The Scottish Oriental
Smaller Companies Trust plc

2012

The **Scottish Oriental** Smaller Companies Trust plc

Annual
Report and Accounts **2012**

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Annual Report and Accounts 2012

Financial Highlights

Performance *for the year ended 31st August 2012*

Net Asset Value	7.9%	MSCI AC Asia ex Japan Index (£)*	–0.3%
Share Price	0.5%	MSCI AC Asia ex Japan Small Cap Index (£)*	–7.0%
		FTSE All-Share Index (£)*	10.2%

*Total return (capital return with dividends reinvested).

Summary Data *at 31st August 2012*

Shares in issue	30,213,650	Shareholders' Funds	£201.60m
Net Asset Value per share	667.26p	Market capitalisation	£182.19m
Share Price	603.00p	Share Price Discount to Net Asset Value	9.6%

Benchmark and Comparative Indices

From inception in March 1995 until October 1999, the Trust adopted the Morgan Stanley Capital International AC Asia ex Japan Index ("MSCI") as its benchmark. No suitable regional smaller companies index was available at that time.

In October 1999 the Directors agreed to the replacement of the MSCI with the SG Asian (ex Japan) Smaller Companies Index, following its reconstitution to cover previously excluded countries. Unfortunately, this Index ceased to be available from the end of 2002.

In 2003 the Directors agreed to revert to the MSCI as the Trust's benchmark. This Index, being dominated by larger companies, is far from ideal as a performance measurement tool. It has, however, the dual merit of being the most widely recognised regional index and of pre-dating the inception of the Trust.

For comparative purposes we are also displaying the MSCI AC Asia ex Japan Small Cap Index, which covers the relevant markets with the exception of Pakistan and Sri Lanka. This Index is currently made up of companies with a market capitalisation of between US$20m and US$2,400m. The range does not exactly match that of the Trust, which has no lower limit and which mainly invests in companies with a market capitalisation of under US$1,000m. Nevertheless, it gives a useful indication of the performance of smaller companies in Asia over recent years.

As most investors in the Trust are based in the United Kingdom, the Directors consider that it is also relevant to compare the Trust's performance to that of the FTSE All-Share Index.

Investment Policy and Objective

- The Scottish Oriental Smaller Companies Trust PLC ("Scottish Oriental", "the Company" or "the Trust") aims to achieve long-term capital growth by investing in mainly smaller Asian quoted companies.
- The Trust invests mainly in the shares of smaller Asian quoted companies, that is companies with market capitalisations of below US$1,000m, or the equivalent thereof, at the time of first investment.
- The Trust may also invest in companies with market capitalisations of between US$1,000m and US$2,000m at the time of first investment, although not more than 20 per cent of the Trust's net assets at the time of investment will be invested in such companies.
- To enable the Trust to participate in new issues, it may invest in companies which are not quoted on any stock exchange, but only where the Investment Manager expects that the relevant securities will shortly become quoted.
- For investment purposes, the investment Region includes China, Hong Kong, India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand and Vietnam. Countries in other parts of Asia may be considered with approval of the Board.
- With the objective of enhancing capital returns to shareholders, the Directors of the Trust will consider the use of long term borrowings up to a limit of 50 per cent of the net assets of the Trust at the time of borrowing.
- The Trust invests no more than 15 per cent of its gross assets in other listed investment companies (including listed investment trusts).
- The Trust invests no more than 15 per cent of its total assets in the securities of any one company or group of companies at the time of investment.
- The Trust reserves the right to invest in equity-related securities (such as convertible bonds and warrants) of companies meeting its investment criteria. In the event that the Investment Manager anticipates adverse equity market conditions, the Trust may invest in debt instruments in any country or currency.
- The majority of the Trust's assets are denominated in Asian currencies or US dollars. The Trust reserves the right to undertake foreign exchange hedging of its portfolio.

A portfolio review by the Investment Manager is given on pages 11 to 15 and the investments held at the year end are listed on pages 16 and 17.

Investment Statement

- We aim to maximise the rate of return with due regard to risk. Risk is principally contained by focusing on soundly managed and financially strong companies, and by ensuring that the portfolio is reasonably well diversified geographically and by sector at all times. Quantitative analysis demonstrating the diversification of the Trust's portfolio of investments is contained in the country allocation and sector allocation analysis within the Portfolio Review.
- While cultural, political, economic and sectoral influences play an important part in the decision-making process, the availability of attractively-priced, good quality companies with solid long-term growth prospects is the major determinant of investment policy.
- Our country weightings bear no relationship to regional stock market indices. We do not consider ourselves obliged to hold investments in any individual market, sector or company.
- Existing holdings are carefully scrutinised to ensure that our corporate performance expectations are likely to be met, and that market valuations are not excessive. Where otherwise, disposals are made.
- Strong emphasis is placed on frequent visits to countries of the Region and on meeting the management of those companies in which the Trust is invested, or might invest.

Chairman's Statement

As you will see from the Manager's report on page 7, Scottish Oriental's Net Asset Value performance over the year was good in both absolute and relative terms. The asset value increased by 7.9 per cent over the 12 months, while the MSCI AC Asia ex Japan Index fell by 0.3 per cent. As the discount widened to 9.6 per cent at the end of the year, the share price increased by only 0.5 per cent. The discount has now narrowed to 5.2 per cent. A performance fee was, however, earned for the third year in succession as this is based on a demanding target for the Company's share price total return over three years (the details are set out on page 21) and the result for the period was satisfactory.

Earnings per share have increased again to 14.39p, compared to 11.39p last year. We are proposing a dividend of 11.0p net, an increase of 22 per cent. The undistributed balance of £1 million will be added to the revenue reserve, as set out on page 20. It remains our intention at least to maintain this level of dividend, using our reserves if necessary.

We announced last April that Susie Rippingall intends to retire in April 2013 and that Wee-Li Hee will join Angus Tulloch and Scott McNab as co-managers of the portfolio. Wee-Li joined the First State Investment team in Singapore in April 2002 as an analyst and in 2007 she became deputy manager for a number of institutional clients. Angus managed the portfolio from its inception in 1995 until Susie succeeded him in October 2000. Scott McNab, who has been much involved with our portfolio since 2004, will continue to work with Wee-Li and Angus. The plans for this change have been in place for some time and we believe that First State Investment's team approach will continue to produce good results for Scottish Oriental.

In August 2011 we borrowed $32.5 million for three years at 2.19 per cent per annum. We have been cautious about the investment of this money, which provides potential gearing of 9.6 per cent. In recent months our managers have been finding good opportunities at reasonable prices. As five new investments have been introduced since we published our interim report, the portfolio is now 2.1 per cent geared. The yield on our current equity portfolio is 3.2 per cent and the average PE is 13x.

We believe that the investment outlook is improving gradually, particularly with regard to the Chinese economy, despite the obvious concerns about the change in leadership and a slower pace of economic growth. As a consequence the new investments are biased towards more cyclical shares. We are grateful to our Manager and her colleagues for their efforts. They will continue to search for good smaller and medium sized investments in Asia that are available on reasonable terms.

The Annual General Meeting will be held in London this year on 24th January 2013 at the offices of First State Investments and I look forward to seeing shareholders there (see map on page 52).

James Ferguson

Chairman

1st November 2012

Directors

Dr Janet Morgan CBE, aged 66, joined the Board in 1995. She is a non-executive Director of Murray International Trust plc and Close Enterprise VCT plc. She is also Chairman of the Nuclear Liabilities Fund, the Nuclear Trust and the Nuclear Liabilities Financing Assurance Board.

James Ferguson, aged 64, joined the Board in 2004. He is Chairman of Value and Income Trust plc, The Monks Investment Trust plc, Northern 3 VCT plc and The North American Income Trust plc and is a Director of The Independent Investment Trust plc and Audax Properties plc. He retired as Chairman of Stewart Ivory in 2000. He is a former deputy Chairman of the Association of Investment Companies.

Alexandra Mackesy, aged 50, joined the Board in 2004. Between 1988 and 2000, she worked as an investment analyst specialising in Asian equities, based in Hong Kong, becoming Director of Hong Kong and China equity research at Credit Suisse First Boston in 1998. Since 2000, she has worked as a consultant to a number of Asian-based companies. She is a non-executive Director of Henderson Asian Growth Trust Plc and RENN Universal Growth Investment Trust Plc.

Anne West, aged 62, joined the Board in July 2010. She is currently a Fund Director in the Private Client Department of Cazenove Capital Management. She joined Cazenove in 1989 and assumed responsibility for Asian and Japanese portfolios, later becoming Head of the Emerging Markets team and then the Global Equity team. She was Chief Investment Officer from 2001 to 2008. Previously she held positions at Standard Chartered Bank and Hambro Pacific, based in Hong Kong.

Scottish Oriental's Investment Management Team

Scottish Oriental is managed by First State Investment Management (UK) Limited, previously known as Stewart Ivory & Company Limited (the "Investment Manager"). The Investment Manager is part of Colonial First State Global Asset Management, the consolidated asset management business of The Commonwealth Bank of Australia. The Investment Manager offers a range of products across categories including Asia Pacific and global emerging markets, global resources and global equities, property securities and infrastructure.

Susie Rippingall
Portfolio Manager of Scottish Oriental

Susie has been part of the Asian Equities team since 1995, when she joined Stewart Ivory & Company. Between 1991 and 1995 Susie worked at Lehman Brothers Global Asset Management and prior to that she worked in corporate finance with Credit Lyonnais Securities. She graduated with an Honours degree in Economics at Edinburgh University. Susie is based in Hong Kong.

Wee-Li Hee
Senior Analyst, Asia Pacific (ex Japan) Equities

Wee-Li joined the Asian Equities team of First State Investments in 2002 as a graduate trainee. She graduated from the University of Leeds with an Honours degree in Accounting with Information Systems in 2000 and gained a Masters degree in Law and Accounting from the London School of Economics and Political Science in 2001. Wee-Li is a CFA charterholder and an Associate member of the UK Society of Investment Professionals.

Scott McNab
Senior Analyst, Asia Pacific (ex Japan) Equities

Scott joined the Asian Equities team of First State Investments in 2001. Between 1999 and 2001 he worked for Ernst & Young in Bermuda. Prior to this Scott was a graduate trainee in the audit department of KPMG. He graduated with an Honours degree in Computer Science from the University of Durham. Scott is a Chartered Accountant, a CFA charterholder and an Associate member of the UK Society of Investment Professionals.

Angus Tulloch
Head of Asia Pacific (ex Japan) Equities

Angus graduated from Clare College, Cambridge in 1970 with an Honours degree in Economics and History. After working as an accountant with Whinney Murray (now Ernst & Young), the National Bus Company and Elba Growers, he joined Cazenove in 1980 where he specialised in Far East equity investment. Angus returned to Scotland in 1988, joining Stewart Ivory & Company Limited to establish an Asia Pacific (ex Japan) capability. Since then, this team has gained industry recognition as one of the leading managers in its sector.

Portfolio Manager's Report

REVIEW

In the year ending 31st August 2012, the performance of Asian equity markets was mixed, with significant gains achieved in South East Asia compared to losses in China and India. The external environment remained uncertain with ongoing concerns over the banking crisis in Europe as well as evidence of a slower than expected recovery in the US economy. The Region's economic growth was also disappointing as weaker demand for exports was only partially offset by higher domestic consumption. The correction in commodity prices contributed to more modest inflation which enabled the authorities, in most Asian countries, to pursue accommodative fiscal and monetary policies.

India was the worst performing major market as persistently high inflation combined with a slowdown in its economic growth resulted in weaker capital inflows and a significant depreciation of its currency. Chinese equities also fell as a significant number of listed companies announced disappointing results and guided down near term forecasts owing to the slowdown in the domestic economy. The Philippines' stockmarket rose sharply as historically low interest rates and well defined Government policies resulted in strong domestic consumption.

Scottish Oriental's performance over the year was pleasing both in absolute terms and also relative to its benchmark. This was achieved for a second consecutive year in spite of the underperformance of smaller companies, as seen by a decline in the MSCI Asia ex Japan Small Cap Index over the period under review. The Trust benefited from its exposure to Malaysia, the Philippines and Thailand as well as strong returns from some of its larger holdings, such as Amorepacific Group, Ezion Holdings and Security Bank.

