Aberdeen Smaller Companies High Income Trust

Annual Report
31 December 2014

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If you have sold or otherwise transferred all your Ordinary shares in Aberdeen Smaller Companies High Income Trust PLC, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Strategic Report – Company Summary

The Company

The Company is an investment trust and its Ordinary shares are listed on the premium segment of the London Stock Exchange. The Company aims to attract long term private and institutional investors wanting to benefit from the income and capital growth prospects of smaller companies.

What is an Investment Trust?

Investment trusts are a way to make a single investment that gives you a share in a much larger portfolio. A type of collective investment, they let you spread your risk and access investment opportunities you might not find on your own.

Investment Objective

The objective of the Company is to provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

Company Benchmark

FTSE SmallCap Index - excluding Investment Companies (total return).

Alternative Investment Fund Manager

The Board has appointed Aberdeen Fund Managers Limited ("AFML" or "Manager") to act as the alternative investment fund manager appointed as required by EU Directive 2011/61/EU, authorised and regulated by the Financial Conduct Authority ("FCA").

The Company's portfolio is managed on a day-to-day basis by Aberdeen Asset Managers Ltd ("AAM" or "Investment Manager") by way of a delegation agreement in place between AFML and AAM.

Website

Up-to-date information can be found on the Company's website - www.aberdeensmallercompanies.co.uk

Pre-investment Disclosure Document (PIDD)

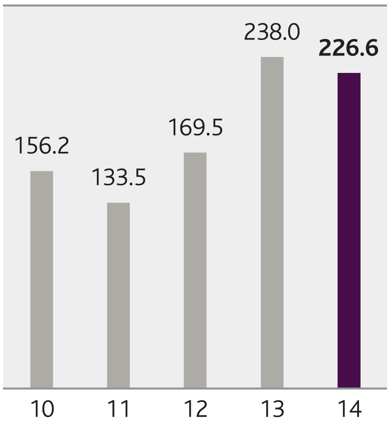
The Alternative Investment Fund Manager Directive ("AIFMD") requires AFML to make available to investors certain information prior to such investors' investment in the Company. The AIFMD is intended to offer increased protection to investors in investment products that do not fall under the existing European Union regime for regulation of investment products known as "UCITS".

The Company's PIDD is available for viewing at
http://www.invtrusts.co.uk/doc.nsf/Lit/PressReleaseUKClosedaschitalternativeinvestmentfundmanagersdirectivepidd

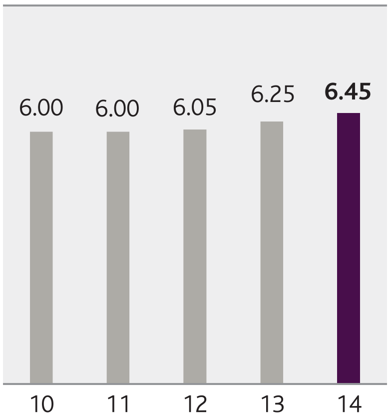
Strategic Report – Financial Highlights

	2014	2013
Net asset value total return	–2.1%	+45.0%
FTSE SmallCap Index (excluding Investment Companies)	–2.7%	+43.9%
Share price total return	–14.9%	+52.1%
Earnings per share (revenue)	7.1p	6.8p
Dividend per share	6.45p	6.25p

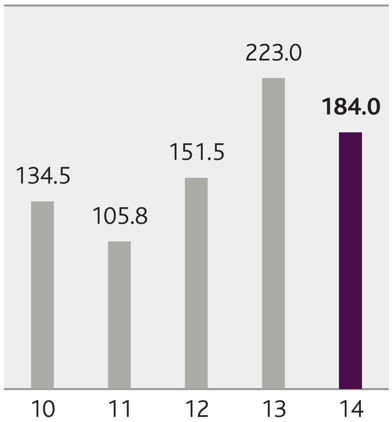
Net Asset Value per Ordinary share
At 31 December – pence



Dividends per share
For the year to 31 December - pence



Mid-market price per share
At 31 December – pence



Strategic Report – Overview of Strategy

Introduction

The purpose of this report is to provide shareholders with details of the Company's strategy and business model as well as the principal risks and challenges it faces.

The business of the Company is that of an investment trust and the Directors do not envisage any change in this activity in the foreseeable future.

Investment policy

The Company invests in equities, corporate bonds and preference shares. The primary objective of the Company is to invest in the equity shares of smaller companies listed on a regulated UK stock market in order to gain growth in dividends and capital. The Company employs gearing with the primary intention of enhancing income and to a lesser extent, long-term total returns. The majority of the additional funds raised by gearing are invested in investment grade corporate bonds and preference shares.

The level of gearing varies with opportunities in the market and the Board adopts a prudent approach to the use of gearing. The total level of gearing will not exceed 25% of the Company's net assets, at the time it is instigated, and within that gearing limit, the equity portfolio gearing will not exceed 10%, at the time it is instigated.

The investment risk within the portfolio is managed through a diversified portfolio of equities, corporate bonds and preference shares. The Company does not invest in securities that are unquoted at the time of investment. A maximum of 5% of the Company's total assets can be invested in the securities of one company at the time of purchase and the Company invests no more than 15% of its total assets in other listed investment companies (including investment trusts).

Principal Risks and Uncertainties

The principal risks facing the Company relate to the Company's investment activities and include market risk (comprising interest rate risk and other price risk), liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 14 to the financial statements. The Board has adopted a matrix of the key risks that affect its business.

Investment Risk

The Directors are responsible for determining the investment policy and the investment objectives of the Company, while the day-to-day management of the Company's assets has been delegated to the Manager under investment guidelines determined by the Board. The Board regularly reviews these guidelines to ensure they remain appropriate and Board approval is required before any exceptions are permitted.

Equity Investment Process

The equity investment process is active and bottom-up, based on a disciplined evaluation of companies through direct visits by the Manager. Stock selection is the major source of added value, concentrating on company quality first, then value.

Great emphasis is placed on understanding the business and understanding how it should be valued. New investments are not made without the Manager having first met management of the investee company, undertaken further analysis and written detailed notes to outline the underlying investment merits. Top-down investment factors are secondary in the equity portfolio construction, with diversification rather than formal controls guiding stock and sector weights.

Fixed Income Investment Process

The fixed income investment process is an active investment style which identifies value between individual securities. This is achieved by combining bottom-up security selection with a top-down investment approach. Investments in corporate bonds and preference shares are also managed by investment guidelines drawn up by the Board in conjunction with the Manager which include:

- No holding in a single fixed interest security to exceed 5% of the total bond issue of the investee company
- Maximum acquisition cost of an investment grade bond is £1 million and of an non-investment grade bond is £500,000

Gearing Risk

Gearing has the effect of accentuating market falls and market gains. The Company's gearing currently in place is a two year facility comprising a £5 million fixed loan and £5 million floating rate loan. The facility commenced on 23 July 2013 and was fully drawn at the period end.

Income and Dividend Risk

The ability of the Company to pay dividends and any future dividend growth will depend primarily on the level of income generated from its investments and the timing of receipt of such income by the Company and the size of the Company's revenue reserves, accordingly there is no guarantee that the Company's dividend objective will continue to be met. The Board monitors this risk through the receipt of detailed income forecasts and considers the level of income at each meeting.

Performance and Outlook

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. The Board also considers the promotion of the Company, including effective communications with shareholders, which is explained in more detail on page 51. The future strategic direction and development of the Company is regularly discussed as part of Board meeting agendas.

A review of the Company's activities and performance during the year to 31 December 2014 and future developments is detailed in the Chairman's Statement and the Investment Manager's Review. This covers market background, investment activity, portfolio strategy, dividend and gearing policy and investment outlook. A comprehensive analysis of the portfolio is provided in the Investment Portfolio, Distribution of Assets and Liabilities and Analysis of Listed Equity Portfolio on pages 13 to 16.

Key Performance Indicators (KPIs)

The main KPIs used by the Board in assessing the Company's performance include:

- Net asset value total return v benchmark
- Share price total return
- Premium/(discount)
- Revenue return and Dividend growth

Details of the Company's results are provided on page 10.

Duration

The Company does not have a fixed life. However, the Company's Articles of Association require that an ordinary resolution is proposed at every fifth Annual General Meeting to allow the Company to continue as an investment trust for a further five year period. The present five year mandate expires in 2015 and a vote on continuation will be proposed at the Annual General Meeting to be held in 2015.

Board Diversity

The Board recognises the importance of having a range of skilled, experienced individuals with the appropriate knowledge in order to allow the Board to fulfill its obligations. At 31 December 2014, the Board consisted of three males and one female. The Company has no employees. The Board's statement on diversity is set out in the Statement of Corporate Governance.

Employee and Socially Responsible Policies

As the Company has delegated the management of the portfolio, it has no employees and therefore has no requirement for disclosures in this area. The Company's socially responsible investment policy is in the Statement of Corporate Governance.

Global Greenhouse Gas Emissions

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

The Manager's corporate socially responsible policy including environmental policy can be found on http://www.aberdeen-asset.com/aam.nsf/groupCsr/home.

Carolan Dobson
Chairman
3 March 2015

Strategic Report - Chairman's Statement

Carolan Dobson
Chairman

Performance

While it is encouraging to be able to report that the Company outperformed the benchmark index during 2014, this still saw the Net Asset Value ("NAV") of the Company fall by 2.1% on a total return basis. The FTSE Small Cap (ex-IT) Index declined by 2.7% over the same period. That said I would re-iterate previous comments that whilst the Board is aware of the index, we do take a more holistic approach to judging the performance of what is a unique vehicle. We evaluate whether the amount of risk in the portfolio is appropriate to current market valuations and for our shareholders' expectations, we strive to produce consistent growth in our Company's dividend and we always focus on investing in companies with decent balance sheets. This approach has delivered consistent outperformance against the benchmark over the last five years through a variety of different stock market conditions.

The increase of 3.2% in the dividend demonstrates the continued focus on delivering steady dividend growth and the Company's dividend yield remains at a 30% premium to that of the index.

Over the year the discount to NAV at which the Company's shares were trading widened from 5.7% to 18.2%. Discounts of other smaller company trusts have also widened. The Board believes that the Company's investment proposition is attractive and we expect that as sentiment towards smaller companies improves, the discount will narrow. As at 2 March 2015, the discount had narrowed slightly to 16.3%.

Strategy

Following two years of very strong share price returns from our Company, 2014 could perhaps be described as a year of consolidation. There were a number of headline-grabbing economic and political events including the escalating crisis involving Russia, the collapse of emerging market currencies and Europe finally succumbing to deflation. All of these, together with the difficulty in finding decent earnings growth, have played their part in the heightened volatility in share prices over the year, which has created some large swings in performance. As a Board, our main focus for 2014 was in seeking to protect the downside for the Company, and this was generally achieved.

We spoke in the half yearly report about the fillip that smaller companies may get from a pick-up in domestic earnings as well as some economic recovery in Europe. As expected, the UK economic performance improved during the second half but in Europe it was a different story which, coupled with a slowdown in emerging markets economies and their currency weakness, meant that 2014 turned out to be a year of lower economic growth than was perhaps expected at the outset.

Our Board meetings with the Manager could be characterised as striking a cautious tone throughout the year. Whilst it is very difficult to predict where markets are going, there were some very clear signs that equity markets were looking extended. Firstly, the Manager was struggling to find value in smaller companies' share price valuations, especially at the start of the year. This was coupled with the very average quality of many of the initial public offerings (IPOs), a problem that I touched on in the half yearly report. Since then some of the most highly rated companies' share prices have collapsed following announcements that reduced future profit expectations.

The Company's fixed income portfolio faced a very similar scenario where value was difficult to find in the fixed interest market. Investors were chasing income and paying historically low yields fairly for both quality companies and high yield debt, another sign that risk was being sought to increase returns. So far, taking higher risk has delivered positive returns but increasing risk in pursuit of yield, does not tend to end well for investors and we have remained cautious and focused our bond portfolio only on companies with good quality covenants.

In addition, every time that there was an improvement in the domestic backdrop, which one might have expected to lead to interest rate rises, extenuating factors came to the rescue. The most recent of these was the collapse of the oil price and the knock-on effect on inflation. While the expectation was that interest rates might start to move up in 2014, the first rate rise has again been elusive. The bond portfolio was positioned with relatively short duration in anticipation of rises in interest rates with preservation of capital our key objective. The Manager reduced the size of this part of the portfolio, given that the level of yield on offer had reduced, but we shall continue to keep this under review should opportunities for attractive medium term yields from good quality companies arise.

Gearing/Debt

The maximum level of gearing in the Company at its current level of around 20% is appropriate given where we are in the economic cycle. Our two £5 million debt tranches are due to be refinanced in the middle of 2015. Strategically we want to maintain our flexibility, whilst protecting the revenue account when interest rates do eventually rise. We have had indications of willingness to provide new facilities to the Company and it is likely that we shall, therefore, consider fixing the interest rate on at least part of this debt.

Dividend

The yield backdrop remains tough and, at the time of writing, the Company's dividend is at a 30% premium to the smaller companies index, and yields significantly above most of our peers in the smaller companies' investment trust sector. Earnings growth for smaller companies during 2014 was low to mid-single digit on average and dividend growth was slightly higher, around mid-high single digits. We did benefit from the receipt of a number of special dividends as companies with robust balance sheets have been returning excess capital. We would note, however, that companies are reluctant to grow dividends much ahead of earnings.

Although gross revenue levels were marginally lower than for 2013, the revenue return per share increased to 7.14p for the year to 31 December 2014 (2013 – 6.77p). This largely resulted from the change in the allocation of management and finance costs. The Board reviews the allocation of these costs between revenue and capital on an annual basis and as disclosed in last year's report, it was agreed that with effect from 1 January 2014 these costs should be charged 70% to capital and 30% to revenue, in line with the Company's expected long-term returns.

The Board has declared four interim dividends during the year ended 31 December 2014 making a total dividend of 6.45p (2013 – 6.25p), representing an increase of 3.2% and in line with the Board's plan to deliver steady dividend growth.

Outlook

The Board and the Manager believe there is potential for growth in capital and income in 2015, with the right risk controls in place. We believe in the importance of protecting the downside through more volatile periods through investing in quality companies with strong balance sheets and cash-flow.

Alternative Investment Fund Managers Directive ("AIFMD")

The Alternative Investment Fund Managers Directive (the "Directive"), proposed by the EU to enhance shareholder protection, was fully implemented in the UK on 22 July 2014. This Directive required the Company to appoint an authorised Alternative Investment Fund Manager ("AIFM) and a depositary, the latter overlaying the previous custody arrangements.

The Company appointed Aberdeen Fund Managers Limited ("AFML") as its AIFM, following its authorisation by the FCA, to act as the Company's AIFM entering a new management agreement with AFML on 17 July 2014. Under this agreement AFML delegates portfolio management services to Aberdeen Asset Managers Limited, which continues to act as the Company's Investment Manager. There is no change in the commercial arrangements from the previous investment management agreement.

In addition, the Company entered into a Depositary agreement with AFML and BNP Paribas Securities Services London Branch on 17 July 2014 for the provision of depositary services (including custody of assets), resulting in slightly increased costs compared with the previous custody arrangements.

These regulatory changes have also placed additional periodic disclosure requirements on the Company's AIFM, AFML. As a result, the 2015 Annual Report contains an additional unaudited disclosure page which you will find at the end of this document.

Suitable for Retail Investors

The Company currently conducts its affairs so that the Ordinary shares issued by it can be recommended by Financial Advisers to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments and intends to continue to do so for the foreseeable future.

The Ordinary shares are excluded from the FCA's restrictions which apply to non-mainstream pooled investments because they are shares in an investment trust.

