

# Aberdeen Smaller Companies High Income Trust

Half Yearly Report  
for the six months ended 30 June 2014



# Contents

---

1	Highlights and Financial Calendar
2	Interim Board Report
6	Investment Portfolio – Ordinary Shares
8	Investment Portfolio - Other Investments
9	Portfolio Analysis
10	Condensed Statement of Comprehensive Income
11	Condensed Balance Sheet
12	Condensed Statement of Changes in Equity
13	Condensed Cash Flow Statement
14	Notes to the Accounts
19	How to Invest in Aberdeen Smaller Companies High Income Trust PLC
21	Corporate Information

## 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.

## Highlights and Financial Calendar

	30 June 2014	31 December 2013	% change
Equity shareholders' funds (£'000)	50,669	52,618	-3.7
Net asset value per share	229.17p	237.99p	-3.7
Share price (mid-market)	210.00p	223.00p	-5.8
Discount to adjusted net asset value <sup>A</sup>	7.7%	5.7%	
Dividend yield	3.0%	2.8%	

<sup>A</sup> Based on IFRS net asset value above reduced by dividend adjustment of 1.60p (31 December 2013 – 1.60p).

## Performance (total return)

	Six months ended 30 June 2014	1 year ended 30 June 2014	3 years ended 30 June 2014	5 years ended 30 June 2014
Share price	-4.5%	+16.3%	+77.1%	+253.7%
Net asset value per share	-2.4%	+23.7%	+56.8%	+235.9%
FTSE SmallCap Index (ex IC's)	+0.4%	+25.3%	+62.6%	+143.7%
FTSE All-Share Index	+1.6%	+13.1%	+29.2%	+96.7%
Markit iBoxx Sterling Non-Gilts 1-15 Years Index <sup>A</sup>	+3.8%	+5.7%	+20.7%	+46.9%

<sup>A</sup> Source: Aberdeen Asset Management, Markit iBoxx, Morningstar & Factset.

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

## Financial Calendar

<b>29 August 2014</b>	Announcement of unaudited Half-Yearly Financial Report for the six months ended 30 June 2014
<b>September 2014</b>	Half-Yearly Report published and posted to shareholders
<b>October 2014</b>	Third interim dividend 2014 payable to shareholders
<b>31 December 2014</b>	Company's financial year end
<b>January 2015</b>	Fourth interim dividend 2014 payable to shareholders
<b>March 2015</b>	Announcement of annual financial results for the year ended 31 December 2014
<b>March 2015</b>	Annual Report and Accounts published and posted to shareholders
<b>23 April 2015 (12 noon)</b>	Annual General Meeting
<b>April 2015</b>	First interim dividend 2015 payable to shareholders
<b>July 2015</b>	Second interim dividend 2015 payable to shareholders

# Interim Board Report

---

## Performance

After a very strong 2013, the first half of 2014 has been quieter for small companies. The Net Asset Value (NAV) fell by 2.4% in total return terms over the period, having risen by 45% in 2013. In comparison, the FTSE Smaller Companies (ex IT) index rose by 0.4% in the six months to 30 June 2014. Over the same period the share price fell by 4.5%, reflecting a widening of the discount which had been extremely tight for the majority of the last year. The Board has already announced first and second interim dividends of 1.6p per share, an increase from 1.55p last year.

## Portfolio Commentary

Although we have seen a recovery in UK GDP, and some signs of recovery across Europe, the consequences for companies is less clear. Looking at the Trust's portfolio some two-thirds of revenues are exposed to UK and Europe. In theory this should provide a fillip to our holdings and, indeed, across the smaller company spectrum as a whole. We do, however, need to be mindful that this will take time to feed through.

Since 2013 the emerging market economies have continued to slow. The recent strength of Sterling has been sustained which reduces the competitiveness of UK companies exporting to emerging markets.

These issues are fundamental to the overarching theme of valuations which the Manager has discussed consistently in their regular shareholder updates. With valuations remaining stretched there is little margin for error if companies miss guidance.

It's also noteworthy to mention that the first half of this year has seen a deluge of initial public offerings (IPOs). The Manager reviewed a number of what they felt were the higher quality companies being brought to the market but, in the end, chose to invest in only one, Manx Telecom. A buoyant IPO market usually coincides with a period of market exuberance and there were certainly occasions where it felt like there was a disregard for quality, or valuation. There was often very little detail around longer term corporate performance, in particular during the financial crisis. This gave very little comfort over the through-cycle performance of these businesses. It is easy to say this with the benefit of hindsight but, in the main, most IPOs went well at launch but the vast majority are now below their issue price.

The drag the fixed income portfolio has on the Trust's total return during strong equity markets has been mentioned previously. In this quieter period the reverse of this recent trend has been seen. The entirety of the underperformance has been due to the equity portfolio with the fixed income

and preference share portfolios both in positive territory. Given the positioning of the fixed income portfolio the Board is happy to see this protection in a period of higher volatility in the Trust's equity portfolio.

