The Scottish Oriental
Smaller Companies Trust plc

2015

The **Scottish Oriental** Smaller Companies Trust plc

Annual
Report and Accounts **2015**

Contents

Annual Report and Accounts 2015

Financial Highlights

Performance *for the year ended 31 August 2015*

Net Asset Value*	-8.5%	MSCI AC Asia ex Japan Index (£)*	-9.1%
Share Price*	-13.8%	MSCI AC Asia ex Japan Small Cap Index (£)*	-9.4%
Dividend Maintained at 11.5p per share		FTSE All-Share Index (£)*	-2.3%

*Total return (capital return with dividends reinvested).

Summary Data *at 31 August 2015*

Shares in issue	31,494,663	Shareholders' Funds	£257.2m
Net Asset Value per share	816.57p	Market Capitalisation	£227.4m
Share Price	722.00p	Share Price Discount to Net Asset Value	11.6%

Benchmark and Comparative Indices

Since 2003 the Directors have used the Morgan Stanley Capital International AC Asia ex Japan Index 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 in March 1995.

For comparative purposes we are also displaying the Morgan Stanley Capital International 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$0.01m and US$1,935m. The range does not exactly match that of the Trust, which has no lower limit and which invests mainly in companies with a market capitalisation of under US$1,500m. 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.

Chairman's Statement

Scottish Oriental's Net Asset Value ("NAV") per share fell by 8.5 per cent in total return terms over the 12 months, while the MSCI AC Asia ex Japan Index fell by 9.1 per cent on the same basis. As the discount widened, the share price decreased in total return terms by 13.8 per cent. A performance fee was earned for the sixth year in succession, bringing our ongoing charges to 1.05 per cent. It may seem strange that a performance fee (much reduced from the previous year) is payable for a year such as this. The answer is provided on page 42 and is because it is based on a demanding target for the Company's share price total return over three years. It would require an exceptional result in the current year to produce another year's performance fee.

Revenue returns per share have increased to 15.58p compared to 9.59p last year. The increase arose from the receipt of a special dividend from Asia Satellite Telecom, which added 6.08p to the revenue return. We are proposing an unchanged dividend of 11.5p net. The undistributed balance of £1,307,000 will be added to the revenue reserve, as set out on page 44. It remains our present intention to maintain at least this level of dividend, using revenue reserves if necessary.

During the year the Company bought back for cancellation 148,987 shares, at an average discount to NAV of 14.2 per cent. Since the year end a further 81,000 shares have been bought back for cancellation, at an average discount to NAV of 13.3 per cent. The Board has no formal discount control mechanism, but will be prepared to buy back shares opportunistically and to issue new shares at a small premium to NAV, provided that in each case this is in the interests of continuing shareholders.

In March 2015 First State made the following announcement about the future of its business:

"These changes will see the First State Stewart (FSS) team split to form two new teams; one primarily based in Hong Kong and the other in Edinburgh. The separation of the teams protects FSS's current business and creates opportunities for further growth. Recognising that working as a small dynamic investment group has been critical to their success over the last 20 years, FSS wish to continue that, giving both teams their own identity and autonomy.

There will be no change to the teams' investment philosophy and process. Indeed, the split will help to ensure the teams' philosophy is not affected by an increase in its team size or assets.

In addition to this, the Edinburgh successor team will be rebranded Stewart Investors and will, in effect, become an investment division in its own right. Both teams will remain part of First State, reporting to Mark Lazberger, the Chief Executive Officer. Stewart Investors will continue to have a number of colleagues based in Singapore, London and in the near future, Sydney. The FSS Asia team will be primarily based in Hong Kong, with colleagues also working out of Singapore and Edinburgh."

Following this, your Board made a stock exchange announcement on 28 April 2015 that:

"The Board is pleased to confirm that following the separation it has been agreed that the Company will continue to be managed by Wee-Li Hee, who will be part of the FSS Asia team, supported by Scott McNab and Martin Lau.

It is the intention that there will be no other changes to the Company's existing management arrangements."

Chairman's Statement – continued

Your Board was unanimous in deciding that the combination of Wee-Li Hee, Martin Lau and Scott McNab, supported by their colleagues in Hong Kong and Singapore, was the best answer for the future management of the Trust. All three have provided a significant contribution to the Trust's stock picking for more than a decade. The change took place on 1 July 2015 when the FSS team separated and was effected smoothly, helped by the fact that our secretarial and AIFM arrangements remained as they were before.

For the Trust this was the end of an era, because it meant that Angus Tulloch was no longer involved with Scottish Oriental. He helped set up the Company in 1995 and, although he stepped down as lead manager in 2000, he has been concerned with it ever since. His contribution to its management has been very considerable and on behalf of shareholders past and present I would like to thank him. His observations have always been interesting and we shall miss them.

The long-term arguments for investment in smaller companies in Asia remain persuasive. The immediate outlook is much more challenging. We are in the midst of a period of unusual economic circumstances and it is difficult to guess how long it will take to return to more normal conditions. As you will see from their report, our managers are not particularly optimistic at the moment. However, they have cash available of £33.6 million as this is written and they are looking for opportunities to buy good companies for the long-term as these appear. At present, the smallest companies provide the best value, but these are difficult to buy as they tend to be illiquid. The yield on our current equity portfolio is 2.6 per cent and the historic price to earnings ratio is 16.

This year the Annual General Meeting will be held in Edinburgh at the offices of First State Stewart Asia. I look forward to seeing shareholders there.

James Ferguson
Chairman
28 October 2015

Scottish Oriental's Investment Management Team

The Scottish Oriental Smaller Companies Trust plc ("Scottish Oriental", the "Company" or the "Trust") is managed by the First State Stewart Asia team at First State Investment Management (UK) 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 the Asia Pacific category.

Wee-Li Hee
Portfolio Manager, Asia Pacific (ex Japan) Equities, at First State Stewart Asia

Wee-Li is the Portfolio Manager for the Trust based in Edinburgh. She 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.

Martin Lau
Managing Partner of First State Stewart Asia

Martin is Managing Partner of First State Stewart Asia based in Hong Kong. He joined the team in April 2002. Martin graduated from Cambridge University with a Bachelor of Arts degree and a Masters degree in Engineering. Martin is responsible for stock picking and portfolio construction of Asia Pacific and Greater China portfolios. He is also a CFA charterholder.

Scott McNab
Senior Investment Analyst at First State Stewart Asia

Scott is a Senior Investment Analyst based in Edinburgh. He joined the team in November 2001 and is responsible for providing research support to the portfolio managers. Scott holds a Bachelor of Science (Hons) in Computer Science from the University of Durham. He is also a Chartered Accountant and a CFA charterholder.

Scottish Oriental's Investment Management Team own 239,000 shares in the Company.

Portfolio Managers' Report

Summary

In the year ending 31 August 2015, when measured in sterling, all Asian equity markets except for the Philippines fell. Despite the US curtailing its quantitative easing programme in October 2014, Asian markets were still positive for the first half of the Trust's year with interest rate cuts and stimulus measures in several countries boosting sentiment. As the year progressed, investor concern grew over the disappointing pace of reforms in Indonesia and India, scandal in Malaysia and the state of the Chinese economy.

Scottish Oriental's performance over the year was disappointing. The Trust suffered from its high weighting in Singapore where the market has been weak. Stock selection in Singapore further hindered performance, with Ezion adversely impacted by the falling oil price and Petra Foods' key operations in Indonesia being affected by poor consumer sentiment in that country.

The outlook for Asian equity markets remains uncertain. Although forecasts for economic growth and corporate earnings have fallen, increasing evidence of a slowdown in the US and Europe indicates that market expectations may still have further to fall given much of Asia's dependency on exports. It is probably no coincidence that, as weakening export conditions became more apparent, the speed of currency depreciations accelerated. It is not possible for a single nation, let alone an entire continent, to achieve wealth by debasing its currency. Competitive devaluations merely lead to increased competition for market share in the export sector and reduced purchasing power at home. The likely outcome will not be the creation of sustainable growth.

In China, the government looks set to continue its attempts to boost both the real economy and the stock market but this will remain akin to pushing on a string, given the various challenges that economy faces. Policies aimed at reducing corruption and increasing the quality of growth need to be endured for China to prosper in the longer-term. Many of the measures that the government is taking are sensible but others are short-term in nature and will not address the issues of overcapacity in certain industries and overvaluation in certain sectors of the stock market.

The outlook for India and South East Asia is slightly brighter given the greater number of quality companies. However, political discord and social tension are both risks to these regions and although valuations are cheaper than a year ago there are few bargains. Accordingly, the Trust will remain conservatively positioned and endeavour to seek out sustainably run businesses at reasonable valuations. The longer-term case for investing in Asia remains unchanged with the region's attractive demographics and expanding middle class providing the structural growth that is missing in the developed world. Pockets of value have been found in Taiwan and China recently but we would need further market falls for us to feel enthusiastic about the medium-term prospects for the Trust.

