



# **Standard Life UK Smaller Companies Trust plc**

**Half Yearly Report  
31 December 2012**

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## Investment Objective

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

## Investment Policy

The Company intends to achieve its investment objective by investing in a diversified portfolio consisting mainly of UK quoted smaller companies. The portfolio will normally comprise around 50 individual holdings representing the Investment Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5 per cent. of total assets at the time of acquisition.

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

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

# Financial Highlights

for six months ended 31 December 2012

Total Return	Six months ended 31 December 2012
Net asset value	+12.4%
Share price	+18.6%
Numis Smaller Companies Index (excluding Investment Companies)	+16.5%

Capital Return	31 December 2012	30 June 2012	% change
Net asset value per ordinary share	239.40p	215.61p	+11.0%
Ordinary share price (mid-market)	238.50p	203.00p	+17.5%
Discount of share price to net asset value (including net revenue)	0.4%	5.8%	–
Numis Smaller Companies Index (excluding Investment Companies)	4,958.31	4,318.73	+14.8%
Total assets (£m) <sup>1</sup>	182.79	163.47	+11.8%
Equity shareholders' funds (£m)	159.33	140.15	+13.7%

Revenue return - for six months ended	31 December 2012	31 December 2011	% change
Revenue return per ordinary share	2.01p	1.68p	+19.6%
Interim dividend per ordinary share	1.15p	1.00p	+15.0%

<sup>1</sup> Calculated as Total Assets less Current Liabilities

## Directors' Responsibility Statement

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

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

The Half-Yearly Financial Report, for the six months ended 31 December 2012, comprises an Interim Management Report, in the form of the Chairman's Statement, the Directors' Responsibility Statement and a condensed set of Financial Statements, which has not been audited or reviewed by the auditors pursuant to the APB guidance on Review of Interim Financial Information.

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

**Donald MacDonald**

*Chairman*

19 February 2013

# Chairman's Statement

## Performance

The Company's net asset value total return was 12.4% for the six months to 31 December 2012. This compares with a total return of 16.5% for the Company's benchmark, the Numis Smaller Companies Index (excluding Investment Companies). The Company's share price total return was 18.6%, with the discount to net asset value narrowing to 0.4% at the period end. The sector average discount was 14.1% at 31 December 2012.



Donald MacDonald

Despite the Company losing some ground relative to its benchmark over the past six months, the long-term performance record remains strong and is illustrated in the table below:

	3 years	5 years
Net asset value total return	+81%	+93%
Benchmark total return	+52%	+44%
Share price total return	+98%	+148%
Peer group ranking	3/15	1/14

Source: JP Morgan Cazenove

Since Standard Life Investments took over the management of the Company on 1 September 2003 the total return (with dividends reinvested) has been 472% compared with 163% for the smaller companies sector as a whole.

Additional information on the economic background, stock performance and portfolio changes during the period can be found in the Manager's Report.

## Earnings and Dividend

The revenue return per share for the six months ended 31 December 2012 was 2.01p. This represents a 19.6% increase on the earnings per share for the same period last year. The Company continues to see strong dividend growth coming through from the underlying portfolio.

The interim dividend has been increased by 15% to 1.15p per share (2011: 1.0p per share) and will be paid on 8 April 2013 to shareholders on the register at 15 March 2013, with an associated ex-dividend date of 13 March 2013.

## Awards and Ratings

The Company won a number of awards during 2012 including Investment Week's UK Smaller Companies Trust of the Year for the fourth year out of the past five and Moneywise UK Smaller Companies Trust of the Year for the sixth year in a row.

# Chairman's Statement

The Company has a gold rating with Morningstar.

## Gearing

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

The Company currently has £24.9 million 3.5% Convertible Unsecured Loan Stock 2018 (CULS) in issue and the Manager is able to vary net gearing by adjusting the level of cash held by the Company. The net gearing level was increased to 11% in November 2012 reflecting the Manager's confidence in the prospects for the Company's investment portfolio and for the broader stock market.