Continuation Vote

The Company's Articles of Association require the Board to put a resolution to shareholders, at this year's AGM and each fifth AGM thereafter, to resolve that the Company should continue as an investment trust. In the event that the resolution is not passed, the Board must convene a General Meeting, to be held within four months after the AGM, at which a special resolution would be proposed requiring the Company to be wound up voluntarily or to approve a unitisation of the vehicle.

The Board is of the view that the Company's investment objective and policy remains attractive. The Company has continued to deliver a yield higher than that generally available in the smaller company equity market and steady growth in the dividend, as well as capital growth through a portfolio of good quality companies run by strong management teams. The Board and Manager remain confident that the opportunities to invest in small cap companies with attractive growth prospects will continue and therefore considers that it is in the best interests of shareholders to vote in favour of continuation at this year's AGM.

Annual General Meeting

The Annual General Meeting will be held at Aberdeen's London office on Thursday 23 April 2015 at 12.00 noon followed by a lunch for shareholders. This will give shareholders the opportunity to meet the Directors and Manager after the formal AGM business has concluded and we welcome all shareholders to attend.

Carolan Dobson
Chairman
3 March 2015

Strategic Report – Investment Manager's Review

After the strong returns of 2013, smaller companies had a muted 2014 with the market ending the year down 2.7%. It would, however, be disingenuous to say that this outcome in any way reflected the challenging and at times volatile environment. We will elaborate on these throughout and given this backdrop it is pleasing to recover from a weaker first-half to finish the year outperforming the index.

There were a number of themes in play during 2014 including stubbornly low interest rates, negative government yields (latterly), a strong initial public offerings (IPO) market, large currency swings and the collapse of oil and commodity prices.

Turning firstly to interest rates, few were expecting the Monetary Policy Committee to hold rates throughout the year. The knock-on effect of this coupled with declining inflation saw another surprisingly strong year for UK Government and Corporate bonds rising 13.9% and 12.3% respectively on a total return basis. With capital preservation and delivery of a yield premium at the core of our fixed income strategy, we were running a short duration position throughout 2014. Whilst protection of your capital was our focus the portfolio still managed an admirable 9% return with preference shares up 15%. The performance of the preference share portfolio was in the main driven by Aviva and General Accident which highlights investor appetite for yield.

Sticking with the topic of yield, which we know is important to our shareholders, 2014 was yet another tough year for savers and investors alike. What became clear as we progressed through the year was the increased level of risk being sought in the pursuit of yield. Low, or lately negative rates, are not normal events although the market seems extremely relaxed which we find perplexing. In this environment, yields on offer are, therefore, extreme and whether driven by cheap access to capital, quantitative easing, fear or deflation what is worth saying is that this position is not sustainable in our view. From our perspective our message remains consistent. We maintain a quality blue chip portfolio and will not be dragged into risk seeking behaviour in the pursuit of enhanced returns. We have, post the year-end, had the NatWest bond called at par which we have replaced with a short-term HSBC bond.

Another sign of the level of risk being sought was the IPO market which we have spoken about consistently in our monthly shareholder updates. The volume of issuance has been vast and in our opinion has been well timed to make the seller rather than the buyer money. We met with a number of companies which we thought were good quality business models but we couldn't make the valuations stack up. In hindsight, this has proven to be the correct stance with a significant number of these already issuing profit warnings.

There have, therefore, been a number of challenges this year but strategically the message is the same and the process does not change. We are not thematic, we tend not to buy into new issues at IPO and we remain vigilant on valuations in both equity and fixed income markets. Whilst we were cautious at the outset of the year, we felt the portfolio was well placed to deliver both earnings and dividend growth, both of which have been hard-won in 2014. The recovering domestic backdrop has provided a fillip to earnings across a number of sectors with 44% of the Trust's revenue exposed to the UK. The consumer sector which includes Restaurant Group, Fuller Smith and Turner and Greggs posted strong share price returns. More widely, recruitment consultant Robert Walters saw both temporary and permanent jobs markets in the UK continuing to recover. This confidence coupled with the help-to-buy scheme fed into the housing market with Bellway seeing another strong year of volume and price growth.

Europe has been one area that we expected to perform better in 2014 but yet again it floundered from one issue to the next. The delay of QE (Quantitative Easing), interest rates turning negative and deflation have all culminated in a lacklustre performance. We are not going to tarnish all companies with this brush but the Eurozone as a whole has been a tough place to deliver growth for smaller companies. RPC and Acal are two companies that bucked that trend through a combination of taking share, acquisitions and in the case of Acal moving up the value-add chain in support of customers. Europe could surprise us in 2015 as expectations remain low but it won't be plain sailing.

Emerging markets have also had a tough year hindered further by the collapse of currencies. XP Power has delivered some steady growth against this backdrop but Oxford Instruments has been impacted by a slowdown in their core research and development markets and in China. Interserve has seen competitive pressures in the Middle East, Fenner in Australia and Aveva in Brazil and Korea. Most of the emerging market issues are stock specific and if we drill down further the fall in commodity prices has been the main cause. Our preferred access to the oil and gas sector has been through the more diversified service companies which give the business a more balanced earnings profile but in the case of Aveva the share price reaction has been severe. This remains one of the best quality companies in the sector with a high degree of recurring revenue and a strong net cash balance sheet. The weight in the Company was limited due to the lowly yield but we have recently increased our exposure on weakness.

In terms of trading, we have had another year of low turnover which is consistent with the Aberdeen process. Preservation of capital has been at the forefront of our thinking when allocating capital across the portfolio.

Valuations have been a guiding barometer when coupled with the growth trajectory and for large parts of last year we felt markets were expensive. We have therefore consistently taken profits in the most highly rated companies and reduced exposures to a level that better reflects the underlying growth. We have also taken the equity gearing back from 4% towards neutral for the first time in a number of years.

Outlook

We struck a cautious tone throughout 2014 but must now turn our attention to what lies ahead. We still believe, as we did last year, that the portfolio can deliver single digit earnings and dividend growth but share price performance remains out of our control. This does not seem like an excessive assumption and we would also add that smaller companies look better value than they have been for a while so this does provide some protection. This is a cautious but realistic outlook and through our process of investing in quality companies with strong or net cash balance sheets and a short duration fixed income portfolio we believe we have positioned the portfolio conservatively.

Aberdeen Asset Managers Limited*
3 March 2015

*on behalf of Aberdeen Fund Managers Limited
Both companies are subsidiaries of Aberdeen Asset Management PLC

Strategic Report - Results

Financial Highlights

	31 December 2014	31 December 2013	% change
Total investments	£58,222,000	£60,820,000	–4.3
Shareholders' funds	£50,098,000	£52,618,000	–4.8
Market capitalisation	£40,682,000	£49,305,000	–17.5
Net asset value per share	226.59p	237.99p	–4.8
Share price (mid market)	184.00p	223.00p	–17.5
Discount to adjusted NAV[A]	18.2%	5.7%	
Net gearing[B]	16.5%	15.8%	
Ongoing charges ratio[C]	1.58%	1.62%	
Dividends and earnings			
Revenue return per share[D]	7.14p	6.77p	+5.5
Dividends per share[E]	6.45p	6.25p	+3.2
Dividend cover	1.11	1.08	
Revenue reserves[F]	£2,216,000	£2,052,000	

[A] Based on IFRS NAV above reduced by dividend adjustment of 1.65p (2013 – 1.60p).
[B] Calculated in accordance with AIC guidance "Gearing Disclosures post Retail Distribution Review" (see definition on page 54).
[C] The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of investment management fees (excluding performance fees) and administrative expenses divided by the average cum income net asset value throughout the year.
[D] Measures the revenue earnings for the year divided by the weighted average number of Ordinary shares in issue (see Statement of Comprehensive Income).
[E] The figures for dividends per share reflect the years in which they were earned (see note 7).
[F] The revenue reserve figure does not take account of the fourth interim dividend amounting to £365,000 (2013 – £354,000).

Performance (total return)

	1 year % return	3 year % return	5 year % return
Net asset value	–2.1	+87.7	+139.0
Share price (based on mid price)	–14.9	+95.0	+141.6
FTSE SmallCap Index (excluding Investment Companies)	–2.7	+90.8	+89.2
FTSE All-Share Index	+1.2	+37.3	+51.8

All figures are for total return and assume re-investment of net dividends excluding transaction costs.

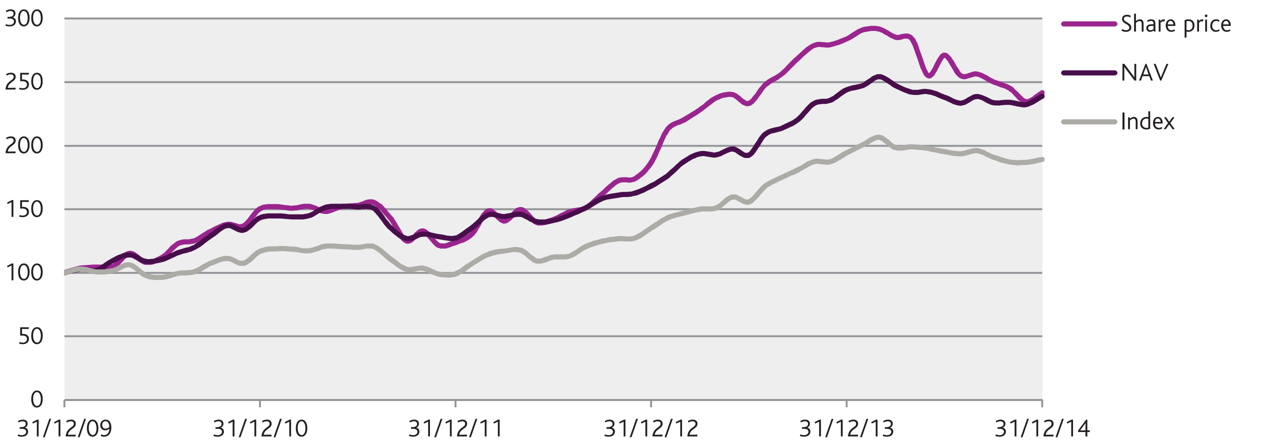
Dividends

	Rate per share	xd date	Record date	Payment date
First interim dividend	1.60p	2 April 2014	4 April 2014	30 April 2014
Second interim dividend	1.60p	9 July 2014	11 July 2014	31 July 2014
Third interim dividend	1.60p	16 October 2014	17 October 2014	31 October 2014
Fourth interim dividend	1.65p	8 January 2015	9 January 2015	30 January 2015
2014	**6.45p**			
First interim dividend	1.55p	10 April 2013	12 April 2013	30 April 2013
Second interim dividend	1.55p	10 July 2013	12 July 2013	31 July 2013
Third interim dividend	1.55p	16 October 2013	18 October 2013	31 October 2013
Fourth interim dividend	1.60p	8 January 2014	10 January 2014	31 January 2014
2013	**6.25p**			

Strategic Report - Performance

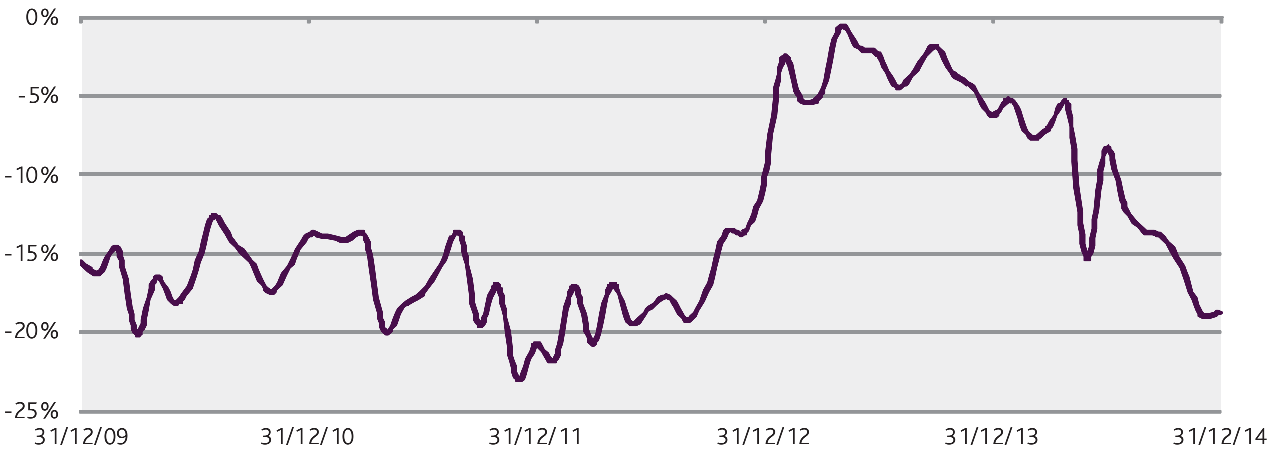
Total Return of NAV and Share Price vs FTSE SmallCap Index (ex Inv Co's)

Figures are total return and have been rebased to 100 at 31 December 2009



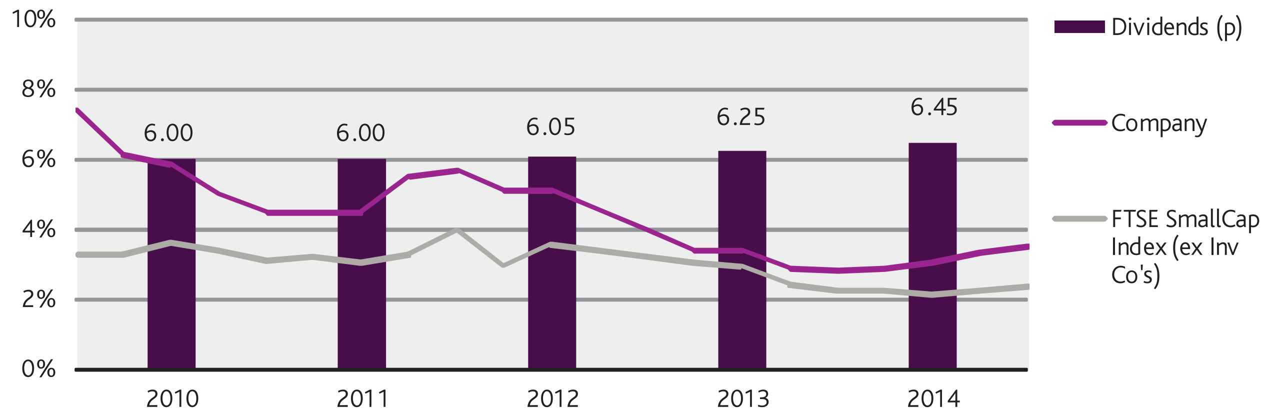
Share Price Discount to Net Asset Value

Five years to 31 December 2014



Dividend (p) and Company and Benchmark Yield (%)

Five years to 31 December 2014



Ten Year Financial Record

Year to 31 December	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenue available for Ordinary dividends (£'000)	3,272	3,294	3,484	3,444	1,608	1,336	1,329	1,257	1,496	1,579
Per share (p)										
Net revenue return	14.81	14.90	15.75	15.58	7.27	6.04	6.01	5.69	6.77	7.14
Net dividends paid/proposed	13.75	14.50	14.95	15.10	7.00	6.00	6.00	6.05	6.25	6.45
Total return	49.80	48.71	(44.33)	(127.18)	37.07	47.94	(16.70)	41.92	74.73	(5.00)
Net asset value per share	254.8	289.0	229.9	87.6	114.6	156.2	133.5	169.5	238.0	226.6
Shareholders' funds (£m)	**56.3**	**63.9**	**50.8**	**19.4**	**25.3**	**34.5**	**29.5**	**37.5**	**52.6**	**50.1**

Cumulative Performance

As at 31 December	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
NAV	100.0	116.6	132.2	105.2	40.1	52.4	71.5	61.1	77.5	108.9	103.7
NAV total return[A]	100.0	123.7	148.3	124.2	52.0	76.3	109.4	97.2	128.5	186.3	182.4
Share price performance	100.0	112.0	119.0	82.3	24.8	42.1	59.6	46.9	67.2	98.9	81.6
Share price total return[A]	100.0	118.7	133.5	97.4	32.8	64.4	96.8	79.7	120.2	182.8	155.5
Benchmark performance	100.0	116.4	139.7	111.9	55.5	84.7	95.8	78.8	104.2	146.2	139.1
Benchmark total return[A]	100.0	119.0	146.2	120.0	62.0	97.8	114.3	97.0	132.2	190.1	185.0

[A] Total return figures are based on reinvestment of net income.