Stockmarket Performance *for the year ending 31st August 2012*

Country	Sterling	Local Currency	Country Allocation on 31st August 2012
	%	%	%
China	(5.7)	(8.4)	14.1
Hong Kong	2.5	(0.4)	10.0
Taiwan	(1.2)	(0.5)	14.6
Greater China			38.7
Singapore	7.8	9.0	16.7
Thailand	11.9	14.2	8.2
Malaysia	12.0	14.4	8.4
Indonesia	(3.4)	5.3	5.1
Philippines	25.7	22.0	4.2
Vietnam	(13.0)	(15.1)	1.7
South East Asia			44.3
India	(10.1)	5.9	1.5
Sri Lanka	(23.8)	(10.4)	1.9
Indian Subcontinent			3.4
South Korea	2.5	6.3	12.3
MSCI*	(0.3)	1.6	–
Net current assets	–	–	11.5
Long term loan	–	–	(10.2)
Total			100.0

* Morgan Stanley Capital International AC Asia ex Japan Index

Portfolio Manager's Report – continued

Greater China

In recent months it has become apparent that **China**'s economic growth has slowed significantly. Unfortunately this has happened at a time of increased political uncertainty with the country facing a leadership transition. Fortunately inflation has fallen, as a result of lower commodity prices, and the Government has begun to ease monetary policy. It has also announced a number of 'pro-growth' policies such as additional infrastructure investment in the country's less developed areas.

Hong Kong's economic growth has been negatively affected by the slowdown in China's trade. In addition, greater political and economic uncertainty across the border has resulted in more modest growth in tourist arrivals and retail sales, particularly for luxury goods. Demand for both commercial and residential real estate has remained strong supported by low interest rates. This has prompted the Government to apply further restrictions on mortgages and state its commitment to increase the supply of affordable housing.

Relations between **Taiwan** and China continue to improve with both countries benefiting from the introduction of commercial reforms. The most recent development has been the signing of the Cross Straits Currency Clearing agreement which allows for renminbi clearing in Taiwan. The slowdown in the country's economic growth was largely expected given its high exposure to external trade. One interesting development has been the willingness of some higher end manufacturers to relocate production to Taiwan given the rapidly rising labour costs in China.

South East Asia

Singapore's economic growth has also experienced a significant slowdown despite the support provided by ongoing infrastructure investment. Following last year's election, the Government has pursued policies that aim to improve living standards, particularly for its lower income citizens. These measures have included an increase in supply of public sector housing as well as greater restrictions on immigration.

In **Malaysia**, the economic environment has been stable supported by the Government's infrastructure investment and robust domestic consumption. Inflation has remained low largely due to the country's policy of subsidising fuel and other necessities. While the Government appears to accept that economic reforms are required, specifically to allow for a reduction in the fiscal deficit, the implementation of these has been delayed owing to the forthcoming General Election.

Thailand has experienced a recovery in both investment and consumer confidence following last year's devastating floods. This has been supported by a rise in Government expenditure as well as a significant increase in the minimum wage. The political environment has been relatively calm despite Thaksin Shinawatra's public requests to be allowed to return to Thailand.

Indonesia continues to experience strong economic growth with low interest rates providing support for domestic consumption and private investment. Unfortunately the Government has failed to address the high fuel subsidies thereby reducing the funds available for much needed infrastructure development. In addition, the Government appears to be adopting a more protective stance towards its natural resources with the implementation of policies that would restrict the export of unprocessed commodities.

The necessary investment in the **Philippines**' infrastructure via private-public partnerships is progressing albeit at a slow pace. This development should mean the country can once again compete for foreign direct investment particularly as an alternative location to China for the manufacturing sector. The domestic economy has been strong – supported by higher consumer spending, moderate inflation and historically low interest rates.

Portfolio Manager's Report – continued

There has been a significant improvement in **Vietnam**'s economy over the past twelve months. The key issue has been the decline in the trade deficit, which has now fallen to below the level of disbursed foreign direct investment. This has resulted in a stabilisation of the currency and a corresponding fall in both inflation and interest rates. However, the political environment has become more uncertain with the arrest of a number of businessmen without specific charges.

Indian Subcontinent

India remains burdened with high fiscal and current account deficits. Unfortunately the slowdown in the economy appears structural and is therefore unlikely to respond to lower interest rates. In addition, political resistance to the required economic reforms has increased the risks associated with further investment, particularly by foreign parties. At the same time, lower corporate profitability and cautious investor sentiment have impeded the corporate sector's ability to raise new equity and reduce historically high debt levels.

Sri Lanka's economic growth has accelerated since the end of the civil war in May 2009, supported by strong domestic demand and a rise in fixed asset investment. Earlier this year the Government ended its policy of using foreign currency reserves to support the exchange rate, resulting in a significant depreciation of the currency as well as a rise in inflation and interest rates.

South Korea

South Korea's economic growth has slowed owing to a combination of weak external demand and lower domestic consumption. The Central Bank has responded by reducing interest rates given the very high levels of household debt. This policy has failed to stimulate the residential property market and it seems that a structural change may be underway with demand shifting from owning to renting property.

Performance of individual equity holdings *for the year ending 31st August 2012*

Company	Country	Contribution Performance %	% of Shareholders' Funds (as of 31 Aug 2012)
Best			
Aeon Credit Service	Malaysia	1.9	1.1
Cosmax	South Korea	1.3	1.9
Ezion Holdings	Singapore	1.3	2.1
Amorepacific Group	South Korea	1.2	2.2
Security Bank	Philippines	0.9	1.3
Worst			
Pou Sheng International	China	(0.7)	0.6
Expolanka Holdings	Sri Lanka	(0.6)	0.6
Beijing Jingkelong	China	(0.6)	0.6
Lung Kee Holdings	China	(0.6)	0.8
JVM Co.	South Korea	(0.5)	1.3

Portfolio Manager's Report – continued

The returns achieved by the Trust's five best performing stocks were largely due to greater recognition of their strong business franchises and positive long term earnings outlook. **Aeon Credit Service** benefited from the greater acceptance of consumer credit in Malaysia as well as the steady expansion of its branch network. The popularity of the Korean cosmetic brands has had a positive impact on earnings for both **Cosmax** and **Amorepacific Group**. **Ezion Holdings** continued to see strong demand for its liftboats, resulting in further upgrades to its forecast earnings. **Security Bank** remains well positioned to benefit from the strong demand for its banking services particularly from the Chinese Filipino community.

Pou Sheng International's earnings have been negatively affected by aggressive discounting by the sports retailers in China. This industry is undergoing a rapid consolidation and the Company should be well positioned to win market share given the support provided by its parent, Yue Yuen. **Expolanka Holdings** also reported disappointing results owing to a sharp slowdown in its freight forwarding business. The correction in the share price for **Beijing Jingkelong** reflected concerns over falling returns owing to excess supply of hypermarkets in the Greater Beijing area. **Lung Kee Holdings** has seen a significant slowdown in demand for its mould bases owing to weak exports as well as poor domestic demand. Although the long term outlook for **JVM Co.** remains positive, the Company has recently seen a delay in orders resulting in a decline in its share price.

OUTLOOK

The performance of Asian equities is likely to remain volatile over the short term given the uncertain outlook for both the European and American economies. Weak demand for Asia's exports will continue to have a negative impact on the Region's economic growth. Domestic consumption, particularly in the less developed countries in South East Asia, should continue to grow supported by historically low interest rates. However, higher inflation remains a risk particularly from higher commodity prices.

From a longer term perspective, the current economic slowdown is likely to have some beneficial effects. For China, the rapid slowdown in demand has had a significant impact on a number of industries, ranging from the closure of inefficient factories to a more disciplined approach to capital expenditure. This should ensure that companies have greater pricing power when there is a sustained recovery in demand. While capital investment in China will continue to grow, this is expected to be undertaken in a more disciplined manner with a focus on infrastructure development in the western provinces. In India, the Government seems to have accepted that the long term solution to the current economic slowdown is to impose further economic reforms.

Politics remains an interesting theme with both China and South Korea seeing a change of leadership at the end of this year. The widening gap between rich and poor is a major issue for both of these countries as well as Hong Kong and Singapore. This is partly associated with property ownership and whether people can afford to buy their home. Further measures to address these issues are expected over the medium term.

There is currently a wide divergence in the valuations of smaller companies in the Region. In South East Asia, there are a number of well positioned consumer companies whose expensive valuations largely reflect their long term growth prospects. This contrasts with the depressed valuations of a number of export related companies whose earnings have been negatively affected by rising costs and weak demand. Industry consolidation is expected to accelerate in this environment, thereby ensuring more benign operating conditions for these companies once demand returns. Scottish Oriental has been increasing its exposure to a number of these stocks as valuations are now compelling from a longer term perspective.

Susie Rippingall **Scott McNab**
Wee-Li Hee **Angus Tulloch**
First State Investment Management (UK) Limited, Investment Manager

1st November 2012

Portfolio Review

Scottish Oriental's portfolio of investments is well diversified not only by country but also by sector. The largest country exposure is Singapore with a 16.7 per cent position. Consumer Discretionary accounted for 29.9 per cent of the portfolio, the largest sector weighting. As at 31st August 2012 Scottish Oriental was invested in 87 different companies with the largest holding accounting for 2.2 per cent of the Portfolio. The aggregate of the Trust's ten largest holdings was 18.8 per cent.

Country Allocation at 31st August 2012 *(based on geographical area of activity)*

Country/Region	Scottish Oriental %	MSCI* %	MSCI Small Cap† %
China	14.1	23.4	16.2
Hong Kong	10.0	11.8	9.5
Taiwan	14.6	14.8	21.7
Greater China	*38.7*	*50.0*	*47.4*
Singapore	16.7	7.6	9.6
Thailand	8.2	3.0	4.2
Malaysia	8.4	5.1	6.0
Indonesia	5.1	3.7	4.5
Philippines	4.2	1.2	1.8
Vietnam	1.7	–	–
South East Asia	*44.3*	*20.6*	*26.1*
India	1.5	8.6	7.8
Sri Lanka	1.9	–	–
Indian Subcontinent	*3.4*	*8.6*	*7.8*
South Korea	12.3	20.8	18.7
Net current assets	*11.5*	–	–
Long term loan	*(10.2)*	–	–
Net assets	*100.0*	*100.0*	*100.0*

* Morgan Stanley Capital International AC Asia ex Japan Index

† Morgan Stanley Capital International AC Asia ex Japan Small Cap Index

Greater China

Scottish Oriental continues to have an underweight position in **China**. The recent slowdown in economic growth has had a negative impact on corporate earnings and raised concerns over the quality of the banks' loan portfolios. Although higher non performing loans are expected, these should be manageable, given the much stronger credit controls now imposed by the industry. In the meantime the Government will continue to support the economy with an easing in monetary policy and further economic reforms. A recent addition to the Trust's holdings in China is Tong Reng Tang which is exposed to the local healthcare industry.

Low interest rates continue to support **Hong Kong**'s domestic economy. Inflation remains an issue, forcing the Government to raise the minimum wage in order to offset the higher cost of living.

Portfolio Review – continued

Strong demand for property has resulted in the imposition of further restrictions on mortgages as well as an increased supply of apartments, particularly more affordable units. One of Scottish Oriental's larger holdings is Tai Cheung Holdings, a high end residential property developer, which trades at a significant discount to its estimated net asset value.

There has been little change to the Trust's holdings in **Taiwan** over the year. The focus remains on those companies which are expected to benefit from the improved relations with China. There are a number of attractively valued smaller companies available with dividend yields in excess of 5%.

ASEAN Countries

Scottish Oriental continues to have a large position in **Singapore**. The holdings are diversified in terms of geographical reach with some, such as Amtek Engineering and SuperGroup, having multinational exposure while others, such as Bukit Sembawang Estates and Yongnam Holdings, focus on the domestic economy.

The Trust remains overweight in **Thailand**. Strong domestic consumption should continue, supported by an increase in the minimum wage and low interest rates. Infrastructure spending has also increased following last year's devastating floods. The Trust sold its longstanding position in Home Product Center as the Company was viewed as a major beneficiary of the post-flood reconstruction and its valuation became expensive.

Although there was no change to the Trust's holdings in **Malaysia**, the positions in Aeon Company and Aeon Credit Service were reduced following a re-rating of their valuations. The outlook for these companies remains positive given their exposure to growth in domestic consumption.

