Sale of AAA Money Market funds		<u>45,200</u>		<u>37,600</u>	
NET CASH (OUTFLOW)/INFLOW FROM MANAGEMENT OF LIQUID RESOURCES			<u>(23,330)</u>		<u>8,740</u>
(DECREASE)/INCREASE IN CASH	15		<u>(1)</u>		<u>6</u>
RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET CASH					
(Decrease)/increase in cash		(1)		6	
Net change in liquid resources		23,330		(8,740)	
Other non-cash movements		<u>3,835</u>		<u>(251)</u>	
MOVEMENT IN NET CASH/(DEBT) IN YEAR			27,164		(8,985)
OPENING NET DEBT			<u>(17,080)</u>		<u>(8,095)</u>
CLOSING NET CASH/(DEBT)			<u>10,084</u>		<u>(17,080)</u>

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

Financial Statements

Notes to the Financial Statements

For the year ended 30 June 2014

1 Accounting policies

(a) Basis of accounting

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

(b) Valuation of investments

Investments have been designated upon initial recognition as fair value through profit or loss. 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 Income Statement and are ultimately recognised in the capital reserve.

(c) AAA money market funds

The AAA money market funds are used by the Company to provide additional short term liquidity. As they are not listed on a recognised exchange and due to their short term nature, they are recognised in the financial statements 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 Income Statement, according to the circumstances. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on short term deposits is accounted for on an accruals basis.

(e) Expenses and interest payable

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

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

(f) Dividends payable

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

(g) Capital reserve

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

(h) Taxation

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 income statement 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.

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Deferred taxation is recognised in respect of all temporary differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in future have occurred at the Balance Sheet date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying temporary differences can be deducted. Temporary differences are differences arising between the Company's taxable profits and its results as stated in the Financial Statements which are capable of reversal in one or more subsequent periods.

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

(i) Other reserves

The special reserve arose following court approval for the cancellation of the share premium account balance at 24 June 1999 and on 13 October 2009, Court of Session approval was granted for the cancellation of the Company's entire share premium account and capital redemption reserve and subsequent creation of a special distributable capital reserve.

(j) Foreign currency

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

(k) 3.5% Convertible Unsecured Loan Stock 2018

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

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

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

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

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

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2 Income	2014 £000	2013 £000
UK dividend income	4,153	3,687
REIT income	151	71
Overseas dividend income	464	392
	<u>4,768</u>	<u>4,150</u>
Other income		
Interest from AAA Money Market funds	92	47
	<u>92</u>	<u>47</u>
Total income	<u>4,860</u>	<u>4,197</u>

3 Investment management fee	2014 £000	2013 £000
Investment management fee	2,106	1,653
Charged to capital reserve	(1,580)	(1,240)
	<u>526</u>	<u>413</u>

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

The management fee paid to SLI is 0.85% per annum of the gross assets of the Company after deducting current liabilities. The fee is chargeable 25% to revenue and 75% to capital.

There is no Performance Fee payable to the Manager.

The balance due to SLI at the year end was £508,000 (2013 - £461,000).

4 Administrative expenses (inclusive of VAT)	2014 £000	2013 £000
Secretarial fees	169	156
Directors' fees	88	83
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 iXBRL tagging services	2	2
Registrar's fees	30	32
Professional fees	86	63
Other expenses	169	101
	<u>566</u>	<u>459</u>

The secretarial fee is paid to SLI and reflects revised arrangements put in place at the time of the appointment of Maven Capital Partners UK LLP.