As a reminder to holders of the CULS, these can be converted into Ordinary shares on 31 March and 30 September of each year up to March 2018, at a fixed price per Ordinary share of 237.2542p. For information the current net asset value, ordinary share price and CULS price are 255.61p, 251.0p and 114.0p respectively (as at 15 February 2013).

## Discount

The discount at which the Company's shares trade relative to the underlying net asset value was 0.4% at 31 December 2012. The discount to net asset value narrowed in the last quarter of 2012 and moved to a premium in October and this enabled the Company to issue new ordinary shares. The Company's discount level does continue to compare favourably with the UK Smaller Companies peer group, which had an average discount of 14.1% at 31 December 2012.

## Regular Tender Offer

In light of the Ordinary shares trading, on average, at a small premium to net asset value for the year to 31 December 2012, the Board exercised its discretion and did not conduct a tender offer at either of the 30 June 2012 or 31 December 2012 tender dates. The cost of the first two tenders, held in 2010, ranged from 6% to 6.5% of the net asset value of shares tendered.

It remains the Board's intention to maintain the regular tender at six monthly intervals, and to offer shareholders the opportunity to tender their shares when it is in their interests to do so.

# Chairman's Statement

## New Shares

During the period the Company issued over 1.5m new ordinary shares at a premium to net asset value increasing the capital base by 2.4%. The current market cap is now £167m with total assets of over £190m. The Board continues to seek ways of improving the size and liquidity of the Company's ordinary share capital.

## Outlook

There are further signs of a continued economic recovery in the US based upon the latest housing, employment, industrial production and consumer confidence indicators. In the UK

there are encouraging signs in the housing market and new car sales have improved. Indeed a number of lower grade stocks performed very strongly in the last quarter. However, the Company will continue to focus on high quality growth stocks that should continue to deliver positive earnings momentum. The Board remains confident of the long term prospects for the portfolio.

**Donald MacDonald**

*Chairman*

19 February 2013

# Manager's Report

The total return for the UK smaller companies sector as represented by the Numis Smaller Companies Index (excluding Investment Companies) was 16.5% for the period in question. This compares with a net asset value total return of 12.4% for the Company and a share price total return of 18.6%. Over the same period the total return on the FTSE100 Index of the largest UK listed companies was 7.6%. The net asset value per share relative to the share price ranged between a discount of 7.1% to a premium of 4.3%. Smaller companies investment trusts as a whole ranged between a discount of 17.5% and 11.3%.

## Equity markets

UK smaller companies markets were extremely strong during the period in question. Markets recovered from a period of pessimism engendered by concern over the robustness (or lack of it) of the Spanish Banking System and the potential damage a collapse might bring to the rest of the Euro-zone and beyond. This market strength followed the announcement of a 100 billion Euro bailout of the Spanish Banks which has sparked a reduction in sovereign debt yields across the weaker peripheral economies

of Europe. This in turn has led to a rise in riskier assets of which the smaller companies asset class has been a beneficiary. This action signalled the determination of the Eurozone to stand behind its banking system and currency. In September markets responded further to the ECB announcement of an unlimited bond buying plan.

Helpful economic lead indicators from the US notably relating to their housing market, employment, industrial production and consumer confidence in the second half of the calendar year boosted confidence. Shale gas output is starting to have a positive impact on the US economy. Economic indicators are showing a similar recovery in China and the Far East.

Equity investors began to favour riskier assets. This bias increased towards the end of the period in question. Recovery stocks, debt compromised businesses and smaller companies particularly in cyclical sectors led the way. Sectors showing strength included house-builders, retailers, engineers and plant hire. More defensive sectors such as food producers and healthcare were left behind. AIM under-performed until the very end of the period in question.

# Manager's Report

Oil prices rose strongly in July & August from a low of \$80 to around \$120 before moving sideways. A similar pattern occurred in metals particularly copper. The key here was the direction of the Chinese economy.