## Equity Portfolio

Performance of the equity portfolio has been driven by a number of stock specific issues in some of the Trust's larger holdings. As a reminder the equity portfolio is comprised of 43 companies so, with an average weighting of around 2.5%, one may see periods where the performance can lag the index. There were three names in particular which hurt performance over the period: Fenner, Euromoney and Wilmington. Over the long term these have all delivered strong returns but are currently experiencing either tougher markets or a derating. Wilmington is a perfect example of the latter having gone through a period of restructuring and repositioning that saw the share price perform exceptionally well. At the recent trading update group revenue was up 5% with "good progress in operating profits and margins across most divisions". Where possible the Manager has been proactive throughout the last year selling down companies where valuations were extended but in the case of this being market-wide there are few places to hide.

As a Board we monitor performance closely but place the small underperformance over the period in the context of strong recent returns. We continue to believe that the Aberdeen process is well suited to the current environment, particularly as the Manager seeks to look through short-term market difficulties and, through their fundamental bottom up research process, consider where weakness has created buying opportunities. The Manager's response to periods of corporate underperformance is rarely to exit and therefore permanently destroy capital. Companies do change and evolve over time but the business models tend to be much more evolution than revolution which the Manager can monitor at their six monthly management meetings they conduct with companies.

As mentioned above, the Manager introduced one new name into the equity portfolio over the period, Manx Telecom. Its IPO provided a complete exit for its private equity owners. Manx is the incumbent Isle of Man telecom provider and is exposed to the attractions of an economy that has had 29 years of consecutive GDP growth. The business has dominant market positions in a duopolistic market. They are the only provider of fixed line services and have a strong broadband offering which will be bolstered by their upcoming investment in fibre. They have 75% market share in mobile and a higher share of the attractive premium customer spend. This will be further enhanced by the upcoming investment in 4G which should drive increased traffic and also help with customer retention. They also have a data centre business which is delivering decent growth as are their

---

small off-island ventures. The business is well capitalised, has strong cash-flow and at IPO was paying an attractive 7% dividend yield.

### **Fixed income/Preference share Portfolio**

The fixed income and preference share portfolio delivered good returns over the six months despite a lack of activity (albeit following an active 2013). In terms of the backdrop the second iteration of Forward Rate Guidance (FGR) yielded no major policy changes and the Bank of England are focussing on a more qualitative view rather than any single data point, although with recent GDP and unemployment data ahead of expectations this may lead to interest rate rises earlier than expected. From a portfolio perspective we believe that we are reasonably positioned to mitigate the impact, where possible, of the inevitable rate rises at some point in the future. The same can be said for the preference share portfolio, where we have seen some decent returns. The General Accident and Aviva holdings have both rallied in line with the performance of the underlying business. Ecclesiastical has also performed while Balfour Beatty has been broadly flat. We are monitoring Balfour Beatty due to current merger discussions between themselves and Carillion.

### **Alternative Investment Fund Managers Directive**

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 and a depositary, the latter overlaying the current custody arrangements.

The Company has now appointed Aberdeen Fund Managers Limited ("AFML"), following its authorisation by the FCA, to act as the Company's Alternative Investment Fund Manager, entering a new management agreement with AFML on 17 July 2014. Under this agreement the 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. The appointment of a depositary is a new requirement under the Directive and as previously reported this will increase costs over and above the previous custody arrangements.

### **Referendum on Scottish Independence**

The Company is registered in Scotland and the Board notes the continuing uncertainty in relation to the forthcoming

referendum on Scottish independence. In the event of a "Yes" vote in favour of independence this uncertainty may be prolonged until the implications for the Company are clearer, especially relating to the economic, legislative and regulatory backdrop.

### **Outlook**

As a Board we have been very active over the years in repositioning the Trust. The Manager believes that the equity portfolio is in good shape and the fixed income portfolio has been resized and positioned. We have also refinanced the debt to attractive levels whilst retaining flexibility through the combination of a fixed and variable stance, with overall debt of approx. 20% of gross assets. This is a level that as a Board we are comfortable with given where we are in the cycle.

Carolyn Dobson  
**Chairman**  
29 August 2014

## 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 provided within the 2013 Annual Report and Accounts. 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. The Manager invests in equities, bonds and preference shares, following their investment processes.

#### (i) Equity Investment Process

The equity investment process is active and bottom-up, based on disciplined evaluation of companies through direct visits by fund managers. Stock selection is the major source of added value, concentrating on 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. However, the exposure to equities is limited by investment guidelines drawn up by the Board in conjunction with the Manager which include:

- Maximum equity gearing of 110% of Net Asset Value
- Maximum 5% of investee company's ordinary shares
- Maximum 5% of the Company's total assets invested in the securities of one company
- No unquoted investments

#### (ii) 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 - £1 million
- Maximum acquisition cost of non-investment grade bond - £500,000

### Gearing Risk

Gearing is used with the intention of enhancing income and long-term total returns. 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 and £5 million floating rate.