When such opportunities arise, the Trust will be able to make use of its £20m sterling-denominated loan from National Australia Bank. This is a five-year loan at a fixed interest rate of 3.135 per cent which is due for repayment on 14 August 2019.

Wee-Li Hee
Martin Lau
Scott McNab
First State Investment Management (UK) Limited, Investment Manager
28 October 2015

Portfolio Managers' Report – continued

Country Allocation *at 31 August 2015 (based on geographical area of activity)*

Country/Region	Scottish Oriental %	MSCI* %	MSCI Small Cap† %
China	14.7	27.8	21.5
Hong Kong	8.3	12.8	9.2
Taiwan	12.3	15.0	16.9
Greater China	35.3	55.6	47.6
Indonesia	3.3	2.9	2.6
Malaysia	2.1	3.8	3.5
Philippines	1.3	1.8	1.6
Singapore	16.7	5.5	7.0
Thailand	4.1	2.8	4.0
Vietnam	0.0	0.0	0.0
South East Asia	27.5	16.8	18.7
India	23.1	10.0	12.0
Sri Lanka	3.8	0.0	0.0
Indian Subcontinent	26.9	10.0	12.0
South Korea	4.9	17.6	21.7
Net current assets	13.2	–	–
Loan	(7.8)	–	–
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

Stock Market Performance *for the year ending 31 August 2015*

Country	Sterling %	Local Currency %
China	(1.9)	(9.2)
Hong Kong	(1.1)	(8.4)
Taiwan	(7.8)	(7.1)
Indonesia	(18.8)	(9.7)
Malaysia	(29.3)	(12.7)
Philippines	5.0	4.2
Singapore	(14.8)	(11.1)
Thailand	(12.5)	(9.1)
Vietnam	(12.0)	(13.6)
India	(0.3)	1.2
Sri Lanka	(1.1)	(5.3)
South Korea	(20.3)	(13.9)
MSCI*	(9.1)	(9.0)

*Morgan Stanley Capital International AC Asia ex Japan Index

Portfolio Managers' Report – continued

Greater China

China struggled with weak economic growth over the year. The domestic stock markets seemingly defied gravity until June when they suffered an overdue correction. Initially the authorities attempted to halt the decline but eventually relented. The People's Bank of China has cut interest rates five times since November 2014 and also surprised markets with an albeit modest devaluation of the renminbi in an attempt to stimulate growth. However, the central government faces several challenges: state-owned-enterprise reform; over-capacity in a number of industries; high private and public debt levels; declining exports; and balancing economic growth with the health of the environment. It will take more than interest rate cuts to set the country on a path towards higher quality and more sustainable growth.

Scottish Oriental continues to have an under-weight position in **China**-related companies. The ongoing slowdown will be tough for many companies to bear and we see little evidence of pricing power in what remains a fiercely competitive market. We remain cautious as valuations still fail to reflect today's uncertain environment.

Hong Kong always finds life difficult when growth in the Chinese mainland falters. The Chinese government's ongoing anti-corruption drive has resulted in a decline in tourism from the mainland which in turn has significantly affected retail spending in Hong Kong, especially for luxury brands. Public demonstrations over the autonomy of the Territory and rising social tensions are both reminders of the potential threat to Hong Kong's status as a financial safe haven.

The Trust's **Hong Kong** portfolio is relatively unchanged over the year.

Taiwan underperformed both China and Hong Kong over the year when measured in sterling. Sentiment was impacted by weak economic growth expectations from China (a country with which, politics aside, Taiwan's fate is very much intertwined). Also, a lack of new technology product launches combined with slowing demand in the West hurt Taiwan's electronics-heavy export sector. Elections to be held in January 2016 will potentially raise the spectre of a return to a less harmonious relationship with China.

We replaced Taiflex Scientific with three new technology holdings: TSC Auto ID Technology and GoDEX International, both niche barcode printer companies with growing own-brand franchises, and Axiomtek, an associate company of Advantech, one of the world's largest industrial PC companies.

South East Asia

Indonesia started the year buoyed by the presidential election win of pro-business leader, Joko Widodo. The honeymoon was short-lived and much of the last year has been spent grappling in parliament over necessary reform measures and infrastructure projects. The President has yet to deal with the country's significant current account deficit, falling foreign exchange reserves, capital outflows and a falling rupiah.

Scottish Oriental's exposure to **Indonesia** increased during the year. Modern Internasional was sold on valuation concerns but was replaced with Selamat Sempurna, an auto parts manufacturer, and XL Axiata, which is controlled by Malaysia's Axiata Group, one of the largest telecommunications companies in Asia. Both should benefit from Indonesia's growing middle class.

Portfolio Managers' Report – continued

Malaysia suffered the most over the year. As a net exporter of hydrocarbons, the country's finances are negatively impacted by the falling oil price. The likely result will be a widening of the budget deficit in 2015. The ongoing financial controversy regarding the government-owned strategic development company, 1Malaysia Development Berhad, has further hurt perceptions of the capability of the government. The ringgit has declined sharply and ended the year at a level only reached during the Asian Financial Crisis. This raised concerns over the possibility of capital controls and a reintroduction of a currency peg. The implementation of the Goods and Services Tax in April 2015 as well as weak commodity prices further dampened domestic consumption. The pro-Malay stance of the government also continues to harm the country's long-term competitiveness.

The Trust has further cut its position in **Malaysia** with the sale of AirAsia on balance sheet concerns and Media Prima and Supermax on concerns over strategy. One new holding is APM Automotive, a manufacturer of auto parts controlled by the well-regarded Tan Chong Group.

The **Philippines** was the only country that finished the year on a positive note when measured in sterling. Strong remittances from overseas workers, growth in the business process outsourcing industry, resilient corporate earnings, robust consumer spending and historically low inflation all helped to maintain investor enthusiasm. However, with President Aquino stepping down next year, the capability and agenda of his successor and the next government will require monitoring.

We initiated a position in the conservatively-run China Banking Corporation, controlled by the well-respected Sy family.

Singapore continued to suffer from weak external demand and a lacklustre domestic economy as it battles against falling productivity, rising living costs and an ageing population. Significant events over the year include the death of the well-respected founding Prime Minister, Lee Kuan Yew, and the celebration of the country's 50th year of independence. The government also called an early general election.

The Trust continues to have a large position in **Singapore**. The holdings are diversified in terms of geographical reach with some, such as Ezion Holdings and Petra Foods, having multinational exposure while others, such as M1 and Raffles Medical Group, are predominantly focused on the domestic economy.

Thailand's domestic economy remained subdued, affected by soft consumption, falling exports, high household indebtedness, little investment and the resultant low confidence. Weak agricultural commodity prices affected rural consumption, while delays in the progress of public infrastructure projects also added pressure. The country unfortunately ended the year suffering from a bomb explosion in Bangkok which may derail the recovery in tourism. The military government remains in power, but recent cabinet changes are expected to bode well for the implementation of much-needed stimulus measures.

The overall exposure to **Thailand** was increased by adding to our holding in Delta Electronics and buying MC Group, the leading domestic jeans brand.

Vietnam fell over the year as concerns remain over export growth amid the weak global environment and the long-term sustainability of the country's cheap labour model. The year ended positively with improving economic indicators and the government announcing the removal of foreign ownership caps on selected industries. However, reduced corruption and state-owned-enterprise reform are very much necessary for Vietnam's current cyclical recovery to become more structural in nature.

Portfolio Managers' Report – continued

Indian Subcontinent

In **India** the progress of economic reform by Prime Minister Narendra Modi and the Bharatiya Janata Party generated sufficient optimism over the year to enable the country to deliver the second-best market performance in the benchmark. However, the challenge of land reform, infrastructure development and the difficulties of a political standstill are hindering Modi's progress. Recent economic data are less than encouraging. Despite the setbacks we are optimistic that foundations are steadily being laid to enable more sustainable growth.

During the year, Scottish Oriental reduced its position in **India** slightly, selling out of EID Parry, Great Eastern Shipping and Lakshmi Machine Works on valuation and cyclical concerns. We initiated toehold positions in three new companies: Godrej Industries, Indoco Remedies and SKF India.

Politics continued to dominate in **Sri Lanka** with a new president elected in January 2015 and a coalition government formed following August's parliamentary elections. Early indications on the coalition's efficacy are promising but much needs to be done to stamp out corruption, ensure fair competition and reduce the fiscal deficit without impacting growth. More positively, domestic consumption has been improving and record tourist arrivals and remittances from overseas workers compensate for the country's large trade deficit.

The Trust increased the size of its position in **Sri Lanka** by adding to Hemas Holdings, a domestic-focused conglomerate with a number of strong, internationally-experienced partners.

South Korea

South Korea ended the year recovering from the economic impact of the Middle East Respiratory Syndrome outbreak which impacted consumption markedly. Over the period the export economy suffered from its position caught between Japan and China. There was no sign of improvement to corporate governance and this continues to make South Korea a difficult market for us.