Bid activity remained at low levels. The long running Glencore Xstrata merger was the main feature although this tedious affair should be over soon to the enrichment of the principal participants no doubt. The other main bid situation is that of AG Barr (a Company holding) and Britvic, the perennially underperforming soft drinks company. This has recently been referred to the Competition Commission. Elsewhere, private equity buyers remained on the sidelines due to the unwillingness of banks to lend. Also trade buyers remained uncertain of the economic outlook and thus unwilling to commit funds ahead of a potential recession.

Base rates have remained unchanged at remarkably low levels all year and seem likely to remain low.

## Performance

At a net asset value level the Company under-performed although the share price out-performed due to a narrowing of the discount. The damage was done from October onwards when recovery and lower grade stocks, which we tend to avoid, really started to move ahead. Not owning Thomas Cook, builders Barratt and Taylor Wimpey and troubled retailers Home Retail Group and Dixons was negative for the Company during the period in question. Debt compromised Thomas Cook for example rose from 14p at the end of June to 56p by year end. The focus in our portfolio is on high quality names and many of them such as Telecom Plus, Abcam and Rightmove were left behind. Mulberry, the handbag company, Waterlogic and Brainjuicer, the market research company, issued profit warnings while New Britain Palm Oil was held back by palm oil price weakness.

On the plus side one of our largest holdings Asos performed strongly as sales trends accelerated. EMIS, the doctors' office software company went up following strong results while recent acquisitions Paypoint

# Manager's Report

and Ted Baker were strong features and traded well. Soft furnishing retailer Dunelm stood out, as did distributor Diploma and the price comparison site Moneysupermarket with the rather annoying advert.

## Dealing and Activity

The most significant new additions included James Fisher, the specialist offshore engineering services company. New holdings were begun in GB Group, an identification verification company, Dechra Pharmaceuticals, in animal health, Smart Metering Systems, the remote gas metering company, and Amerisur Resources, the Colombian oil & gas producer and explorer. The holding in Moneysupermarket was increased.

On the sell side the major changes were the sales of Spirax Sarco, the engineering company that has become too large for the portfolio, and the bulk of the longstanding position in 1<sup>st</sup> Quantum, the copper producer, for similar reasons. Handsome profits were taken in Asos, making 12.8 times our money. Good profits were also taken by selling our holdings in Fidessa and SDL in the software sector. Finally we cut our losses by selling out of optical equipment manufacturer Optos.

## Outlook

2013 has started strongly which is traditionally the way things start out with the so called "January Effect" where risk assets lead and the Company falls behind somewhat.

The area of greatest concern remains the Euro and the health of the more peripheral economies. We would say Spain and Italy are the main sources of worry. Although it feels as if the ECB may be on the path to committing to underpinning the Euro and the Euro-zone economy as a whole, we feel that there will be further setbacks and scares along the way. It remains to be seen whether Greece really can live within the Euro and manage its economy in a competent way.

The UK economy feels like it is on a slow path to recovery on the coat tails of a resurgent USA fresh from a last minute "fiscal cliff" resolution. US housing, employment, industrial production and consumer confidence all appear to be moving slowly in the right direction. Shale gas and now shale oil exploitation is having a marked positive impact on those parts of the US economy that have been in the doldrums for decades. China also appears to have turned an economic corner for the better.

## Manager's Report

The UK smaller company scene could undoubtedly benefit from a more vibrant new issues market. We feel there is scope for this occurring in 2013 given investment bank pipelines and market valuation levels.

Given the poor value of bonds of any sort currently, the vibrancy of the UK smaller company sector, the strength of corporate balance sheets, the strong focus on dividend growth, the recovery in the US and China in particular and the first signs of hope for the Euro, we could well be in the first phase of a multi-year bull market for equities.

Smaller companies will be in the forefront of this bull market. We are thus increasingly confident on the outlook for the Company.