Scottish Oriental continues to have a high exposure to **Indonesia** with a particular emphasis on those companies which are involved in modern retailing. Sumber Alfaria Trijaya owns and operates a network of Alfamart stores throughout Java and Bali. These stores are described as grocery 'top up' stores providing people with their basic necessities. Nippon Indosari Corpindo is the leading manufacturer of bread in Indonesia, with more than 70% of its products sold through modern retailers such as Alfamart.

The Trust's holdings in the **Philippines** remain focused on the domestic economy. Century Properties is a well established residential property developer with a strong reputation for building premium developments in Metro Manila. It has a strong international sales network that targets overseas foreign workers.

The Trust retains a small position in **Vietnam.** Although the outlook for the economy has improved there are concerns that the Government's commitment to economic reforms may be wavering. However, this is more than adequately reflected in corporate valuations which are now trading at very attractive levels. Exposure is via Vietnam Enterprise Investments.

Indian Sub-Continent

Scottish Oriental continues to have a low weighting in **India** as valuations for well managed companies remain expensive. Economic growth has slowed and the outlook for corporate earnings is overshadowed by rising costs and weakening demand. The Trust continues to hold small positions in Castrol (India) and Marico and will look to add to its exposure, following the identification of suitable companies trading on attractive valuations.

Although the outlook for corporate earnings in **Sri Lanka** remains positive, this is largely reflected in valuations. Unfortunately the risk of further currency devaluation remains given the Government's populist policies. Consequently, Scottish Oriental holds companies which are either beneficiaries of a weaker rupee such as Aitken Spence Hotels and Expolanka Holdings, or have a natural currency hedge in the form of overseas earnings such as Dialog Axiata.

Portfolio Review – continued

South Korea

The Trust reduced its holdings in **South Korea** over the period with the sale of Nice E-banking Services, IDIS Holdings and Intelligent Digital Integrated Security. Unfortunately the slowdown in economic growth resulted in a more challenging operating environment for these companies.

Sector Allocation *at 31st August 2012*

Sector	**%**
Consumer Discretionary	29.9
Consumer Staples	8.7
	38.6
Energy	3.8
Financials	21.1
Healthcare	9.8
Information Technology	9.7
Industrial	13.2
Materials	0.7
Telecommunication Services	0.5
Utilities	1.3
	98.7
Net current assets	*11.5*
Long term loan	*(10.2)*
Net assets	*100.0*

Scottish Oriental's high exposure to the **Consumer Discretionary** sector remains unchanged although there were some significant adjustments to the underlying holdings. These changes included the sale of Shirble Department Stores in China and Next Media in Hong Kong. The Trust's holdings in the **Consumer Staples** sector increased with the acquisition of Sheng Siong Group in Singapore. There remains a wide selection of companies in these sectors which fulfil the Manager's investment requirements in terms of management quality, strong business franchise and robust financial position. In addition, these consumer-related companies will continue to benefit from the strength of the Region's domestic economies.

The Trust's position in the **Financials** sector increased mainly due to the outperformance of a number of holdings. Included in this sector are property companies as well as banks and consumer finance companies. The outlook for property markets remains positive over the longer term and valuations are relatively attractive.

Scottish Oriental increased its position in the **Industrial** sector with additions to existing positions as well as the purchase of KD Holding in Taiwan and Ticon Industrial Connection in Thailand. As a result of the global economic slowdown, valuations for a number of companies in the sector have fallen to attractive levels.

The Trust's exposure to **Healthcare** increased not only via additions to existing positions but also due to strong returns from a number of holdings such as Supermax in Malaysia.

There was a reduction in Scottish Oriental's holding in the **Information Technology** sector with the sale of Sinocom Software in China owing to weak demand and rising costs.

Scottish Oriental continues to have little exposure to stocks in the cyclical **Energy** and **Materials** sectors as these tend to be price-takers rather than price-setters and earnings are vulnerable given the slowdown in the global economy. It also has a very low weighting in the **Telecommunications** and **Utilities** sector owing to the limited number of small but reasonably valued companies.

Portfolio Review – continued

Ten Largest Equity Holdings *at 31st August 2012*

Company	Market	Value	% of Shareholders' Funds
Amorepacific Group	**South Korea**	**£4,350,090**	**2.2%**

Amorepacific Group is a holding company whose major asset is a 35% stake in Amorepacific Corp, South Korea's leading domestic cosmetics company. Amorepacific Corp has two key brands, Hera and Sulwhasoo, which are sold domestically and overseas, mainly in China and France. The Group's other businesses include cosmetics bottling, green tea manufacturing and advertising services.

Ezion Holdings	**Singapore**	**£4,245,641**	**2.1%**

Ezion was created in March 2007 via a backdoor listing into Nylect Technology Limited. The Chief Executive and major shareholder is TK Chew, who was previously Chief Executive of KS Energy. Mr Chew established an impressive track record in his previous position. The Company was established to own and lease out liftboats which are used for the maintenance and operational support of offshore platforms. Ezion also has a fleet of more than 20 ships, which include ballastable vessels, barges and tugs, of which half are under long term contracts and the rest on charter. The Company has already commissioned six liftboats with two more due for completion by the end of next year.

Aeon Company	**Malaysia**	**£3,924,993**	**1.9%**

Aeon Company owns and operates general merchandise stores as well as standalone Maxvalu supermarkets in Malaysia. The Company has been operating there for over 20 years and has developed a strong network of suppliers and distributors. Aeon's stores target the middle-income consumer and are located in high-density residential estates in the suburbs of major towns. Despite strong competition from hypermarkets, the Company has been able to identify new store locations albeit at a conservative pace. Management are impressive with a strong focus on customer service.

Asia Satellite Telecommunication	**China**	**£3,893,614**	**1.9%**

Asia Satellite Telecommunication is Asia's largest privately owned commercial satellite operator. The Company presently owns and operates four satellites, which provide transponder capacity primarily to the broadcasting and telecommunications markets, both public and private. More than 50% of revenues are derived from China, Hong Kong and Taiwan and its 'footprint' covers approximately two thirds of the world's population. Profits in recent years have been negatively affected by the slowdown in demand for transponder capacity and increased competition from China's State-owned satellite operators. All new satellites will have the technology that meets China's stringent security requirements, which should result in stronger demand.

Cosmax	**South Korea**	**£3,834,472**	**1.9%**

Established in 1992, Cosmax is a leading cosmetic original design manufacturer in South Korea, producing a wide range of make-up and skin care products. The Company supplies not only the domestic cosmetic producers such as Amorepacific, Able C&C, Somang Cosmetics and The FACE SHOP but also international companies such as L'Oreal and Johnson & Johnson. Cosmax has been successful in making several 'hit' products such as eye shadows for Maybelline and gel eyeliners for L'Oreal. These products were designed in-house and have stimulated demand for other new products from existing clients.

Aeon Thana Sinsap	**Thailand**	**£3,803,429**	**1.9%**

Aeon Thana Sinsap, a subsidiary of the Aeon Group of Japan, is a consumer finance company which provides personal loans, credit cards and cash advances. The Company has four Regional head offices, supporting 93 branches of which more than half are located outside Bangkok. Growth will continue to come from customers outside Bangkok owing to lower market penetration and less competition. Management have a very conservative provisioning policy and are rigorous in the evaluation of new loan applications as well as being prompt and persistent in chasing late repayments.

Portfolio Review – continued

Company	Market	Value	% of Shareholders' Funds
TK Corp	**South Korea**	**£3,604,491**	**1.8%**

Established in 1965, TK Corp manufactures industrial fittings, with a specific focus on electronic and piping systems for ships, petrochemical and power plants. The Company has successfully expanded its capacity in recent years and increased its global market share at the expense of its European competitors. TK Corp's wide product range of more than 45,000 items is a key barrier to entry. In addition, the Company's strong financial position allows it to hold substantial inventory which ensures timely delivery for customers.

Salamander Energy	**Indonesia**	**£3,517,200**	**1.7%**

Salamander Energy was established in 2005 by a team of experienced geologists with the objective of buying existing oil and gas producing assets in South East Asia as well as to explore for new assets in this Region. The Company obtained a main board listing on the London Stock Exchange in December 2006 because its producing assets in Indonesia and Thailand already had a three year history. Salamander finds itself with limited competition either in bidding for producing assets or in exploration as the sites are either too small for the big operators or away from the national companies' focused locations.

Media Prima	**Malaysia**	**£3,390,515**	**1.7%**

Media Prima is the leading media company in Malaysia with exposure to TV, radio and outside advertising as well as newspapers via its ownership of New Straits Times Press. The Company has four free to air TV channels of which TV 3, Malaysia's leading network, is the largest contributor to the Group's earnings. The combined viewership market share for the Company's four TV channels is about 50%.

Vietnam Enterprise Investments	**Vietnam**	**£3,389,265**	**1.7%**

Managed by Dragon Capital, Vietnam Enterprise Investments is an investment holding company which aims to achieve a balanced portfolio of investments in Vietnam. The Company has been investing in Vietnam for more than 17 years and has assets under management of approximately US$400m.

Susie Rippingall **Scott McNab**
Wee-Li Hee **Angus Tulloch**
First State Investment Management (UK) Limited, Investment Manager

1st November 2012

List of Quoted Equity Investments at 31st August 2012

	% of Shareholders' Funds
CHINA (14.1%)	
Consumer Discretionary (10.7%)	
Asia Satellite Telecom	1.9
Beijing Jingkelong	0.6
Glorious Sun Enterprises	0.8
Minth	1.0
Pacific Textiles	1.4
Pou Sheng International	0.6
Samson	1.7
Sun Hing Vision	0.9
Texwinca	1.1
YGM Trading	0.7
Healthcare (1.3%)	
Tong Ren Tang	1.3
Industrial (0.8%)	
Lung Kee Holdings	0.8
Utilities (1.3%)	
Towngas China	1.3
HONG KONG (10.0%)	
Consumer Discretionary (2.8%)	
Aeon Stores	1.1
Dickson Concepts	1.3
Tai Ping Carpets	0.4
Consumer Staples (2.3%)	
Four Seas Mercantile	0.4
Tao Heung Holdings	0.9
Vitasoy International	1.0
Financial (4.9%)	
Aeon Credit Service	0.7
Dah Sing Financial	1.4
Keck Seng Investment	0.6
Public Financial	1.0
Tai Cheung Holdings	1.2
INDIA (1.5%)	
Consumer Staples (0.8%)	
Marico	0.8
Materials (0.7%)	
Castrol	0.7
INDONESIA (5.1%)	
Consumer Discretionary (3.1%)	
Ace Hardware	1.0
Pembangunan Jaya Ancol	0.8
Sumber Alfaria Trijaya	1.3
Consumer Staples (0.3%)	
Nippon Indosari	0.3
Energy (1.7%)	
Salamander Energy	1.7
MALAYSIA (8.4%)	
Consumer Discretionary (3.6%)	
Aeon Company	1.9
Media Prima	1.7
Financial (2.0%)	
Aeon Credit Service	1.1
Quill Capita Trust	0.9
Healthcare (1.6%)	
Supermax	1.6
Industrial (1.2%)	
IJM Corporation	1.2
PHILIPPINES (4.2%)	
Consumer Discretionary (0.5%)	
Pancake House	0.5
Financial (3.7%)	
Century Properties	1.2
SM Development	1.2
Security Bank	1.3
SINGAPORE (16.7%)	
Consumer Discretionary (0.8%)	
Tan Chong International	0.8
Consumer Staples (3.1%)	
Petra Foods	1.1
Sheng Siong Group	1.0
SuperGroup	1.0
Energy (2.1%)	
Ezion Holdings	2.1
Financial (3.8%)	
Bukit Sembawang Estates	1.2
Hong Leong Finance	1.2
Sabana REIT	1.4
Healthcare (1.2%)	
Raffles Medical Group	1.2
Industrial (2.2%)	
Amtek Engineering	1.2
Yongnam Holdings	1.0
Information Technology (3.5%)	
CSE Global	1.6
euNetworks	0.5
Venture Corporation	1.4
SOUTH KOREA (12.3%)	
Consumer Discretionary (1.7%)	
Hana Tour Service	1.7
Consumer Staples (2.2%)	
Amorepacific Group	2.2