The Trust sold two holdings in **South Korea**, namely DGB Financial Group and Interojo, on change of management and strategic concerns. A new investment in Cuckoo Electronics, the leading rice cooker brand in South Korea, was made.

Performance of individual equity holdings *for the year ending 31 August 2015*

Company	Country	Contribution Performance %	% of Shareholders' Funds (As of 31 Aug 2015)
Best			
Marico	India	1.4	3.0
Amorepacific Group	South Korea	1.3	3.1
Kansai Nerolac Paints	India	1.1	2.2
Hana Tour Service	South Korea	0.7	1.4
Blue Dart Express	India	0.6	1.5
Worst			
Ezion	Singapore	(1.4)	0.9
Towngas China	China	(1.0)	1.9
Trinity	China	(1.0)	0.8
Chroma ATE	Taiwan	(0.9)	1.6
Petra Foods	Singapore	(0.8)	2.1

Portfolio Managers' Report – continued

Amorepacific Group benefited from a further valuation re-rating, aided by strong results and continued success overseas and in China. **Hana Tour Service** benefited from China inbound travel to Korea winning a duty-free store concession at Incheon Airport and was appointed sole operator of the Korea Visa Application Centre in China. **Blue Dart Express**, the Indian subsidiary of DHL, continued to deliver as the favoured logistics provider in India. **Marico's** strong domestic brands gained further market share, while its acquired overseas brands also improved their performance. **Kansai Nerolac Paints** benefited from an increase in demand amid the improving property market in India.

Ezion fell sharply as the falling oil price resulted in customers postponing deliveries and delaying new contracts. **Chroma ATE** is exposed to a slowdown in demand for semiconductor testing equipment and also its clean energy equipment business has been impacted by the falling oil price. As the leading chocolate brand in Indonesia, **Petra Foods** was affected by the weak rupiah and poor consumer sentiment. We remain comfortable with Ezion, Chroma ATE and Petra Foods' management teams and have maintained our positions. **Towngas China** was affected by concerns around weaker gas demand due to China's economic slowdown, government intervention on pricing, and its renminbi exposure. With a new management team in place, **Trinity** is in the process of brand rebuilding while suffering from declining retail spending by mainland Chinese shoppers. We have taken advantage of the weakness in both Towngas China and Trinity's share prices and have added to our positions in these companies.

Portfolio Review

Scottish Oriental's portfolio of investments is well diversified not only by country but also by sector. The largest country exposure is India with a 23.1 per cent position (see page 6). Consumer Discretionary accounted for 19.5 per cent of the portfolio, the largest sector weighting. As at 31 August 2015, Scottish Oriental was invested in 80 different companies with the largest holding, Amorepacific Group, accounting for 3.1 per cent of the Portfolio (see page 12). The aggregate of the Trust's ten largest holdings was 25.8 per cent.

Sector Allocation *at 31 August 2015*

Sector	%
Consumer Discretionary	19.5
Consumer Staples	19.2
	38.7
Industrials	14.4
Financials	12.2
Information Technology	9.5
Health Care	6.1
Materials	6.1
Telecommunication Services	3.8
Utilities	2.9
Energy	0.9
	94.6
Net current assets	*13.2*
Loan	*(7.8)*
Net assets	*100.0*

Portfolio Review – continued

Scottish Oriental's exposure to the **Consumer Discretionary** sector was stable over the year. AirAsia was sold on balance sheet concerns and Media Prima and Tai Ping Carpets were sold on concerns over management's strategy. These were replaced with Cuckoo Electronics, Korea's leading rice cooker brand, Selamat Sempurna, an auto parts manufacturer, and Sitoy, a handbag and small accessories manufacturer.

The Trust's holdings in the **Consumer Staples** sector increased over the period, owing to strong outperformance from existing holdings such as Amorepacific Group and Vitasoy, and the addition to existing position Sheng Siong as well as a new holding, Yashili, the Chinese dairy company jointly controlled by Danone and China Mengniu.

The Trust's position in the **Industrials** sector increased, owing to outperformance from existing holdings such as Blue Dart Express and Interplex, the addition to existing positions in Delta Electronics and Hemas Holdings, and establishing a new position in SKF India, the Indian subsidiary of SKF Group of Sweden.

The Trust's exposure to **Financials** was relatively unchanged, selling DGB Financial Group on management concerns but adding the conservatively run China Banking Corporation in the Philippines.

Exposure to the **Information Technology** sector decreased slightly over the period primarily as a result of underperformance of existing holdings such as Chroma ATE and Lumax International. There were a number of new purchases: GoDEX International, TSC Auto ID Technology, Axiomtek and Sunny Optical, added on reasonable valuations. All have the potential to expand market share in their respective industries. Taiflex Scientific was sold on increasing concerns about its ability to compete in a global context.

Exposure to the **Materials** sector fell over the period due to the sale of CPMC and EID Parry on valuation concerns. Two positions were added, China BlueChemical, the leading nitrogenous fertiliser manufacturer in China, majority owned by the CNOOC Group, and Godrej Industries, the parent company of Godrej Properties which is also held in the Trust.

The Trust's **Health Care** weighting was reduced following the sale of Microport Scientific which is refocusing its business following the acquisition of a US-based orthopaedic device franchise, as well as the sales of Interojo and Supermax.

The Trust's exposure to the **Utilities** sector increased as a result of modest additions to existing holdings, while the **Telecommunications** sector weighting also increased owing to the purchase of XL Axiata, the Indonesian telecommunications operator and the outperformance of Dialog Axiata in Sri Lanka.

Exposure to the **Energy** sector declined further with the underperformance of Ezion and the sale of Great Eastern Shipping in India on valuation concerns.

Wee-Li Hee
Martin Lau
Scott McNab
First State Investment Management (UK) Limited, Investment Manager
28 October 2015

Portfolio Review – continued

Ten Largest Equity Holdings *at 31 August 2015*

Company	Market	Value	% of Shareholders' Funds
Amorepacific Group	**South Korea**	**£8,033,244**	**3.1%**

Amorepacific Group is a holding company whose major asset is a significant stake in Amorepacific Corp, 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. Growth will be determined by its expansion success in China as well as through acquisitions.

Marico	**India**	**£7,639,295**	**3.0%**

Marico is one of the leading producers of consumer products in India. The company manufactures and distributes coconut hair oil products, under the 'Parachute' brand, specialist edible oils under the 'Saffola' and 'Sweekar' brands as well as cold water starch and processed foods. Parachute is the dominant coconut hair oil in India with nearly 50 per cent share of the domestic market. Earnings growth continues to be driven by increasing market share, expanding distribution reach and new product development.

Taiwan Familymart	**Taiwan**	**£7,467,103**	**2.9%**

Majority owned by Japan Familymart, Taiwan Familymart has the exclusive right to operate Familymart convenience stores in Taiwan and is the second largest operator of convenience stores in the country with more than 20 per cent market share. This provides a steady platform for their expansion across China in a joint venture with their parent Japan Familymart and Tsing Hsin, owner of the largest noodle manufacturer in China. This joint venture is cautiously opening new stores on the mainland which will enhance future earnings growth for the company.

CMC	**India**	**£7,104,377**	**2.8%**

CMC is an information technology service company specialising in the infrastructure sector. Majority owned by Tata Consultancy Services (TCS), one of India's leading IT service providers, CMC adopted UN best practices for software that gave the company a competitive advantage in winning offshore contracts from its niche customer base. Earnings growth will come from increasing project wins and penetration into other sectors such as utility IT spending.

Raffles Medical	**Singapore**	**£6,991,075**	**2.7%**

Raffles Medical Group is the largest private medical group practice in Singapore. Founded in 1976 by the Chairman, Dr Loo Choon Yong, with just two clinics, the Group currently operates a network of clinics and a tertiary care private hospital with key specialities such as oncology and orthopaedics. On a smaller scale, it also offers insurance services and runs a consumer healthcare division. Future earnings growth will come from an increase in the number of hospital beds as well as further expansion of the network of medical clinics in Singapore and potential entry into other countries.

Portfolio Review – continued

Company	Market	Value	% of Shareholders' Funds
Standard Foods	**Taiwan**	**£6,194,810**	**2.4%**

Standard Foods is a family-run food manufacturer in Taiwan and China. It is engaged in the production and distribution of health food, edible oil products, dairy products and beverages with strong niche market positions. It also holds the Quaker Oats franchise for Taiwan. The company's brands enable it to generate robust cash flows. Strong stewardship from the chairman furthers the investment case.

Tong Ren Tang Technologies	**China**	**£6,053,342**	**2.4%**

Tong Ren Tang Technologies is one of the oldest and most respected traditional Chinese medicine companies in China. Offering a range of affordable products for common ailments, the company's potential comes from continuing product development and launches, continuing growth of core products, expansion of its domestic sales channels both offline and online and its growing presence overseas.