The risk of gearing is also managed by investing in corporate bonds, the vast majority of which are investment grade and preference shares of large financial institutions.

### Scottish Independence

As a Scottish-registered Company, the Board is aware that there is uncertainty arising in relation to the referendum on Scottish independence due on 18 September 2014. The Board has given consideration to the implications that this might have for the Company, however, considers that it is too early at this stage to prejudge the outcome of a vote, or of any subsequent negotiations as they may affect the Trust and its shareholders.

### 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 and therefore appropriate to prepare the financial statements on a going concern basis.

### Directors' Responsibility Statement

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

- the condensed set of interim financial statements contained within the Half Yearly Financial Report has been prepared in accordance with IAS34; and
- the Interim Board Report (constituting the interim management statement) includes a fair review of the information required by rules 4.2.7R of the Disclosure and Transparency Rules (being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of

---

financial statements and a description of the principal risks for the remaining six months of the financial year) and 4.2.8R (being related party transactions that have taken place during the first six months of the financial year and that have materially affected the financial position of the Company and its subsidiary during that period; and any changes in the related party transactions described in the last annual report that could so do).

The Half Yearly Financial Report for the six months to 30 June 2014 comprises the Interim Board Report, the Directors' Responsibility Statement and a condensed set of financial statements.

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

Carolyn Dobson  
**Chairman**  
29 August 2014

## Investment Portfolio – Ordinary Shares

As at 30 June 2014

Company	Sector	Market value £'000	Total portfolio %
<b>RPC Group</b> Europe's leading manufacturer of rigid plastic packaging which is benefitting from lightweighting, product innovation, and a pan-european footprint giving them the ability to target the large FMCG companies.	General Industrials	2,159	3.6
<b>Wilmington</b> Provider of B2B digital services in niche areas of compliance, pensions, and Insurance. The model is predominantly subscription based with high level of recurring revenue.	Media	2,027	3.4
<b>XP Power</b> XP Power designs and produces power control components. They sell critical high cost of failure low value equipment to healthcare, industrial and technology industries. Their investment into new facilities and R&D is driving future growth.	Electronic & Electrical Equipment	1,851	3.1
<b>Fenner</b> A specialist provider of advanced polymer solutions with two strong operating divisions ACS and AEP. ACS sells and services conveyor belting equipment while AEP manufactures a wide array of specialist products that are critical to the end market customer whilst also representing a low percentage of the end products cost.	Industrial Engineering	1,772	2.9
<b>Dechra Pharmaceuticals</b> Develops, manufactures and distributes veterinary pharmaceuticals with excellent opportunities to expand further into both Europe and the US.	Pharmaceuticals & Biotechnology	1,729	2.9
<b>Euromoney Institutional Investor</b> Online media business aimed at servicing the financial sector through their market leading BCA business. High recurring subscription base provides a solid backdrop.	Media	1,709	2.8
<b>TT Electronics</b> Manufactures electronic and electrical components for the automotive, telecommunication and industrial engineering sectors.	Electronic & Electrical Equipment	1,692	2.8
<b>Helical Bar</b> Develops, invests and trades property in the United Kingdom, deriving rental income from retail, office and industrial properties.	Real Estate Investment & Services	1,629	2.7
<b>Berendsen</b> European textile services business with high barriers to entry and strong customer relationships. Business has been focused around core growth opportunities which are gaining traction.	Support Services	1,615	2.7
<b>Morgan Sindall</b> Operates a specialist construction group. Activities include office design, fitting out, refurbishment, building contracting, property investment and related specialist services.	Construction & Materials	1,597	2.7
<b>Ten largest investments</b>		<b>17,780</b>	<b>29.6</b>