The world is a very inter-connected place. Calamitous actions by “fat fingered” traders in London or New York can spark “flash crashes” of alarming proportions. Inappropriate behaviour by central bankers or politicians can cause financial meltdowns in the twinkling of an eye. It pays thus to stick resolutely to our risk averse ways and in a low growth environment to harness our tried and tested process of seeking out high quality, reliable, predictable growth companies and running our winners for the long term.

### **Harry Nimmo**

Head of Smaller Companies  
Standard Life Investments

19 February 2013

# Principal Risks and Uncertainties

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

The Directors have adopted a robust framework of internal controls, which is designed to monitor the principal risks and uncertainties facing the Company, and to provide a monitoring system to enable the Directors to mitigate these risks as far as possible.

The major risks associated with the Company are:

- **Investment and market risk:** The Company is exposed to the effect of variations in share prices due to the nature of its business. A fall in the value of its investment portfolio will have an adverse effect on the value of shareholders' funds.
  - **Capital structure and gearing risk:** The Company's capital structure, as at 31 December 2012, consisted of equity share capital comprising 66,554,584 Ordinary 25p shares and £24,923,960 nominal amount of Convertible Unsecured Loan Stock 2018. The Manager is able to increase or decrease the gearing level by holding less or more cash subject to Board restrictions which require gearing to remain between -5% and 25% of net assets, under normal market conditions.
  - **Revenue and dividend risk:** In view of the Company's investment objective, which is to generate long-term capital growth by investment in UK quoted smaller companies, the Manager is required to strike a balance more in favour of capital growth than revenue return. In normal circumstances, the Board intends to pay dividends commensurate with the year's income.
- The Board receives regular updates as to the progress made by the Manager in generating a revenue return and the consequent level of the Company's anticipated dividend.

# Principal Risks and Uncertainties

- **Regulatory risk:** The Company operates in a complex regulatory environment and faces a number of regulatory risks. A breach of Section 1158 would result in the Company being subject to capital gains tax on portfolio investments. Breaches of other regulations, including the Companies Act 2006, the UKLA Listing Rules or the UKLA Disclosure and Transparency Rules, could lead to a number of detrimental outcomes and reputational damage. Breaches of controls by service providers to the Company, could also lead to reputational damage or loss. There is also a further regulatory risk in the form of the Alternative Investment Fund Managers Directive (“AIFMD”) which came into force in July 2011 and is due to be implemented by member states of the European Union by July 2013. The AIFMD will introduce a new authorisation and supervisory regime for all investment trust fund managers and investment companies in the European Union. This is expected to create some additional regulatory costs for the Company.
- **Supplier risk:** in common with most investment trusts, the Company has no employees. The Company therefore relies upon services provided by third parties, including the Manager in particular, to whom responsibility for the management of the Company has been delegated under an Investment Management Agreement.

## Going Concern

The factors which have an impact on Going Concern are set out in the Going Concern section of the Directors’ Report in the Company’s Annual Report and Accounts to 30 June 2012. As at 31 December 2012, there have been no significant changes to these factors. The Company had no bank borrowings at 31 December 2012. The Directors are mindful of the principal risks and uncertainties disclosed above, and, having reviewed forecasts detailing revenue and liabilities, they believe that the Company has adequate financial resources to continue its operational existence for the foreseeable future. Accordingly, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the interim accounts.