Kansai Nerolac Paints	**India**	**£5,658,963**	**2.2%**

Kansai Nerolac is the third largest paint company in India. It is the market leader in industrial and automotive paints and a leading company in decorative paints. Majority owned by Kansai Paints of Japan, a global leader in automotive paints, the company benefits from strong technological support and established relationships with key automotive customers from its parent. It is expected to be a beneficiary of recovering automotive demand, an improving property development market and the home improvement trend in India.

Minth	**China**	**£5,555,584**	**2.2%**

Established in 1997, Minth Group is a leading supplier of exterior automobile body parts in China, principally engaged in the design, manufacture and sale of body structural parts, decorative parts and trim for passenger cars. It is one of the largest manufacturers of core products for passenger cars in terms of sales in China. It is the Tier-1 supplier to both multinationals and Chinese automakers with more than 30 factories in China, focusing on the industry leaders, both globally and domestically.

Petra Foods	**Singapore**	**£5,356,237**	**2.1%**

Petra Foods is a manufacturer and distributor of its own brand chocolate confectionery products in its core markets of Indonesia, Malaysia, the Philippines and Singapore. The Group has an established portfolio of chocolate confectionery brands with a dominant market share in Indonesia. Petra Foods also distributes a portfolio of well-known third party brands. Growth will come as increased wealth leads to improving affordability and thus rising consumption.

Wee-Li Hee
Martin Lau
Scott McNab
First State Investment Management (UK) Limited, Investment Manager
28 October 2015

List of Investments at 31 August 2015

	% of Shareholders' Funds
CHINA (14.7%)	
Consumer Discretionary (7.1%)	
Asia Satellite Telecom	0.9
Luthai Textile	1.5
Minth	2.2
Pacific Textiles	1.1
Sitoy	0.4
Trinity	0.8
YGM Trading	0.2
Consumer Staples (0.8%)	
Yashili	0.8
Healthcare (2.4%)	
Tong Ren Tang	2.4
Industrials (0.7%)	
Singamas Container	0.7
Materials (1.0%)	
China BlueChemical	1.0
Information Technology (0.8%)	
Sunny Optical	0.8
Utilities (1.9%)	
Towngas China	1.9
HONG KONG (8.3%)	
Consumer Discretionary (2.1%)	
Dickson Concepts	0.9
Tao Heung Holdings	1.2
Consumer Staples (1.5%)	
Vitasoy International	1.5
Financials (4.2%)	
Aeon Credit Service	0.5
Keck Seng Investments	1.1
Public Financial	1.9
Tai Cheung Holdings	0.7
Industrials (0.5%)	
Pacific Basin Shipping	0.5

	% of Shareholders' Funds
INDIA (23.1%)	
Consumer Discretionary (1.4%)	
Indian Hotels	0.5
Trent	0.9
Consumer Staples (4.9%)	
Marico	3.0
Tata Global Beverages	1.9
Financials (3.6%)	
Godrej Properties	1.7
Mahindra Lifespace	1.9
Healthcare (0.5%)	
Indoco Remedies	0.5
Industrials (4.8%)	
Blue Dart Express	1.5
Container Corp of India	1.2
SKF India	0.5
Tube Investments of India	1.6
Materials (5.1%)	
Godrej Industries	0.4
Kansai Nerolac Paints	2.2
Linde India	1.5
Pidilite Industries	1.0
Information Technology (2.8%)	
CMC	2.8

	% of Shareholders' Funds
INDONESIA (3.3%)	
Consumer Discretionary (1.2%)	
Ace Hardware	0.5
Selamat Sempurna	0.7
Consumer Staples (0.9%)	
Hero Supermarket	0.9
Financials (0.7%)	
Bank OCBC Nisp	0.7
Telecommunication Services (0.5%)	
XL Axiata	0.5
MALAYSIA (2.1%)	
Consumer Discretionary (1.2%)	
Aeon Company	1.0
APM Automotive	0.2
Industrials (0.9%)	
IJM Corporation	0.9
PHILIPPINES (1.3%)	
Financials (0.3%)	
China Banking	0.3
Utilities (1.0%)	
Manila Water Company	1.0

List of Investments at 31 August 2015 – continued

	% of Shareholders' Funds
SINGAPORE (16.7%)	
Consumer Discretionary (0.4%)	
Tan Chong International	0.4
Consumer Staples (4.5%)	
Haw Par	1.3
Petra Foods	2.1
Sheng Siong Group	1.1
Energy (0.9%)	
Ezion Holdings	0.9
Financials (2.3%)	
Bukit Sembawang Estates	1.0
Hong Leong Finance	1.3
Healthcare (3.2%)	
Eu Yang Sang International	0.5
Raffles Medical Group	2.7
Industrials (3.5%)	
Interplex Holdings	1.9
Singapore Post	1.1
Tat Hong	0.5
Telecommunication Services (1.9%)	
M1	1.9
SOUTH KOREA (4.9%)	
Consumer Discretionary (1.8%)	
Cuckoo Electronics	0.4
Hana Tour Service	1.4
Consumer Staples (3.1%)	
Amorepacific Group	3.1

	% of Shareholders' Funds
SRI LANKA (3.8%)	
Consumer Staples (1.1%)	
CT Holdings	1.1
Industrials (1.3%)	
Hemas Holdings	1.3
Telecommunication Services (1.4%)	
Dialog Axiata	1.4
TAIWAN (12.3%)	
Consumer Discretionary (2.9%)	
Taiwan Familymart	2.9
Consumer Staples (2.4%)	
Standard Foods	2.4
Industrials (1.1%)	
Airtac International	1.1
Information Technology (5.9%)	
Axiomtek	0.9
Chroma ATE	1.6
Flytech Technology	0.7
GoDEX International	0.4
Lumax International	0.7
TSC Auto ID Technology	0.5
Wah Lee Industrial	1.1
THAILAND (4.1%)	
Consumer Discretionary (1.4%)	
MC Group	0.5
Somboon Advance Technology	0.9
Financials (1.1%)	
Aeon Thana Sinsap	1.1
Industrials (1.6%)	
Delta Electronics	1.6

Ten Year Record

Capital

Year ended 31 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 %
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)
2013	232.19	253.63	—	801.53	733.75	—	—	(8.5)
2014	268.65	283.82	—	896.93	849.00	—	—	(5.3)
2015	227.39	257.18	—	816.57	722.00	—	—	(11.6)

Revenue

Year ended 31 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§
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
2013	7,903	4,518	14.56	11.50	1.03	1.73	88	108
2014	6,339	3,035	9.59	11.50	1.03	1.36	93	107
2015	8,716	4,929	15.58	11.50	1.01	1.05	95	108

* 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 average daily net assets during the year (2011 and prior: 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 31 August 2005 as 100)

Year ended 31 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
2005	100	100	100	100	100	100	100
2006	116	115	128	115	113	127	138
2007	143	148	—	158	123	168	177
2008	129	123	—	140	108	176	192
2009	156	154	—	148	95	202	231
2010	230	227	—	180	101	281	327
2011	256	282	—	182	105	302	346
2012	276	283	—	176	112	382	423
2013	332	345	—	189	128	386	442
2014	371	399	—	209	137	254	442
2015	338	339	—	185	129	413	442

Directors

James Ferguson (Chairman) 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 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 Asian Total Return Investment Company plc and Empiric Student Property PLC.

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

Anne West joined the Board in July 2010. She retired from Cazenove Capital Management at the end of 2012 and was most recently 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. She is a non-executive Director of HgCapital Trust plc.

Strategic Report

The purpose of this report is to provide shareholders with details of the Company's strategy and business model as well as the principal risks and challenges the Company has faced during the year under review.

The Board is responsible for the stewardship of the Company, including overall strategy, investment policy, borrowings, dividends, corporate governance procedures and risk management. Biographies of the Directors can be found on page 17.

The Board assesses its performance in meeting the Company's objectives against the following Key Performance Indicators, details of which can be found in the Financial Highlights, Ten Year Record, Chairman's Statement and Portfolio Managers' Report:

- the movement in net asset value per ordinary share on a total return basis;
- the movement in the share price on a total return basis;
- the discount; and
- ongoing charges.

Business and Status

The Company is an investment company within the meaning of section 833 of the Companies Act 2006.

The Company carries on the business of an investment trust. The Company has been approved as an investment trust by HM Revenue and Customs subject to the Company continuing to meet eligibility conditions. The Company intends to conduct its affairs so as to enable it to comply with the ongoing requirements.

Business Model and Strategy for Achieving Objectives

- 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 Managers' Report and 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.

Strategic Report – continued

Investment Policy and Objective

- The Scottish Oriental Smaller Companies Trust plc 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$1,500m, or the equivalent thereof, at the time of first investment.
- The Trust may also invest in companies with market capitalisations of between US$1,500m and US$3,000m 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 10 to 13 and the investments held at the year end are listed on pages 14 and 15.