List of Quoted Equity Investments at 31st August 2012 – continued

	% of Shareholders' Funds
Financial (1.3%)	
DGB Financial	1.3
Healthcare (3.4%)	
JVM Co.	1.3
LG Life Sciences	1.0
Yuhan Corp	1.1
Industrial (3.7%)	
Cosmax	1.9
TK Corp	1.8
SRI LANKA (1.9%)	
Consumer Discretionary (0.8%)	
Aitken Spence Hotels	0.8
Industrial (0.6%)	
Expolanka Holdings	0.6
Telecommunication Services (0.5%)	
Dialog Axiata	0.5
TAIWAN (14.6%)	
Consumer Discretionary (4.0%)	
E-Life Mall	1.7
Taiwan Familymart	1.1
Johnson Health Tech.	1.2
Healthcare (2.3%)	
St Shine Optical	1.1
Pacific Hospital Supply	1.2
Industrial (3.1%)	
104 Corp	0.7
KD Holding	1.1
Yungtay Engineering	1.3
Information Technology (5.2%)	
Chroma Ate	1.2
Insyde Software	0.9
Lumax International	1.1
Taiflex Scientific	1.1
Wah Lee Industrial	0.9
THAILAND (8.2%)	
Consumer Discretionary (1.9%)	
Amarin Printing	0.7
Erawan Group	1.2
Financial (3.7%)	
Aeon Thana Sinsap	1.9
Lalin Property	0.6
Tisco Financial	1.2
Industrial (1.6%)	
Ticon Industrial Connection	1.6
Information Technology (1.0%)	
Hana Microelectronic	1.0
VIETNAM (1.7%)	
Financial (1.7%)	
Vietnam Enterprise Investments	1.7

Ten Year Record

Capital

Year ended 31st August	Market Capitalisation £m	Shareholders' Funds £m	NAV Diluted (p)	NAV Undiluted (p)	Price Ordinary (p)	Price Warrant (p)	Discount to NAV Diluted %	Discount to NAV Undiluted %
2003	39.73	44.55	163.94	174.91	156.00	67.50	(4.8)	(10.8)
2004	39.94	46.00	169.14	180.50	156.75	69.50	(7.3)	(13.2)
2005	54.23	61.57	219.95	241.56	212.75	112.50	(3.3)	(11.9)
2006	64.41	73.26	256.22	279.24	245.50	144.00	(4.2)	(12.1)
2007	94.87	104.14	—	344.67	314.00	—	—	(8.9)
2008	79.16	94.50	—	312.78	262.00	—	—	(16.2)
2009	98.95	113.86	—	376.85	327.50	—	—	(13.1)
2010	146.08	167.76	—	555.26	483.50	—	—	(12.9)
2011	181.28	186.89	—	618.56	600.00	—	—	(3.0)
2012	182.19	201.60	—	667.26	603.00	—	—	(9.6)

Revenue

Year ended 31st August	Gross revenue £'000	Available for ordinary shareholders £'000	Earnings per share* p	Dividend per share (net) p	Ongoing charges† %	Ongoing charges incl performance fee %	Actual gearing‡	Potential gearing§
2003	1,314	496	1.95	1.50	1.28	—	100	109
2004	1,567	547	2.14	1.58	1.54	—	102	108
2005	2,262	960	3.77	2.60	1.48	—	93	105
2006	2,416	1,239	4.78	3.60	0.88	—	94	101
2007	3,379	1,812	6.35	4.60	0.83	—	94	101
2008	3,643	2,008	6.64	5.00	0.78	—	98	101
2009	3,744	2,307	7.63	6.00	1.04	—	94	101
2010	4,940	3,197	10.58	8.50	1.00	1.65	94	101
2011	5,726	3,443	11.39	9.00	1.01	2.29	95	111
2012	7,073	4,348	14.39	11.00	1.01	1.96	97	110

* The calculation of earnings per share is based on the revenue from ordinary activities after taxation and the weighted average number of ordinary shares in issue

† Management fee and all other operating expenses, excluding interest, expressed as a percentage of the daily net assets during the year (2011 and prior: Total expense ratio, being the management fee and all other operating expenses, excluding interest, expressed as a percentage of the average of the month end net assets during the year)

‡ Total assets (including all debt used for investment purposes) less all cash and fixed interest securities (excluding convertibles) divided by shareholders' funds

§ Total assets (including all debt used for investment purposes) divided by shareholders' funds

Cumulative Performance (taking year ended 31st August 2002 as 100)

Year ended 31st August	NAV per share	Price per share	Price per warrant	MSCI AC Asia ex Japan Index	FTSE All-Share Index	Earnings per share	Dividend per share
2002	100	100	100	100	100	100	100
2003	126	126	136	113	101	111	100
2004	130	127	140	111	108	122	105
2005	174	172	227	138	130	215	173
2006	202	198	291	159	147	273	240
2007	249	254	—	218	159	363	307
2008	226	212	—	193	140	379	333
2009	272	265	—	205	123	436	400
2010	401	391	—	248	132	605	567
2011	446	485	—	251	137	651	600
2012	482	487	—	244	145	822	733

Company Information

Registered Office
10 St. Colme Street
Edinburgh EH3 6AA, Scotland

Company Number
SC156108

Investment Manager
First State Investment Management (UK) Limited
23 St Andrew Square
Edinburgh EH2 1BB, Scotland
(Authorised and regulated by the Financial Services Authority)
Tel: +44 (0)131 473 2200 Fax: +44 (0)131 473 2222

Company Secretary
Steven K Davidson ACIS
Personal Assets Trust Administration
Company Limited
10 St. Colme Street
Edinburgh EH3 6AA, Scotland

Registrar
Computershare Investor Services plc
The Pavilions, Bridgwater Road,
Bristol BS99 6ZZ

Auditor
Chiene + Tait
Chartered Accountants and
Statutory Auditor
61 Dublin Street
Edinburgh EH3 6NL, Scotland

Information for Investors

Warrants
The final conversion date for the warrants occurred on 31st January 2007.

Financial Diary
The Company's financial year ends on 31st August. The preliminary results are announced in October/November and the Annual Report and Accounts are published in November. Any dividend payable on the ordinary shares will be paid in January or February.

Capital Gains Tax
An individual tax payer is currently entitled to an annual total tax-free gain, presently £10,600 from the sale of any shares and other capital assets. Any gain beyond that amount may be liable to capital gains tax.

For initial investors the apportioned base cost of ordinary shares and warrants for capital gains tax purposes was 92.59p per ordinary share and 37.05p per warrant.

Where to find Scottish Oriental's Share Price
Scottish Oriental's share price appears daily in the Investment Companies Sector of the Financial Times and other leading daily newspapers.

The share price can also be found on the London Stock Exchange website by using the Trust's TIDM code 'SST' within the price search facility.

The Internet
Scottish Oriental's website provides up-to-date information on the share price, net asset value and discount. We hope you will visit the Trust's website at: www.scottishoriental.com. Investor Centre from Computershare (Scottish Oriental's registrar) enables you to manage and update your shareholder information. For this purpose you can register free with Investor Centre at www-uk.computershare.com/investor.

Further Information
If you require any further information please contact Personal Assets Trust Administration Company Limited at the above address, by telephone on +44 (0)131 538 6610 or by fax on +44 (0)131 538 6607. For registry queries contact Computershare by telephone on +44 (0)870 707 1307.

Directors' Report

The Directors have pleasure in submitting their Annual Report and Accounts for the year to 31st August 2012.

Business Review

Principal Activity, Status and Review

The Company is an investment company within the meaning of the Companies Act 2006 (company number: SC156108). HM Revenue and Customs' approval of the Company as an investment trust for the purposes of the Corporation Tax Act 2010 has been given for the year ended 31st August 2011. It is the Company's intention to seek approval as an investment trust for the year ended 31st August 2012 and then make an application under Regulation 5 of the Investment Trust (Approved Company) (Tax) Regulations 2011 for investment trust status to apply to all accounting periods commencing on or after 1st January 2012.

In the Directors' view, the description of the Company's development over the year and the identification of its key performance indicators are contained in the Financial Highlights, Ten Year Record, Chairman's Statement and Portfolio Manager's Report. The principal risks facing the Company relate to its investment activities and include market price risk and foreign currency risk. Further details of these risks are disclosed in note 16 of the Accounts on pages 43 to 45. Information on the Company's internal controls is set out on pages 25 and 26.

In common with most investment trusts, the Company has no employees.

The Company has given discretionary voting powers to the Investment Manager. The Board supports the integration by the Investment Manager of environmental, social and governance issues in its investment decision-making. In the Investment Manager's view, this assists the sustainable performance of the Company.

The table below shows the revenue position and dividend payable by the Company, subject to shareholders' approval of the final dividend of 11.00 pence per share proposed to be paid on 31st January 2013. The former basis of accounting was to reflect a dividend in the accounts in the year to which it related rather than, as at present, to reflect it in the year in which the Company actually pays it.

	£000	Pence per share
Revenue reserve as at 31st August 2011	4,456	14.74
Net revenue earned in the year	4,348	14.39
Dividend payable	(3,324)	(11.00)
Revenue reserve as at 31st August 2012	5,480	18.13

Pence per share figures are based on the number of shares in issue at 31st August 2012

Borrowings

Details of the Company's US$32.5 million three year fixed rate loan with Scotiabank Europe plc can be found in note 11 on page 42.

Directors' Report – continued

Share Capital

The Company's capital structure consists of 30,213,650 ordinary shares of 25p each in issue at 31st August 2012.

Management

First State Investment Management (UK) Limited has been Investment Manager since 20th March 1995. The current Investment Management Agreement was put in place on 1st March 2011 ("the Agreement").

The terms of the Agreement provide for payment of a base fee of 0.75% per annum of the Company's net assets payable quarterly in arrears. In addition an annual performance fee may be payable to the Investment Manager. These fees are capped, in aggregate, at an amount not exceeding or equal to 5% of the lower of (1) the gross asset value of the Company and (2) its market capitalisation, in each case at the relevant 31st August year end.

The performance fee is based on the Company's share price total return ("SPTR"), taking the change in share price and dividend together, over a three year period. If the Company's SPTR exceeds the SPTR of the Company's benchmark index (the MSCI AC Asia ex Japan Index) over the three year period plus ten percentage points then a performance fee is payable to the Investment Manager. The objective of the performance fee is to give the Investment Manager ten per cent of the additional value generated for shareholders by such outperformance. A performance fee of £1,795,277 (2011: £2,405,137) is due to be paid for the twelve months ending 31st August 2012 and this fee will be charged against the Company's capital.

The Investment Manager's appointment is subject to termination on one year's notice. The Company is entitled to terminate the Investment Manager's appointment on less than the specified notice period subject to compensation being paid to the Investment Manager for the period of notice not given. The compensation in the case of the Investment Manager's termination is based on 0.75% of the value of the Company's net assets up to the date of termination on a pro rata basis. In addition a termination performance fee amount may be due to the Investment Manager based on the Company's three year performance up to the date of termination and paid on a pro rata basis.

The Agreement sets out matters over which the Investment Manager has authority and the limits above which board approval is required. In addition the Board has a formal schedule of matters specifically reserved to it for decision. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, matters relating to the buy-back and issuance of the Company's shares, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

Company Secretary

Company Secretarial, accounting and administrative services were provided by First State Investment Management (UK) Limited for a fee, initially based on £35,000 per annum until 31st March 1996 and subsequently increased in line with the UK Retail Price Index annually, until 28th February 2011. On 1st March 2011 Personal Assets Trust Administration Company Limited was appointed to provide these services for an annual fee of £97,500 plus VAT payable quarterly in advance and linked to the movement in the Retail Price Index annually. The appointment is terminable on three months' notice.

Directors' Report – continued

Continuing Appointment of the Investment Manager

The Board regularly appraises the performance and effectiveness of the investment managerial arrangements of the Company. As part of this process, such arrangements are reviewed formally once a year. In relation to the Board's formal review, the performance and effectiveness of such arrangements are measured against certain criteria. These include the Company's growth and return; performance against the Company's peer group; the success of the Company's investment strategy; the effectiveness, quality and standard of investment resource dedicated by the Investment Manager to the Company; and the level of the Investment Manager's fee in comparison to its peer group. The Board, having conducted its review, considers that the Investment Manager's continued appointment as investment manager to the Company is in the best interests of shareholders.