Investment Portfolio – Ordinary Shares

As at 31 December 2014

Company	Valuation 2014 £'000	Total portfolio %	Valuation 2013 £'000
RPC Group	2,056	3.5	2,626
Wilmington	2,025	3.5	2,306
Dechra Pharmaceuticals	1,999	3.4	1,651
Chesnara	1,839	3.2	1,587
Helical Bar	1,781	3.1	1,519
XP Power	1,773	3.0	2,015
Devro	1,668	2.9	1,172
Euromoney Institutional Investor	1,612	2.8	2,025
Close Brothers	1,524	2.6	1,619
Berendsen	1,426	2.5	1,545
Ten largest investments	**17,703**	**30.5**	
Interserve	1,410	2.4	1,576
Elementis	1,405	2.4	1,588
Acal	1,387	2.4	932
Victrex	1,374	2.4	990
Rathbone Brothers	1,345	2.3	1,367
BBA Aviation	1,296	2.2	1,268
Hansteen	1,236	2.1	811
Domino Printing	1,165	2.0	688
Morgan Sindall	1,159	2.0	1,412
Robert Walters	1,073	1.8	1,081
Twenty largest investments	**30,553**	**52.5**	
Fenner	1,070	1.8	2,401
Savills	1,047	1.8	995
Fuller Smith & Turner 'A'	1,041	1.8	1,080
Hiscox	1,034	1.8	1,206
Dignity	1,031	1.8	1,123
Bloomsbury Publishing	1,030	1.8	1,382
Oxford Instruments	1,014	1.7	929
Mothercare	1,001	1.7	814
TT Electronics	963	1.7	1,546
Numis Corporation	948	1.6	1,196
Thirty largest investments	**40,732**	**70.0**	
Anite	940	1.6	873
Abcam	932	1.6	–
Fisher (James) & Sons	923	1.6	1,162
Intermediate Capital Group	911	1.6	832
Huntsworth	887	1.5	1,145
Aveva Group	880	1.5	774
Bellway	834	1.4	1,429
Greggs	776	1.3	749
Manx Telecom	751	1.3	–
Keller Group	717	1.2	747
Forty largest investments	**49,283**	**84.6**	
Restaurant Group	614	1.1	1,054
Barr (A.G.)	574	1.0	857
McBride	220	0.4	702
Majestic Wine	57	0.1	390
Total Ordinary shares	**50,748**	**87.2**	

Investment Portfolio – Other Investments

As at 31 December 2014

Company	Valuation 2014 £'000	Total portfolio %	Valuation 2013 £'000
Convertibles			
Balfour Beatty Cum Conv 10.75%	1,016	1.8	1,034
Total Convertibles	**1,016**	**1.8**	
Corporate Bonds			
National Westminster 5.98%	936	1.6	893
Stagecoach Group 5.75% 2016	646	1.1	657
Wales & West Utilities Finance 6.75% 2036	579	1.0	572
Anglian Water 4.5% 2026	542	0.9	480
Electricite de France 6% [A]	531	0.9	518
Total Corporate Bonds	**3,234**	**5.5**	
Preference shares			
Aviva 8.75%	1,238	2.1	1,174
General Accident 8.875%	1,215	2.1	1,123
Ecclesiastical Insurance 8.625%	771	1.3	690
Total Preference shares	**3,224**	**5.5**	
Total Other Investments	**7,474**	**12.8**	
Total investments	**58,222**	**100.0**	

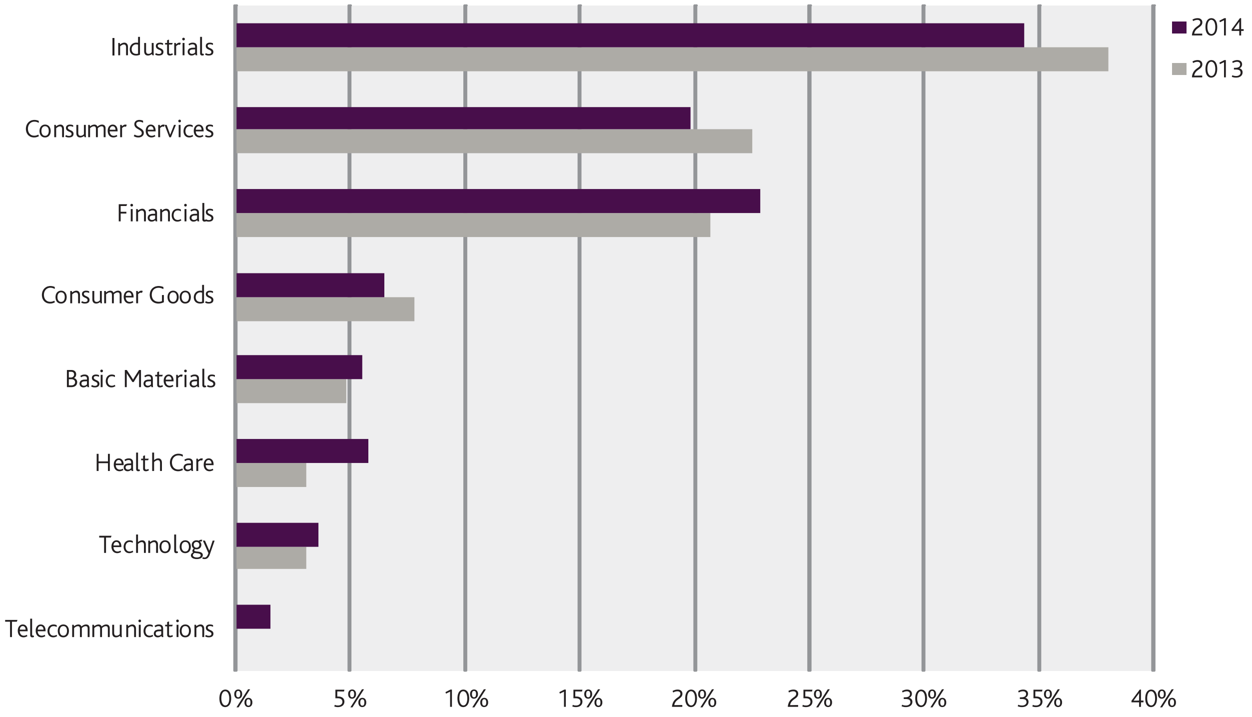
[A]All investments are listed on the London Stock Exchange (sterling based), except those marked, which are listed on overseas exchanges based in sterling.

Distribution of Assets and Liabilities

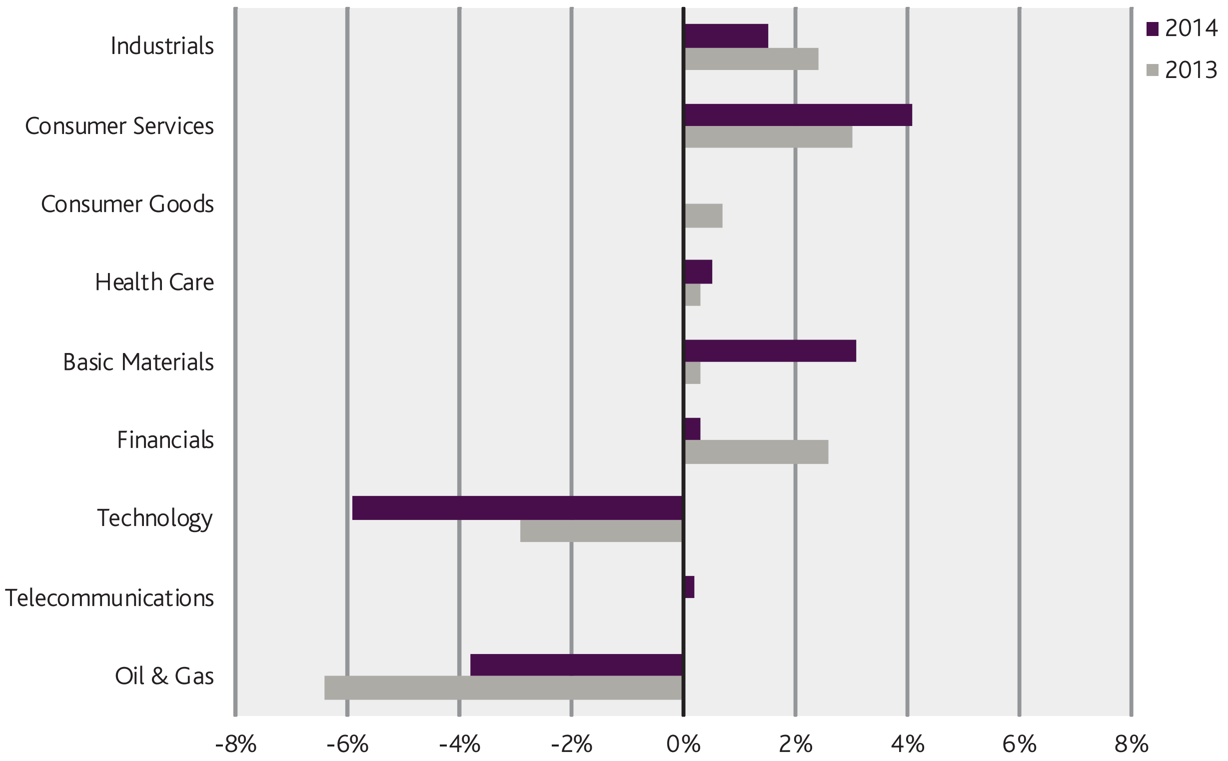
	Valuation at 31 December 2013		Movement during the year				Valuation at 31 December 2014	
			Purchases	Sales	Other[A]	Gains/ (losses)		
	£'000	%	£'000	£'000	£'000	£'000	£'000	%
Listed investments								
Ordinary shares	53,679	102.0	7,068	(7,425)	–	(2,574)	50,748	101.3
Convertibles	1,034	2.0	–	–	–	(18)	1,016	2.0
Corporate bonds	3,120	5.9	–	–	(34)	148	3,234	6.5
Other fixed interest	2,987	5.7	–	–	–	237	3,224	6.4
	60,820	115.6	7,068	(7,425)	(34)	(2,207)	58,222	116.2
Current assets	2,021	3.8					2,115	4.2
Other current liabilities	(223)	(0.4)					(239)	(0.5)
Short-term loan	–	–					(10,000)	(19.9)
Long-term loan	(10,000)	(19.0)					–	–
Net assets	**52,618**	**100.0**					**50,098**	**100.0**
Net asset value per Ordinary share	**238.0p**						**226.6p**	

[A] Amortisation adjustment of £34,000 (see note 2).

Analysis of Listed Equity Portfolio



Aberdeen Smaller Companies High Income Trust PLC relative to the FTSE SmallCap Index (ex Inv Co's)



Your Board of Directors

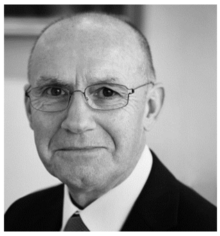
The Directors, all of whom are non-executive, and the majority of whom are independent of the Manager, supervise the management of Aberdeen Smaller Companies High Income Trust PLC and represent the interests of shareholders.

Carolan Dobson

Status: Chairman, Independent Non-Executive Director
Length of service: 10 years, appointed in September 2004
Experience: Chairman of JPMorgan European Smaller Companies Trust Plc. A non-executive Director of Brunner Investment Trust PLC and Schroder UK Growth Fund Limited. Also a Trustee of NEST and chairs the Investment Committee. Formerly head of UK Equities at Abbey Asset Managers Limited, head of Investment Trusts at Murray Johnstone and fund manager of Murray Income plc.
Last re-elected to the Board: 17 April 2014
Committee membership: Nominations Committee (Chairman), Management Engagement Committee (Chairman)
Remuneration: £34,500 per annum
All other public company directorships: Brunner Investment Trust PLC, Schroder UK Growth Fund Limited and JPMorgan European Smaller Companies Trust plc
Employment by the Manager: None
Other connections with Trust or Manager: None
Shared Directorships with any other Trust Directors: None
Shareholding in Company: 5,000 Ordinary shares

Robert Lister

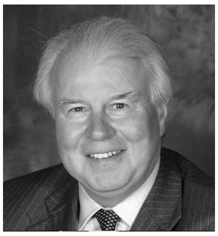
Status: Independent Non-Executive Director
Length of service: 3 years, appointed in March 2012
Experience: Non-executive director of Investec Wealth and Investment Limited and non-exective chairman of Credit Suisse Asset Management UK. Over 20 years' experience of investment management and formerly global head of equities at Dresdner Kleinwort and head of European equities at Barclays de Zoete Wedd.
Last re-elected to the Board: 17 April 2014
Committee membership: Audit Committee, Nominations Committee, Management Engagement Committee
Remuneration: £23,000 per annum
All other public company directorships: None
Employment by the Manager: None
Other connections with Trust or Manager: None
Shared Directorships with any other Trust Directors: None
Shareholding in Company: 5,200 Ordinary shares



Barry Rose

Status: Independent Non-Executive Director
Length of service: 4 years, appointed in March 2011
Experience: Chairman of Baillie Gifford Shin Nippon PLC and the Scottish charity, Circle and a director of Dimensional Imaging Ltd. Extensive investment experience and formerly director of Scottish Provident Institution and chief executive of Scottish Provident UK.
Last re-elected to the Board: 17 April 2014
Committee membership: Audit Committee, Nominations Committee, Management Engagement Committee
Remuneration: £23,000 per annum
All other public company directorships: Baillie Gifford Shin Nippon PLC
Employment by the Manager: None
Other connections with Trust or Manager: None
Shared Directorships with any other Trust Directors: None
Shareholding in Company: Nil

Your Board of Directors continued



James West

Status: Senior Independent Non-Executive Director and Audit Committee Chairman
Length of service: 12 years, appointed in April 2002
Experience: Chairman and director of a number of investment companies and chairman of Associated British Foods Pension Fund. A chartered accountant and formerly managing director of Lazard Brothers & Co. Ltd and chief executive of Lazard Asset Management Ltd.
Last re-elected to the Board: 17 April 2014
Committee membership: Audit Committee (Chairman), Nominations Committee, Management Engagement Committee
Remuneration: £26,500 per annum
All other public company directorships: Chairman of New City High Yield Fund Limited, non-executive director of British Assets Trust plc, Threadneedle UK Select Trust Limited and JPMorgan Income & Capital Trust plc
Employment by the Manager: None
Other connections with Trust or Manager: None
Shared Directorships with any other Trust Directors: None
Shareholding in Company: 36,640 Ordinary shares

Directors' Report

Status

The Company, which was incorporated in 1992, is registered as a public limited company and is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company's registration number is SC137448.

The Company has been accepted by HM Revenue & Customs as an investment trust subject to the Company continuing to meet the relevant eligibility conditions of Section 1158 of the Corporation Tax Act 2010 and the on-going requirements of Part 2 Chapter 3 Statutory Instrument 2011/2999 for all financial years commencing on or after 1 January 2012. The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 December 2014 so as to enable it to comply with the on-going requirements for investment trust status.