Investment Manager

First State Investment Management (UK) Limited has been Investment Manager since 20 March 1995. In order to comply with the Alternative Investment Fund Managers Directive, with effect from 2 July 2014 the Company has terminated its investment management agreement with First State Investment Management (UK) Limited and has appointed First State Investments (UK) Limited as its Alternative Investment Fund Manager. First State Investments (UK) Limited has delegated portfolio management services to First State Investment Management (UK) Limited.

A summary of the terms of the Investment Management Agreement is contained in Note 2 of the Accounts on page 42.

Strategic Report – continued

The Board regularly appraises the performance and effectiveness of the investment management 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.

Principal Risks and Uncertainties

The Board believes that the principal risks facing the Company relate to the Company's investment activities and include market risk, interest rate risk, foreign currency risk, other price risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained on pages 47 to 51.

Other risks faced by the Company include breach of regulatory rules which could lead to suspension of the Company's London Stock Exchange listing, financial penalties, or a qualified audit report. Breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company losing its aproval as an investment trust and being subject to tax on capital gains.

In the mitigation and management of these risks, the Board regularly monitors the investment environment and the management of the Company's investment portfolio, and applies the principles detailed in the guidance provided by the Financial Reporting Council. The Company's internal controls are described in more detail on page 25.

Social, Community and Human Rights Issues

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 Board

The Company has four Directors. Three are women and one is a man. The Company has no employees.

On behalf of the Board

Steven K Davidson
Company Secretary
28 October 2015

Directors' Report

The Directors have pleasure in submitting their Annual Report and Accounts for the year to 31 August 2015.

Results and Dividend

The table below shows the revenue position and dividend payable by the Company, subject to shareholders' approval of the final dividend of 11.50 pence per share proposed to be paid on 22 January 2016. 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 31 August 2014 (per Balance Sheet)	9,394	29.8
Dividend paid for year ended 31 August 2014	(3,639)	(11.5)
Net revenue earned in the year	4,929	15.6
Revenue reserve as at 31 August 2015 (per Balance Sheet)	10,684	33.9
Dividend proposed for year ended 31 August 2015	(3,622)	(11.5)
Revenue reserve as at 31 August 2015	7,062	22.4

Pence per share figures are based on the number of shares in issue at 31 August 2015

Borrowings

Details of the Company's £20 million five year fixed rate loan with National Australia Bank Limited can be found in Note 11 on page 46.

Share Capital

The Company's capital structure consisted of 31,494,663 ordinary shares of 25p each in issue at 31 August 2015. During the year the Company bought back for cancellation 148,987 ordinary shares at a total cost of £1,060,000.

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

Substantial Shareholders

At 28 October 2015 the Company was aware of the following significant shareholdings representing (directly or indirectly) 3 per cent 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	4,296,325	13.7%
Clients of Alliance Trust Savings	2,047,043	6.5%
Clients of Hargreaves Lansdown	2,003,457	6.4%
F&C Global Smaller Companies Trust	1,973,487	6.3%
Clients of Rathbones	1,667,032	5.3%
Clients of Investec Wealth & Investment	1,627,847	5.2%
Clients of Charles Stanley	997,952	3.2%

Directors' Report – continued

Greenhouse Gas Emissions

All the Company's activities are outsourced to third parties. The Company therefore has no greenhouse gas emissions to report from its operations, nor does it have responsibility under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 for any other emission producing sources.

Share Buy Backs

The Company's buy back authority was last renewed at the Annual General Meeting on 19 February 2015 in respect of 4,743,000 ordinary shares of 25p each. 148,987 ordinary shares were bought back during the year under review for cancellation and no shares are held in treasury.

Annual General Meeting

The notice convening the Annual General Meeting to be held on 15 December 2015 is given on pages 52 to 55. The resolutions to be proposed include a resolution to approve the Directors' Remuneration Report which is set out on pages 26 to 28.

Resolutions 8 and 9 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 new ordinary shares and empower them to allot some or all 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 8 is in respect of £785,250 in nominal value of relevant securities, representing approximately 10 per cent of the issued ordinary share capital at 28 October 2015. The power to disapply pre-emption rights being sought under Resolution 9 is also in respect of £785,250 of equity securities representing approximately 10 per cent of the ordinary shares of the Company in issue on 28 October 2015. The authority under Resolutions 8 and 9, if granted, will expire at the earlier of the next Annual General Meeting or 15 months from the passing of the resolutions. The Directors, who have no present intention of exercising their authority to allot any of the same, will allot relevant securities under this authority only 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 10 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 4,708,900 ordinary shares, just under 15 per cent of the Company's issued share capital at 28 October 2015) and the maximum (105 per cent of the 5 day average middle market price) and minimum (the nominal value) prices at which shares may be bought. The Directors will exercise the authority granted pursuant to this resolution only 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 10. There are no options outstanding over the Company's share capital.

Notice Period for General Meetings

Resolution 11 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").

Directors' Report – continued

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 11 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 be used only 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 inside the back cover of this report. 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
28 October 2015

Report of the Audit Committee

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 20 October 2014, 22 April 2015, and 15 July 2015 as the other Directors consider that he has the skills and experience to perform this role. The Board considers that it is appropriate for all Directors to be members of the Audit 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 £6,000 for the year ended 31 August 2015. The Board consider that the provision of such services at this low level is cost effective and does not impair the independence of Ernst & Young LLP ("EY").

At the request of the Board, the Audit Committee considered whether the 2015 Annual Report and Accounts were fair, balanced and understandable and whether they provided the necessary information for shareholders to assess the Company's performance, business model and strategy. The Audit Committee has reviewed the Annual Report and Accounts and is satisfied that, taken as a whole, they are fair, balanced and understandable. In reaching this conclusion the Directors have assumed that the reader of the Annual Report and Accounts has a reasonable level of knowledge of the investment industry.

Auditor

EY were appointed as auditors to the Company on 24 April 2014 following a robust tender process involving other audit firms. The Audit Engagement Partner rotates every five years in accordance with the Auditing Practices Board requirements and 2015 is the second year for the current partner.

The Audit Committee assessed the effectiveness of the audit, the quality of the team and advice received from them through review of interaction with the auditors and reports received from them. The Audit Committee is satisfied with the effectiveness of the work provided by EY who are objective and independent.

The Audit Committee has noted the amendments to the UK Corporate Governance Code and, in particular, the recommendation to put the external audit out to tender at least every ten years. In accordance with the Financial Reporting Council ("FRC") guidance the Audit Committee will consider undertaking a tender process in nine years' time.

A resolution to re-appoint EY, 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 the Company has outsourced all of its functions to third party service providers. The Company also has no employees.

Report of the Audit Committee – continued

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 a 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.

These controls include:

- Reports at regular Board meetings of all security and revenue transactions effected on the Company's behalf. These transactions can be entered into only 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 Conduct Authority and provides regular reports to the Board; and
- 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 provide only reasonable and not absolute assurance against material misstatement or loss.

Significant Accounting Matters

The significant issues considered by the Audit Committee during the year in relation to the financial statements of the Company were the valuation of investments, the existence/ownership of the investment portfolio, the performance fee and recognition of investment income. The Company's accounting policy for valuing investments is set out on page 40 and the prices of all investments are agreed to an independent source by the Company Secretary. The assets held within the investment portfolio are also agreed regularly to the custodian's records by the Company Secretary. The Company's performance fee is calculated by the Company Secretary and is reviewed by the Investment Manager. The recognition of investment income is undertaken in accordance with Accounting Policy 1(b) on page 40 and all investment dividends are reconciled to projected dividend schedule each quarter.

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.

James Ferguson
Chairman
28 October 2015

Directors' Remuneration Report

Statement by the Chairman

This report has been prepared in accordance with the requirements of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting. The remuneration policy, which was approved by shareholders at the Company's AGM in February 2015, will again be put to shareholders at the AGM in December 2017.

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 owing to the size and composition of the Board. Appointments are periodically reviewed. The Remuneration Committee's terms of reference are available on the Trust's website and clearly define the Remuneration Committee's responsibilities.

Policy on Directors' Remuneration

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole and 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 three years until the year ended 31 August 2017.

The fees of the non-executive Directors are set within maximum limits determined from time to time by the Company in general meeting which are currently £120,000. 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.

Annual Report on Remuneration

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 £26,500 to £28,000 per annum and Directors' fees from £19,000 to £20,000 each per annum, such increases to take effect from 1 July 2015. The Board has not received any views from the Company's shareholders in respect of the levels of Directors' remuneration.

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 33 to 35.

Directors' Remuneration Report – continued

Directors' interests (audited)

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.

	31 August 2015 ordinary 25p shares	31 August 2014 ordinary 25p shares
James Ferguson*	284,860	284,860
Alexandra Mackesy	21,000	21,000
Dr Janet Morgan	3,600	3,600
Anne West	2,000	2,000

* 264,860 ordinary shares in the Company are family interests

There were no changes to the above holdings between 31 August 2015 and 28 October 2015. The Company has no service contracts with its Directors and has not entered into any other contract in which a Director has an interest.