## Top Twenty Investments

At 31 December 2012

	Value £'000	% of Portfolio
ASOS	8,979	5.1
Paddy Power	8,733	5.0
Telecom Plus	7,886	4.5
Hargreaves Lansdown	6,810	3.9
Emis Group	6,757	3.9
Abcam	6,557	3.8
Rightmove	6,031	3.5
Moneysupermarket.com	5,988	3.4
Aveva	5,620	3.2
Dunelm Group	5,004	2.9
Paypoint	4,947	2.8
Domino's Pizza	4,728	2.7
Ted Baker	4,204	2.4
Telecity Group	4,139	2.4
Oxford Instruments	3,842	2.2
ITE Group	3,601	2.1
Diploma	3,580	2.1
Computacenter	3,207	1.8
Victrex	3,099	1.8
Genus	3,073	1.8
	<b>106,785</b>	<b>61.3</b>

# Sector Distribution

At 31 December 2012

	Portfolio Weightings %	Numis Smaller Companies Index (excluding investment companies) Weightings %
Oil & gas	1.8	5.5
Basic materials	3.0	7.6
Industrials	23.7	27.6
Consumer goods	9.7	6.9
Health care	7.6	3.1
Consumer services	27.1	23.6
Telecommunications	4.5	2.0
Utilities	–	0.5
Technology	14.3	6.0
Financials	8.3	17.2
<b>Total equity investments</b>	<b>100.0</b>	<b>100.0</b>

# Income Statement

		Six months ended 31 December 2012 (unaudited)		
	Notes	Revenue £'000	Capital £'000	Total £'000
Net gains/(losses) on investments held at fair value		–	16,583	16,583
Income	2	1,883	–	1,883
Investment management fee		(189)	(567)	(756)
Administrative expenses		(220)	–	(220)
<b>NET RETURN/(LOSS) BEFORE FINANCE COSTS AND TAXATION</b>		<b>1,474</b>	<b>16,016</b>	<b>17,490</b>
Finance costs		(145)	(436)	(581)
<b>RETURN/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>1,329</b>	<b>15,580</b>	<b>16,909</b>
Taxation		(11)	–	(11)
<b>RETURN/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>1,318</b>	<b>15,580</b>	<b>16,898</b>
 <b>RETURN/(LOSS) PER ORDINARY SHARE</b>	 5	 <b>2.01p</b>	 <b>23.81p</b>	 <b>25.82p</b>

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

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

No operations were acquired or discontinued in the year.

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

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

# Income Statement

Six months ended 31 December 2011 (unaudited)			Year ended 30 June 2012 (audited)		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	(28,107)	(28,107)	–	(14,397)	(14,397)
1,523	–	1,523	3,192	–	3,192
(112)	(338)	(450)	(238)	(713)	(951)
(167)	–	(167)	(367)	–	(367)
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1,244	(28,445)	(27,201)	2,587	(15,110)	(12,523)
(145)	(436)	(581)	(289)	(866)	(1,155)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
1,099	(28,881)	(27,782)	2,298	(15,976)	(13,678)
(12)	–	(12)	(25)	–	(25)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>1,087</b>	<b>(28,881)</b>	<b>(27,794)</b>	<b>2,273</b>	<b>(15,976)</b>	<b>(13,703)</b>
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>1.68p</b>	<b>(44.53p)</b>	<b>(42.85p)</b>	<b>3.50p</b>	<b>(24.61p)</b>	<b>(21.11p)</b>
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## Reconciliation of Movements in Shareholders' Funds

### Six months ended 31 December 2012 (unaudited)

	Share capital £'000	Share premium account £'000	Equity component CULS 2018 £'000
Balance at 30 June 2012	16,250	3,722	1,470
Return on ordinary activities after taxation	—	—	—
Issue of shares	387	3,250	—
Issue of shares from conversion of 3.5% Convertible Unsecured Loan Stock 2018	1	11	—
Dividends paid (see note 4)	—	—	—
<b>BALANCE AT 31 DECEMBER 2012</b>	<b>16,638</b>	<b>6,983</b>	<b>1,470</b>

### Six months ended 31 December 2011 (unaudited)

	Share capital £'000	Share premium account £'000	Equity component CULS 2018 £'000
Balance at 30 June 2011	16,137	2,881	1,470
Return on ordinary activities after taxation	—	—	—
Issue of shares	106	790	—
Issue of shares from conversion of 3.5% Convertible Unsecured Loan Stock 2018	6	35	(3)
Dividends paid (see note 4)	—	—	—
<b>BALANCE AT 31 DECEMBER 2011</b>	<b>16,249</b>	<b>3,706</b>	<b>1,467</b>