Creditor Payment Policy

The Company's payment policy for the year to 31st August 2013 is to agree terms of payment before business is transacted, to ensure suppliers are aware of these terms and to settle bills in accordance with them. The Company has no trade creditors.

Substantial Shareholders

At 1st November 2012 the Company was aware of the following significant shareholdings representing (directly or indirectly) 3% or more of the voting rights attaching to the issued share capital of the Company:

	Number of Shares held	Percentage held
Clients of Brewin Dolphin Securities	3,950,605	13.1%
Clients of Alliance Trust Savings	1,890,971	6.3%
Clients of Hargreaves Lansdown	1,635,676	5.4%
Clients of Investec Wealth & Investment	1,591,686	5.3%
Clients of Rathbones	1,181,003	3.9%
Clients of Smith & Williamson	1,051,301	3.5%
Clients of Legal & General Investment Management	1,024,744	3.4%
Clients of Barclays Stockbrokers	1,023,654	3.4%
Clients of F&C Asset Management	995,339	3.3%
Clients of Charles Stanley	973,728	3.2%

Going Concern

After making inquiries, and bearing in mind the nature of the Company's business and assets, which are considered to be readily realisable if required, the Directors believe that the Company has adequate resources to continue operating for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Directors' Statement on Corporate Governance

Arrangements appropriate to an investment trust in respect of corporate governance have been made by the Board. The Board has considered the principles and recommendations of the AIC's Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance

Directors' Report – continued

Guide for Investment Companies (the "AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code issued by the Financial Reporting Council, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The AIC Code issued in October 2010 can be obtained from the AIC's website at www.theaic.co.uk.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders than if it had adopted the UK Corporate Governance Code.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The Board comprises four non-executive Directors, one of whom, Dr Janet Morgan, has been a Director for a period of longer than nine years. The Board considers Dr Morgan to be free from any business or other relationship with the Investment Manager or its employees which could interfere with or compromise the exercise of her independent judgement. Dr Morgan is therefore considered to be independent notwithstanding the length of her appointment. The Board considers that it is in the interests of the Company to have loyal and committed non-executive Directors, particularly as it does not have any employees or executive Directors.

James Ferguson was a Director of the Investment Manager until 2000 but has not been a Director of or employed by the Investment Manager or any member of its group since then and is therefore considered by the Board to be independent because of the period of time since he was connected with the Investment Manager. Additionally, the Chairman is considered to be independent notwithstanding his son's employment with the Investment Manager.

Finally, as the Board is an entirely non-executive Board, the Directors are involved in discussions to determine their own remuneration taking various factors into consideration. James Ferguson, the Chairman, also chairs the Remuneration Committee and the Audit Committee, appointments which are periodically reviewed. The Board considers that it is appropriate for Mr Ferguson to be Chairman of both committees as he is considered to be independent and has no conflicts of interests.

Directors

The following Directors served during the year and had the following interests in the share capital of the Company. All the Directors' interests, save as otherwise disclosed, are beneficial interests in the share capital of the Company.

	31st August 2012 Ordinary 25p shares	31st August 2011 Ordinary 25p shares
James Ferguson*	292,290	292,290
Alexandra Mackesy	21,000	28,600
Dr Janet Morgan	3,600	3,600
Anne West	–	–

* 272,290 ordinary shares in the Company are family interests

Directors' Report – continued

There were no changes to the above holdings between 31st August 2012 and 1st November 2012. The Company has no service contracts with its Directors and has not entered into any other contract in which a Director has an interest.

Meetings

The Board meets at least quarterly and has a formal schedule of matters specifically reserved to it for decision including investment policy and agreement of the terms of appointment of the Investment Manager. The number of meetings of the Board, Audit Committee, Remuneration Committee and Nominations Committee held during the year and the attendance of the individual directors at those meetings is shown in the table below. Board papers are distributed prior to all meetings in a form and quality appropriate to enable the Board to discharge its duties. Directors can in addition raise any matters at meetings and there is a procedure in place for Directors to take independent professional advice, if necessary, at the Company's expense. The Company purchases and maintains Directors' and Officers' liability insurance. The Directors confirm that the Company Secretary is responsible for ensuring that the Board's procedures are followed and for compliance with applicable rules and regulations including the UK Corporate Governance Code. Appointment or removal of the Company Secretary is a matter for the Board as a whole. All Directors have access at any time to the advice and services of the Company Secretary.

Number of Meetings	Board Meetings	Audit Committee	Committee of the Board	Remuneration Committee	Nomination Committee
James Ferguson	5	3	1	1	1
Alexandra Mackesy	5	3	–	1	1
Dr Janet Morgan	5	3	–	1	1
Anne West	5	3	–	1	1

Independence of Directors

The Board considers its four non-executive Directors to be free from any business or other relationship with the Investment Manager or its employees which could interfere with or compromise the exercise of his or her independent judgement and, therefore, independent of the Investment Manager. The Board deems the Chairman to be independent having taken into consideration his son's employment with the Investment Manager and his previous directorship with the Investment Manager. Dr Janet Morgan has served on the Board for more than nine years. The Board considers that Dr Morgan is independent of the Investment Manager in mind, character and judgement and free from any business or other relationship with the Investment Manager which could interfere with or compromise the exercise of her independent judgment. In addition, as the Trust does not have an executive board or any employees, it is considered to be in shareholders' interests for non-executive Directors to serve on the Board for longer periods of time.

Performance Appraisals

Performance appraisals of the Chairman and Directors were carried out during the accounting period through a discussion based process. The Chairman's appraisal was led by the Senior Independent Director, Dr Janet Morgan. The Board concluded that the Chairman and each Director contributed effectively and demonstrated commitment to his or her role. The Board also concluded that the performance of the Board as a whole and its committees was effective. The training and development needs of Directors are discussed prior to and during the annual appraisal.

Directors' Report – continued

Terms of Appointment and Re-election of Directors

Dr Janet Morgan, having served on the Board for more than nine years, offers herself for re-election at the AGM. The Board confirms that Dr Morgan continues to make a significant contribution to Board deliberations. The Board therefore believes that it is in the interests of shareholders that Dr Morgan be re-elected. The Articles of Association provide that each Director is subject to election at the first AGM after his or her appointment and must retire by rotation every three years. His or her re-election is subject to shareholder approval, based upon the recommendations of the full Board. Biographical details of all Directors are set out on page 5 of this Annual Report to enable shareholders to take an informed decision on their election. From these details, it will be seen that the Board has a breadth of investment, commercial and professional experience with an international, and more specifically, Asian perspective. The Directors are experienced in their role as Directors and any new Director will, upon appointment, receive a briefing on the investment operations and administrative functions of the Company and his or her role/responsibility as a Director as appropriate.

The Board is of the view that longer term appointments are necessary to ensure long term stability of the management of the Trust, given that the Trust has no employees. As an investment trust, the Board also adheres to the AIC Code.

The terms and conditions of appointment of non-executive Directors are available for inspection at the Company's registered office during normal business hours.

Nominations Committee

The Board as a whole fulfils the functions of a Nominations Committee.

The Nominations Committee terms of reference are available on the Trust's website and clearly define the Committee's responsibilities.

The Nominations Committee meets at least annually.

Internal Controls

The Directors are ultimately responsible for the internal controls of the Company which aim to ensure that proper accounting records are maintained, the assets are safeguarded and the financial information used within the business and for publication is reliable. The Directors are required to review the effectiveness of the Company's system of internal control. The UK Corporate Governance Code states that the review should cover all material controls, including financial, operational and compliance controls and risk management systems. Operational and reporting systems are in place to identify, evaluate and monitor the operational risks potentially faced by the Company and to ensure that effective internal controls have been maintained throughout the period under review and up to the date of approval of this Annual Report. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. A full review of all internal controls is undertaken annually and the Board confirms that it has reviewed the effectiveness of the system of internal control.

Directors' Report – continued

These controls include:

- Reports at regular Board meetings of all security and revenue transactions effected on the Company's behalf. These transactions can only be entered into following appropriate authorisation procedures determined by the Board, the Investment Manager and the Company Secretary;
- Custody of the Company's assets has been delegated to JPMorgan Chase. The records maintained by JPMorgan Chase permit the Company's holdings to be readily identified. The Investment Manager and Company Secretary carry out regular reconciliations with the custodian's records of the Company's cash and holdings;
- The Investment Manager's compliance and risk department monitors compliance by individuals and the Investment Manager's operations with the rules of the Financial Services Authority and provides regular reports to the Board;
- A risk matrix is prepared which identifies the significant risks faced by the Company and the Investment Manager's and Company Secretary's controls in place to manage these risks effectively.

These systems are designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material misstatement or loss.

Audit Committee and Auditor

An Audit Committee has been established consisting of all the Directors, with three constituting a quorum. James Ferguson was appointed Chairman of the Audit Committee's meetings held on 26th October 2011, 28th March 2012, and 25th July 2012. The Board considers that it is appropriate for all Directors to be members of the Committee given the size and composition of the Board. The Audit Committee has clearly defined written terms of reference which are available on the Company's website. The main functions of the Audit Committee are as follows:

- to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and to review significant financial reporting judgements contained in them;
- to consider the appointment of the external auditor, the audit fee, and any questions of the external auditor's resignation or dismissal;
- to review the half-year and annual financial statements before submission to the Board;
- to monitor and review the effectiveness of the Company's statements on corporate governance and internal control systems (including financial and operational and compliance controls and risk management) prior to endorsement by the Board; and
- to review and monitor the external auditor's independence and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. The Audit Committee also reviews the objectivity of the auditors and the terms under which they are appointed to perform non-audit services. Fees for these services amounted to £4,000 for the year ended 31st August 2012. The Board consider that the provision of such services at this low level is cost effective and does not impair the independence of Chiene + Tait.

The Audit Committee meets the Auditor at least once a year to review these and other matters. A resolution to re-appoint Chiene + Tait, Chartered Accountants and Statutory Auditor, as Auditor of the Company will be proposed at the Annual General Meeting. The Board does not consider that an internal audit function is necessary as a result of the Company's straightforward structure.

Directors' Report – continued

Disclosure of Information to Auditor

The Directors confirm that as far as they are aware, as at the date of this Report, there is no relevant audit information of which the Company's auditor is unaware and that each Director has taken all the steps he or she might reasonably be expected to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Share Buy Backs

The Company's buy back authority was last renewed at the AGM on 6th February 2012 in respect of 4,532,047 ordinary shares of 25p each. No shares were bought back during the period under review and no shares are held in treasury.

Annual General Meeting

The notice convening the Annual General Meeting to be held on 24th January 2013 is given on pages 48 to 52. The resolutions to be proposed include a resolution to approve the Directors' Remuneration Report, which is set out on pages 29 and 30.

Resolutions 6 and 7 to be proposed at the Annual General Meeting as ordinary and special resolutions respectively will, if approved, authorise the Directors to allot a limited number of unissued ordinary shares and empower them to allot some of the same for cash without first offering such shares to existing ordinary shareholders pro rata to their existing holdings. The authority being sought under Resolution 6 is in respect of £636,646 in nominal value of relevant securities, comprising the whole unissued ordinary share capital of the Company on 1st November 2012; this figure represents approximately 8.4% of the issued ordinary share capital on that date. The power to disapply pre-emption rights being sought under Resolution 7 is in respect of £377,670 of equity securities comprising 5% of the ordinary shares of the Company in issue on 1st November 2012. The authority under Resolutions 6 and 7 will expire at the conclusion of the next Annual General Meeting of the Company after the passing of the resolutions or on the expiry of 15 months from the passing of the resolutions, whichever is the earlier. The Directors, who have no present intention of exercising their authority to allot any of the same, will only allot relevant securities under this authority to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so.

Resolution 8 to be proposed at the Annual General Meeting as a special resolution gives authority to the Company to purchase its own shares, subject to the provisions of the Companies Act 2006, as permitted by the Company's Articles of Association. This resolution specifies the maximum such number of shares which may be acquired (being 4,532,047 ordinary shares, just under 15% of the Company's issued share capital at 1st November 2012) and the maximum (105% of the 5 day average middle market price) and minimum (the nominal value) prices at which shares may be bought. The Directors will only exercise the authority granted pursuant to this resolution through the market for cash at prices below the prevailing net asset value of the ordinary shares (as last calculated) in circumstances where such purchases will enhance net asset value. The proposed authority, if granted, will expire at the earlier of the next Annual General Meeting or 15 months following the passing of Resolution 8. There are no options outstanding over the Company's share capital.