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 2015 (£)	Fees 2014 (£)
James Ferguson (Chairman)	26,750	26,500
Alexandra Mackesy	19,167	19,000
Dr Janet Morgan	19,167	19,000
Anne West	19,167	19,000
	84,251	83,500

Statement of Voting at Annual General Meeting

Voting on the resolutions to approve the Directors' Remuneration Policy and Directors' Remuneration Report at the Company's AGM on 19 February 2015 was as follows:

Resolution	Votes For	Votes Against	Votes Withheld
Approve Directors' Remuneration Policy	9,631,812	3,506	834
Approve Directors' Remuneration Report	9,631,812	3,506	834

Relative Importance of Spend on Pay

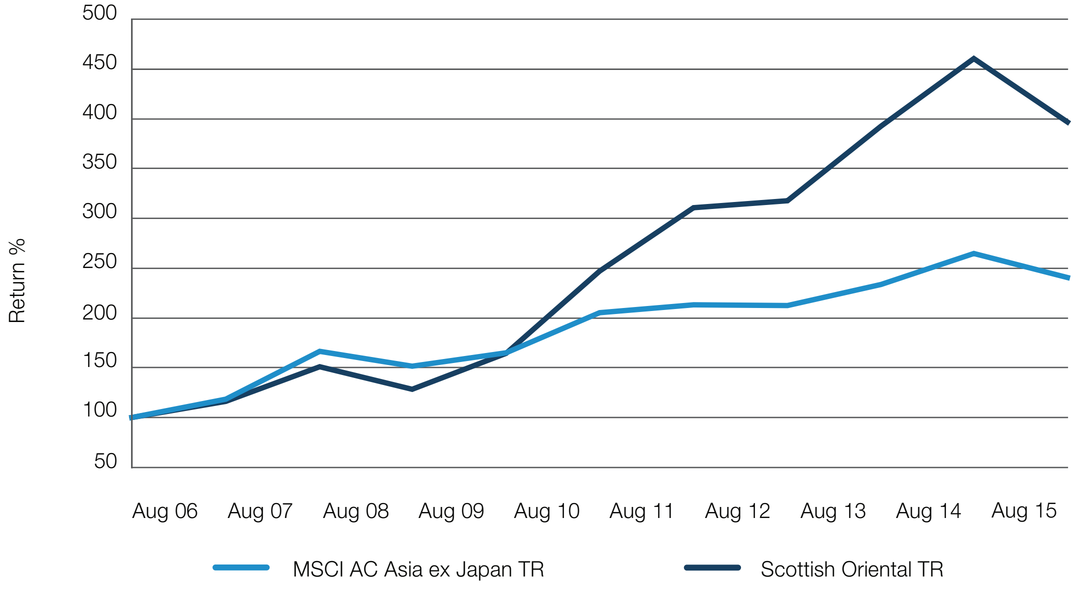
As the Company has no employees it is not possible to present a table comparing remuneration paid to employees with distributions to shareholders.

Company Performance

The graph below compares the total return (assuming all dividends are reinvested) to ordinary shareholders for the last ten 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.

Directors' Remuneration Report – continued

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



The Directors' Remuneration report on pages 26 to 28 was approved by the Board of Directors on 28 October 2015 and signed on its behalf by

James Ferguson
Chairman
28 October 2015

Corporate Governance

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 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 FRC, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The AIC Code 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.

Compliance

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 is an entirely non-executive Board and 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 reviewed periodically. 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 interest.

Conflicts of Interest

The Companies Act 2006 requires that a Director of the Company must avoid a situation in which he has, or might have, an interest that conflicts, or may conflict, with the interests of the Company. Each Director submits a list of potential conflicts prior to each meeting. The other Directors consider these and recommend whether or not each potential conflict should be authorised. No situation arose during the year whereby an interest of a Director conflicted with the interests of the Company.

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 on the following page. Board papers are distributed prior to all meetings in a form and of a 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.

Corporate Governance – continued

Number of Meetings	Board Meetings	Audit Committee	Committee of the Board	Remuneration Committee	Nominations Committee
James Ferguson	4/4	3/3	1/1	1/1	1/1
Alexandra Mackesy	4/4	3/3	—	1/1	1/1
Dr Janet Morgan	4/4	3/3	—	1/1	1/1
Anne West	4/4	3/3	—	1/1	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 previous directorship with the Investment Manager until 2000. James Ferguson, Alexandra Mackesy and Dr Janet Morgan have served on the Board for more than nine years. The Board considers that each of these Directors 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 their 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.

Terms of Appointment and Re-election of Directors

James Ferguson, Alexandra Mackesy and Dr Janet Morgan, having served on the Board for more than nine years, offer themselves for re-election at the AGM. The Board confirms that each of these Directors continues to make a significant contribution to Board deliberations. The Board therefore believes that it is in the interests of shareholders that Mr Ferguson, Mrs Mackesy and 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 17 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.

Corporate Governance – continued

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 considers a broad range of skills and experience when seeking potential candidates including diversity and gender.

The Nominations Committee meets at least annually.

The Board will be considering the appointment of a new Director during the next year.

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 there are no material uncertainties and 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.

On behalf of the Board

Steven K Davidson
Company Secretary
28 October 2015

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report, the Directors' Remuneration Report and the accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare accounts for each financial year.

Under that law the Directors have elected to prepare the accounts 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 accounts unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company for that period. In preparing these accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 accounts.

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 accounts 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 accounts and that applicable accounting standards have been followed.

The accounts 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 accounts 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 accounts may differ from legislation in other jurisdictions.

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

- the accounts, 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 Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

By order of the Board

James Ferguson
Chairman
28 October 2015

Report of the Independent Auditor

Independent Auditor's Report to the members of The Scottish Oriental Smaller Companies Trust plc ("the Company")

Our audit opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 August 2015 and of its net return for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Our audit opinion on matters prescribed by the Companies Act 2006

In our opinion:

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

What we have audited

We have audited the financial statements of the Company for the year ended 31 August 2015 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 17. The financial reporting framework that has been applied in the preparation of the financial statements 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 Statement of Directors' Responsibilities set out on page 32, 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, International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

The 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 applied 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 and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report of the Independent Auditor – continued

Our assessment of the risk of material misstatement and our audit response

The risks included in the table below represent those material risks of misstatement that have had the greatest impact on our audit strategy and approach for the year ended 31 August 2015 (including the allocation of resources and the directing of efforts of the engagement team). The table also includes our audit response to each of these risks:

Risk identified	Our response
The income from investments recognised by the Company during the year is incorrectly recorded. The income from investments for the year, as disclosed in note 1 to the financial statements, is £8.6 million (2014: £6.3 million).	● We agreed a sample of dividend receipts on investment held to an independent source. ● We agreed, on a sample basis, investee company dividend announcements from an independent source to the income recorded by the Company. ● We agreed all accrued dividends to an independent source. ● We have reviewed the recognition criteria applied to the special dividend received during the year to ensure that the accounting treatment adopted is consistent with our interpretation of the underlying commercial circumstances giving rise to the related dividend.
The performance fee is not calculated in accordance with the methodology prescribed in the Investment Management Agreement (IMA) between the Company and the Manager, First State Investment Management (UK) Limited. The performance fee for the year ended 31 August 2015, as disclosed in note 2 to the financial statements, was £107,000 (2014: £859,000).	● We have re-performed the calculation of the performance fee in line with the IMA. ● We have agreed the key external inputs in the calculation to independent sources. ● We ensured that the performance fee has been charged to capital in line with the Company's accounting policy.
The valuation of the assets held in the investment portfolio is incorrect or proper legal title to these assets is not held by the Company. The Company's investment portfolio, as disclosed in note 8 to the financial statements, amounted to £243 million (2014: £265 million) as at 31 August 2015.	● We agreed 100% of the year end prices of the investments to an independent source. ● We agreed the exchange rates used to translate the year end valuation of non-sterling investments to an independent source. ● We obtained directly from the custodian and depository, a confirmation of the investments held as at 31 August 2015. We agreed this to the Company's records.

Our application of materiality

We have defined the concept of materiality and planning materiality below.

We determined materiality for the Company to be £2.6 million, which is one per cent of net assets (2014: £2.8 million based on one per cent of net assets). We have derived our materiality calculation based on a proportion of net assets as we consider it to be the most important financial metric on which shareholders would judge the performance of the Company.

We determined performance materiality for the Company to be 75% of materiality, or £1.9 million (2014: 50% of materiality or £1.4 million). We determined a lower performance materiality level in 2014 due to the first year of our audit.

In addition, we agreed with the Audit Committee that we would report any audit differences in excess of £0.13 million (2014: £0.14 million), as well as any differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Report of the Independent Auditor – continued

In accordance with the scope of our audit, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We apply the concept of materiality for the purposes of obtaining sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. For this reason, we also define a separate performance materiality threshold which reflects our tolerance for misstatement in an individual account balance and is set as a proportion of our overall materiality.