## Reconciliation of Movements in Shareholders' Funds

Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
46,871	69,038	2,796	140,147
—	15,580	1,318	16,898
—	—	—	3,637
—	—	—	12
—	—	(1,365)	(1,365)
<b>46,871</b>	<b>84,618</b>	<b>2,749</b>	<b>159,329</b>

Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
46,871	85,014	2,959	155,332
—	(28,881)	1,087	(27,794)
—	—	—	896
—	—	—	38
—	—	(1,787)	(1,787)
<b>46,871</b>	<b>56,133</b>	<b>2,259</b>	<b>126,685</b>

## Reconciliation of Movements in Shareholders' Funds

### Year ended 30 June 2012 (audited)

	Share capital £'000	Share premium account £'000	Equity component CULS 2018 £'000
Balance at 30 June 2011	16,137	2,881	1,470
Return on ordinary activities after taxation	—	—	—
Issue of shares	106	790	—
Issue of shares from conversion of 3.5% Convertible Unsecured Loan Stock 2018	7	51	—
Dividends paid (see note 4)	—	—	—
<b>BALANCE AT 30 JUNE 2012</b>	<b>16,250</b>	<b>3,722</b>	<b>1,470</b>

## Reconciliation of Movements in Shareholders' Funds

Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
46,871	85,014	2,959	155,332
—	(15,976)	2,273	(13,703)
—	—	—	896
—	—	—	58
—	—	(2,436)	(2,436)
<b>46,871</b>	<b>69,038</b>	<b>2,796</b>	<b>140,147</b>

# Balance Sheet

	As at 31 December 2012 (unaudited) £'000	As at 31 December 2011 (unaudited) £'000	As at 30 June 2012 (audited) £'000
<b>NON-CURRENT ASSETS</b>			
Investments held at fair value through profit or loss	<u>174,495</u>	<u>129,625</u>	<u>147,937</u>
<b>CURRENT ASSETS</b>			
Debtors and prepayments	172	133	966
AAA Money Market funds	8,858	20,651	15,208
Cash and short term deposits	<u>2</u>	<u>1</u>	<u>18</u>
	9,032	20,785	16,192
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Other creditors	<u>(742)</u>	<u>(536)</u>	<u>(661)</u>
<b>NET CURRENT ASSETS</b>	<u>8,290</u>	<u>20,249</u>	<u>15,531</u>
<b>NON-CURRENT LIABILITIES</b>			
3.5% Convertible Unsecured Loan Stock 2018	<u>(23,456)</u>	<u>(23,189)</u>	<u>(23,321)</u>
<b>NET ASSETS</b>	<u>159,329</u>	<u>126,685</u>	<u>140,147</u>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	16,638	16,249	16,250
Share premium account	6,983	3,706	3,722
Equity component of Convertible Unsecured Loan Stock 2018	1,470	1,467	1,470
Special reserve	46,871	46,871	46,871
Capital reserve	84,618	56,133	69,038
Revenue reserve	<u>2,749</u>	<u>2,259</u>	<u>2,796</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	<u>159,329</u>	<u>126,685</u>	<u>140,147</u>
<b>NET ASSET VALUE PER ORDINARY SHARE</b>	8 <u>239.40p</u>	<u>194.92p</u>	<u>215.61p</u>