Directors' Report – continued

Notice Period for General Meetings

Resolution 9 is being proposed to enable general meetings to be held on 14 clear days' notice rather than 21 clear days' notice following the implementation of The Companies (Shareholders' Rights) Regulations 2009 which implemented the EU Shareholder Rights Directive (2007/36/EC) (the "Directive").

The provisions of the Companies Act 2006 relating to meetings have been amended as a result of the implementation of the Directive. The minimum notice period for listed company general meetings has been increased to 21 clear days, but companies have an ability to reduce this period back to 14 clear days (other than for annual general meetings), provided that the company offers facilities for shareholders to vote by electronic means and that there is an annual resolution of shareholders approving the reduction in the minimum period for notice of general meetings (other than annual general meetings) from 21 clear days to 14 clear days. The Board is therefore proposing Resolution 9 as a special resolution to ensure that the minimum required period for notice of general meetings of the Company (other than annual general meetings) is 14 clear days. The Directors believe it is in the best interests of the shareholders of the Company to preserve the shorter notice period, although it is intended that this flexibility will only be used for non-routine business and where merited in the interests of shareholders as a whole. The approval will be effective until the Company's next Annual General Meeting when it is intended that a similar resolution will be proposed.

Recommendation

The Directors unanimously recommend that you vote in favour of the resolutions to be proposed at the Annual General Meeting as it is their view that the Resolutions are in the best interests of shareholders as a whole.

Relations with Shareholders

The Board recognises the value of the views of shareholders. The Investment Manager has a policy of meeting major shareholders and reports to the Board following such meetings. Any shareholder wishing to communicate with a member of the Board may do so by writing to him or her at the Company's registered office as detailed on page 19. All who attend at the AGM have an opportunity to question the Board and the Investment Manager. Proxy voting figures for each resolution are available to shareholders after the AGM. Separate items of business are proposed as separate resolutions. The Annual Report is sent to shareholders at least 20 working days before the AGM.

Exercise of Voting Powers

The Investment Manager decides whether and how to vote on behalf of the Company in accordance with the Investment Manager's judgement of what is best for the Company and its shareholders in each individual case.

On behalf of the Board

Steven K Davidson
Company Secretary
1st November 2012

Directors' Remuneration Report

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

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 their report on pages 46 and 47.

Remuneration Committee

The Company has four non-executive Directors. The Board as a whole fulfils the function of a Remuneration Committee as it considers specific appointments to such a committee are not appropriate due to the size and composition of the Board. Appointments are periodically reviewed. The Remuneration Committee terms of reference are available on the Trust's website and clearly define the Committee's responsibilities.

The Board carried out a review of the level of Directors' fees during the year. It was resolved to increase the level of the Chairman's fee from £23,500 to £25,000 per annum and Directors' fees from £17,000 to £18,000 each per annum, such increases to take effect from 1st July 2012.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are similar in size and have similar objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the high calibre of Directors needed to oversee the Company properly and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 31st August 2013 and subsequent years.

The fees for the non-executive Directors are set within maximum limits determined from time to time by the Company in general meeting. The Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. The Directors' fees are not performance related.

Directors' Service Contracts

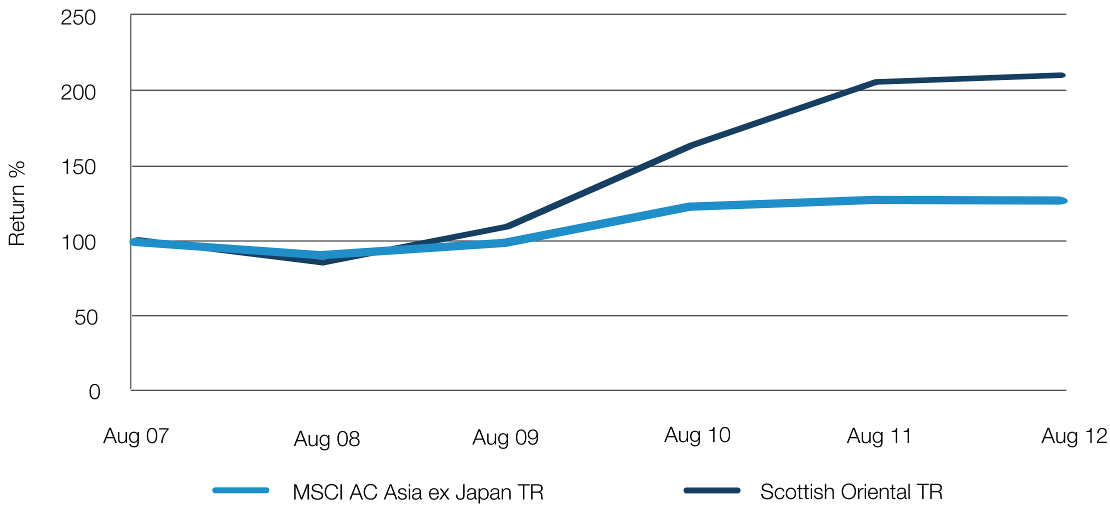
The Directors do not have a contract of service with the Company. All of the Directors have been provided with letters of appointment. The letters of appointment provide that Directors are appointed for a period of three years and are subject to election by shareholders at the first Annual General Meeting after their appointment. Thereafter they must retire at intervals of no more than three years. Their re-election is subject to shareholder approval. The letters of appointment are available for inspection on request. Any Director who has served on the Board for more than nine years will submit himself or herself for re-election annually. There is no notice period and no provision for compensation upon early termination of appointment. The Board believes that long term appointments are a benefit to the Company in terms of awareness and industry experience.

Directors' Remuneration Report – continued

Your Company's Performance

The graph below compares the total return (assuming all dividends are reinvested) to ordinary shareholders for the last five financial years compared to the total shareholder return on the MSCI AC Asia ex Japan Index. This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.

Total Return – Scottish Oriental versus MSCI AC Asia ex Japan Index



Directors' Emoluments for the Year (audited)

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

	Fees 2012 (£)	Fees 2011 (£)
James Ferguson (Chairman)	23,750	22,667
Alexandra Mackesy	17,167	16,167
Sir Hamish Macleod*	–	6,429
Dr Janet Morgan	17,167	16,167
Anne West	17,167	16,167
	75,251	77,597

*Retired as a Director on 25th January 2011

Sums Paid to Third Parties (audited)

No sums were paid to third parties.

The Directors' Remuneration report on pages 29 and 30 was approved by the Board of Directors on 1st November 2012 and signed on its behalf by

James Ferguson, Chairman
1st November 2012

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report, the Directors' Remuneration 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and 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 accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that suitable accounting policies, applied consistently and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements and that applicable accounting standards have been followed.

The financial statements are published on the Company's website www.scottishoriental.com which is maintained by the Investment Manager. The maintenance and integrity of the corporate and financial information relating to the Company is the responsibility of the Investment Manager. The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with applicable United Kingdom accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

By order of the Board

James Ferguson
Chairman
1st November 2012

Income Statement

For the year ended 31st August 2012

	Note	2012 Revenue £000	2012 Capital £000	2012 Total* £000	2011 Revenue £000	2011 Capital £000	2011 Total* £000
Gains on investments		**–**	**15,129**	**15,129**	–	20,237	20,237
Income from investments	1	**7,056**	**–**	**7,056**	5,696	–	5,696
Other income	1	**17**	**–**	**17**	30	–	30
Investment management fee	2	**(1,435)**	**(1,795)**	**(3,230)**	(1,452)	(2,405)	(3,857)
Currency (losses)/gains	13	**–**	**(247)**	**(247)**	–	470	470
Other administrative expenses	3	**(457)**	**–**	**(457)**	(461)	–	(461)
Net return before finance costs and taxation		**5,181**	**13,087**	**18,268**	3,813	18,302	22,115
Finance costs of borrowing	4	**(461)**	**–**	**(461)**	(18)	(54)	(72)
Net return on ordinary activities before taxation		**4,720**	**13,087**	**17,807**	3,795	18,248	22,043
Tax on ordinary activities	5	**(372)**	**–**	**(372)**	(352)	–	(352)
Net return attributable to equity shareholders		**4,348**	**13,087**	**17,435**	3,443	18,248	21,691
Net return per ordinary share	7	**14.39p**	**43.32p**	**57.71p**	11.39p	60.40p	71.79p

*The total column of this statement is the Profit & Loss Account of the Company. The revenue and capital columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

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

The Board is proposing a dividend of 11.00p per share for the year ended 31st August 2012 (2011: 9.00p per share) which, if approved, will be payable on 31st January 2013 to shareholders recorded on the Company's shareholder register on 14th December 2012.

The accounting policies on pages 36 and 37 and the notes on pages 38 to 45 form part of these accounts.

All revenue and capital items derive from continuing operations.

Balance Sheet

as at 31st August 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
FIXED ASSETS – EQUITY INVESTMENTS	8				
China			**28,422**		29,021
Hong Kong			**20,178**		16,691
India			**2,947**		2,764
Indonesia			**10,268**		10,147
Malaysia			**16,872**		15,724
Philippines			**8,534**		7,701
Singapore			**33,771**		26,843
South Korea			**24,873**		24,727
Sri Lanka			**3,773**		2,871
Taiwan			**29,471**		23,434
Thailand			**16,451**		15,691
Vietnam			**3,389**		1,935
			198,949		177,549
CURRENT ASSETS					
Debtors	9	**3,299**		999	
Cash and deposits		**22,997**		31,328	
		26,296		32,327	
CURRENT LIABILITIES (due within one year)					
Creditors	10	**(3,154)**		(3,028)	
		(3,154)		(3,028)	
Net Current Assets			**23,142**		29,299
Total Assets less Current Liabilities			**222,091**		206,848
CREDITORS (due after one year)					
Loan	11		**(20,487)**		(19,960)
Equity Shareholders' Funds			**201,604**		186,888
Represented by					
CAPITAL AND RESERVES					
Ordinary share capital	12		**7,554**		7,554
Share premium account	13		**21,337**		21,337
Warrant reserve exercised	13		**1,319**		1,319
Capital reserve	13		**162,590**		149,503
Revenue reserve	13		**8,804**		7,175
			201,604		186,888
Net asset value per share	14		**667.26p**		618.56p

These accounts were approved by the Board on 1st November 2012 and signed on its behalf by

James Ferguson, Director **Dr Janet Morgan**, Director

The accounting policies on pages 36 and 37 and the notes on pages 38 to 45 form part of these accounts.