Our objective in setting the performance materiality threshold is to identify the amount of testing required in respect of each balance to reduce to an appropriately low level the probability that the aggregate of any uncorrected and undetected misstatements in the financial statements as a whole exceeds our materiality level.

We evaluate any uncorrected misstatements and potential audit differences against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

We applied the concept of materiality in planning and performing our audit, in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements on the financial statements, and in forming our audit opinion. When establishing our overall audit strategy, we determined the magnitude of omissions or uncorrected misstatements that we judged would be material to the financial statements as a whole. This provided a basis for determining the nature of our risk assessment procedures, identifying and assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

Matters on which we are required to report by exception

We are required by the International Standards on Auditing (UK and Ireland), the Companies Act 2006 and the Listing Rules to report to you by exception if certain matters are identified during the course of our audit. These matters are listed below and we have nothing to report in respect of any of these matters.

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

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 31, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

Susan Dawe (Senior statutory auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
Edinburgh

28 October 2015

Income Statement

For the year ended 31 August 2015

	Note	2015 Revenue £000	2015 Capital £000	2015 Total* £000	2014 Revenue £000	2014 Capital £000	2014 Total* £000
(Losses)/gains on investments	8	**—**	**(28,037)**	**(28,037)**	—	32,701	32,701
Income from investments	1	**8,623**	**—**	**8,623**	6,267	—	6,267
Other income	1	**93**	**—**	**93**	72	—	72
Investment management fee	2	**(2,136)**	**(107)**	**(2,243)**	(1,986)	(859)	(2,845)
Currency gains/(losses)		**—**	**1,268**	**1,268**	—	(1,050)	(1,050)
Other administrative expenses	3	**(779)**	**—**	**(779)**	(658)	—	(658)
Net return before finance costs and taxation		**5,801**	**(26,876)**	**(21,075)**	3,695	30,792	34,487
Finance costs of borrowing	4	**(630)**	**—**	**(630)**	(441)	—	(441)
Net return on ordinary activities before taxation		**5,171**	**(26,876)**	**(21,705)**	3,254	30,792	34,046
Tax on ordinary activities	5	**(242)**	**—**	**(242)**	(219)	—	(219)
Net return attributable to equity shareholders		**4,929**	**(26,876)**	**(21,947)**	3,035	30,792	33,827
Net return per ordinary share	7	**15.58p**	**(84.95p)**	**(69.37p)**	9.59p	97.31p	106.90p

*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 11.50p per share for the year ended 31 August 2015 (2014: 11.50p per share) which, if approved, will be payable on 22 January 2016 to shareholders recorded on the Company's shareholder register on 11 December 2015.

The accounting policies on pages 40 and 41 and the notes on pages 42 to 51 form part of these accounts.

All revenue and capital items derive from continuing operations.

Balance Sheet

as at 31 August 2015

	Note	2015 £000	2015 £000	2014 £000	2014 £000
FIXED ASSETS – EQUITY INVESTMENTS	8				
China			**37,841**		42,748
Hong Kong			**21,255**		22,357
India			**59,322**		67,960
Indonesia			**8,531**		7,158
Malaysia			**5,339**		11,819
Philippines			**3,300**		2,999
Singapore			**42,895**		46,604
South Korea			**12,629**		13,883
Sri Lanka			**9,745**		7,044
Taiwan			**31,637**		36,073
Thailand			**10,676**		6,435
			243,170		265,080
CURRENT ASSETS					
Debtors	9	**3,312**		1,009	
Cash and deposits		**31,974**		40,656	
		35,286		41,665	
CURRENT LIABILITIES (due within one year)					
Creditors	10	**(1,281)**		(2,924)	
		(1,281)		(2,924)	
Net Current Assets			**34,005**		38,741
Total Assets less Current Liabilities			**277,175**		303,821
CREDITORS (due after one year)					
Loan	11		**(20,000)**		(20,000)
Equity Shareholders' Funds			**257,175**		283,821
Represented by					
CAPITAL AND RESERVES					
Ordinary share capital	12		**7,874**		7,911
Share premium account			**32,940**		32,940
Capital redemption reserve			**37**		—
Warrant reserve exercised			**1,319**		1,319
Capital reserve			**204,321**		232,257
Revenue reserve			**10,684**		9,394
			257,175		283,821
Net asset value per share	13		**816.57p**		896.93p

These accounts were approved by the Board on 28 October 2015 and signed on its behalf by

James Ferguson
Director

The accounting policies on pages 40 and 41 and the notes on pages 42 to 51 form part of these accounts.

Cash Flow Statement

for the year ended 31 August 2015

	2015 £000	2015 £000	2014 £000	2014 £000
OPERATING ACTIVITIES:				
Dividends received from investments		**8,503**		6,299
Other income		**99**		191
		8,602		6,490
Investment management fee	**(2,187)**		(1,933)	
Performance fee	**(859)**		(1,725)	
Secretarial fee	**(134)**		(79)	
Directors' fees	**(84)**		(84)	
Other expenses paid	**(560)**		(492)	
		(3,824)		(4,313)
Net cash inflow from operating activities		**4,778**		2,177
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:				
Interest paid on borrowings	**(627)**		(438)	
Net cash outflow from investments and servicing of finance		**(627)**		(438)
TAXATION:				
Total tax paid		**(242)**		(219)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT:				
Purchases of investments	**(58,009)**		(97,593)	
Sales of investments	**48,844**		93,878	
Net cash outflow from capital expenditure and financial investment		**(9,165)**		(3,715)
EQUITY DIVIDEND PAID		**(3,639)**		(3,639)
Net cash outflow before financing		**(8,895)**		(5,834)
FINANCING:				
Buyback of ordinary shares	**(1,055)**		—	
Loan drawn down	**—**		20,000	
Loan repaid	**—**		(19,412)	
Net cash (outflow)/inflow from financing		**(1,055)**		588
Decrease in cash		**(9,950)**		(5,246)
Cash at the start of the year		**40,656**		48,497
Effect of currency gains/(losses)		**1,268**		(2,595)
Cash at the end of the year		**31,974**		40,656

The notes to the Cash Flow Statement are contained in note 14.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 August 2015

	Share Capital £000	Share Premium Account £000	Capital Redemption Reserve £000	Warrant Reserve Exercised £000	Capital Reserve £000	Revenue Reserve £000	Total £000
Balance at 31 August 2014	7,911	32,940	–	1,319	232,257	9,394	283,821
Return for the year	–	–	–	–	(26,876)	4,929	(21,947)
Buyback of ordinary shares	(37)	–	37	–	(1,060)	–	(1,060)
Dividend paid in the year	–	–	–	–	–	(3,639)	(3,639)
Balance at 31 August 2015	**7,874**	**32,940**	**37**	**1,319**	**204,321**	**10,684**	**257,175**

for the year ended 31 August 2014

	Share Capital £000	Share Premium Account £000	Capital Redemption Reserve £000	Warrant Reserve Exercised £000	Capital Reserve £000	Revenue Reserve £000	Total £000
Balance at 31 August 2013	7,911	32,940	–	1,319	201,465	9,998	253,633
Return for the year	–	–	–	–	30,792	3,035	33,827
Dividend paid in the year	–	–	–	–	–	(3,639)	(3,639)
Balance at 31 August 2014	7,911	32,940	–	1,319	232,257	9,394	283,821

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"). 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 accounts, 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 investment management fee has been charged in full to the revenue column of the Income Statement. The performance fee is chargeable in full to the capital column of the Income Statement.

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 price 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. Gains and losses arising on realisation of investments are shown in the Capital Reserve.

(h) Equities include ordinary shares and warrants.

Accounting Policies – continued

Foreign currency

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

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

Cash and liquid resources

(k) 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

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

Dividends

(m) 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

(n) 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 Taiwan tax reclaims of £nil (2014: £4,000) from overseas listed companies.

2. Investment Management Fee	2015 £000	2014 £000
Investment management fee	**2,136**	1,986
Performance fee	**107**	859
	2,243	2,845

Management

First State Investment Management (UK) Limited has been Investment Manager since 20 March 1995. In order to comply with the Alternative Investment Fund Managers Directive, with effect from 2 July 2014 the Company has terminated its investment management agreement with First State Investment Management (UK) Limited and has appointed First State Investments (UK) Limited as its Alternative Investment Fund Manager. First State Investments (UK) Limited has delegated portfolio management services to First State Investment Management (UK) Limited.

The terms of the Agreement provide for payment of a base fee of 0.75 per cent 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. The total fee payable to the Investment Manager is capped at 1.5 per cent per annum of the Company's net assets.

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, 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 £106,787 (2014: £858,508) is due to be paid for the year ended 31 August 2015 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 per cent 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.