The Company has conducted its affairs so as to satisfy the requirements as a qualifying security for Individual Savings Accounts. The Directors intend that the Company will continue to conduct its affairs in this manner.

Investment Policy

The Board, in conjunction with the Manager, has reviewed the Company's published investment policy in light of the alternative fund managers' regime and the FCA's Listing Rules, which include, among other things, the requirement to publicise the Company's maximum gearing limit. Accordingly, the wording of the investment policy has been clarified so that it reflects the investment guidelines set by the Board and pubished in previous Annual Reports. The amended wording is essentially for clarification purposes and does not represent a change in the Company's investment policy nor in the investment limits.

Capital Structure

At 31 December 2014, the Company had 22,109,765 fully paid Ordinary shares of 50p each (2013 – 22,109,765 Ordinary shares) in issue. There have been no changes in the Company's issued share capital subsequent to the year end and up to the date of this report.

Ordinary shareholders are entitled to vote on all resolutions which are proposed at general meetings of the Company. The Ordinary shares carry a right to receive dividends. On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to Ordinary shareholders in proportion to their shareholdings.

There are no restrictions on the transfer of Ordinary shares in the Company other than certain restrictions which may be applied from time to time by law (for example, insider trading law).

Results and Dividends

The financial statements for the year ended 31 December 2014 appear on pages 31 to 49. Dividends declared for the year amounted to 6.45p per share (2013 – 6.25p).

A fourth interim dividend of 1.65p per share was declared by the Board on 12 December 2014 with an ex-date of 8 January 2015, record date of 9 January 2015 and payment date of 30 January 2015. Under accounting standards this dividend will be accounted for in the financial year ended 31 December 2015.

Directors

Biographies of the Directors are found on pages 17 and 18. All Directors held office throughout the year and will stand for re-election at the forthcoming Annual General Meeting. The Board supports the candidature of the Directors for the reasons described in the Statement of Corporate Governance section.

Directors' Liability Insurance

The Directors have the benefit of the indemnity provisions contained in the Company's Articles of Association. The Company maintains insurance in respect of Directors' and officers' liabilities in relation to their acts on behalf of the Company.

Substantial Interests

As at 3 March 2015 the Company had received notification or is aware of the following interests in its Ordinary shares:

Name of shareholder	Number of Ordinary shares held	% of Ordinary shares held
Aberdeen Investment Trust Share Plans (non-beneficial)	3,850,842	17.42
Shires Income plc	3,120,476	14.11
Philip J Milton & Company	998,824	4.52

Going Concern

The Company's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary. The Company has a two year credit facility in place which is available until July 2015. The Board considers that the Group has adequate financial resources to continue in operational existence for the foreseeable future. Accordingly, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Investment Manager and Company Secretary

The Company's management arrangements with the Aberdeen Asset Management Group have been reorganised and the Company has appointed Aberdeen Fund Managers

Limited ("AFML"), a wholly owned subsidiary of Aberdeen Asset Management PLC, as its alternative investment fund manager (“AIFM”) with effect from 17 July 2014. In order to facilitate this appointment, the Company terminated its existing investment management agreement with Aberdeen Asset Managers Limited, and entered into a new management agreement with AFML. The new management agreement with AFML was entered into on the same commercial terms, including fees, as the previous agreement and is also compliant with the new regulatory regime under the AIFMD. Under the new arrangements, investment management services are provided to the Company by Aberdeen Asset Managers Limited (“Investment Manager”). Company secretarial, accounting and administrative services are provided by Aberdeen Asset Management PLC (“Aberdeen”). The fee is at a rate of 0.75% of shareholders’ funds plus short and medium-term funding. The contract may be terminated by either the Company or the Manager on the expiry of six months' written notice. Aberdeen supplies the Board with monthly reports on the Company’s activities.

The key terms of the Management Agreement including the calculation of the fee are set out in note 3 to the financial statements. The Board believes the fee charged to be competitive with reference to other investment trusts with a similar mandate.

Corporate Governance

The Statement of Corporate Governance is set out on pages 22 to 25 and forms part of this report.

Auditor

The Directors confirm that, so far as each of the Directors is aware, there is no relevant audit information of which the Company’s auditor is unaware and the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

The Company's auditor, KPMG LLP, is willing to continue in office and resolutions will be proposed at the AGM to reappoint them and to authorise the Directors to determine their remuneration.

Annual General Meeting

Among the resolutions being put at the Annual General Meeting of the Company to be held on 23 April 2015, the following resolutions will be proposed:

(i) Continuation vote

Resolution 8, which is an ordinary resolution, will, if approved, allow the Company to continue as an investment trust.

(ii) Section 551 authority to allot shares

Resolution 9 which is an ordinary resolution, will, if approved, give the Directors a general authority to allot new securities up to an aggregate nominal value of £3,684,960, representing approximately one third of the total Ordinary share capital of the Company in issue (excluding treasury shares) as at the date of this document, such authority to expire on 30 June 2016 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

(iii) Disapplication of Pre-emption Provisions

Resolution 10 is to enable the Directors to issue new shares and to resell shares held in treasury up to an aggregate nominal amount of £1,105,488 (representing approximately 10 per cent of the total Ordinary share capital in issue). Resolution 10, which is a special resolution, will, if approved, give the Directors power to allot Ordinary shares (including Ordinary shares held in treasury) for cash, otherwise than pro rata to existing shareholders, up to a maximum aggregate nominal amount of £1,105,488. Ordinary shares would only be issued for cash at a price not less than the net asset value per share. This authority will expire on 30 June 2016 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting). As noted, this disapplication of pre-emption rights also applies in respect of treasury shares which the Company may sell. The Company has no shares held in treasury as at the date of this report.

(iv) Purchase of the Company's own Ordinary Shares

Resolution 11, which is a special resolution, will be proposed to renew the Company’s authorisation to make market purchases of its own shares. The maximum number of Ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued share capital of the Company as at the date of the passing of the resolution (approximately 3.3 million Ordinary shares). The minimum price which may be paid for an Ordinary share (exclusive of expenses) shall be 50p. The maximum price for an Ordinary share (again exclusive of expenses) shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations for the Company’s Ordinary shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to an Ordinary share on the trading venue where the purchase is carried out.

This authority, if conferred, will only be exercised if to do so would enhance the net asset value per share and is in the best interests of shareholders generally. Shares so repurchased will be held in treasury. No dividends will be paid on treasury shares and no voting rights attach to them. Any purchase of shares will be made within guidelines established from time to time by the Board. This authority will expire on 30 June 2016 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

Recommendation

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and recommend that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings totalling 46,840 Ordinary shares, representing 0.2% of the issued Ordinary share capital of the Company.

By Order of the Board
Carolan Dobson
Chairman
3 March 2015

Statement of Corporate Governance

Corporate Governance

This Statement of Corporate Governance forms part of the Directors' Report which is shown on pages 19 to 21.

Compliance

The Company is committed to high standards of corporate governance and has in place arrangements which it believes are appropriate for an investment trust company. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles set out in the 2012 UK Corporate Governance Code (the "UK Code") which is available on the Financial Reporting Council's website: www.frc.org.uk. The Board confirms that the Company has complied throughout the accounting period with the relevant provisions contained within the UK Code.

Additionally, the Company is a member of the Association of Investment Companies ("AIC") and complies with the recommendations of the AIC's Code of Corporate Governance (the "AIC Code") which seeks to codify best practice of particular relevance to investment trusts. The AIC Code is available on the AIC's website: www.theaic.co.uk.

The Board

The Board consists currently of four non-executive Directors. The Board has no executive Directors as it has contractually delegated responsibility for the management of its investment portfolio, the arrangement of custodial and depositary services and the provision of accounting and company secretarial relationships.

Biographies of the Directors appear on pages 17 and 18 which demonstrate the wide range of skills and experience each brings to the Board. Each Director has a signed letter of appointment to formalise the terms of their engagement as a non-executive Director.

The Board has a formal schedule of matters specifically reserved to it for decision including strategy, dividend policy, gearing policy, review of the Manager and corporate governance matters. The Company's investment portfolio is managed within guidelines set by the Board as detailed on page 3.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the advice of Aberdeen Asset Management PLC as Secretaries of the Company.

The following table sets out the number of formal Board and Committee meetings attended by each Director during the year ended 31 December 2014 (with their eligibility to attend the relevant meeting in brackets).

Director	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Management Engagement Committee Meetings
C. Dobson	5 (5)	2 (2)	1 (1)	1 (1)
R. Lister	5 (5)	2 (2)	1 (1)	1 (1)
B. Rose	5 (5)	2 (2)	1 (1)	1 (1)
J. West	5 (5)	2 (2)	1 (1)	1 (1)

Between meetings the Board maintains regular contact with the Manager.

The Board regularly monitors the interests of each Director and a register of Directors' interests, including potential conflicts of interest, is maintained by the Company. Directors who have potential conflicts of interest will not take part in any discussions which relate to that particular conflict. The Board continually monitors potential conflicts of interests on a regular basis.

The Board adopts a zero tolerance approach to bribery and corruption and has implemented appropriate procedures designed to prevent bribery.

Performance Evaluation

The Board undertakes a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. In order to review its effectiveness, the Board carries out a process of formal self appraisal. This process encompasses quantitative and qualitative measures of performance implemented by way of an evaluation survey questionnaire and Board discussion. The appraisal of the Chairman is led by the Senior Independent Director in conjunction with the other Directors.

The review process carried out in respect of the year ended 31 December 2014, concluded that the Board is functioning well and operates in an efficient and effective manner with each Director making a significant contribution to the performance of the Company. There are no issues of concern.

The Board regularly reviews the independence of its members and, having due regard to the definitions and current AIC guidelines on independence, considers all Directors to be independent of the Company's Manager. The Board takes the view that independence is not compromised by length of service.

The Board has implemented the provisions of the UK Code whereby all Directors of the Company will stand for re-election on an annual basis. The Board believes that each

Director continues to be effective, bringing a wealth of knowledge and experience to the Board and recommends the re-election of each Director.

New Directors are given appropriate induction from the Manager covering legal responsibilities, the Manager's operations and investment trust industry matters. All Directors are entitled to receive appropriate and relevant training.

The Board has appointed three Committees with specific operations as set out below. The terms of reference of each Committee are available on the Company's website and will also be available at the Annual General Meeting.

Nominations Committee

The Nominations Committee, which comprises all Directors, reviews Director appraisals, succession planning, new appointments and training. Appointments of new Directors are undertaken following a thorough and open process involving professional recruitment consultants and interviews with the candidates identified. New appointments are identified against the requirements of the Company's business and the need to have a balanced Board with the best range of skills and experience to complement existing Directors. Appointments are made on merit, taking into account the benefits of diversity, including gender. However, the Board's overriding priority is to appoint the most appropriate candidates, regardless of gender or other forms of diversity. The Board, therefore, has not set any measurable targets in relation to the diversity of the Board.

Management Engagement Committee

The Management Engagement Committee, which comprises all Directors, reviews on an annual basis the terms of the agreements with the Manager including, but not limited to, the management fee and to review the performance of the Manager in relation to the achievement of the Company's objectives. The Board considers the continuing appointment of the Manager, on the terms agreed, to be in the interests of shareholders at this time.

Audit Committee

The Audit Committee is chaired by Mr West, who is a chartered accountant, and comprises all Directors of the Company with the exception of Ms Dobson, who attends but is a non-voting member. The Committee meets at least twice per year to coincide with the annual and interim reporting cycle. The main responsibilities of the Audit Committee include:

- to review the annual and interim financial statements, the accounting policies applied therein and to ensure compliance with financial and regulatory reporting requirements.
- to assess whether the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.
- to review the internal control and risk management systems on which the Company is reliant and to consider annually the need for the Company to have its own internal audit function.
- to review the arrangements in place within the Manager whereby staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.
- to consider the appointment, re-appointment, remuneration and terms of engagement of the external auditor.
- to review annually the external auditor's independence, objectivity, effectiveness, resources and qualification.
- to develop and implement policy on the engagement of the external auditor to supply non-audit services.

Significant Accounting Issues

The significant accounting issue considered by the Committee during the year in relation to the Company's financial statements was the valuation, existence and ownership of investments. The valuation of investments is undertaken in accordance with the accounting policies, disclosed in notes 1(a), 1(b) and 1(c) to the financial statements on pages 35 and 36. The audit includes independent confirmation of the existence of all investments from the Company's depositary. All investments are in quoted securities in active markets, are considered to be liquid and have been categorised as Level 1 within IFRS 13 fair value hierarchy.

Other Accounting Issues

Other accounting issues considered by the Committee included:

- Recognition of Investment Income. The recognition of investment income is undertaken in accordance with the stated accounting policies. The Directors also review the Company's income, including income received, revenue forecasts and dividend comparisons.
- Compliance with Sections 1158 and 1159. Approval for the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1 January 2012 has been obtained and on-going compliance with the eligibility criteria is monitored on a regular basis.

Statement of Corporate Governance continued

Review of Auditor

The Audit Committee has reviewed the independence and the effectiveness of the auditor, KPMG LLP ("KPMG"), as follows:

- The auditor reports on an annual basis the steps it takes to ensure its independence and objectivity and confirms that it has complied with the relevant UK independence guidelines. The level of non-audit services provided by the auditors is assessed and for the year ended 31 December 2014 there were no non-audit services provided.
- The Committee considers the experience, continuity and tenure of the audit team, including the audit director. The audit team consists of suitably experienced staff with knowledge of the investment trust sector and there is a process in place for the rotation of the director.
- The Committee assesses the level of audit service annually. The audit plan is reviewed well in advance and subsequent audit findings are reported comprehensively in a timely manner and are resolved satisfactorily. The auditor has a constructive working relationship with both the Board and the Manager.

The Committee is satisfied that KPMG remains independent and effective and, as such, has not considered it necessary to conduct a tender process for the appointment of its auditor. Although KPMG has held office as auditor for 22 years, the audit director is rotated at least every five years, in accordance with professional guidelines. The current audit director has served for three years.

The Committee is aware that impending UK legislation will require listed companies to rotate their auditor. Under the transitional arrangements for firms that had been audited by the same auditor for over 20 years there will be a grace period of six years after the enactment of the EU legislation. Accordingly, based upon the new legislation, KPMG will not be able to audit the Company from 2020. The Board intends to undertake an audit tender in 2017 in line with the next scheduled rotation of the audit director.

Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness.

The Board confirms that there is an on-going process for identifying, evaluating and managing the significant risks faced by the Company and for reviewing the effectiveness of the Company's system of internal controls including financial, operational, compliance and risk management. This process has been in place for the year under review and up to the date of approval of this Annual Report and accounts. It is regularly reviewed by the Board and accords with the FRC's Guidance.

The Board has delegated certain functions, including the investment management of the Company's assets to the Manager. The other main service providers are BNP Paribas Securities Services, London Branch, the depositary and Equiniti, the registrars.

The Board has reviewed the effectiveness of the Manager's 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 financial, operational and compliance. The key components designed to provide effective internal control are outlined below:

- the Manager prepares monthly forecasts and management accounts, covering investment activities and financial matters, which allow the Board to assess the Company's activities and review its performance;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers. The Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board;
- the Manager's internal audit and compliance departments continually reviews the Manager's operations and reports to the Audit Committee on a six monthly basis. In view of the Manager's internal controls that are in place, the Directors do not consider that there is a need for an internal audit function; and
- an independent depositary, BNP Paribas Securities Services, London Branch is appointed to safeguard the Company's investments, which are registered in the name of the depositary's nominee company.

In addition, the Board has adopted its own risk matrix which identifies the key risks for the Company and covers strategy, investment management, operations, regulatory and financial obligations and third party service providers. A monitoring system is undertaken whereby the controls to mitigate these risks, and the impact of the residual risks, are assessed on a regular basis.