Cash Flow Statement

for the year ended 31st August 2012

	2012		2011	
	£000	£000	£000	£000
OPERATING ACTIVITIES:				
Dividends received from investments		**7,234**		5,594
Other income		**17**		64
		7,251		5,658
Investment management fee	**(1,413)**		(1,305)	
Secretarial fee	**(99)**		(84)	
Directors' fees	**(75)**		(79)	
Other expenses paid	**(277)**		(344)	
		(1,864)		(1,812)
Net cash inflow from operating activities		**5,387**		3,846
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:				
Interest paid on borrowings	**(457)**		–	
Arrangement fees	**(20)**		(34)	
Net cash outflow from investments and servicing of finance		**(477)**		(34)
TAXATION:				
Total tax paid		**(457)**		(453)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT:				
Purchases of investments	**(43,936)**		(58,354)	
Sales of investments	**35,996**		56,742	
Currency gains	**280**		623	
Performance fee	**(2,405)**		(937)	
Net cash outflow from capital expenditure and financial investment		**(10,065)**		(1,926)
EQUITY DIVIDEND PAID		**(2,719)**		(2,568)
Net cash outflow before financing		**(8,331)**		(1,135)
FINANCING:				
Loan drawn down		**–**		19,813
(Decrease)/increase in cash		**(8,331)**		18,678

The notes to the Cash Flow Statement are contained in note 15.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st August 2012

	Share Capital £000	Share Premium Account £000	Warrant Reserve Exercised £000	Capital Reserve £000	Revenue Reserve £000	Total £000
Balance at 31st August 2011	7,554	21,337	1,319	149,503	7,175	186,888
Realised gain on investments	–	–	–	10,799	–	10,799
Currency loss	–	–	–	(247)	–	(247)
Unrealised appreciation on investments in the year	–	–	–	4,330	–	4,330
Performance fee	–	–	–	(1,795)	–	(1,795)
Income retained in the year	–	–	–	–	4,348	4,348
Dividend paid in the year	–	–	–	–	(2,719)	(2,719)
Balance at 31st August 2012	**7,554**	**21,337**	**1,319**	**162,590**	**8,804**	**201,604**

for the year ended 31st August 2011

	Share Capital £000	Share Premium Account £000	Warrant Reserve Exercised £000	Capital Reserve £000	Revenue Reserve £000	Total £000
Balance at 31st August 2010	7,554	21,337	1,319	131,255	6,300	167,765
Realised gain on investments	–	–	–	30,867	–	30,867
Currency gain	–	–	–	470	–	470
Unrealised depreciation on investments in the year	–	–	–	(10,630)	–	(10,630)
Performance fee	–	–	–	(2,405)	–	(2,405)
Finance costs of borrowing	–	–	–	(54)	–	(54)
Income retained in the year	–	–	–	–	3,443	3,443
Dividend paid in the year	–	–	–	–	(2,568)	(2,568)
Balance at 31st August 2011	7,554	21,337	1,319	149,503	7,175	186,888

Accounting Policies

Basis of accounting

(a) These accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention (modified to include the revaluation of fixed asset investments which are recorded at fair value), the Companies Act 2006 and the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in January 2009 (the "SORP") except for certain illiquid stocks which have been valued at the last traded price, as has been the Company's practice. The Directors consider the last traded price for such stocks to be the best estimate of fair value. Financial assets and liabilities are recognised in the Company's Balance Sheet when it becomes party to the contractual provisions of the instrument.

In order better to reflect the activities of the Company and in accordance with guidance issued by the AIC, supplementary information which analyses the Profit and Loss Account between items of revenue and capital nature has been presented in the Income Statement.

The accounts have also been prepared on the assumption that approval as an investment trust will continue to be granted.

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

The functional and reporting currency of the Company is pounds sterling as most investors in the Company are based in the United Kingdom.

Income

(b) Dividends on securities are brought into account on the date on which the security is quoted "ex dividend" on the stock exchange in the country in which the security is listed. Interest on securities is accounted for on a time apportioned basis. Foreign dividends include any withholding taxes payable to the tax authorities. Where a scrip dividend is taken in lieu of cash dividends, the net amount of the cash dividend declared is credited to the revenue account. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as capital.

(c) Overseas income is recorded at rates of exchange ruling at the date of receipt.

(d) Bank interest receivable is dealt with on an accruals basis and taken to revenue.

Expenses

(e) Expenses and interest payable are dealt with on an accruals basis and are charged through the revenue column of the Income Statement.

(f) The base investment management and company secretarial fees have been charged in full to the Income Account. The performance fee is chargeable in full to the Capital Account.

Valuation of Investments

(g) Listed investments have been designated upon initial recognition as 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 cost. Subsequent to initial recognition, investments are valued at fair value which for listed investments is deemed to be bid market or last traded prices. Gains and losses arising from changes in fair value are included as a capital item in the Income Statement and are ultimately recognised in the Capital Reserve. In accordance with the guidance given in the Association of Investment Companies SORP issued in January 2009 the Capital Reserve is not separated into realised and unrealised.

(h) Equities include ordinary shares and warrants.

(i) Gains and losses arising on realisation of investments are shown in the Capital Reserve.

Accounting Policies – continued

Foreign currency

(j) Exchange rate differences on capital items are included in the Capital Reserve, and on income items in the Revenue Reserve.

(k) All assets and liabilities denominated in foreign currencies have been translated at year end exchange rates.

Cash and liquid resources

(l) Cash and liquid resources include cash at hand, deposits held on call with banks and other short term highly liquid investments with maturities of three months or less.

Long term borrowings and finance costs

(m) Long term borrowings are carried in the Balance Sheet at fair value. Finance costs of such borrowings are charged to capital in the period in which they are incurred. Interest costs incurred on long-term borrowings are charged to income on a time apportioned basis over the life of the liability. Breakage costs on long term borrowings are charged to capital.

Dividends

(n) Interim dividends are recognised in the period in which they are paid and final dividends are recognised in the period in which they are approved by the Company's shareholders.

Taxation

(o) In accordance with Financial Reporting Standard 19, deferred taxation is provided using the liability method on all timing differences, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

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

Notes on the Accounts

1. Income

Income from investments relates to dividends. Other income relates to bank deposit interest and £17,000 (2011: £27,000) in relation to Taiwan tax reclaims from overseas listed companies.

2. Investment Management Fee	**2012 £000**	2011 £000
Performance fee	**1,795**	2,405
Investment management fee	**1,435**	1,452
	3,230	3,857

The basis of calculation of the investment management fee and performance fee is given on page 21.

3. Other Administrative Expenses	**2012 £000**	2011 £000
Auditor's remuneration for:		
– audit	**13**	12
– tax services	**4**	4
Directors' fees	**75**	78
Company secretarial fees	**99**	75
Bank, custodial and other expenses	**266**	292
	457	461

Since 1st July 2012 Directors' fees have been as follows:

Chairman of the Board	£25,000 per annum
Each other Director	£18,000 per annum

Prior to 1st July 2012 Directors' fees were as follows:

Chairman of the Board	£23,500 per annum
Each other Director	£17,000 per annum

	2012			2011		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
4. Finance Costs of Borrowing	**£000**	**£000**	**£000**	£000	£000	£000
Costs in relation to bank borrowing	**461**	**–**	**461**	18	54	72

Notes on the Accounts – continued

5. Taxation	2012 Revenue	2012 Capital	2012 Total	2011 Revenue	2011 Capital	2011 Total
(a) Analysis of charge in period	**£000**	**£000**	**£000**	£000	£000	£000
Current tax:						
Overseas tax	**372**	**–**	**372**	352	–	352
	372	**–**	**372**	352	–	352

(b) Factors affecting the tax charge for the period

The tax assessed for the period is different from that calculated when corporation tax is applied to the total return. The differences are explained below:

	2012 £000	2011 £000
Net gains on investments during the period	**15,129**	20,237
Other (losses)/gains	**(247)**	470
Performance fee	**(1,795)**	(2,405)
Finance costs of borrowing	**–**	(54)
Net investment income before tax	**4,720**	3,795
Total return for the period before taxation	**17,807**	22,043
Total return for the period before taxation multiplied by the effective rate of corporation tax of 25.16% (2011: 27.16%)	**4,480**	5,987
Effect of:		
Capital returns not subject to corporation tax	**(3,744)**	(5,624)
Non-taxable income	**(1,775)**	(1,547)
Overseas tax	**372**	352
Movement in excess expenses	**1,039**	1,184
Current tax charge for the period	**372**	352

Under changes enacted in the Finance Act 2009, dividends and other distributions received from foreign companies from 1st July 2009 are largely exempt from corporation tax.

(c) Provision for deferred tax

The Company has a deferred tax asset of £2,611,000 (2011: £1,755,000) at 31st August 2012 in respect of unrelieved tax losses carried forward. This asset has not been recognised in the accounts as it is unlikely under current legislation that it will be capable of being offset against future taxable profits.

Notes on the Accounts – continued

6. Dividends	2012 £000	2011 £000
Dividends paid in the period:		
Dividend of 9.00p per share (2011 – 8.50p) paid 10th February 2012	**2,719**	2,568

We note below the proposed dividend in respect of the financial year, which is the basis upon which the requirements of section 1158 of the Corporation Tax Act 2010 are considered. The proposed dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

	2012 £000	2011 £000
Income available for distribution	**4,348**	3,443
Proposed dividend for the year ended 31st August 2012 – 11.00p (2011 – 9.00p) payable 31st January 2013	**(3,324)**	(2,719)
Retained income for section 1158 Corporation Tax Act 2010 purposes	**1,024**	724

	2012			2011		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
7. Return per Ordinary Share	**p**	**p**	**p**	p	p	p
Net return per share	**14.39**	**43.32**	**57.71**	11.39	60.40	71.79

	2012	2011
Revenue return	**£4,348,000**	£3,443,000
Capital return	**£13,087,000**	£18,248,000
Weighted average ordinary shares in issue	**30,213,650**	30,213,650

There are no dilutive or potentially dilutive shares in issue.

Notes on the Accounts – continued

8. Equity Investments	£000
Cost at 31st August 2011	141,593
Unrealised appreciation	35,956
Valuation at 31st August 2011	177,549
Purchases at cost*	44,658
Sales – proceeds*	(38,387)
Sales – realised gains on sales	10,799
Unrealised appreciation on investments in the year	4,330
Valuation at 31st August 2012	198,949
Cost at 31st August 2012	158,663
Closing unrealised appreciation	40,286

All investments are listed on recognised stock exchanges.
*These figures include the following charges.

Transaction Costs

During the year the Company incurred transaction costs of £139,000 (2011: £179,000) on the purchase of investments and £154,000 (2011: £275,000) on the sale of investments.

9. Debtors	**2012 £000**	2011 £000
Sales awaiting settlement	**2,391**	–
Accrued income	**585**	763
Overseas tax recoverable	**320**	236
Sundry debtors	**3**	–
	3,299	999

10. Creditors (amounts falling due within one year)	**2012 £000**	2011 £000
Purchases awaiting settlement	**865**	143
Performance fee	**1,795**	2,405
Finance costs of borrowing	**–**	21
Interest due on loan	**22**	18
Other creditors	**472**	441
	3,154	3,028

Notes on the Accounts – continued

11. Creditors (amounts falling due after one year)	2012 £000	2011 £000
US$32,500,000 fixed rate loan 2.191% 12/08/14	**20,487**	19,960

The main covenants relating to the loan are that total net assets shall not fall below £80 million and the ratio of adjusted total net assets to debt shall exceed 3.333 to 1. There were no breaches of loan covenants during the year.

12. Share Capital

The authorised capital is £8,190,058 (2011: 8,190,058) represented by 32,760,234 ordinary shares of 25p each (2011: 32,760,234). The allotted capital is £7,553,412 (2011: 7,553,412) represented by 30,213,650 ordinary shares of 25p each (2011: 30,213,650).

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

– 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.

Other than the loan covenants described in note 11 the Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital as detailed above. It is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on page 3.

13. Reserves	Share Premium Account £000	Warrant Reserve Exercised £000	Capital Reserve £000	Revenue Reserve £000
Balance at 31st August 2011	21,337	1,319	149,503	7,175
Realised gain on investments	–	–	10,799	–
Currency loss	–	–	(247)	–
Unrealised appreciation on investments in the year	–	–	4,330	–
Performance fee	–	–	(1,795)	–
Income retained in the year	–	–	–	4,348
Dividend paid in year	–	–	–	(2,719)
Balance at 31st August 2012	**21,337**	**1,319**	**162,590**	**8,804**

The capital reserve includes investment holding gains amounting to £40,286,000 (2011: £35,956,000), as disclosed in note 8. The revenue reserve is distributable by way of dividend.

14. Net Asset Value per Ordinary Share

Net assets per share are based on total net assets of £201,604,000 (2011: £186,888,000) divided by 30,213,650 (2011: 30,213,650) ordinary shares of 25p each in issue.

Notes on the Accounts – continued

15. Cash Flow Statement
(a) Reconciliation of total income to net cash inflow from operating activities

	2012 £000	2011 £000
Income	**7,073**	5,726
Administrative expenses	**(1,892)**	(1,913)
(Increase)/decrease in debtors	**(3)**	2
Decrease/(increase) in dividends accounted for but not yet received	**178**	(84)
Increase in creditors	**31**	115
Net cash inflow from operating activities	**5,387**	3,846

(b) Analysis of changes in cash and net debt during the year

	At the Start of the year £000	Cash Flows £000	Non-cash Changes £000	At the End of the Year £000
Cash	31,328	(8,331)	–	22,997
Loan due between one and five years	(19,960)	–	(527)	(20,487)
	11,368	(8,331)	(527)	2,510

16. Risk Management, Financial Assets and Liabilities

The Company invests mainly in smaller Asian quoted companies. Other financial instruments comprise cash balances, short-term debtors, creditors and a fixed rate loan. The Investment Manager follows the investment process outlined on page 3 and in addition the Board conducts quarterly reviews with the Investment Management team. The Investment Manager's Risk and Compliance department monitors the Company's investment and borrowing powers to ensure that risks are controlled and minimised. Additionally, its Compliance and Risk Committee reviews risk management processes monthly.