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5 Finance costs	2014 £000	2013 £000
Interest on 3.5% Convertible Unsecured Loan Stock 2018	791	869
Notional interest on 3.5% Convertible Unsecured Loan Stock 2018	184	209
Amortisation of 3.5% Convertible Unsecured Loan Stock 2018 issue expenses	73	75
	<u>1,048</u>	<u>1,153</u>
Charged to capital reserve	(786)	(865)
Charged to revenue reserve	<u>262</u>	<u>288</u>

6 Taxation	Revenue £000	2014 Capital £000	Total £000	Revenue £000	2013 Capital £000	Total £000
(a) Analysis of charge for year						
Overseas taxation	<u>6</u>	<u>—</u>	<u>6</u>	<u>11</u>	<u>—</u>	<u>11</u>

(b) Provision for deferred taxation

At 30 June 2014, the company had unutilised management expenses and loan relationship losses of £41,840,000 (2013 - £38,391,000). 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 22.50% (2013: 23.75%) The differences are explained below.

	Revenue £000	2014 Capital £000	Total £000	Revenue £000	2013 Capital £000	Total £000
Net profit on ordinary activities before taxation	<u>3,506</u>	<u>12,020</u>	<u>15,526</u>	<u>3,037</u>	<u>48,524</u>	<u>51,561</u>
Corporation tax at an effective rate of 22.50% (2013: 23.75%)	789	2,705	3,494	721	11,524	12,245
Effects of:						
Non-taxable UK dividend income	(934)	—	(934)	(876)	—	(876)
Non-taxable overseas dividends	(104)	—	(104)	(93)	—	(93)
Overseas taxes	6	—	6	11	—	11
Excess management expenses and loan relationship losses	249	535	784	248	501	749
Other capital returns (e.g. gains on investments)	<u>—</u>	<u>(3,240)</u>	<u>(3,240)</u>	<u>—</u>	<u>(12,025)</u>	<u>(12,025)</u>
Current tax charge	<u>6</u>	<u>—</u>	<u>6</u>	<u>11</u>	<u>—</u>	<u>11</u>

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7 Dividends

	2014 £000	2013 £000
Amounts recognised as distributions to equity holders in the period:		
2013 final dividend of 2.90p per share (2012 - 2.10p) paid on 15 October 2013	1,954	1,365
2014 interim dividend of 1.27p per share (2013 - 1.15p) paid on 7 April 2014	<u>896</u>	<u>767</u>
	<u>2,850</u>	<u>2,132</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 £3,500,000 (2013 - £3,026,000).

	2014 £000	2013 £000
2014 interim dividend of 1.27p per share (2013 - 1.15p) paid on 7 April 2014	896	767
2014 final dividend of 3.23p per share (2013 - 2.90p) payable on 16 October 2014	<u>2,306</u>	<u>1,943</u>
	<u>3,202</u>	<u>2,710</u>

The amount payable for the proposed final dividend is based on the Ordinary shares in issue as at the date of approval of this report (71,383,586) which satisfies the requirement of Section 1159 Corporation Tax Act 2010.

	2014		2013	
8 Return per ordinary share	p	£000	p	£000
Basic				
Revenue return	5.05	3,500	4.58	3,026
Capital return	<u>17.33</u>	<u>12,020</u>	<u>73.48</u>	<u>48,524</u>
Total return	<u>22.38</u>	<u>15,520</u>	<u>78.06</u>	<u>51,550</u>
Weighted average number of Ordinary shares in issue		<u>69,340,457</u>		<u>66,040,454</u>
Diluted				
Revenue return	4.66	3,676	4.19	3,210
Capital return	<u>15.90</u>	<u>12,548</u>	<u>64.12</u>	<u>49,075</u>
Total return	<u>20.56</u>	<u>16,224</u>	<u>68.31</u>	<u>52,285</u>
Weighted average number of Ordinary shares in issue		<u>78,911,644</u>		<u>76,544,275</u>

The calculation of the diluted total, revenue and capital returns per ordinary share are carried out in accordance with Financial Reporting Standard 22, "Earnings per Share". 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

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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 9,571,187 (2013 - 10,503,821) to 78,911,644 (2013 - 76,544,275) 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 and unamortised issues expenses are reversed.

The prior year disclosure of the diluted returns per Ordinary share has been amended to accord with current year disclosures.