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. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company and the Company reports formally to shareholders twice a year by way of the annual and half yearly reports. All shareholders have the opportunity to attend and vote at Annual General Meetings of the Company at which the Board and the Manager are available to discuss key issues affecting the Company. The Manager has also conducted meetings with major shareholders throughout the year to discuss issues relating to the Company which are also attended by the Chairman if appropriate. Shareholders and investors may obtain up-to-date information on the Company through the Company's website and the Manager's information services.

The Board's policy is to communicate directly with shareholders and their representative bodies without the involvement of the management group (either the Company Secretary or the Manager) in situations where direct communication is required.

As recommended by the AIC Code, the Company makes available the proxy votes cast at general meetings. In addition the Company aims to give at least twenty working days' notice to shareholders of the Annual General Meeting.

Responsibilities as an Institutional Shareholder

The Board has delegated responsibility for monitoring the corporate governance of investee companies to the Manager. The Board has reviewed and accepts the Manager's Corporate Governance Principles which may be found on the Manager's website at http://www.aberdeen-asset.com/aam.nsf/AboutUs/governancestewardship. This document sets out the Manager's framework on corporate governance, proxy voting and shareholder engagement in relation to companies in which the Manager has invested or is considering investing. The Board has also reviewed the Manager's Statement of Compliance with the UK Stewardship Code which appears on the Manager's website at the web address given above.

The Manager is responsible for reviewing, on a regular basis, the Annual Reports, circulars and other publications produced by the investee company, and for attending company meetings. The Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights. The Manager's policy is to vote on all shares held by the Company and 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.

Socially Responsible Investment Policy

The Board is aware of its duty to act in the interests of the Company. The Board acknowledges that there are risks associated with investment in companies which fail to conduct business in a socially responsible manner. The Manager considers social, environmental and ethical factors which may affect the performance or value of the Company's investments. The Directors, through the Manager, encourage companies in which investments are made to adhere to best practice in the area of Corporate Governance. They believe that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies in this area. The Company's ultimate objective is to deliver superior long-term returns for our shareholders which we believe will be produced on a sustainable basis by investments in companies which adhere to best practice in the area of Corporate Governance. Accordingly, the Manager will seek to favour companies which pursue best practice in the above area.

Directors' Remuneration Report

The Board has prepared this report in accordance with the regulations governing the disclosure and approval of Directors' remuneration. This Remuneration Report comprises two parts:

(i) Remuneration Policy, which was subject to a binding shareholder vote at the last AGM and then every three years thereafter. Should the Remuneration Policy be varied during this interval, then Shareholder approval for the new Remuneration Policy will be sought; and
(ii) An annual report on the implementation of remuneration, which provides information on how the policy has been applied during the year and which will be subject to an advisory vote on the level of remuneration paid during the year as set out in the Implementation Report.

The law requires the Company's auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in the report on pages 29 and 30.

The principles remain the same as for previous years. There have been no changes to the Directors' Remuneration Policy during the period of this Report nor are there any proposals for the foreseeable future, except for the Directors' fees, as set out in the Implementation Report below.

Remuneration Policy

This part of the Remuneration Report provides details of the Company's Remuneration Policy for Directors of the Company. This policy takes into consideration the principles of UK Corporate Governance and the AIC's recommendations regarding the application of those principles to investment companies. As the Company has no employees and the Board is comprised wholly of non-executive Directors and given the size and nature of the Company, the Board has not established a separate Remuneration Committee. Directors' remuneration is determined by the Board as a whole.

The Directors are non-executive and their fees are set within the limits of the Company's Articles of Association which limit the aggregate fees payable to the Board of Directors per annum. The level of cap may be increased by shareholder resolution from time to time. Subject to this overall limit, the Board's policy is that the remuneration of non-executive Directors should reflect the nature of their duties, responsibilities and the value of their time spent and be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and have a similar investment objective.

Fee rates are established by taking advice from external sources as to current market levels.

	31 December 2014 £	31 December 2013 £
Chairman	34,500	30,000
Chairman of Audit Committee	26,500	23,000
Director	23,000	20,000

Appointment

- The Company only intends to appoint non-executive Directors.
- All the Directors are non-executive appointed under the terms of Letters of Appointment.
- Directors must retire and be subject to re-election at the first AGM after their appointment, and annually thereafter.
- New appointments to the Board will be placed on the fee applicable to all Directors at the time of appointment (currently £23,000).
- No incentive or introductory fees will be paid to encourage a Directorship.
- The Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.
- The Company indemnifies its Directors for all costs, charges, losses, expenses and liabilities which may be incurred in the discharge of duties, as a Director of the Company.

Performance, Service Contracts, Compensation and Loss of Office

- The Directors' remuneration is not subject to any performance related fee.
- No Director has a service contract.
- No Director was interested in contracts with the Company during the period or subsequently.
- The terms of appointment provide that a Director may be removed without notice.
- Compensation will not be due upon leaving office.
- No Director is entitled to any other monetary payment or any assets of the Company.

Directors' & Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

The above Remuneration Policy was approved at the AGM on 17 April 2014 and is effective for three years.

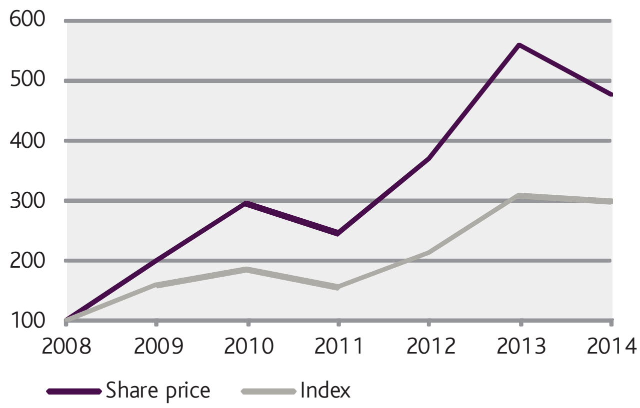
Implementation Report

Aggregate Fees Increase

Article 79 of the Company's Articles of Association currently limits the aggregate fees payable to the Board of Directors to a total of £150,000 per annum subject to any changes to the Retail Prices Index in any year (or such other amount as may from time to time be determined by ordinary resolution of the Company).

Directors' Fees Increase
There has not been an increase in Directors fees since 1 October 2010. The Board carried out a review of Directors' fees during the year, and concluded that the fees payable to Directors should increase, with effect from 1 January 2014, to £34,500 for the Chairman, £26,500 for the Chairman of the Audit Committee, £23,000 for each Director.

Company Performance
Also during the year the Board carried out a review of investment performance. The graph below shows the share price and NAV total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total return from the FTSE SmallCap Index (excluding Investment Companies) for the six year period to 31 December 2014 (rebased to 100 at 31 December 2008). This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.



Statement of Voting at General Meeting
At the Company's last AGM, held on 17 April 2014, shareholders approved the Directors' Remuneration Report in respect of the year ended 31 December 2013. 99.46% of votes were in favour of the resolution, 0.5% were against, and 0.18% abstained. 99.4% of votes were in favour of the Directors' Remuneration Policy, 0.55% were against and 0.12% abstained.

Spend on Pay
As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders. The total fees paid to Directors are shown below.

Audited Information

Fees Payable
The Directors who served in the year received the following fees which exclude employers' NI and any VAT payable:

Director	2014 £	2013 £	Taxable Benefits 2014	Taxable Benefits 2013
Carolan Dobson	34,500	30,000	-	-
Robert Lister	23,000	20,000	-	-
Barry Rose	23,000	20,000	-	-
James West	26,500	23,000	-	-
Total	**107,000**	**93,000**	**-**	**-**

Fees are pro-rated where a change takes place during a financial year. There were no payments to third parties from the fees referred to in the table above.

Directors' Interests in the Company
The Directors are not required to have a shareholding in the Company.

The Directors (including connected persons) at 31 December 2014 and 31 December 2013 had no interest in the share capital of the Company other than those interests, all of which are beneficial interests, shown in the table below. Following the year end, Carolan Dobson purchased 2,287 shares on 20 February 2015.

	31 Dec 2014 Ord 5p	31 Dec 2013 Ord 5p
Carolan Dobson	2,713	2,713
Robert Lister	5,200	5,200
Barry Rose	0	0
James West	36,640	36,640

The Directors' Remuneration Report was approved by the Board of Directors on 3 March 2015 and signed on its behalf by:

Carolan Dobson
Chairman
3 March 2015

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 the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Annual Report and financial statements taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Company's performance, business model and strategy; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

For and on behalf of Aberdeen Smaller Companies High Income Trust PLC

James West
Chairman of the Audit Committee
3 March 2015

Independent Auditors' Report to the Members of Aberdeen Smaller Companies High Income Trust PLC

Opinions and conclusions arising from our audit

Our opinion on the financial statements is unmodified

We have audited the financial statements of Aberdeen Smaller Companies High Income Trust Plc for the year ended 31 December 2014 set out on pages 31 to 49. In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its net return for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Carrying amount of listed equity, convertible and bond investments (£58.2m)

Refer to page 23 (Audit Committee section of the Directors' Report), pages 35 to 36 (accounting policy) and page 40 (financial disclosures)

The risk - The Company's portfolio of listed equity, convertible and bond investments makes up 96.5% of the Company's total assets (by value) and is considered to be the key driver of operations and performance results. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our response - Our procedures over the completeness, valuation and existence of the Company's quoted investment portfolio included, but were not limited to:

- documenting and assessing the processes in place to record investment transactions and to value the portfolio;
- agreeing the valuation of 100 per cent of investments in the portfolio to externally quoted prices; and
- agreeing 100 per cent of investment holdings in the portfolio to independently received third party confirmations.

Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £603,000, determined with reference to a benchmark of total assets (of which it represents 1%).

In addition, we applied materiality of £79,000 to income from investments for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the Company's members' assessment of the financial performance of the Company.

We report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £30,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the BNP Paribas office in Dundee.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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.

We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Independent Auditors' Report to the Members of Aberdeen Smaller Companies High Income Trust PLC continued

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 19 , in relation to going concern; and
- the part of the Corporate Governance Statement on pages 22 to 25 relating to the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Philip Merchant (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Edinburgh
EH1 2EG

3 March 2015

Statement of Comprehensive Income

		Year ended 31 December 2014			Year ended 31 December 2013		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments at fair value	9	–	(2,207)	(2,207)	–	15,380	15,380
Revenue	2						
Dividend income		1,840	–	1,840	1,829	–	1,829
Interest income/(expense) from investments		265	(34)	231	300	(32)	268
Other income		12	–	12	–	–	–
		2,117	(2,241)	(124)	2,129	15,348	17,477
Expenses							
Investment management fee	3	(137)	(319)	(456)	(207)	(207)	(414)
Other administrative expenses	4	(347)	–	(347)	(312)	–	(312)
Finance costs of borrowings	5	(54)	(124)	(178)	(114)	(114)	(228)
Profit/(loss) before tax		1,579	(2,684)	(1,105)	1,496	15,027	16,523
Tax expense	6	–	–	–	–	–	–
Profit/(loss) attributable to equity holders	8	**1,579**	**(2,684)**	**(1,105)**	**1,496**	**15,027**	**16,523**
Earnings/(loss) per Ordinary share (pence)	8	**7.14**	**(12.14)**	**(5.00)**	**6.77**	**67.96**	**74.73**

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

The Company does not have any income or expense that is not included in profit for the year, and therefore the "Profit/(loss) attributable to equity holders " is also the "Total comprehensive income attributable to equity holders" as defined in IAS 1 (revised).

All of the profit and comprehensive income are attributable to the equity holders of the Company.

All items in the above statement derive from continuing operations.

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

Balance Sheet

	Notes	As at 31 December 2014 £'000	As at 31 December 2013 £'000
Non-current assets			
Ordinary shares		50,748	53,679
Convertibles		1,016	1,034
Corporate bonds		3,234	3,120
Other fixed interest		3,224	2,987
Securities at fair value	9	58,222	60,820
Current assets			
Cash and cash equivalents		1,747	1,683
Other receivables	10	368	338
		2,115	2,021
Current liabilities			
Short-term loan	11	(10,000)	–
Trade and other payables		(239)	(223)
		(10,239)	(223)
Net current (liabilities)/assets		(8,124)	1,798
Total assets less current liabilities		50,098	62,618
Non-current liabilities			
Long-term loan	11	–	(10,000)
Net assets		**50,098**	**52,618**
Issued capital and reserves attributable to equity holders			
Called-up share capital	12	11,055	11,055
Share premium account		11,892	11,892
Capital redemption reserve		2,032	2,032
Retained earnings:			
Capital reserve	13	22,903	25,587
Revenue reserve	13	2,216	2,052
		50,098	**52,618**
Net asset value per Ordinary share (pence)	8	**226.59**	**237.99**

The financial statements were approved by the Board of Directors and authorised for issue on 3 March 2015 and were signed on its behalf by:

C. Dobson
Chairman

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

Statement of Changes in Equity

Year ended 31 December 2014

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2013		11,055	11,892	2,032	25,587	2,052	52,618
Revenue profit for the year		–	–	–	–	1,579	1,579
Capital losses for the year		–	–	–	(2,684)	–	(2,684)
Equity dividends	7	–	–	–	–	(1,415)	(1,415)
As at 31 December 2014		**11,055**	**11,892**	**2,032**	**22,903**	**2,216**	**50,098**

Year ended 31 December 2013

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 December 2012		11,055	11,892	2,032	10,560	1,927	37,466
Revenue profit for the year		–	–	–	–	1,496	1,496
Capital profits for the year		–	–	–	15,027	–	15,027
Equity dividends	7	–	–	–	–	(1,371)	(1,371)
As at 31 December 2013		**11,055**	**11,892**	**2,032**	**25,587**	**2,052**	**52,618**

The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

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

Cash Flow Statement

	Year ended 31 December 2014		Year ended 31 December 2013	
	£'000	£'000	£'000	£'000
Cash flows from operating activities				
Investment income received		2,121		2,111
Investment management fee paid		(460)		(387)
Other cash expenses		(320)		(313)
Cash generated from operations		1,341		1,411
Interest paid		(178)		(228)
Net cash inflows from operating activities		1,163		1,183
Cash flows from investing activities				
Purchases of investments	(7,068)		(9,734)	
Sales of investments	7,384		10,003	
Net cash inflow from investing activities		316		269
Cash flows from financing activities				
Loan repaid		–		(10,000)
Loan drawdown		–		10,000
Equity dividends paid		(1,415)		(1,371)
Net cash outflow from financing activities		(1,415)		(1,371)
Net increase in cash and cash equivalents		**64**		**81**
Reconciliation of net cash flow to movements in net debt				
Net increase in cash and cash equivalents as above		64		81
Opening net debt		(8,317)		(8,398)
Closing net debt		**(8,253)**		**(8,317)**

1. Accounting policies

(a) Basis of accounting

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and International Financial Reporting Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, and to the extent that they have been adopted by the European Union.

The financial statements have been prepared under the historical cost convention as modified to include the revaluation of securities held at fair value and on the assumption that approval as an investment trust will continue to be granted. The principal accounting policies adopted are set out below. These policies have been applied consistently throughout the year. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP except as referred to in paragraph (c) and (g) below. The effects on capital and revenue of the items involving departures from the SORP are set out in note 15.

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. Additionally, the net revenue of the Company is the measure the Directors believe appropriate in assessing its compliance with certain requirements set out in Sections 1158 – 1159 of the Corporation Tax Act 2010.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 9 – Financial Instruments (revised, early adoption permitted) (effective for annual periods beginning on or after 1 January 2018).

The following amendments to Standards are all effective for annual periods beginning on or after 1 January 2016.

- IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations
- IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception
- IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IAS 1 – Disclosure Initiative
- IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 27 – Investment Entities: Applying the Consolidation Exception

In addition, under the Annual Improvements to IFRSs 2010 – 2012 and 2011 – 2013 Cycles, a number of Standards are included for annual periods beginning on or after 1 July 2014.

Under the Annual Improvements to IFRSs 2012 – 2014 Cycle, a number of Standards are included for annual periods beginning on or after 1 January 2016.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company. The Company concludes however that certain additional disclosures may be necessary on their application.

(b) Investments

Investments have been designated upon initial recognition at fair value through profit or loss. Investments are recognised and de-recognised at trade date where a purchase or sale is under a contract whose terms require delivery within the time frame established by the market concerned, and are initially measured 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's electronic trading service for UK securities including all the FTSE All-Share Index constituents.

Gains and losses arising from the changes in fair value are included in net profit or loss for the period as a capital item. Transaction costs are treated as a capital cost.

(c) Income

Dividend income from equity investments including preference shares which have a discretionary dividend is recognised when the shareholders' rights to receive payment have been established, normally the ex-dividend date.

Interest from debt securities which include preference shares which do not have a discretionary dividend are accounted for on an effective yield basis. Any write off of the premium or discount on acquisition as a result of using this basis is allocated against capital reserve. The SORP recommends that such a write off should be allocated against revenue. The Directors believe this treatment is not appropriate for a high yielding investment trust which frequently trades in debt securities and believe any premium or discount paid for such an investment is a capital item.

Interest receivable on AAA rated money market funds and short term deposits are accounted for on an accruals basis.

Underwriting commission is taken to revenue, unless any shares underwritten are required to be taken up, in which case the proportionate commission received is deducted from the cost of the investment.

(d) Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except those where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. Accordingly the management fee and finance costs have been allocated 30% (2013: 50%) to revenue and 70% (2013: 50%) to capital, in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company.

(e) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Statement of Comprehensive Income using the effective interest rate method.

(f) Finance costs and long-term borrowings

Long-term borrowings are stated at the amount of the proceeds of issue net of expenses. The finance costs, being the difference between the net proceeds of borrowing and the total amount of payments that require to be made in respect of that borrowing, accrue evenly over the life of the borrowing and are allocated between capital and revenue.

Finance costs have been allocated 30% (2013: 50%) to revenue and 70% (2013: 50%) to capital in the Statement of Comprehensive Income, in order to reflect the Directors expected long-term view of the nature of the investment returns of the Company.

(g) Taxation

The tax payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible (see note 6 for a more detailed explanation). The Company has no liability for current tax.

Deferred tax is provided in full on timing differences which result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The SORP requires that a transfer should be made from income to capital equivalent to the tax value of any management expenses that arise in capital but are utilised against revenue. The Directors consider that this requirement is not appropriate for an investment trust with an objective to provide a high and growing dividend that does not generate a corporation tax liability. Given there is only one class of shareholder and hence overall the net effect of such a transfer to the net asset value of the shares is nil no such transfer has been made.

(h) Foreign currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Assets and liabilities in foreign currencies are translated at the closing rates of exchange at the Balance Sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or the revenue account as appropriate.

2. **Income**	**2014 £'000**	**2013 £'000**
Income from investments		
Dividend income from UK equity securities	1,547	1,613
Dividend income from overseas equity securities	185	177
Stock dividends	93	33
Property income distribution	15	6
Interest income from investments	265	300
	2,105	2,129
Other income		
Bank interest	1	–
Underwriting commission	11	–
Total revenue income	**2,117**	**2,129**

As per note 1(c), the Company amortises the premium or discount on acquisition on debt securities against unrealised capital reserve. For 2014 this represented £34,000 (2013 – £32,000) which has been reflected in the capital column of the Statement of Comprehensive Income.

	2014			**2013**		
	Revenue	**Capital**	**Total**	**Revenue**	**Capital**	**Total**
3. **Management fee**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Management fee	137	319	456	207	207	414

For the year ended 31 December 2014 management services were provided by Aberdeen Asset Managers Limited ("AAML") until 17 July 2014 and thereafter by Aberdeen Fund Managers Limited ("AFML"). There were no changes to the commercial arrangements. Under the terms of an agreement effective from 17 July 2014 (which replaced the existing arrangements with AAML), the Company has appointed AFML to provide management, accounting, administrative and secretarial duties. The fee is at an annual rate of 0.75% on the Company's net assets adding back bank debt, calculated monthly and paid quarterly. The balance due to AFML at the year end was £111,000 (2013 – £115,000). The fee is allocated 70% (2013 – 50%) to capital and 30% (2013 – 50%) to revenue.

4. Other administrative expenses	2014 £'000	2013 £'000
Directors' remuneration – fees as Directors	107	93
Fees payable to auditor (net of VAT):		
• fees payable to the Company's auditor for the audit of the Annual Report	19	19
Promotional activities	52	41
Legal and professional fees	8	23
Registrars fees	18	21
Printing and postage	19	14
Broker fees	36	36
Directors' & Officers' liability insurance	6	7
Trade subscriptions	22	21
Other expenses	60	37
	347	**312**

Expenses of £52,000 (2013 – £41,000) were paid to AAML in respect of the promotion of the Company. The balance outstanding at the year end was £14,000 (2013 – £10,000).

All of the expenses above, with the exception of the auditor's remuneration, include irrecoverable VAT where applicable. The VAT charged on the auditor's remuneration is disclosed within other expenses.

	2014			2013		
	Revenue	Capital	Total	Revenue	Capital	Total
5. Finance costs and borrowings	£'000	£'000	£'000	£'000	£'000	£'000
Bank loans	**54**	**124**	**178**	**114**	**114**	**228**

6. Taxation

Management expenses arising on revenue items this year were sufficient to offset against taxable revenue. In accordance with accounting policy 1(g) described on pages 36 and 37 no amount (2013 – £nil) has been credited to capital and charged to revenue as a notional corporation tax item.

At 31 December 2014, the Company had net surplus management expenses and loan relationship deficits of £11,095,000 (2013 – £10,318,000) in respect of which a deferred tax asset has not been recognised. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses and deficits of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses and loan relationship deficits.

The UK corporation tax rate was 23% until 31 March 2014 and 21% from 1 April 2014 giving an effective rate of 21.50% (2013 – effective rate of 23.25%). The tax assessed for the year is lower than the rate of corporation tax. The differences are explained below:

	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Profit/(loss) before tax	1,579	(2,684)	(1,105)	1,496	15,027	16,523
Taxation of return on ordinary activities at the standard rate of corporation tax	339	(577)	(238)	348	3,494	3,842
Effects of:						
UK dividend income not liable to further tax	(351)	–	(351)	(395)	–	(395)
Capital gains disallowed for the purposes of corporation tax	–	482	482	–	(3,569)	(3,569)
Income not subject to tax	(60)	–	(60)	(49)	–	(49)
Excess management expenses not utilised	72	95	167	96	75	171
Taxation charge for the year	–	–	–	–	–	–

7. Dividends

	2014 £'000	2013 £'000
Amounts recognised as distributions to equity holders in the period:		
Fourth interim dividend for the year ended 31 December 2013 of 1.60p (2012 – 1.55p) per share	354	343
Three interim dividends for the year ended 31 December 2014 totalling 4.80p (2013 – 4.65p) per share	1,061	1,028
	1,415	**1,371**

The fourth interim dividend of 1.65p per share, declared on 12 December 2014 and paid on 30 January 2015, has not been included as a liability in these financial statements.

We also set out below the total dividends payable in respect of the financial year, which is the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered:

	2014 £'000	2013 £'000
Three interim dividends for the year ended 31 December 2014 totalling 4.80p (2013 – 4.65p) per share	1,061	1,028
Fourth interim dividend for the year ended 31 December 2014 of 1.65p (2013 – 1.60p) per share	365	354
	1,426	**1,382**

8. Return and net asset value per share

	2014 £'000	2013 £'000
The returns per share are based on the following figures:		
Revenue return	1,579	1,496
Capital return	(2,684)	15,027
Net return	**(1,105)**	**16,523**
Weighted average number of shares in issue	**22,109,765**	**22,109,765**

The net asset value per share is based on net assets attributable to shareholders of £50,098,000 (2013 – £52,618,000) and on the 22,109,765 (2013 – 22,109,765) shares in issue at 31 December 2014.

9. Non–current assets – securities at fair value	2014 £'000	2013 £'000
Listed on recognised stock exchanges:		
United Kingdom	57,691	60,302
Overseas	531	518
	58,222	**60,820**

	2014 £'000	2013 £'000
Cost at 31 December 2013	39,809	36,337
Investment holdings gains at 31 December 2013	21,011	9,357
Fair value at 31 December 2013	60,820	45,694
Purchases	7,068	9,734
Amortised cost adjustments to fixed interest securities	(34)	(32)
Sales – proceeds	(7,425)	(9,956)
Sales – net gains	3,277	3,726
Movement in investment holdings gains during the year	(5,484)	11,654
Fair value at 31 December 2014	**58,222**	**60,820**
Cost at 31 December 2014	42,695	39,809
Investment holdings gains at 31 December 2014	15,527	21,011
Fair value at 31 December 2014	**58,222**	**60,820**

For an analysis of investments between equity and fixed interest securities and for detailed interest rates, see pages 13 and 14.

(Losses)/gains on investments	2014 £'000	2013 £'000
Net realised gains on sales	3,277	3,726
Movement in fair value	(5,484)	11,654
(Losses)/gains on investments	**(2,207)**	**15,380**

The total transaction costs on the purchases and sales in the year were £27,000 (2013 – £47,000) and £7,000 (2013 – £7,000) respectively.

All investments are categorised as held at fair value through profit and loss.

10. Other receivables	2014 £'000	2013 £'000
Due from brokers	45	4
Accrued income & prepayments	318	321
Other debtors	5	13
	368	**338**

None of the above amounts are overdue.

11. Current liabilities	2014 £'000	2013 £'000
(a) Bank loan included at amortised cost	**10,000**	**10,000**

Bank loan

The Company has a two year facility of £10 million with State Street Bank which was drawn down in full on 23 July 2013. The loan consists of two tranches, each of £5 million. Tranche A was drawn down in full and is repayable on 23 July 2015. The interest on Tranche A is fixed at 1.94% per annum, payable quarterly in arrears. Tranche B was drawn down in full and rolled over monthly. On 23 December 2014 Tranche B was rolled over for one month at a rate of 1.45319% per annum. Subsequently, the amount drawn down under Tranche B has been reduced to £4 million and rolled over on a monthly basis with a rate of 1.45381% applying at the date this report was approved.

The Directors are of the opinion that the fair value of the bank loan at 31 December 2014 is not materially different from the book value.

(b) Trade and other payables	2014 £'000	2013 £'000
Investment management fee	111	115
Interest payable	21	21
Sundry creditors	107	87
	239	**223**

12. Called-up share capital	Ordinary shares of 50 pence each Number	£'000
Allotted and fully paid		
At 31 December 2014 and 31 December 2013	**22,109,765**	**11,055**

The objective of the Company is to provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

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 in issue; and
- 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.

13. Retained earnings	2014 £'000	2013 £'000
Capital reserve		
At 1 January 2014	25,587	10,560
Net gains on sales of investments during the year	3,277	3,726
Movement in investment holdings gains during the year	(5,484)	11,654
Amortised cost adjustment relating to capital	(34)	(32)
Finance costs of borrowings (note 5)	(124)	(114)
Management fee	(319)	(207)
At 31 December 2014	**22,903**	**25,587**

The capital reserve includes investment holding gains amounting to £15,527,000 (2013 – £21,011,000), as disclosed in note 9.

Revenue reserve	2014 £'000	2013 £'000
At 1 January 2014	2,052	1,927
Revenue return	1,579	1,496
Dividends paid	(1,415)	(1,371)
At 31 December 2014	**2,216**	**2,052**

14. Financial instruments and risk management

The Company's investment activities expose it to various types of financial risk associated with the financial instruments and markets in which it invests. The Company's financial instruments comprise UK listed equities, preference shares, convertibles and corporate fixed interest bonds, cash balances, 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 may enter into derivative transactions for the purpose of managing market risks arising from the Company's activities though there was no exposure to derivative instruments, including contracts for difference, during the year.

The Board has delegated the risk management function to Aberdeen Fund Managers Limited ("the AIFM" or "AFML") under the terms of its management agreement with AFML (further details of which are included under note 3). The Board regularly reviews and agrees policies for managing each of the key financial risks identified with the Manager. The types of risk and the Manager's approach to the management of each type of risk, are summarised below. Such approach has been applied throughout the year and has not changed since the previous accounting period. The numerical disclosures exclude short-term debtors and creditors.

Risk management framework

The directors of Aberdeen Fund Managers Limited collectively assume responsibility for AFML's obligations under the AIFMD including reviewing investment performance and monitoring the Company's risk profile during the year.

AFML is a fully integrated member of the Aberdeen Asset Management PLC ("Aberdeen") group of companies (referred to as "the Group"), which provides a variety of services and support to AFML in the conduct of its business activities, including in the oversight of the risk management framework for the Company. The AIFM has delegated the day to day administration of the investment policy to Aberdeen Asset Managers Limited, which is responsible for ensuring that the Company is managed within the terms of its investment guidelines and the limits set out in FUND 3.2.2R (details of which can be found on the Company's website). The AIFM has retained responsibility for monitoring and oversight of investment performance, product risk and regulatory and operational risk for the Company.

The AIFM conducts its risk oversight function through the operation of the Group's risk management processes and systems which are embedded within the Group's operations. The Group's Risk Division supports management in the identification and mitigation of risks and provides independent monitoring of the business. The Division includes Compliance, Business Risk, Market Risk, Risk Management and Legal. The team is headed up by the Group's Head of Risk, who reports to the Chief Executive Officer of the Group. The Risk Division achieves its objective through embedding the Risk Management Framework throughout the organisation using the Group's operational risk management system ("SWORD").

The Group's Internal Audit Department is independent of the Risk Division and reports directly to the Group CEO and to the Audit Committee of the Group's Board of Directors. The Internal Audit Department is responsible for providing an independent assessment of the Group's control environment.

The Group's corporate governance structure is supported by several committees to assist the board of directors of Aberdeen, its subsidiaries and the Company to fulfil their roles and responsibilities. The Group's Risk Division is represented on all committees, with the exception of those committees that deal with investment recommendations. The specific goals and guidelines on the functioning of those committees are described on the committees' terms of reference.

Risk management

The main risks the Company faces from its financial instruments are (i) market risk (comprising interest rate risk and price risk), (ii) liquidity risk and (iii) credit risk.

(i) Market 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 two elements – interest rate risk and price risk.

Interest rate risk

Interest rate risk is the risk that interest rate movements will affect:

– the fair value of the investments in fixed interest rate securities;
– the level of income receivable on cash deposits;
– interest payable on the Company's variable rate borrowings.

Management of the risk

The Board will monitor the effects of interest movements closely to take account of when making investment and borrowing decisions.

The Board reviews on a regular basis the values of the fixed interest rate securities.

Interest rate profile

The interest rate risk profile of the portfolio of financial assets and liabilities (excluding ordinary shares and convertibles) at the Balance Sheet date was as follows:

As at 31 December 2014	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000	Non– interest bearing £'000
Assets					
Corporate bonds	8.03	5.49	3,234	–	–
Preference shares	–	6.64	3,224	–	–
Cash	–	–	–	1,747	–
Total assets	–	–	6,458	1,747	–
Liabilities					
Short-term bank loan	0.33	1.70	(10,000)	–	–
Total liabilities	–	–	(10,000)	–	–
Total	–	–	**(3,542)**	**1,747**	–

As at 31 December 2013	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000	Non– interest bearing £'000
Assets					
Corporate bonds	9.01	5.69	3,120	–	–
Preference shares	–	7.16	2,987	–	–
Cash	–	–	–	1,683	–
Total assets	–	–	6,107	1,683	–
Liabilities					
Long-term bank loan	0.83	1.69	(10,000)	–	–
Total liabilities	–	–	(10,000)	–	–
Total	–	–	**(3,893)**	**1,683**	–

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on bank loan is based on the interest rate payable, weighted by the total value of the loan. The maturity date of the Company's loan is shown in note 11 to the financial statements.