## Investment Portfolio – Ordinary Shares *continued*

As at 30 June 2014

Company	Sector	Market value £'000	Total portfolio %
Chesnara	Life Insurance	1,580	2.6
Rathbone Brothers	Financial Services	1,560	2.6
Elementis	Chemicals	1,537	2.6
Interserve	Support Services	1,518	2.5
Close Brothers	Financial Services	1,508	2.5
Bellway	Household Goods & Home Construction	1,425	2.4
Bloomsbury Publishing	Media	1,411	2.3
Devro	Food Producers	1,360	2.3
BBA Aviation	Industrial Transportation	1,355	2.3
Fisher James	Industrial Transportation	1,316	2.2
Twenty largest investments		<b>32,350</b>	<b>53.9</b>
Victrex	Chemicals	1,268	2.1
Anite	Software & Computer Services	1,121	1.9
Hiscox	Non Life Insurance	1,092	1.8
Fuller Smith & Turner 'A'	Travel & Leisure	1,085	1.8
Numis	Financial Services	1,082	1.8
Dignity	General Retailers	1,069	1.8
Robert Walters	Support Services	1,066	1.8
Hansteen	Real Estate Investment Trusts	1,022	1.7
Savills	Real Estate Investment & Services	969	1.6
Huntsworth	Media	896	1.5
Thirty largest investments		<b>43,020</b>	<b>71.7</b>
Acal	Support Services	893	1.5
Domino Printing	Electronic & Electrical Equipment	822	1.4
Intermediate Capital Group	Financial Services	773	1.3
Abcam	Pharmaceuticals & Biotechnology	760	1.3
Keller Group	Construction & Materials	751	1.3
Aveva Group	Software & Computer Services	729	1.2
Oxford Instruments	Electronic & Electrical Equipment	722	1.2
Greggs	Food & Drug Retailers	718	1.2
AG Barr	Beverages	684	1.1
McBride	Household Goods & Home Construction	678	1.1
Forty largest investments		<b>50,550</b>	<b>84.3</b>
The Restaurant Group	Travel & Leisure	665	1.1
Manx Telecom	Fixed Line Telecommunications	582	1.0
Mothercare	General Retailers	494	0.8
Majestic Wine	General Retailers	305	0.5
<b>Total Ordinary shares</b>		<b>52,596</b>	<b>87.7</b>

## Investment Portfolio - Other Investments

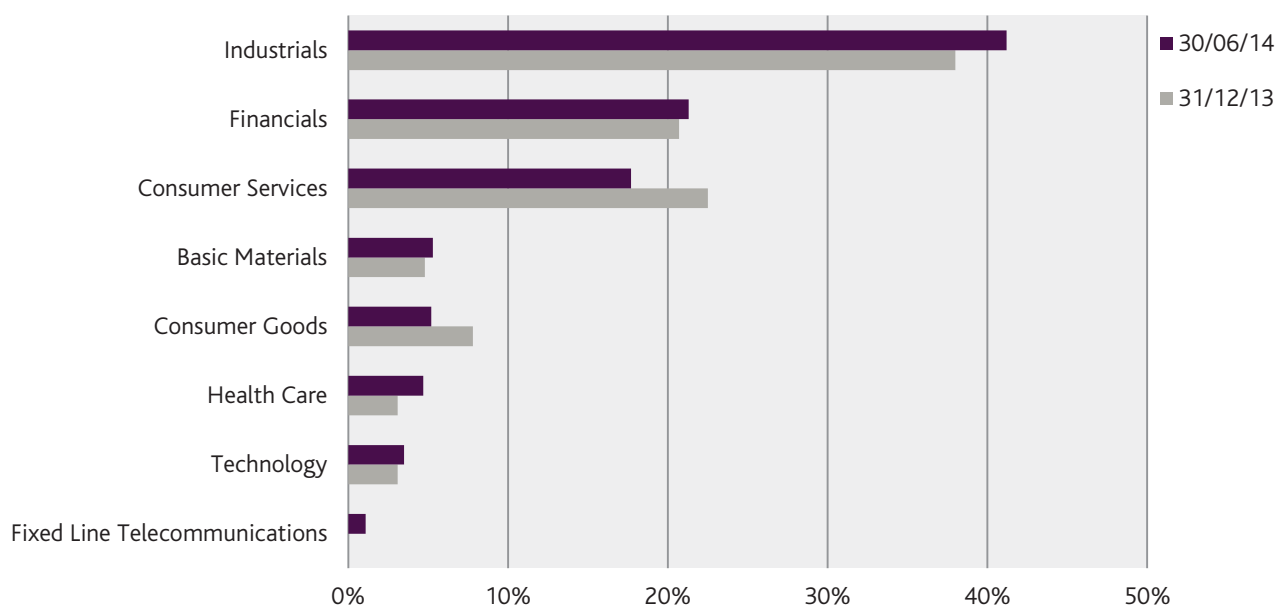
As at 30 June 2014

Company	Market value £'000	Total portfolio %
<b>Convertibles</b>		
Balfour Beatty Cum Conv 10.75%	1,043	1.7
<b>Total Convertibles</b>	<b>1,043</b>	<b>1.7</b>
<b>Corporate Bonds</b>		
National Westminster 5.98%	943	1.6
Stagecoach Group 5.75% 2016	650	1.1
Wales & West Utilities Finance 6.75% 2036	569	0.9
Electricite de France 6% <sup>A</sup>	532	0.9
Anglian Water 4.5% 2026	499	0.8
<b>Total Corporate Bonds</b>	<b>3,193</b>	<b>5.3</b>
<b>Preference shares</b>		
Aviva 8.75%	1,270	2.1
General Accident 8.875%	1,229	2.0
Ecclesiastical Insurance 8.625%	747	1.2
<b>Total Preference shares</b>	<b>3,246</b>	<b>5.3</b>
<b>Total Other Investments</b>	<b>7,482</b>	<b>12.3</b>
<b>Total Investments</b>	<b>60,078</b>	<b>100.0</b>

<sup>A</sup> All investments are listed on the London Stock Exchange (Sterling based) except those marked, which are listed on overseas exchanges based in sterling.