9 Investments

	2014 £000	2013 £000
Fair value through profit or loss		
Opening fair value	210,492	147,937
Opening fair value gains on investments held	(100,735)	(61,104)
Opening book cost	109,757	86,833
Additions at cost	66,762	42,985
Disposals — proceeds	(79,050)	(31,064)
— realised gains on sales	36,949	11,003
Closing book cost	134,418	109,757
Current year fair value gains on investments held	78,185	100,735
Closing fair value	212,603	210,492
Gains on investments		
Realised gains on sales	36,949	11,003
(Decrease)/increase in fair value gains on investments held	(22,550)	39,631
	14,399	50,634

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

Transaction costs

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

	2014 £000	2013 £000
Purchases	278	259
Sales	67	40
	345	299

10 Debtors

	2014 £000	2013 £000
Amounts due from brokers	782	—
Net dividends and interest receivable	495	859
Tax recoverable	54	54
Other debtors	17	15
	1,348	928

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	2014 £000	2013 £000
11 Creditors: amounts falling due within one year		
Interest payable	180	217
Investment management fee payable	508	461
Sundry creditors	187	130
Amounts due to brokers	3,742	48
	<u>4,617</u>	<u>856</u>

	Nominal amount £000	Liability component £000	Equity component £000
12 Non-current liabilities			
3.5% Convertible Unsecured Loan Stock 2018			
As at 30 June 2014			
Opening balance	24,897	23,567	1,470
Conversion of 3.5% Convertible Unsecured Loan Stock 2018 into Ordinary Shares	(4,313)	(4,105)	—
Notional interest on 3.5% Convertible Unsecured Loan Stock 2018	—	184	—
Amortisation	—	73	—
Closing balance	<u>20,584</u>	<u>19,719</u>	<u>1,470</u>
	Nominal amount £000	Liability component £000	Equity component £000
3.5% Convertible Unsecured Loan Stock 2018			
As at 30 June 2013			
Opening balance	24,935	23,321	1,470
Conversion of 3.5% Convertible Unsecured Loan Stock 2018 into Ordinary Shares	(38)	(38)	—
Notional interest on 3.5% Convertible Unsecured Loan Stock 2018	—	209	—
Amortisation	—	75	—
Closing balance	<u>24,897</u>	<u>23,567</u>	<u>1,470</u>

On 11 October 2013 the Company converted £2,463,662 nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 into 1,038,382 Ordinary Shares. Also on 8 April 2014 the Company converted £1,848,775 nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 into 779,216 Ordinary Shares.

As at 30 June 2014, there was £20,584,450 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.

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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	2014 £000	2013 £000
Authorised:	<u>37,500</u>	<u>37,500</u>
Issued and fully paid:		
71,383,586 (2013 – 66,665,988) Ordinary shares of 25p each - equity	17,846	16,666
Held in treasury:		
Nil (2013 - nil) Ordinary shares of 25p each - equity	<u>—</u>	<u>—</u>
	<u>17,846</u>	<u>16,666</u>
	2014 Ordinary shares Number	2013 Ordinary shares Number
As at 30 June 2013	66,665,988	64,999,905
Conversion of CULS	1,817,598	16,083
Issue of own shares	<u>2,900,000</u>	<u>1,650,000</u>
As at 30 June 2014	<u>71,383,586</u>	<u>66,665,988</u>

During the year the Company issued 2,900,000 Ordinary shares to satisfy shareholder demand for a total consideration received of £9,159,000. Also the Company issued 1,817,598 Ordinary shares following the receipt of elections to convert by holders of the Company's 3.5% Convertible Unsecured Loan Stock 2018.

Capital Management

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

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

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

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

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

The Company does not have any externally imposed capital requirements.