The cash assets consist of cash deposits on call earning interest at prevailing market rates.

Short-term debtors and creditors, with the exception of bank loans, have been excluded from the above tables.

All financial liabilities are measured at amortised cost.

Maturity profile

The maturity profile of the Company's financial assets and liabilities at the Balance Sheet date was as follows:

At 31 December 2014	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000	More than 5 years £'000
Fixed rate						
Corporate bonds	936	646	–	–	–	1,652
Bank loan	(10,000)	–	–	–	–	–
	(9,064)	646	–	–	–	1,652
Floating rate						
Cash	1,747	–	–	–	–	–
Total	**(7,317)**	**646**	**–**	**–**	**–**	**1,652**

At 31 December 2013	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000	More than 5 years £'000
Fixed rate						
Corporate bonds	–	–	1,551	–	–	1,569
Bank loan	–	(10,000)	–	–	–	–
	–	(10,000)	1,551	–	–	1,569
Floating rate						
Cash	1,683	–	–	–	–	–
Total	**1,683**	**(10,000)**	**1,551**	**–**	**–**	**1,569**

The maturity table above excludes the value of holdings in UK irredeemable preference shares held at the year end, which equated to £3,224,000 (2013 – £2,987,000).

Interest rate sensitivity

The sensitivity analysis below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the Balance Sheet date and 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 and all other variables were held constant, the Company's:

– profit before tax for the year ended 31 December 2014 would decrease by £83,000 (2013 – £83,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances and long term loan. These figures have been calculated based on cash positions and long term loan at each year end; and
– profit before tax for the year ended 31 December 2014 would decrease by £116,000 (2013 – £119,000). This is also mainly attributable to the Company's exposure to interest rates on its fixed interest securities. This is based on a Value at Risk ('VaR') calculated at a 99% confidence level.

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

– profit before tax for the year ended 31 December 2014 would increase by £83,000 (2013 – £83,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances and long term loan. These figures have been calculated based on cash positions and long term loan at each year end; and
– profit before tax for the year ended 31 December 2014 would increase by £116,000 (2013 – £119,000). This is also mainly attributable to the Company's exposure to interest rates on its fixed interest securities. This is based on a Value at Risk ('VaR') calculated at a 99% confidence level.

In the opinion of the Directors, the above sensitivity analyses would not necessarily reflect the year as a whole, since the level of exposure changes frequently as part of the interest rate risk management process used to meet the Company's objectives. The risk parameters used will also fluctuate depending on the current market perception.

Price risk

Price risks (ie changes in market prices other than those arising from interest rate) will affect the value of the quoted investments. The Company's stated objective is to provide a high and growing dividend with capital growth from a portfolio invested principally in the ordinary shares of smaller UK companies and UK fixed income securities.

Management of the risk

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 to specific sectors and the stock selection process, as detailed on page 50, 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. All of the investments held by the Company are listed on the London Stock Exchange, with the exception of its holding in Electricite de France, which is traded on Euronext Paris.

Price sensitivity

If market prices at the Balance Sheet date had been 10% higher while all other variables remained constant, the profit before tax attributable to ordinary shareholders for the year ended 31 December 2014 would have increased by £5,176,000 (2013 – £5,471,000). If market prices at the Balance Sheet date had been 10% lower while all other variables remained constant, the profit before tax attributable to ordinary shareholders for the year ended 31 December 2014 would have decreased by £5,176,000 (2013 – £5,471,000).This is based on the Company's equity portfolio and convertibles held at each year end.

(ii) Liquidity risk

This is the risk that the Company will encounter difficulty raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial instruments quickly at their fair value or from the inability to generate cash inflows as required.

Management of the risk

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. Short-term flexibility is achieved through the use of loan facilities (note 11).

(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.

Management of the risk

The Company considers credit risk not to be significant as it is actively managed as follows:

- where the 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;
- investments in quoted bonds are made across a variety of industry sectors so as to avoid concentrations of credit risk;
- transactions involving derivatives are entered into only with investment banks, the credit rating of which 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 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 daily basis. In addition, both stock and cash reconciliations to the custodian's records are performed on a daily basis to ensure discrepancies are investigated on a timely basis. The Manager's compliance department carries out periodic reviews of the custodian's operations and reports its finding to the Manager's risk management committee.
- transactions involving derivatives, structured notes and other arrangements wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest are subject to rigorous assessment by the Manager of the credit worthiness of that counterparty. The Company's aggregate exposure to each such counterparty is monitored regularly by the Board. The Company does not currently use derivatives. The Manager requires the Board's approval to implement the use of derivatives;
- cash is held only with reputable banks with high quality external credit enhancements.

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

Credit risk exposure

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 December was as follows:

	2014		2013	
	Balance Sheet £'000	Maximum exposure £'000	Balance Sheet £'000	Maximum exposure £'000
Non-current assets				
Securities at fair value through profit or loss	58,222	58,222	60,820	60,820
Current assets				
Trade and other receivables	50	50	17	17
Accrued income	318	318	321	321
Cash and cash equivalents	1,747	1,747	1,683	1,683
	60,337	**60,337**	**62,841**	**62,841**

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

Fair value of financial assets and liabilities

The fair value of the short term loan is shown on page 41. The book value of cash at bank and bank loans and overdrafts included in these financial statements approximate to fair value because of their short-term maturity. Investments held as dealing investments are valued at fair value. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices. For details of bond maturities and interest rates, see page 14. For all other short-term debtors and creditors, their book values approximate to fair values because of their short-term maturity.

Gearing

The Company has in place a £10 million unsecured loan. Although this gearing increases the opportunity for gain, it also increases the risk of loss in falling markets. The risk of increased gearing is managed by retaining the flexibility to reduce short term borrowings as appropriate.

15. Income enhancement

The SORP recommends that debt securities are accounted for on an effective yield basis with the associated adjustment being allocated to revenue. The Company has decided to allocate this adjustment to capital as explained in note 1(c). The effect of this treatment on revenue and capital is set out below.

As explained in note 1(g) revenue may utilise surplus management expenses that have arisen in capital but does not compensate capital for this tax effect as recommended by the SORP.

The effect of these income enhancement strategies on capital and income is summarised in the table below. There is a risk with these strategies that capital will be eroded unless the charges to capital are covered by gains elsewhere in the portfolio, and this is managed by investing in a portfolio of shares which in the long run is expected to provide adequate capital growth to absorb the effective yield adjustment while paying growing dividends which contribute to the pursuit of the Company's objectives.

In following this strategy, the Directors recognise that there is only one class of shareholder.

	2014		2013	
	Income £'000	Capital £'000	Income £'000	Capital £'000
Finance costs arising on bank loan finance	(27)	(62)	(57)	(57)
Return on corresponding investments	53	104	106	174
Amortised cost adjustment charged to capital on debt securities	34	(34)	32	(32)
	60	**8**	**81**	**85**

16. Fair value hierarchy

Under IFRS 13 'Fair Value Measurement' an entity is required 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).

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy at 31 December 2014 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	53,972	–	–	53,972
Quoted bonds	b)	4,250	–	–	4,250
Total		**58,222**	–	–	**58,222**

As at 31 December 2013

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a)	56,666	–	–	56,666
Quoted bonds	b)	4,154	–	–	4,154
Total		**60,820**	–	–	**60,820**

a) **Quoted equities**

The fair value of the Company's investments in quoted equities has been determined by reference to their quoted bid prices at the reporting date. Quoted equities included in Fair Value Level 1 are actively traded on recognised stock exchanges.

b) **Quoted bonds**

The fair value of the Company's investments in Corporate quoted bonds has been determined by reference to their quoted bid prices at the reporting date.

There have been no transfers of assets or liabilities between levels of the fair value hierarchy during any of the above periods.

17. Related party transactions and transactions with the Manager

Fees payable during the year to the Directors and their interests in the shares of the Company are disclosed within the Directors' Remuneration Report on page 27.

Management, promotional activities, secretarial and administration services are provided by AFML with details of transactions during the year and balances outstanding at the year end disclosed in notes 3 and 4.

Information about the Investment Manager

The Company's Investment Manager is Aberdeen Asset Managers Limited ("AAM"), a wholly-owned subsidiary of Aberdeen Asset Management PLC ("Aberdeen"), whose Group companies as at 31 December 2014 managed a combined £323.3 billion of funds for UK institutions, investment trusts, closed end funds, unit trusts, private clients and offshore funds. It has its headquarters in Aberdeen with principal investment offices in Edinburgh, Hong Kong, London, Philadelphia, Singapore and Sydney. Its investment teams are generally based in the markets or regions in which they invest; in the UK its main investment centres are in London and Edinburgh.

The Aberdeen Group manages 74 investment trusts and other closed-end funds representing £15.0 billion under management.

The Senior Investment Manager

Phil Webster

Phil is a senior investment manager on the Pan European equities team, who joined Aberdeen in 2004. Previously, Phil worked in Aberdeen's Private Client division before joining the UK and European team in 2006. Phil graduated with an MA in Economics from the University of Aberdeen and is a CFA Charterholder.

The Investment Process

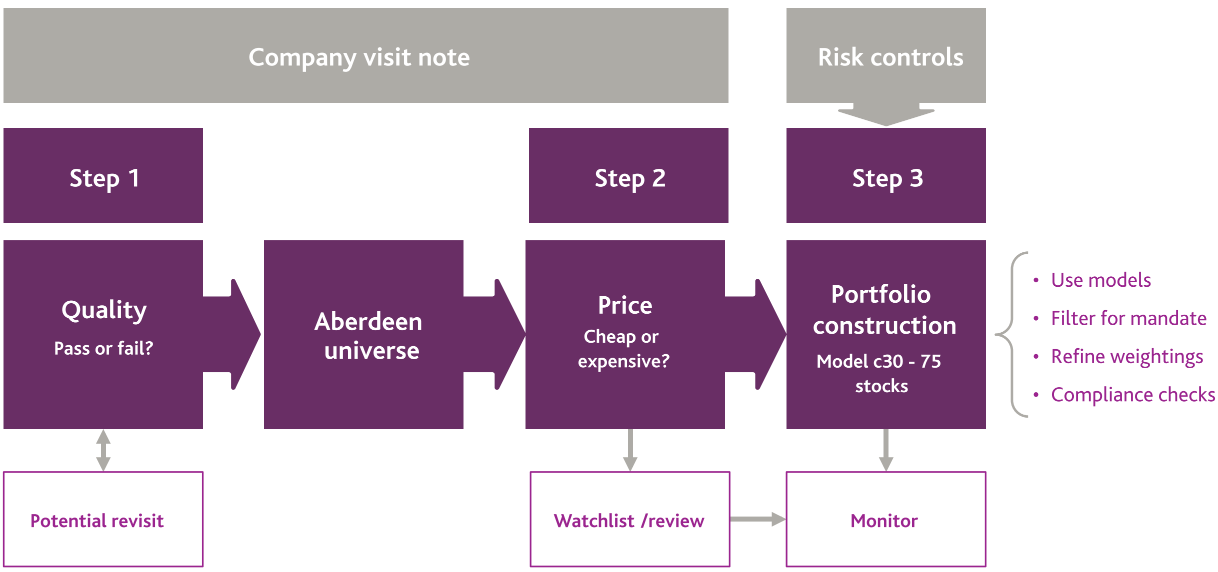
Philosophy and Style

The Investment Manager's philosophy is that markets are not always efficient. We (AAM) believe that superior investment returns are therefore attainable by identifying good companies cheaply, defined in terms of the fundamentals that in our opinion drive share prices over the long term. We undertake substantial due diligence before initiating any investment including company visits in order to assure ourselves of the quality of the prospective investment. We are then careful not to pay too high a price when making the investment. Subsequent to that investment we then keep in close touch with the company, aiming to meet management at least twice a year. Given our long-term fundamental investment philosophy, one would not expect much change in the companies in which we invest. We do, however, take opportunities offered to us by what we see as anomalous price movements within stock markets to either top up or top slice positions, which accounts for the bulk of the activity within the portfolio during the year under review.

Risk Controls

We seek to minimise risk by our in depth research. We do not view divergence from a benchmark as risk – we view investment in poorly run expensive companies that we do not understand as risk. In fact where risk parameters are expressed in benchmark relative terms, asset – including sector – allocation constitutes a significant constraint on stock selection. Hence diversification of stocks provides our main control.

AAM's performance and investment risk unit independently monitors portfolio positions, and reports monthly. As well as attributing performance it also produces statistical analysis, which is used by the Investment Manager primarily to check the portfolio is behaving as expected, not as a predictive tool.



Promotional Strategy

Aberdeen Smaller Companies High Income Trust PLC ("the Company") contributes to a promotional programme for the investment trusts run by Aberdeen Asset Managers Limited ("Aberdeen"), a wholly-owned subsidiary of Aberdeen Asset Management PLC. Under this agreement the Company's contribution is matched by Aberdeen. This contribution is reviewed annually.

The purpose of the programme is to communicate effectively with existing shareholders and gain more new shareholders, thus improving liquidity and thereby enhancing the value and rating of the Company's shares. Aberdeen's experience has also shown that well-targeted marketing of the Company's investment merits through packaged products, whether singly, or in conjunction with other investment trusts run by Aberdeen, can be a cost-effective way of gaining new investors.

These aims can be met in several ways:

Investor Relations Programme

Aberdeen runs an investor relations programme to existing and prospective institutional investors in investment trusts. Each month institutional investors and prospects receive a Manager's report on the Company that includes detailed performance analysis.

Group Schemes

The Aberdeen Group administers several savings schemes including the Share Plan, ISA and the Children's Plan. These schemes allow investment at low costs and have proved popular with private investors.

Newsletter

The 'Bulletin' newsletter, an informed commentary on markets and investment trusts managed by Aberdeen, is distributed to enquirers and investors free of charge.

Public Relations

Aberdeen undertakes to brief journalists, write regularly through placed articles and ensure Company results and any corporate activity are brought to public attention.

Shareholder Services

Aberdeen runs a Customer services help desk for retail enquirers and investors. Enquirers or investors will be sent any relevant literature on request and have queries answered immediately.

The Promotional Programme is under the direction of Aberdeen's Group Head of Brand who has considerable experience in promotions and communications of investment products. He is supported by a team of promotional professionals.

Internet

The Aberdeen Investment Trust website contains details of closed end funds and listed investment companies managed or advised by Aberdeen.

Aberdeen Smaller Companies High Income Trust Plc has its own dedicated website at: www.aberdeensmallercompanies.co.uk. This allows web users to access information on the Company's share price performance, capital structure, stock exchange announcements and monthly reports. The site is continually being evaluated for improvement.

It is intended that on-going promotional activities in these various fields, both proactive and supportive, will help the Company to increase and maintain its shareholder base, improve liquidity and sustain ratings.

The Company is committed to monitoring the Programme closely. The Aberdeen Group Head of Brand reports to the Board annually and provides a written summary quarterly.

If you have any questions about your Company, the Manager or performance, please telephone Aberdeen Customer Services Department (direct private investors) on 0500 00 00 40. Alternatively, internet users may e-mail AAM at inv.trusts@aberdeen-asset.com or write to AAM at Aberdeen Investment Trusts, PO Box 11020, Chelmsford, Essex CM99 2DB.