The main risks that the Company faces from its financial instruments are market risk (comprising interest rate, currency and share price risks) and credit risk. As the Company's assets are mainly in readily realisable securities, other than in exceptional circumstances there is no significant liquidity risk. The Board, in conjunction with the Investment Manager, regularly reviews and agrees policies for managing each of these risks. The Investment Manager's policies for managing these risks are detailed below.

Market Risk

The fair value of, or future cash flows from, a financial instrument held by the Company will fluctuate because of changes in market prices. These valuations are deemed to represent the fair value of the investments.

Notes on the Accounts – continued

Interest Rate Risk

As the Company does not invest in either fixed or floating rate securities at present, interest rate risk exposure is restricted to interest receivable on bank deposits or interest payable on bank overdraft positions which will be affected by fluctuations in interest rates.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions.

Movements in interest rates, to the extent that they affect the fair value of the Company's fixed rate borrowings, may also affect the amount by which the Company's share price is at a discount or a premium to the net asset value (assuming that the Company's share price is unaffected by movements in interest rates). Throughout the year the Company held a US$32.5 million three year fixed rate bank loan.

Foreign Currency Risk

The majority of the Company's assets, liabilities and income are denominated in currencies other than sterling (the currency which the Company reports its results) as at 31st August 2012. The Balance Sheet therefore can be significantly affected by movements in foreign exchange rates. It is not the Company's policy to hedge this risk on a continuing basis but the Company reserves the right to undertake foreign exchange hedging of its portfolio. The revenue account is subject to currency fluctuation arising on dividends paid in foreign currencies. The Company does not hedge this currency risk.

Foreign Currency Risk Exposure by Currency of Denomination

	31st August 2012			31st August 2011		
	Overseas investments £000	**Net monetary assets £000**	**Total currency exposure £000**	Overseas investments £000	Net monetary assets £000	Total currency exposure £000
Hong Kong dollars	50,137	244	50,381	45,356	330	45,686
Singapore dollars	32,234	1,552	33,786	25,565	6,658	32,223
Taiwanese dollars	29,471	666	30,137	23,434	636	24,070
Korean won	24,873	1,429	26,302	24,727	–	24,727
Malaysian ringgits	16,872	–	16,872	15,724	77	15,801
Thai baht	16,451	27	16,478	15,691	37	15,728
Philippine pesos	8,534	–	8,534	7,701	–	7,701
Indonesian rupiahs	6,751	–	6,751	7,848	–	7,848
Sri Lankan rupees	3,773	–	3,773	2,871	–	2,871
Indian rupees	2,947	–	2,947	2,764	19	2,783
US dollars	3,389	(4,943)	(1,554)	1,935	(15)	1,920
Chinese yuan	–	–	–	1,634	–	1,634
Total foreign currency	**195,432**	**(1,025)**	**194,407**	**175,250**	**7,742**	**182,992**
Sterling	3,517	3,680	7,197	2,299	1,597	3,896
Total currency	**198,949**	**2,655**	**201,604**	**177,549**	**9,339**	**186,888**

Notes on the Accounts – continued

Other Price Risk

Changes in market prices, other than those arising from interest rate or currency risk, will affect the value of quoted investments. It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular country or sector. The Investment Manager monitors market prices throughout the year and reports to the Board on a regular basis.

Other Price Risk Sensitivity

If market values at the Balance Sheet date had been 10% higher or lower with all other variables remaining constant, the return attributable to ordinary shareholders for the year ending 31st August 2012 would have increased/(decreased) by £20,160,000 (2011 increased/(decreased) by £18,689,000) and equity reserves would have increased/(decreased) by the same amount.

Credit Risk

This is the risk that a failure of a counterparty to a transaction to discharge its obligations under that transaction could result in a loss to the Company.

Investment transactions are carried out with a large number of approved brokers, whose credit-standing is reviewed periodically by the Investment Manager.

Cash exposures are carefully managed to ensure that money is placed on deposit with reputable counterparties meeting a minimum credit rating.

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31st August 2012 was as follows:

	2012		2011	
Current assets	**Balance sheet £000**	**Maximum exposure £000**	Balance sheet £000	Maximum exposure £000
Receivables	**3,299**	**3,299**	999	999
Cash at bank	**22,997**	**22,997**	31,328	31,328
	26,296	**26,296**	32,327	32,327

17. Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on pages 29 and 30. No Director has a contract of service with the Company. During the year no Director was interested in any matter requiring disclosure under section 412 of the Companies Act 2006.

Report of the Independent Auditor

Independent Auditor's Report to the members of The Scottish Oriental Smaller Companies Trust PLC

We have audited the financial statements of The Scottish Oriental Smaller Companies Trust PLC for the year ended 31st August 2012 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st August 2012 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Report of the Independent Auditor – continued

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the 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 22, in relation to going concern;
- the part of the Directors' Statement on Corporate Governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on directors' remuneration.

Malcolm Beveridge BA CA (Senior Statutory Auditor)
For and on behalf of CHIENE + TAIT
Chartered Accountants & Statutory Auditor
61 Dublin Street
Edinburgh
EH3 6NL

1st November 2012

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of The Scottish Oriental Smaller Companies Trust PLC will be held at the offices of First State Investments, 3rd Floor, 30 Cannon Street, London EC4M 6YQ on 24th January 2013 at 12.15 pm for the purpose of transacting the following business:

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions.

1. To receive the reports of the Directors and Auditors and to adopt the Report and Accounts for the financial year ended 31st August 2012.
2. To approve the dividend of 11.00p per ordinary share of 25p each in the capital of the Company.
3. To re-elect Dr Janet Morgan as a Director. Dr Janet Morgan's biographical details can be found on page 5 of the Report and Accounts.
4. To re-appoint Chiene + Tait, Chartered Accountants and Statutory Auditor, as Auditor and to authorise the Directors to fix their remuneration.
5. To approve the Directors' Remuneration Report within the Report and Accounts for the financial year ended 31st August 2012.
6. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ("Securities") provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £636,646, such authority to expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

To consider and, if thought fit, pass the following resolutions as special resolutions of the Company:

7. That, subject to the passing of resolution number 6 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and are hereby generally empowered, pursuant to Section 570 of the Companies Act 2006 (the "Act"), to allot equity securities (as defined in Section 560 of the Act), including the grant of rights to subscribe for, or to convert securities into ordinary shares held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority given by resolution number 6 above as if Section 561(1) of the Act did not apply to any such allotment of equity securities, provided that this power:
   (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and
   (b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £377,670 being approximately 5% of the nominal value of the issued share capital of the Company, (excluding treasury shares) as at 1st November 2012.

Notice of Annual General Meeting – continued

8. 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 and is hereby generally and unconditionally authorised, pursuant to and 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 25 pence each in the capital of the Company ("ordinary shares") (either for retention as treasury shares for future reissue, resale or transfer or for cancellation), provided that:

   (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 4,532,047 ordinary shares representing 14.99% of the Company's issued share capital (excluding treasury shares);

   (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 25 pence;

   (c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:

      (i) 5 per cent above the average of the middle market quotations (as derived from the daily official list of the London Stock Exchange) for the ordinary shares over the five business days immediately preceding the date of purchase; and

      (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and

   (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting or 15 months from the passing of this Resolution 8, whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

9. That the Company be and is hereby generally and unconditionally authorised to hold general meetings (other than annual general meetings) on 14 clear days' notice, such authority to expire at the conclusion of the next annual general meeting of the Company.

Dated: 1st November 2012 By Order of the Board

Registered Office:
10 St. Colme Street
Edinburgh EH3 6AA

Steven K Davidson
Company Secretary

Notice of Annual General Meeting – continued

Notes

(1) To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at close of business on 22nd January 2013 ("the specified time"). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, the specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours (excluding non working days) before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

(2) If you wish to attend the meeting in person, you should present your attendance card, attached to your Form of Proxy, to the registration desk on the day of the meeting. Alternatively, please ensure you pre-register in accordance with the instructions on your Form of Proxy. Failure to do so may result in your being prohibited from voting on resolutions during the meeting. These forms must be submitted no later than 12.15 pm on 22nd January 2013. Attendance by non shareholders will be at the discretion of the Company.

(3) Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from www.scottishoriental.com.

(4) Holders of ordinary shares who are entitled to attend and vote at the meeting convened by the foregoing notice may appoint one or more proxies (who need not be a member or members) to attend, speak and vote in their place. If appointing more than one proxy, each proxy must be appointed to exercise rights attaching to different shares held by the holder. The instruments appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be delivered to the offices of the Company's Registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or www.eproxyappointment.com; (i) in the case of a meeting or adjourned meeting, 48 hours (excluding non-working days) before the time for holding the meeting or adjourned meeting; or (ii) in the case of a poll taken 48 hours after it was demanded, 24 hours before the time appointed for the taking of the poll. Return of a completed form of proxy will not preclude a member from attending and voting personally at the meeting. Members may not use any electronic address provided in this notice or in any related documents to communicate with the Company for any purpose other than those expressly stated.

(5) 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. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

(6) In order for a proxy appointment 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 registrar (ID number 3RA50) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment.

Notice of Annual General Meeting – continued

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 registrar is 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.

(7) 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.

(8) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(9) The letters of appointment of the Directors are available for inspection at 10 St. Colme Street, Edinburgh EH3 6AA before, during and after the meeting. They will also be available on the date of the meeting at 30 Cannon Street, London from 12 noon until the conclusion of the meeting.

(10) As at close of business on 1st November 2012, the Company's issued share capital comprised 30,213,650 ordinary shares of 25p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 1st November 2012 is 30,213,650.

(11) 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 Disclosure and Transparency Rules.

(12) 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 the Company's 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.

(13) The members of the Company may require the Company (without payment) to publish, on its website, a statement (which is also to be passed to the auditors) setting out any matter relating to the audit of the company's accounts, including the Auditor's Report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or 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 at 10 St. Colme Street, Edinburgh EH3 6AA.

Notice of Annual General Meeting – continued

(14) Members meeting the threshold requirements set out in the Companies Act 2006 have the right:

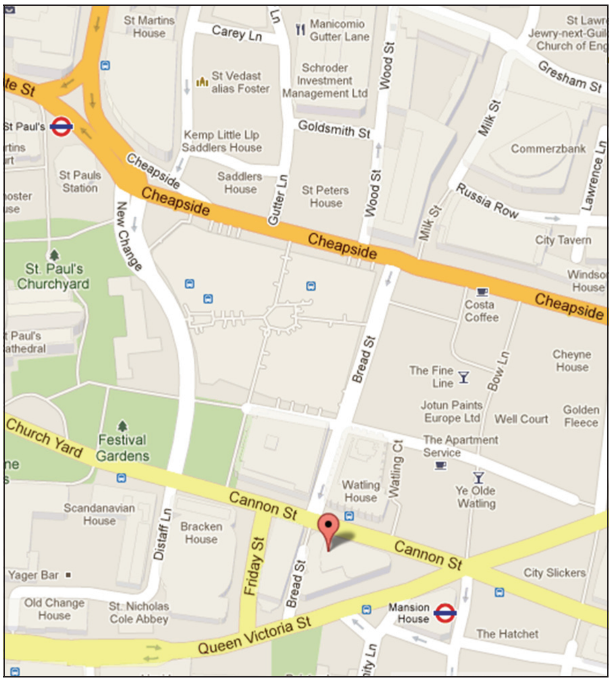
(a) to require the Company to give notice of any resolution which can properly be, and is to be, moved at the meeting pursuant to Section 338 of the Companies Act 2006, and/or

(b) to include a matter in the business to be dealt with at the meeting, pursuant to Section 338A of the Companies Act 2006.

(15) Any corporation which is a member can appoint one or more corporate representatives. Members can only appoint more than one corporate representative where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s).

(16) In the case of joint holders, where more than one of the joint holders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

(17) Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.



First State Investments, 30 Cannon Street, London EC4M 6YQ

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The Association of Investment Companies

The Scottish Oriental Smaller Companies Trust plc is a member of the Association of Investment Companies

First State Investments