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14 Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities	2014 £000	2013 £000
Net return before finance costs and taxation	16,574	52,714
Adjusted for:		
Gains on investments	(14,399)	(50,634)
Currency losses	13	5
Decrease/(increase) in accrued income	364	(556)
Increase in other debtors	(2)	(4)
Increase in sundry creditors including investment management fee	104	238
Net cash inflow from operating activities	<u>2,654</u>	<u>1,763</u>

15 Analysis of changes in net cash	At 30 June 2013 £000	Cashflow £000	Currency and other movements £000	At 30 June 2014 £000
Cash and short term deposits	19	(1)	(13)	5
AAA money market funds	6,468	23,330	—	29,798
Debt due in more than one year	(23,567)	—	3,848	(19,719)
Net (debt)/cash	<u>(17,080)</u>	<u>23,329</u>	<u>3,835</u>	<u>10,084</u>

16 Net asset value per share

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

	2014	2013
Basic net asset value per share		
Net assets attributable (£000)	219,418	193,484
Number of Ordinary shares in issue at year end (excluding shares held in treasury)	71,383,586	66,665,988
Net asset value per share	<u>307.38p</u>	<u>290.23p</u>
Diluted net asset value per share		
Net assets attributable (£000)	239,317	217,268
Potential number of Ordinary shares in issue at year end (excluding shares held in treasury)	80,059,702	77,159,748
Net asset value per share	<u>298.92p</u>	<u>281.58p</u>

The diluted net asset value per Ordinary share as at 30 June 2014 has been calculated on the assumption that £20,584,450 3.5% Convertible Unsecured Loan Stock 2018 are converted at 237.25p per share, giving a total of 80,059,702 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

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asset value is produced and disclosed assuming the convertible debt is fully converted. At 30 June 2014 the cum income (debt at fair value) NAV was 307.38p and thus the CULS 2018 were 'in the money'.

17 Financial instruments

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

(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 2014, the Company had no revolving credit facility in place. The Board regulates the overall level of gearing by raising or lowering the level of the credit facility and is also able, if the circumstances warrant, to use derivatives or to purchase fixed interest securities in order to offset the effect of gearing.

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

Interest risk profile

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

As at 30 June 2014	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £000	Floating rate £000
Assets				
AAA Money Market funds	—	0.51	—	29,798
Cash deposits	—	—	—	5
Total assets	—	—	—	29,803
Liabilities				
3.5% Convertible Unsecured Loan Stock 2018	3.75	3.50	19,719	—
Total liabilities	—	—	19,719	—

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As at 30 June 2013	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £000	Floating rate £000
<i>Assets</i>				
AAA Money Market funds	—	0.50	—	6,468
Cash deposits	—	—	—	19
Total assets	—	—	—	6,487
<i>Liabilities</i>				
3.5% Convertible Unsecured Loan Stock 2018	4.75	3.50	23,567	—
Total liabilities	—	—	23,567	—

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 balance sheet date and with the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates.

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

- profit for the year ended 30 June 2014 and net assets would increase / decrease by £298,000 (2013 : increase / decrease by £65,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances and money market funds.

Foreign currency risk

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

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

Foreign currency risk exposure by currency of denomination:

	30 June 2014		30 June 2013	
Overseas investments £000	Net monetary assets £000	Total currency exposure £000	Overseas investments £000	Net monetary assets £000
Euro	3,084	—	3,084	9,219
	—	3,084	9,219	—
				9,219

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.

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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 Balance Sheet date had been 10% higher or lower while all other variables remained constant, the return attributable to ordinary shareholders for the year ended 30 June 2014 would have increased / decreased by £21,260,000 (2013 - increase / decrease of £21,049,000). This is based on the Company's equity portfolio held at each year end.

The exposures to each of interest, currency and price risk detailed above are considered as representative of exposure for the year as a whole.

(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 cashflows £000	Due within 3 months £000	Due between 3 months and 1 year £000	Due after 1 year £000
As at 30 June 2014				
3.5% Convertible Unsecured Loan Stock 2018	2,876	360	358	2,158
	<u>2,876</u>	<u>360</u>	<u>358</u>	<u>2,158</u>

(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.