How to Invest in Aberdeen Smaller Companies High Income Trust PLC

Direct

Investors can buy and sell shares in Aberdeen Smaller Companies High Income Trust PLC directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively for Retail clients shares can be bought directly through Aberdeen's Investment Plan for Children, Investment Trust Share Plan and Investment Trust ISA.

Suitable for Retail/NMPI Status

The Company's shares are intended for investors primarily in the UK (including retail investors), professional-advised private clients and institutional investors who are wanting to benefit from the growth prospects of smaller companies by investment in a relatively risk averse investment trust and who understand and are willing to accept the risks of exposure to equities. Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

The Company currently conducts its affairs so that the shares issued by Aberdeen Smaller Companies High Income Trust PLC can be recommended by a financial adviser to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments and intends to continue to do so for the foreseeable future.

The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream pooled investments ("NMPI") because they are shares in an investment trust.

Aberdeen's Investment Plan for Children

Aberdeen Asset Managers Ltd ("Manager") runs an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including Aberdeen Smaller Companies High Income Trust PLC. Anyone can invest in the Children's Plan, including parents, grandparents and family friends; subject to certain criteria being met, see terms and conditions within the Key Features document for details. All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing the Manager in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts.

Aberdeen Investment Trust Share Plan

Aberdeen runs a Share Plan (the "Plan") through which shares in Aberdeen Smaller Companies High Income Trust PLC can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing the Manager in writing at any time.

Aberdeen Investment Trust ISA

An investment of up to £15,000 can be made in the tax year 2014/15 and £15,240 for the tax year 2015/16.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £15 + VAT. The annual ISA administration charge is £24 + VAT calculated annually and applied on 31 March (or the last business day in March) and collected soon thereafter either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the Plan prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the Plan, from the sale of investments held in the Plan. Under current legislation, investments in ISAs can grow free of capital gains tax.

Nominee Accounts and Voting Rights

In common with other schemes of this type, all investments in Aberdeen's Investment Trust Share Plan, Investment Plan for Children and Investment Trust ISA are held in nominee accounts and investors have full voting and other rights of share ownership.

ISA Transfer

You can choose to transfer previous tax year investments to us which can be invested in Aberdeen Smaller Companies High Income Trust PLC while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per investment trust of £250.

Note

Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs may be changed by future legislation.

Trust Information

If investors would like details of Aberdeen Smaller Companies High Income Trust PLC or information on Aberdeen's Children's Plan, Share Plan, ISA or ISA transfers please contact:

Aberdeen Investment Trust
PO Box 11020
Chelmsford
Essex, CM99 2DB

E-mail: inv.trusts@aberdeen-asset.com
Telephone: 0500 00 00 40

Details are also available on www.invtrusts.co.uk

Terms and Conditions for Aberdeen managed savings products can also be found under the Literature section of our website at www.invtrusts.co.uk.

Keeping You Informed

The Company's share price appears under the heading 'Investment Companies' in the Financial Times.

For internet users, detailed data on Aberdeen Smaller Companies High Income Trust PLC including share price, performance information and a monthly fact sheet is available from the Company's website (www.aberdeensmallercompanies.co.uk) and the TrustNet website (www.trustnet.co.uk). Alternatively please call 0500 00 00 40 for trust information.

For further information concerning any direct shareholding, please contact the Company's registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder helpline numbers:

Tel. 0871 384 2030
Fax 0871 384 2100
Shareview enquiry line: 0871 384 2020
Textel/hard of hearing line: 0871 384 2255
(Calls to the above Equiniti numbers will be charged at 8 pence per minute plus network extras. Lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday excluding bank holidays).

Overseas helpline number: +44 121 415 7047

Literature Request Service

For literature and application forms for the Manager's investment trust products, please contact:

Telephone: 0500 00 40 00
Email: aam@lit-request.com

Investor Warning

Aberdeen is aware that some investors have received telephone calls from people purporting to work for Aberdeen, or third parties, who have offered to buy their investment trust shares. These may be scams which attempt to gain personal information with which to commit identity fraud or could be 'boiler room' scams where a payment from an investor is required to release the supposed payment for their shares.

These callers do not work for Aberdeen and any third party making such offers has no link with Aberdeen. Aberdeen never makes these types of offers and does not 'cold-call' investors in this way. If investors have any doubt over the veracity of a caller, do not offer any personal information, end the call and contact Aberdeen's investor services centre using the details provided.

The above information on pages 52 to 53 have been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Conduct Authority.

Glossary of Terms and Definitions

AIFMD	Alternative Investment Fund Managers Directive
Benchmark	A market index which averages the performance of the share prices of companies in any given sector, thus providing an indication of movements in the stock market. The benchmark used in this Annual Report is the total return of the FTSE SmallCap Index (excluding Investment Companies). The FTSE SmallCap Index consists of companies outside of the FTSE 350 Index and represents approximately 2% of the UK market capitalisation.
Convertibles	Fixed income securities, which can be converted into shares.
Corporate Bond	A fixed income bond issued by a company. Corporate bonds are given grades which show how likely a company is to repay the interest and capital owed at the end of the term. Investment grade bonds are considered to have a low risk of default which means interest on the loan and the loan itself is almost certainly going to be paid back. Non-investment grade bonds carry a higher risk for investors as there is deemed to be a greater chance the company issuing the bond may default.
Discount	The amount by which the market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.
Dividend Cover	Earnings per share divided by dividends per share expressed as a ratio.
Dividend Yield	The annual dividend expressed as a percentage of the share price.
Equity Gearing	Equity gearing is calculated by dividing total equity investments by shareholders' funds expressed as a percentage.
FCA	Financial Conduct Authority
Leverage	For the purposes of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.
Net Asset Value ("NAV")	The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.
Net Gearing/(Cash)	Net gearing/(cash) is calculated by dividing total assets (as defined below) less cash or cash equivalents by shareholders' funds expressed as a percentage.
On-going Charges	Ratio of expenses as percentage of average daily shareholders' funds calculated as per the industry standard method.
Preference Shares	These entitle the holder to a fixed rate of dividend out of the profits of the company, to be paid in priority to dividends on other classes of shares.
Premium	The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.
Price/Earnings Ratio	The ratio is calculated by dividing the middle-market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.
Prior Charges	The name given to all borrowings including debentures, loans and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.
RDR	RDR is the FCA 'Retail Distribution Review'. This re-positioned the UK retail market from 31

	December 2012 to (i) introduce Adviser Charging of investors in place of initial/trail commission in respect of product purchases paid by product providers to intermediaries and (ii) introduce more stringent professional qualifications for retail intermediaries.
Total Assets	Total assets less current liabilities (before deducting prior charges as defined above).
Total Return	Total return involves reinvesting the net dividend in the month that the share price goes xd. The NAV total return involves investing the same net dividend in the NAV of the trust on the date to which that dividend was earned, e.g. quarter end, half year or year end date.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the twenty-third Annual General Meeting of the shareholders of Aberdeen Smaller Companies High Income Trust PLC (the "Company") will be held at the offices of Aberdeen Asset Management PLC, Bow Bells House, 1 Bread Street, London, EC4M 9HH on Thursday 23 April 2015 at 12.00 to transact the following business:

To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 9 inclusive will be proposed as ordinary resolutions and resolutions 10 and 11 will be proposed as special resolutions:

1. To receive the reports of the Directors and auditor and the audited financial statements for the year to 31 December 2014.
2. To receive and adopt the Directors' Remuneration Report for the year to 31 December 2014 (excluding the Directors' Remuneration Policy).
3. To re-elect Carolan Dobson as a Director of the Company.
4. To re-elect Robert Lister as a Director of the Company.
5. To re-elect Barry Rose as a Director of the Company.
6. To re-elect James West as a Director of the Company.
7. To re-appoint KPMG LLP as auditors of the Company and to authorise the Directors to determine their remuneration.

Special Business

8. That the Company shall continue as an investment trust.
9. That, in substitution for any pre-existing power to allot or grant rights to subscribe for or to convert any security into shares in the Company, but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company ("relevant securities") up to an aggregate nominal amount of £3,684,960, being equal to approximately one third of the Ordinary shares in issue, such authority to expire on 30 June 2016 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.
10. That, subject to the passing of resolution 9 in the notice convening the meeting at which this resolution is to be proposed (the "notice of meeting") and in substitution for all existing powers, the Directors be and are hereby generally empowered pursuant to Section 570 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in Section 560 (1) of the Act) for cash pursuant to the authority under Section 551 of the Act conferred by resolution 9 in the notice of meeting as if Section 561 of the Act did not apply to any such allotment, provided that this power:
    (i) expires on 30 June 2016 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if that power had not expired; and
    (ii) shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,105,488 being equal to approximately 10% of the Ordinary shares in issue.

    This power applies in relation to the sale of shares which is an allotment of equity securities that immediately before the allotment are held by the Company as treasury shares as if in the opening paragraph of this resolution the words "subject to the passing of resolution 9 in the notice convening the meeting at which this resolution is to be proposed ("the notice of meeting")" and "pursuant to the authority under Section 551 of the Act conferred by resolution 9 in the notice of meeting" were omitted.
11. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and 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 fully paid Ordinary shares of 50p each in the capital of the Company ("shares") provided that:
    (i) the maximum aggregate nominal value of the Ordinary shares hereby authorised to be purchased shall be limited to £1,657,126 being equal to approximately 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;
    (ii) the minimum price which may be paid for a share shall be 50p (exclusive of expenses);
    (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount being not more than 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 for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to a share on the trading venue where the purchase is carried out; and

(iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 June 2016 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase shares under such authority which would 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 or contracts as if the authority conferred hereby had not expired.

By order of the Board
Aberdeen Asset Managers Limited
Secretary
18 March 2015

Registered office:
40 Princes Street
Edinburgh EH2 2BY

Notes:

(i) A member is entitled to appoint a proxy or proxies to exercise all or any of their rights to attend, speak and vote on their behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. If a member wishes to appoint more than one proxy, they should contact the Company's Registrars on 0871 384 2030 (Calls to this number are charged at 8p per minute plus network extras. Lines are open from 8.30 a.m. to 5.30 p.m. Monday to Friday). The Equiniti overseas helpline number is +44 121 415 7047.

(ii) A form of proxy for use by members is enclosed with these accounts. Completion and return of the form of proxy will not prevent any member from attending the meeting and voting in person. To be valid, the form of proxy should be lodged, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, at the address stated thereon, so as to be received not less than 48 hours (excluding non-working days) before the time of the meeting.

(iii) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, to have the right to attend and vote at the Meeting a member must first have his or her name entered in the Company's register of members at 6.00pm on 21 April 2015 (or, in the event that the Meeting is adjourned, at 6.00pm on the day which is two business days before the time of the adjourned meeting). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the Meeting.

(iv) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the website www.euroclear.com. 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.

(v) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrars (ID RA19) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. 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 Application Host) from which the Company's Registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

(vi) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(vii) 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.

(viii) The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with Section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in notes i) and ii) above does not apply to Nominated Persons. The rights described in these notes can only be exercised by members of the Company.

(ix) No Director has a service contract with the Company but copies of Directors' letters of appointment will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and Scottish public holidays excepted) from the date of this notice and for at least 15 minutes prior to the Meeting and during the Meeting.

(x) As at close of business on 10 March 2015 (being the latest practicable date prior to publication of this document), the Company's issued share capital comprised 22,109,765 Ordinary shares of 50p each. The total number of voting rights in the Company as at 10 March 2015 is 22,109,765.

(xi) Any person holding 3% of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.

(xii) Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.

(xiii) The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the Auditors' Report and the conduct of the audit, which they intend to raise at the next meeting of the Company. The Company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the Company or (ii) 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 your full name and address, and be sent to: the Company Secretary, Aberdeen Smaller Companies High Income Trust PLC, 40 Princes Street, Edinburgh EH2 2BY.

(xiv) Information regarding the Meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's website, www.aberdeensmallercompanies.co.uk.

(xv) 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.

(xvi) Shareholders are advised that, unless otherwise stated, any telephone number, website or e-mail address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form) 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.

(xvii) There are special arrangements for holders of shares through the Aberdeen's Investment Plan for Children, Aberdeen's Investment Trust Share Plan and Investment Trust ISA. These are explained in the 'Letter of Direction' which such holders will have received with this report.

Alternative Investment Fund Managers Directive Disclosures (Unaudited)

Aberdeen Fund Managers Limited (“AFML”) and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ('AIFMD'). Those disclosures that are required to be made pre-investment are included within a pre-investment disclosure document ('PIDD') which can be found on the Company’s website www.aberdeensmallercompanies.co.uk. There have been no material changes to the disclosures contained within the PIDD since first publication in July 2014.

The periodic disclosures as required under the AIFMD to investors are made below:

- Information on the investment strategy and sector investment focus and principal stock exposures are included in the Strategic Report.
- None of the Company’s assets are subject to special arrangements arising from their illiquid nature.
- The Strategic Report, note 15 to the Financial Statements and the PIDD together set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected.
- There are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by AFML.
- All authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. In accordance with the Remuneration Code, the Company’s AIFM remuneration policy is available from the Company’s Secretaries, Aberdeen Asset Management PLC on request (see contact details on page 60 and the numerical remuneration in the disclosures in respect of the AIFM’s first relevant reporting period (year ended 30 September 2015) will be made available in due course).

Leverage

The table below sets out the current maximum permitted limit and actual level of leverage for the Company:

	Gross method	Commitment method
Maximum level of leverage	2.50:1	2.00:1
Actual level at 31 December 2014	1.16:1	1.20:1

There have been no breaches of the maximum level during the period and no changes to the maximum level of leverage employed by the Company. There is no right of re-use of collateral or any guarantees.granted under the leveraging arrangement. Changes to the information contained either within this Annual Report or the PIDD in relation to any special arrangements in place, the maximum level of leverage which AFML may employ on behalf of the Company; the right of use of collateral or any guarantee granted under any leveraging arrangement; or any change to the position in relation to any discharge of liability by the Depositary will be notified via a regulatory news service without undue delay in accordance with the AIFMD.

The information on this page has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Fund Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

Corporate Information

Directors
Carolan Dobson (Chairman)
Robert Lister
Barry Rose
James West

Alternative Investment Fund Manager *
Aberdeen Fund Managers Limited
Bow Bells House
1 Bread Street
London EC4M 9HH
(Registered in England and Wales with Company Registration Number: 00740118)
(*appointed as required by EU Directive 2011/61/EU)

Investment Manager
Aberdeen Asset Managers Limited
A subsidiary of Aberdeen Asset Management PLC

Secretaries and Registered Office
Aberdeen Asset Management PLC
40 Princes Street
Edinburgh
EH2 2BY

Company Registration Number
SC137448 (Scotland)

Auditors
KPMG LLP

Brokers
Winterflood Securities

Solicitors
Maclay Murray & Spens LLP

Depositary
BNP Paribas Securities Services, London Branch

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Telephone 0871 384 2030
Shareview dealing helpline 0871 384 2020
Textel/Hard of hearing line 0871 384 2255

(Calls to Equiniti using the above numbers are charged at 8p per minute plus network extras. Other telephony providers' costs may vary)

Company Registration Number
SC137448 (Scotland)

Foreign Account Tax Compliance Act ("FATCA")
IRS Registration Number (GIIN): DGR5S1.99999.SL.826

Website
www.aberdeensmallercompanies.co.uk

Financial Calendar

30 January 2015	Fourth interim dividend 2014 paid
4 March 2015	Annual results announcement
23 April 2015	Annual General Meeting (12 noon)
30 April 2015	First interim dividend 2015 payable
July 2015	Second interim dividend 2015 payable
August 2015	Half yearly results announcement
September 2015	Half yearly report published
October 2015	Third interim dividend 2015 payable