# Portfolio Analysis

## Analysis of Equity Portfolio



## Distribution of Assets and Liabilities

	31 December 2013		Purchases	Sales	Other <sup>A</sup>	Gains/ (losses)	30 June 2014	
	£'000	%	£'000	£'000	£'000	£'000	£'000	%
<b>Listed investments</b>								
Ordinary shares	53,679	102.0	4,125	(2,969)	–	(2,239)	52,596	103.8
Convertibles	1,034	2.0	–	–	–	9	1,043	2.0
Corporate Bonds	3,120	5.9	–	–	(18)	91	3,193	6.3
Other fixed interest	2,987	5.7	–	–	–	259	3,246	6.4
	60,820	115.6	4,125	(2,969)	(18)	(1,880)	60,078	118.5
Current assets	2,021	3.8					812	1.6
Long-term loan	(10,000)	(19.0)					(10,000)	(19.7)
Other current liabilities	(223)	(0.4)					(221)	(0.4)
<b>Net assets</b>	<b>52,618</b>	<b>100.0</b>					<b>50,669</b>	<b>100.0</b>
<b>Net asset value per share</b>	<b>238.0p</b>						<b>229.2p</b>	

<sup>A</sup> Represents amortisation costs on debt securities of £18,000.

## Condensed Statement of Comprehensive Income

	Notes	Six months ended 30 June 2014 (unaudited)			Six months ended 30 June 2013 (unaudited)			Year ended 31 December 2013 (audited)		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Dividend income	2	1,008	–	1,008	972	–	972	1,829	–	1,829
Interest income from investments	2	131	(18)	113	166	(15)	151	300	(32)	268
(Losses)/gains on investments held at fair value		–	(1,880)	(1,880)	–	4,728	4,728	–	15,380	15,380
<b>Total income</b>		<b>1,139</b>	<b>(1,898)</b>	<b>(759)</b>	<b>1,138</b>	<b>4,713</b>	<b>5,851</b>	<b>2,129</b>	<b>15,348</b>	<b>17,477</b>
<b>Expenses</b>										
Investment management fees		(70)	(164)	(234)	(97)	(97)	(194)	(207)	(207)	(414)
Other administrative expenses		(161)	–	(161)	(165)	–	(165)	(312)	–	(312)
Finance costs of borrowing		(26)	(62)	(88)	(66)	(66)	(132)	(114)	(114)	(228)
<b>Profit/(loss) before taxation</b>		<b>882</b>	<b>(2,124)</b>	<b>(1,242)</b>	<b>810</b>	<b>4,550</b>	<b>5,360</b>	<b>1,496</b>	<b>15,027</b>	<b>16,523</b>
Taxation	3	–	–	–	–	–	–	–	–	–
<b>Profit/(loss) attributable to equity holders</b>	4	<b>882</b>	<b>(2,124)</b>	<b>(1,242)</b>	<b>810</b>	<b>4,550</b>	<b>5,360</b>	<b>1,496</b>	<b>15,027</b>	<b>16,523</b>
<b>Return per Ordinary share (pence)</b>	5	<b>3.99</b>	<b>(9.61)</b>	<b>(5.62)</b>	<b>3.66</b>	<b>20.58</b>	<b>24.24</b>	<b>6.77</b>	<b>67.96</b>	<b>74.73</b>

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.

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

All items in the above statement derive from continuing operations.

## Condensed Balance Sheet

	Notes	As at 30 June 2014 (unaudited) £'000	As at 30 June 2013 (unaudited) £'000	As at 31 December 2013 (audited) £'000
<b>Non-current assets</b>				
Ordinary shares		52,596	43,458	53,679
Convertibles		1,043	1,035	1,034
Corporate bonds		3,193	2,902	3,120
Preference shares		3,246	2,714	2,987
<b>Securities at fair value</b>		<b>60,078</b>	<b>50,109</b>	<b>60,820</b>
<b>Current assets</b>				
Cash and cash equivalents		386	1,763	1,683
Other receivables		426	563	338
<b>Total current assets</b>		<b>812</b>	<b>2,326</b>	<b>2,021</b>
<b>Total assets</b>		<b>60,890</b>	<b>52,435</b>	<b>62,841</b>
<b>Current liabilities</b>				
Short-term loan		–	(10,000)	–
Trade and other payables		(221)	(294)	(223)
<b>Total current liabilities</b>		<b>(221)</b>	<b>(10,294)</b>	<b>(223)</b>
<b>Non-current liabilities</b>				
Long-term loan		(10,000)	–	(10,000)
<b>Total liabilities</b>		<b>(10,221)</b>	<b>(10,294)</b>	<b>(10,223)</b>
<b>Net assets</b>		<b>50,669</b>	<b>42,141</b>	<b>52,618</b>
<b>Issued capital and reserves attributable to equity holders</b>				
Called-up share capital		11,055	11,055	11,055
Share premium account		11,892	11,892	11,892
Capital redemption reserve		2,032	2,032	2,032
Capital reserve	6	23,463	15,110	25,587
Revenue reserve		2,227	2,052	2,052
<b>Equity shareholders' funds</b>		<b>50,669</b>	<b>42,141</b>	<b>52,618</b>
<b>Net asset value per Ordinary share (pence)</b>	5	<b>229.17</b>	<b>190.60</b>	<b>237.99</b>