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Credit risk exposure

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

	2014		2013	
	Balance Sheet £000	Maximum exposure £000	Balance Sheet £000	Maximum exposure £000
Current assets				
Debtors	1,348	1,348	928	928
AAA Money Markets funds	29,798	29,798	6,468	6,468
Cash and short term deposits	5	5	19	19
	<u>31,151</u>	<u>31,151</u>	<u>7,415</u>	<u>7,415</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 years £000	In more than 3 years £000
As at 30 June 2014			
3.5% Convertible Unsecured Loan Stock 2018	19,719	20,411	20,584

All the other financial assets and liabilities will be settled within three months.

The full contractual liability for the CULS assuming no further conversions is £23,286,000
(2013 - £29,036,000)

18 Fair Value hierarchy

FRS 29 'Financial Instruments: Disclosures' require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

All of the Company's investments are in quoted equities (2013 – 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 (2014 – £212,603,000; 2013 - £210,492,000) 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 (2014 - £25,113,000; 2013 - £28,912,000) has therefore been deemed level 1.

19 Related party transactions

Standard Life Investments (Corporate Funds) Limited received fees for its services as investment manager and company secretary. Further details are provided in notes 3 & 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.

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.

As at 30 June 2014, there were 71,383,586 Ordinary shares in issue, with voting rights. There were no Ordinary shares in treasury. There was also £20,584,450 of CULS in issue.

Year ended 30 June	Ordinary shares bought back for cancellation	Ordinary shares bought back into treasury	Issued from treasury	Ordinary shares issued	Ordinary shares in issue (excluding treasury shares)	Convertible Unsecured Loan Stock Issued	Convertible Unsecured Loan Stock Exercised	Convertible Unsecured Loan Stock Total	Warrants exercised	Warrants bought back	Warrants lapsed	Total Warrants in issue
1994	—	—	—	—	69,436,770	—	—	—	—	—	—	13,886,996
1995	—	—	—	—	69,525,796	—	—	—	89,026	—	—	13,797,970
1996	—	—	—	—	69,527,676	—	—	—	1,880	—	—	13,796,090
1997	—	—	—	—	69,528,656	—	—	—	980	1,592,201	—	12,202,909
1998	—	—	—	—	69,529,717	—	—	—	1,061	6,075,144	—	6,126,704
1999	—	—	—	—	69,530,267	—	—	—	550	1,350,000	—	4,776,154
2000	—	—	—	—	69,543,990	—	—	—	13,723	1,671,143	—	3,091,288
2001	—	—	—	—	69,601,685	—	—	—	57,695	—	—	3,033,593
2002	2,200,000	—	—	—	67,403,646	—	—	—	1,961	—	—	3,031,632
2003	—	—	—	—	67,403,646	—	—	—	—	—	—	3,031,632
2004	—	—	—	—	67,403,646	—	—	—	—	—	—	3,031,632
2005	—	—	—	—	67,404,646	—	—	—	1,000	—	—	3,030,632
2006	—	—	—	—	67,404,746	—	—	—	100	—	—	3,030,532
2007	34,823,217	—	—	—	32,583,790	—	—	—	2,261	117,791	—	2,910,480
2008	—	559,175	—	—	32,037,585	—	—	—	12,970	—	—	2,897,510
2009	—	—	—	29,961,251	63,163,381	—	—	—	1,164,545	—	1,732,965	—
2010	—	—	—	—	63,163,381	—	—	—	—	—	—	—
2011	—	3,670,243	4,229,418	825,000	64,547,556	£25,000,000	—	£25,000,000	—	—	—	—
2012	—	—	—	452,349	64,999,905	—	£64,929	£24,935,071	—	—	—	—
2013	—	—	—	2,016,083	67,015,988	—	£38,184	£24,896,887	—	—	—	—
2014*	—	—	—	4,717,598	71,383,586	—	£4,312,437	£20,584,450	—	—	—	—