# Cash Flow Statement

	Six months ended 31 December 2012 (unaudited) £'000	Six months ended 31 December 2011 (unaudited) £'000	Year ended 30 June 2012 (audited) £'000
<b>NET RETURN/(LOSS) ON ORDINARY ACTIVITIES BEFORE FINANCE COSTS AND TAXATION</b>	17,490	(27,201)	(12,523)
Adjustment for:			
(Gains)/losses on investments	<u>(16,583)</u>	28,107	14,397
<b>REVENUE BEFORE FINANCE COSTS AND TAXATION</b>	907	906	1,874
Decrease in accrued income	202	308	98
(Increase)/decrease in other debtors	(6)	6	8
Increase/(decrease) in other creditors	<u>169</u>	<u>(1,148)</u>	<u>(1,102)</u>
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	1,272	(88)	878
Net cash outflow from servicing of finance	(437)	(437)	(874)
Net overseas tax	(22)	(22)	(53)
Net cash (outflow)/inflow from financial investment	(9,451)	12,640	7,516
Equity dividends paid	<u>(1,365)</u>	<u>(1,787)</u>	<u>(2,436)</u>
<b>NET CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING</b>	(10,003)	10,466	5,031
Net cash inflow/(outflow) from management of liquid resources	<u>6,350</u>	<u>(11,355)</u>	<u>(5,912)</u>
<b>NET CASH OUTFLOW BEFORE FINANCING</b>	<u>(3,653)</u>	<u>(889)</u>	<u>(881)</u>
<b>FINANCING</b>			
Issue of shares	3,637	896	896
3.5% Convertible Unsecured Loan Stock 2018	—	(9)	—
<b>NET CASH INFLOW FROM FINANCING</b>	<u>3,637</u>	<u>887</u>	<u>896</u>
<b>(DECREASE)/INCREASE IN CASH</b>	<u>(16)</u>	<u>(2)</u>	<u>15</u>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT</b>			
(Decrease)/increase in cash as above	(16)	(2)	15
Net change in liquid resources	(6,350)	11,355	5,912
3.5% Convertible Unsecured Loan Stock 2018	—	9	—
Other non-cash movements	<u>(135)</u>	<u>2</u>	<u>(281)</u>
Movement in net debt in the period	(6,501)	11,204	5,646
Opening net debt	<u>(8,095)</u>	<u>(13,741)</u>	<u>(13,741)</u>
<b>CLOSING NET DEBT</b>	<u>(14,596)</u>	<u>(2,537)</u>	<u>(8,095)</u>
<b>REPRESENTED BY:</b>			
Cash and short term deposits	2	1	18
Money Market funds	8,858	20,651	15,208
Debt due in more than one year	<u>(23,456)</u>	<u>(23,189)</u>	<u>(23,321)</u>
	<u>(14,596)</u>	<u>(2,537)</u>	<u>(8,095)</u>

# Notes to the Financial Statements

## 1. Accounting policies

### (a) Basis of accounting

The accounts have been prepared in accordance with applicable UK Accounting Standards, with pronouncements on half-yearly reporting issued by the Accounting Standards Board and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in January 2009. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

The financial statements and the net asset value per share figures have been prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP').

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

### (b) Dividends payable

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

	Six months ended 31 December 2012 £'000	Six months ended 31 December 2011 £'000	Year ended 30 June 2012 £'000
<b>2. Income</b>			
<b>Income from investments</b>			
UK dividend income	1,668	1,249	2,504
Overseas dividend income	181	203	58
Overseas stock dividend income	—	—	501
	<u>1,849</u>	<u>1,452</u>	<u>3,063</u>
<b>Other income</b>			
Interest from Money Market funds	34	71	129
	<u>34</u>	<u>71</u>	<u>129</u>
<b>Total income</b>	<u>1,883</u>	<u>1,523</u>	<u>3,192</u>

# Notes to the Financial Statements

## 3. Taxation

The taxation expenses reflected in the Income Statement is based on management's best estimate of the weighted annual corporation tax rate expected for the full financial year. The estimated annual tax rate used for the year to 30 June 2013 is 23.75%.