## Condensed Statement of Changes in Equity

### Six months ended 30 June 2014 (unaudited)

	Notes	Share	Share	Capital	Capital	Revenue	Total
		capital	premium	redemption	reserve	reserve	
		£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 December 2013		11,055	11,892	2,032	25,587	2,052	52,618
Revenue profit for the period		–	–	–	–	882	882
Capital loss for the period		–	–	–	(2,124)	–	(2,124)
Equity dividends	4	–	–	–	–	(707)	(707)
<b>Balance at 30 June 2014</b>		<b>11,055</b>	<b>11,892</b>	<b>2,032</b>	<b>23,463</b>	<b>2,227</b>	<b>50,669</b>

### Six months ended 30 June 2013 (unaudited)

	Notes	Share	Share	Capital	Capital	Revenue	Total
		capital	premium	redemption	reserve	reserve	
		£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 December 2012		11,055	11,892	2,032	10,560	1,927	37,466
Revenue profit for the period		–	–	–	–	810	810
Capital profit for the period		–	–	–	4,550	–	4,550
Equity dividends	4	–	–	–	–	(685)	(685)
<b>Balance at 30 June 2013</b>		<b>11,055</b>	<b>11,892</b>	<b>2,032</b>	<b>15,110</b>	<b>2,052</b>	<b>42,141</b>

### Year ended 31 December 2013 (audited)

	Notes	Share	Share	Capital	Capital	Revenue	Total
		capital	premium	redemption	reserve	reserve	
		£'000	£'000	£'000	£'000	£'000	£'000
Balance 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 profit for the year		–	–	–	15,027	–	15,027
Equity dividends	4	–	–	–	–	(1,371)	(1,371)
<b>Balance at 31 December 2013</b>		<b>11,055</b>	<b>11,892</b>	<b>2,032</b>	<b>25,587</b>	<b>2,052</b>	<b>52,618</b>

## Condensed Cash Flow Statement

	Six months ended 30 June 2014 (unaudited) £'000	Six months ended 30 June 2013 (unaudited) £'000	Year ended 31 December 2013 (audited) £'000
<b>Cash flows from operating activities</b>			
Investment income received	1,069	1,076	2,111
Investment management fees paid	(234)	(183)	(387)
Other cash expenses	(158)	(153)	(313)
<b>Cash generated from operations</b>	<b>677</b>	<b>740</b>	<b>1,411</b>
Interest paid	(89)	(152)	(228)
<b>Net cash inflows from operating activities</b>	<b>588</b>	<b>588</b>	<b>1,183</b>
<b>Cash flows from investing activities</b>			
Purchases of investments	(4,077)	(6,775)	(9,734)
Sales of investments	2,899	7,033	10,003
<b>Net cash (outflows)/ inflows from investing activities</b>	<b>(1,178)</b>	<b>258</b>	<b>269</b>
<b>Cash flows from financing activities</b>			
Loan repaid	–	–	(10,000)
Loan drawdown	–	–	10,000
Equity dividends paid	(707)	(685)	(1,371)
<b>Net cash outflows from financing activities</b>	<b>(707)</b>	<b>(685)</b>	<b>(1,371)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1,297)</b>	<b>161</b>	<b>81</b>
Cash and cash equivalents at the start of the period	1,683	1,602	1,602
<b>Cash and cash equivalents at the end of the period</b>	<b>386</b>	<b>1,763</b>	<b>1,683</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and cash equivalents	<b>386</b>	<b>1,763</b>	<b>1,683</b>

# Notes to the Accounts

## 1. Accounting policies

### (a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') 34 – 'Interim Financial Reporting', as adopted by the International Accounting Standards Board ('IASB'), and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB. They have also been prepared using the same accounting policies applied for the year ended 31 December 2013 financial statements, which received an unqualified audit report, save for the allocation of the investment management fee and finance costs. From 1 January 2014 the allocation of such costs was amended to 70% to capital and 30% to revenue in order to reflect the Directors expected long-term view of the nature of the investment returns of the Company. Prior to 1 January 2014, the allocation was 50% to capital and 50% to revenue.