* As at 1 September 2014

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

Investor Services and Savings Scheme and ISA Plan Administrator

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

Company Secretaries and Registered Office

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

Registered Number

Registered in Scotland No. SC145455

Independent Auditor

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

Solicitors

Dickson Minto
16 Charlotte Square
Edinburgh EH2 4DF

Depositary and Custodian

BNP Paribas Securities Services, London Branch
55 Moorgate
London EC2R 6PA

Stockbrokers

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

Registrars

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

Additional Information

Shareholder Information

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

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

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

Shareholder Communications

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

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

If you wish to change your election for the Annual Report and other shareholder communications, please contact the Company's Registrars at www-uk.computershare.com/investor or via the contact details on page 57.

Disability Act

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

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

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

Alternatively, you may use a text phone facility - the universal telephone number for this service is 0870 702 0005.

Share Information

The net asset value per Ordinary share of the Company is calculated on a daily basis and is published on the London Stock Exchange. The latest live prices for the Ordinary shares and Convertible Unsecured Loan Stock are displayed, subject to a delay of 15 minutes. "SLS" and "SLSC" are the codes for the Ordinary shares and CULS, respectively, which may be accessed at www.londonstockexchange.com. The Ordinary share price is quoted daily in the Financial Times.

Details of the Company may also be found on the 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. Ordinary shares may be also purchased or sold through the Company's Savings Scheme and Individual Savings Account, details of which are shown on page 59 of this Annual Report.

Other Information

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

Additional Information

How To Invest in Standard Life UK Smaller Companies Trust plc

Introduction

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

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

Investment Trust Savings Scheme

Standard Life's Savings Scheme is a straightforward way to invest in the Company. The minimum investment through Standard Life's Savings Scheme is £100 per month or a £1,000 lump sum. 0.5% Government stamp duty, which is currently payable on all share purchases, is deducted from each investment made. There is no maximum amount that can be invested in the Company through Standard Life's Savings Scheme and there is no initial, exit or annual management charge.

Investment Trust Stocks and Shares ISA

Standard Life's Stocks and Shares ISA is a tax efficient savings vehicle as investors pay no additional income tax or capital gains tax on any money generated by their investments. With effect from 1 July 2014 investors have the opportunity to invest in the Company Stocks and Shares ISA up to the annual ISA allowance of £15,000. Like the Savings Scheme, the minimum investment is a £1,000 lump sum or £100 per month. 0.5% Government stamp duty is deducted from each investment made, however, there is no initial, exit or annual management charge.

Investment Trust ISA Transfer

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

How to invest

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

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

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

Risk Warnings – General

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

Annual General Meeting

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Standard Life UK Smaller Companies Trust plc will be held at 30 St Mary Axe, London, EC3A 8EP at 12.30pm on Thursday 9 October 2014 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 11 inclusive, as Ordinary Resolutions and, in the case of numbers 12 and 13 inclusive, as Special Resolutions:

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 30 June 2014, together with the Independent Auditor's report thereon.
2. To receive and adopt the Directors' Remuneration Report for the year ended 30 June 2014.
3. To receive and adopt the Directors' Remuneration Policy for the three-year period ending 30 June 2017.
4. To declare a final dividend of 3.23 pence per Ordinary share.
5. To re-elect Donald MacDonald as a Director of the Company.
6. To re-elect David Woods as a Director of the Company.
7. To re-elect Lynn Ruddick as a Director of the Company.
8. To re-elect Carol Ferguson as a Director of the Company.
9. To elect Allister Langlands as a Director of the Company.
10. To re-appoint Ernst & Young LLP as Independent Auditor and to authorise the Directors to determine their remuneration.
11. 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 £1,784,590, 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.

12. Disapplication of pre-emption rights

That, subject to the passing of Resolution 11 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 11 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 £1,784,590, being approximately 10% of the nominal value of the issued share capital of the Company, as at the date of this Notice.