	Six months ended 31 December 2012 £'000	Six months ended 31 December 2011 £'000	Year ended 30 June 2012 £'000
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## 4. Dividends

Ordinary dividend on equity shares:

2012 final dividend of 2.10p per share (2011 - 1.75p)	1,365	1,137	1,137
2012 special dividend of nil per share (2011 - 1.00p)	—	650	649
2012 interim dividend of 1.00p per share	—	—	650
	<u>1,365</u>	<u>1,787</u>	<u>2,436</u>

	Six months ended 31 December 2012 p	Six months ended 31 December 2011 p	Year ended 30 June 2012 p
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## 5. Return per share

Revenue return	2.01	1.68	3.50
Capital return	23.81	(44.53)	(24.61)
<b>Total return</b>	<u>25.82</u>	<u>(42.85)</u>	<u>(21.11)</u>

**Weighted average number  
of Ordinary shares**

<u>65,447,498</u>	<u>64,857,519</u>	<u>64,926,950</u>
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## Notes to the Financial Statements

The figures above are based on the following:

	Six months ended 31 December 2012 £'000	Six months ended 31 December 2011 £'000	Year ended 30 June 2012 £'000
Revenue return	1,318	1,087	2,273
Capital return	15,580	(28,881)	(15,976)
<b>Total return</b>	<b>16,898</b>	<b>(27,794)</b>	<b>(13,703)</b>

### 6. Capital reserve

The capital reserve reflected in the Balance Sheet at 31 December 2012 includes gains of £74,846,000 (31 December 2011 - £49,991,000; 30 June 2012 - £61,104,000) which relate to the revaluation of investments held at the reporting date.

### 7. Transaction costs

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

	Six months ended 31 December 2012 £'000	Six months ended 31 December 2011 £'000	Year ended 30 June 2012 £'000
Purchases	143	42	166
Sales	17	26	49
	<b>160</b>	<b>68</b>	<b>215</b>

# Notes to the Financial Statements

## 8. Net asset value

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

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

	Six months ended 31 December 2012	Six months ended 31 December 2011	Year ended 30 June 2012
Total shareholders' funds	£159,329,000	£126,685,000	£140,147,000
Number of ordinary shares in issue at the period end (excluding shares held in treasury)	66,554,584	64,994,559	64,999,905
Net asset value per share	239.40p	194.92p	215.61p

During the year the Company issued 1,550,000 new Ordinary shares for a consideration received of £3,669,000. In October 2012 £11,111 nominal amount of 3.5% Convertible Unsecured Loan Stock 2018 was converted into 4,679 new Ordinary shares.

As at 31 December 2012 there were 66,554,584 Ordinary shares in issue (31 December 2011 - 64,994,559 and 30 June 2012 - 64,999,905).

Since 31 December 2012, the Company has issued 100,000 additional Ordinary shares.

## Notes to the Financial Statements

- 9.** The financial information in this report does not constitute statutory accounts as defined in Sections 434 - 436 of the Companies Act 2006. The financial information for the year ended 30 June 2012 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditors on those accounts contained no qualification or statement under Section 498 (2), (3) or (4) of the Companies Act 2006. The interim accounts have been prepared using the same accounting policies as the preceding annual accounts.
  
- 10.** This Half-Yearly Report was approved by the Board on 19 February 2013.

# How to Invest in Standard Life UK Smaller Companies Trust

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

## Investment Trust Savings Scheme

Standard Life’s Savings Scheme is a straightforward way to invest in the Company. The minimum investment through Standard Life’s Savings Scheme is £100 per month or a £1,000 lump sum. 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 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. An

ISA allows investors to maximise the amounts placed in stocks and shares. Investors will have the opportunity to invest in the Company’s ISA up to £11,280 in the tax year 2012/2013, which rises to £11,520 in the tax year 2013/2014. Like the Savings Scheme, the minimum investment in Standard Life’s ISA 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 ISA.

## How to Invest

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

# Company Information and Contact Details

## Directors

Donald MacDonald (Chairman)  
David Woods (Senior  
Independent Director)  
Lynn Ruddick (Chairman, Audit and  
Management Engagement  
Committee)  
Carol Ferguson

## Investment Manager

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