At the date of authorisation of these financial statements, various Standards, amendments to Standards and Interpretations which have not been applied to these financial statements, were in issue but were not yet effective. The following are the Standards and amendments to existing Standards which may be relevant but not yet effective. Other Standards, Interpretations and amendments to Standards which are not yet effective and not relevant have not been included;

IFRS 9 – Financial Instruments: Classification and Measurement (current proposed effective date for implementation 1 January 2018)

### (b) Dividends payable

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

	Six months ended 30 June 2014 £'000	Six months ended 30 June 2013 £'000	Year ended 31 December 2013 £'000
<b>2. Income</b>			
<b>Income from investments</b>			
Dividend income from UK equity securities	847	829	1,613
Dividend income from overseas equity securities	126	133	177
Stock dividends	32	10	33
Property income distribution	3	–	6
Interest income from investments	131	166	300
	<b>1,139</b>	<b>1,138</b>	<b>2,129</b>

The Company amortises the premium or discount on acquisition on debt securities against unrealised capital reserve. For the six months to 30 June 2014 this represented £18,000 (30 June 2013 – £15,000; 31 December 2013 – £32,000) which has been reflected in the capital column of the Statement of Comprehensive Income.

## 3. Taxation

The taxation expense reflected in the Condensed Statement of Comprehensive Income is based on management's best estimate of the weighted average annual corporation tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 December 2014 is 21.50%.



#### 4. Dividends

The following table shows the revenue for each period less the dividends declared in respect of the financial period to which they relate.

	Six months ended 30 June 2014 £'000	Six months ended 30 June 2013 £'000	Year ended 31 December 2013 £'000
Revenue	882	810	1,496
Dividends declared	(707) <sup>A</sup>	(685) <sup>B</sup>	(1,382) <sup>C</sup>
	175	125	114

<sup>A</sup> Dividends declared relate to first two interim dividends (both 1.60p each) declared in respect of the financial year 2014.

<sup>B</sup> Dividends declared relate to first two interim dividends (both 1.55p each) declared in respect of the financial year 2013.

<sup>C</sup> Dividends declared relate to the four interim dividends declared in respect of the financial year 2013 totalling 6.25p.

	Six months ended 30 June 2014 P	Six months ended 30 June 2013 P	Year ended 31 December 2013 P
5. Return and net asset value per share			
Revenue return	3.99	3.66	6.77
Capital return	(9.61)	20.58	67.96
Total return	(5.62)	24.24	74.73

The returns per share are based on the following figures:

	Six months ended 30 June 2014 £'000	Six months ended 30 June 2013 £'000	Year ended 31 December 2013 £'000
Revenue return	882	810	1,496
Capital return	(2,124)	4,550	15,027
Total return	(1,242)	5,360	16,523
Weighted average number of Ordinary shares in issue	22,109,765	22,109,765	22,109,765

The net asset value per share is based on net assets attributable to shareholders of £50,669,000 (30 June 2013 – £42,141,000; 31 December 2013 – £52,618,000) and on 22,109,765 (30 June 2013 – 22,109,765; 31 December 2013 – 22,109,765) Ordinary shares in issue at each period end.

#### 6. Capital reserves

The capital reserve reflected in the Balance Sheet at 30 June 2014 includes gains of £17,497,000 (30 June 2013 – gains of £11,635,000; 31 December 2013 – gains of £21,011,000) which relate to the revaluation of investments held at the reporting date.

## Notes to the Accounts continued

### 7. Transaction costs

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

	Six months ended 30 June 2014 £'000	Six months ended 30 June 2013 £'000	Year ended 31 December 2013 £'000
Purchases	17	29	47
Sales	3	5	7
	<b>20</b>	<b>34</b>	<b>54</b>

### 8. Fair value hierarchy

IFRS 13 'Fair Value Measurement' requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making 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 Balance Sheet are grouped into the fair value hierarchy as follows:

At 30 June 2014 (unaudited)	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets at fair value through profit or loss</b>					
Quoted equities	a)	55,842	–	–	55,842
Quoted bonds	b)	4,236	–	–	4,236
		<b>60,078</b>	<b>–</b>	<b>–</b>	<b>60,078</b>
<b>Financial liabilities at fair value through profit or loss</b>					
Financial liabilities at amortised cost	c)	–	(10,000)	–	(10,000)
<b>Net fair value</b>		<b>60,078</b>	<b>(10,000)</b>	<b>–</b>	<b>50,078</b>

At 30 June 2013 (unaudited)	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets at fair value through profit or loss</b>					
Quoted equities	a)	46,172	–	–	46,172
Quoted bonds	b)	3,937	–	–	3,937
		<b>50,109</b>	<b>–</b>	<b>–</b>	<b>50,109</b>
<b>Financial liabilities at fair value through profit or loss</b>					
Financial liabilities at amortised cost	c)	–	(10,000)	–	(10,000)
<b>Net fair value</b>		<b>50,109</b>	<b>(10,000)</b>	<b>–</b>	<b>40,109</b>