13. 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 10,700,399 Shares, representing 14.99% of the Company's issued share capital at the date of the passing of this Resolution (excluding treasury shares);
- (b) the minimum price (exclusive of expenses) which may be paid for each Share shall be 25p;
- (c) the maximum price (exclusive of expenses) which may be paid for a Share is the higher of (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the Shares over the five business days immediately preceding the date of purchase and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue which the purchase is carried out; and
- (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or on the expiry of 15 months from the passing of this Resolution, whichever is earlier, unless previously revoked, varied, extended or renewed by the Company in a general meeting, save that the Company may, at any time prior to the expiry of this authority enter into a contract to purchase shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

SPECIAL BUSINESS

As Special business, to consider, and if thought fit, to pass Resolution 14 as an Ordinary Resolution and Resolutions 15 and 16 as Special Resolutions:

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

That, subject to the passing of Resolution 12 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 £1,784,590, 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 12 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

Annual General Meeting

Notice of Meeting

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.

15. 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 13 set out above and in accordance with the terms and conditions of the tender offers which may be set out in the circulars to be sent electronically or, if requested in hard copy form to Shareholders prior to 31 December 2014 and 30 June 2015 (together the "Tender Offers"), *the Company be and is hereby authorised for the purpose of Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693(4) of the Act) of its issued Shares either for 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 each Tender Offer is 5% of the Shares in issue as at 31 December 2014 (excluding any Shares held in treasury) or 30 June 2015 (excluding any Shares held in treasury) as appropriate;
- (b) the price which shall be paid for a Share shall be an amount equal to 98% of realisation value of all the assets attributable to the Shares tendered as at close of business on 31 December 2014 and on 30 June 2015, as appropriate; and

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

16. Notice of General Meeting

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



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

Registered office:

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

1 September 2014

Annual General Meeting Notice of Meeting

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him/her or on his/her behalf at the meeting. A proxy need not be a shareholder. The shareholder may appoint more than one proxy, provided that each proxy is appointed to attend, speak and vote in respect of a different share or shares. If you wish your proxy to speak on your behalf at the meeting, you will need to appoint your own choice of proxy (not the chairman of the meeting) and give instructions directly to them. Appointing a proxy will not prevent a shareholder from attending in person and voting at the meeting. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should, or if you would like to appoint more than one proxy, please contact the Company's Registrar, Computershare Investor Services PLC on 0870 889 4076. In the case of joint holders, the vote of the first named in the register of members of the Company who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
2. To be valid, the appointment of a proxy, and the original or duly certified copy of the power of attorney or other authority, if any, under which it is signed or authenticated, should be sent to the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY so as to arrive not less than 48 hours (excluding non-working days) before the time fixed for the Meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company at 12.30 pm on 7 October 2014 (or, if the meeting is adjourned, 48 hours (excluding non-working days) before the time fixed for the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of Ordinary shares registered in their name at that time. In each case, changes to entries on the register of members of the Company after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. Any shareholder holding 3% or more of the total voting rights of the Company who appoints a person other than the chairman of the meeting as his or her proxy(ies) will need to ensure that both he or she and his/ her proxy(ies) comply with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
5. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual and/or by logging in to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
6. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (3RA50) by 12.30 pm on 7 October 2014 (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

Annual General Meeting

Notice of Meeting

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](http://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 1 September 2014 (being the last practicable date prior to publication of this notice) the Company's issued share capital comprised 71,383,586 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 1 September 2014 was 71,383,586.
15. There are special arrangements for holders of shares through the Company's Share Plan and ISA. These are explained in the separate 'Form of Direction' which such holders will have received with this Annual Report.

Annual General Meeting Notice of Meeting

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

- a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
- b) the answer has already been given on a website in the form of an answer to a question; or
- c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

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

Registered Office
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Investor Services: 0845 60 24 247
(Monday to Friday, 9am – 5pm)