At 31 December 2013 (audited)	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets at fair value through profit or loss</b>					
Quoted equities	a)	56,666	–	–	56,666
Quoted bonds	b)	4,154	–	–	4,154
		<b>60,820</b>	<b>–</b>	<b>–</b>	<b>60,820</b>
<b>Financial liabilities at fair value through profit or loss</b>					
Financial liabilities at amortised cost	c)	–	(10,000)	–	(10,000)
<b>Net fair value</b>		<b>60,820</b>	<b>(10,000)</b>	<b>–</b>	<b>50,820</b>

#### 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.

#### c) Financial liabilities at amortised cost

Financial liabilities in the form of short-term and long-term borrowings are held at amortised cost. The fair value is considered to approximate the carrying value.

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

## Notes to the Accounts continued

---

**9. Publication of non-statutory accounts**

The financial information contained in this Half-Yearly Financial Report does not constitute statutory accounts as defined in Sections 434 – 436 of the Companies Act 2006. The financial information for the six months ended 30 June 2014 and 30 June 2013 has not been audited.

The information for the year ended 31 December 2013 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditors on those accounts contained no qualification or statement under Section 498 (2), (3) or (4) of the Companies Act 2006.

- 10.** This Half-Yearly Financial Report was approved by the Board on 29 August 2014.

# 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 (the "Company") directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively shares can be bought directly through Aberdeen's Investment Plan for Children, Investment Trust Share Plan and Investment Trust ISA or ISA Transfer.

## Suitable for Retail

The Company's shares are designed 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 investment products 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 investment products because they are shares in an investment trust.

## Aberdeen's Investment Plan for Children

Aberdeen Asset Managers Limited ("AAM") runs an Investment Plan for Children (the "Children's Plan") (subject to the eligibility criteria as stated within the terms and conditions) which covers a number of investment companies under its management including the Company. Anyone can invest in the Children's Plan, including parents, grandparents and family friends. 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 entry. 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 AAM in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts.

## Aberdeen's Investment Trust Share Plan

AAM runs a Share Plan (the "Plan") through which shares in the Company 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 entry. 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 AAM in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

## Stocks and Shares ISA

An investment of up to £15,000 can be made from 1 July 2014 through the Aberdeen Investment Trust ISA.

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 deducted on 31 March (or the last business day in March) 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.

## ISA Transfer

You can choose to transfer the management of previous tax year investments to AAM for investment in the Company while retaining your ISA wrapper. The minimum lump sum transfer is £1,000, subject to a minimum per 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,

# How to Invest in Aberdeen Smaller Companies High Income Trust PLC continued

---

as well as the tax treatment of ISAs may be changed by future legislation.

## Keeping You Informed

For internet users, detailed data on the Company, including price, performance information and a monthly fact sheet is available from the Trust's website ([www.aberdeensmallercompanies.co.uk](http://www.aberdeensmallercompanies.co.uk)) and the TrustNet website ([www.trustnet.co.uk](http://www.trustnet.co.uk)).

You can also call 0500 00 00 40 for information.

## 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](mailto:aam@lit-request.com)

For information on Aberdeen's Investment Plan for Children, Share Plan, ISA or ISA Transfer please contact:

Aberdeen Investment Trust Administration  
PO Box 11020  
Chelmsford  
Essex CM99 2DB  
Telephone: 0500 00 00 40

Terms and conditions for the Aberdeen managed savings products can also be found under the Literature section of our website at [www.invtrusts.co.uk](http://www.invtrusts.co.uk).

## Investor warning

AAM is aware that some investors have received telephone calls from people purporting to work for AAM, 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 AAM and any third party making such offers has no link with AAM. AAM 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 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 Asset Managers Limited, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.*

# Corporate Information

---

## Directors

Carolán Dobson, Chairman  
Robert Lister  
Barry Rose  
James West

## Investment Managers

Aberdeen Asset Managers Limited  
40 Princes Street  
Edinburgh  
EH2 2BY

## Secretaries and Registered Office

Aberdeen Asset Management PLC  
40 Princes Street  
Edinburgh  
EH2 2BY

## Company Registration Number

SC137448 (Scotland)

## 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).

## Auditors

KPMG Audit Plc

## Solicitors

Maclay Murray & Spens LLP

## Depositary

BNP Paribas Securities Services, London Branch

## Foreign Account Tax Compliance Act ("FATCA")

IRS Registration Number (GIIN): DGR5S1.99999.SL.826

## 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)

## Website

[www.aberdeensmallercompanies.co.uk](http://www.aberdeensmallercompanies.co.uk)