Notes on the Accounts – continued

3. Other Administrative Expenses	2015 £000	2014 £000
Auditor's remuneration for :		
– audit services	**18**	19
– non-audit services in respect of taxation compliance	**6**	10
Directors' fees	**84**	84
Company secretarial fees	**108**	106
Bank, custodial and other expenses	**563**	439
	779	658

Company Secretary

Personal Assets Trust Administration Company Limited provides company secretarial, accounting and administrative services. The fee for the year ended 31 August 2015, which is payable quarterly in advance and linked to the movement in the Retail Price Index annually, was £107,685 (2014: £105,767). The appointment is terminable on three months' notice.

4. Finance Costs of Borrowing	2015 £000	2014 £000
Costs in relation to bank borrowing	**630**	441

5. Taxation (a) Analysis of charge in the year	2015 £000	2014 £000
Current tax: overseas tax	**242**	219

(b) Factors affecting the tax charge for the year

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:

	2015 £000	2014 £000
Return for the year before taxation	**(21,705)**	34,046
Total return for the year before taxation multiplied by the standard rate of corporation tax of 20.58% (2014: 22.17%)	**(4,467)**	7,548
Effect of:		
Capital returns not subject to corporation tax	**5,509**	(7,017)
Non-taxable income	**(1,775)**	(1,389)
Overseas tax	**242**	219
Unutilised management expenses	**733**	858
Current tax charge for the year	**242**	219

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

(c) Provision for deferred tax

The Company has a deferred tax asset of £4,606,000 (2014: £4,088,000) at 31 August 2015 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

	2015 £000	2014 £000
Dividends paid in the period:		
Dividend of 11.50p per share paid 23 February 2015 (2014 – 11.50p)	**3,639**	3,639

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 accounts.

	2015 £000	2014 £000
Income available for distribution	**4,929**	3,035
Proposed dividend for the year ended 31 August 2015 – 11.50p payable 22 January 2016 (2014 – 11.50p)	**(3,622)**	(3,639)
Amount transferred to revenue reserve/(from retained income)	**1,307**	(604)

7. Return per Ordinary Share

	2015 Revenue p	2015 Capital p	2015 Total p	2014 Revenue p	2014 Capital p	2014 Total p
Net return per share	**15.58**	**(84.95)**	**(69.37)**	9.59	97.31	106.90

	2015	2014
Revenue return	**£4,929,000**	£3,035,000
Capital return	**(£26,876,000)**	£30,792,000
Weighted average ordinary shares in issue	**31,638,801**	31,643,650

There are no dilutive or potentially dilutive shares in issue.

Notes on the Accounts – continued

8. Equity Investments	£000
Cost at 31 August 2014	197,880
Unrealised appreciation	67,200
Valuation at 31 August 2014	265,080
Purchases at cost*	57,160
Sales – proceeds*	(51,033)
Sales – realised gains on sales	11,737
Unrealised depreciation on investments in the year	(39,774)
Valuation at 31 August 2015	243,170
Cost at 31 August 2015	215,744
Closing unrealised appreciation	27,426

Gains/(losses) on Investments

Realised gains on sales	11,737
Unrealised losses on the fair value of investments during the year	(39,774)
	(28,037)

All investments are listed on recognised stock exchanges.

*These figures include the following costs:

Transaction Costs

During the year the Company incurred transaction costs of £137,000 (2014: £244,000) on the purchase of investments and £150,000 (2014: £331,000) on the sale of investments.

9. Debtors	2015 £000	2014 £000
Sales awaiting settlement	**2,538**	349
Accrued income	**731**	611
Overseas tax recoverable	**43**	49
	3,312	1,009

10. Creditors (amounts falling due within one year)	2015 £000	2014 £000
Purchases awaiting settlement	**504**	1,353
Management fee payable	**483**	534
Performance fee	**107**	859
Interest due on loan	**29**	26
Stamp duty payable on share buybacks	**5**	–
Other creditors	**153**	152
	1,281	2,924

Notes on the Accounts – continued

11. Creditors (amounts falling due after one year)	2015 £000	2014 £000
£20,000,000 fixed rate loan 3.135% 14/08/2019	**20,000**	20,000

The main covenants relating to the loan are that total net assets shall not fall below £80 million and the ratio of total borrowings to adjusted net asset value shall not exceed 30 per cent at any time. There were no breaches of loan covenants during the year.

12. Share Capital

The allotted capital is £7,873,666 (2014: £7,910,912) represented by 31,494,663 ordinary shares of 25p each (2014: 31,643,650). During the year the Company bought for cancellation 148,987 ordinary shares at a total cost of £1,060,000. Since the year end the Company has bought for cancellation a further 81,000 ordinary shares at a total cost of £571,000.

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.

The capital of the Company is the ordinary share capital, the other reserves and the fixed rate loan as described in Note 11. It is managed in accordance with its investment policy in pursuit of its investment objective, detailed on pages 18 and 19.

13. Net Asset Value per Ordinary Share

Net assets per share are based on total net assets of £257,175,000 (2014: £283,821,000) divided by 31,494,663 (2014: 31,643,650) ordinary shares of 25p each in issue.

14. Cash Flow Statement

(a) Reconciliation of total income to net cash inflow from operating activities

	2015 £000	2014 £000
Income	**8,716**	6,339
Administrative expenses	**(2,915)**	(2,644)
Performance fee	**(107)**	(859)
Decrease in debtors	**6**	124
(Increase)/decrease in dividends accounted for but not yet received	**(120)**	28
Decrease in creditors	**(802)**	(811)
Net cash inflow from operating activities	**4,778**	2,177

(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	40,656	(8,682)	–	31,974
Loan due between one and five years	(20,000)	–	–	(20,000)
	20,656	(8,682)	–	11,974

Notes on the Accounts – continued

15. 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 18 and in addition the Board conducts quarterly reviews with the Investment Manager. 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.

Interest Rate Risk

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). During the year the Company held a £20 million five year fixed rate loan with National Australia Bank. The Company is also exposed to minimal interest rate risk on interest receivable from bank deposits and interest payable on bank overdraft positions.

The interest rate risk profile of the Company's financial liabilities and the maturity profile of the undiscounted future cash flows in respect of the Company's contractual financial liabilities at 31 August are shown below.

Interest Rate Risk Profile

	2015 £000	2014 £000
Fixed rate bank loan – Sterling denominated	**20,000**	20,000

Maturity Profile

	2015 Within 5 years £000	2014 Within 5 years £000
Repayment of loans	**22,510**	23,132

Notes on the Accounts – continued

Interest Rate Sensitivity

Considering effects on cash balances and fixed rate borrowings, an increase of 50 basis points in interest rates would have increased net assets and total return for the period by £60,000 (2014: £103,000). A decrease of 50 basis points would have had an equal but opposite effect. The calculations are based on the cash balances at the balance sheet date and are not representative of the year as a whole.

Foreign Currency Risk

The majority of the Company's assets, liabilities and income were denominated in currencies other than sterling (the currency which the Company reports its results) as at 31 August 2015. 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

	31 August 2015			31 August 2014		
	Overseas investments £000	**Net monetary assets £000**	**Total currency exposure £000**	Overseas investments £000	Net monetary assets £000	Total currency exposure £000
Indian rupee	**59,322**	**2,165**	**61,487**	67,960	110	68,070
Hong Kong dollar	**60,222**	**101**	**60,323**	66,422	(9)	66,413
Singapore dollar	**41,769**	**1,017**	**42,786**	45,287	829	46,116
Taiwanese dollar	**31,637**	**393**	**32,030**	36,073	5,765	41,838
US dollar	**–**	**18,601**	**18,601**	–	14,144	14,144
Korean won	**12,629**	**–**	**12,629**	13,883	–	13,883
Thai baht	**10,676**	**63**	**10,739**	6,435	(191)	6,244
Sri Lankan rupee	**9,745**	**–**	**9,745**	7,044	–	7,044
Indonesian rupiah	**8,531**	**–**	**8,531**	7,158	–	7,158
Malaysian ringgit	**5,339**	**–**	**5,339**	11,819	–	11,819
Philippine peso	**3,300**	**(20)**	**3,280**	2,999	–	2,999
Total foreign currency	**243,170**	**22,320**	**265,490**	265,080	20,648	285,728
Sterling	**–**	**(8,315)**	**(8,315)**	–	(1,907)	(1,907)
Total currency	**243,170**	**14,005**	**257,175**	265,080	18,741	283,821

Notes on the Accounts – continued

Currency Risk Sensitivity

At 31 August 2015, if sterling had strengthened by 5 per cent in relation to all currencies, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown below. A 5 per cent weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts. The analysis is performed on the same basis for 2014.

	2015 £000	2014 £000
Indian rupee	**3,074**	3,404
Hong Kong dollar	**3,016**	3,321
Singapore dollar	**2,139**	2,306
Taiwanese dollar	**1,602**	2,092
US dollar	**930**	707
Korean won	**631**	694
Thai baht	**537**	312
Sri Lankan rupee	**487**	352
Indonesian rupiah	**427**	358
Malaysian ringgit	**267**	591
Philippine peso	**164**	150
Total	**13,274**	14,287

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 per cent higher or lower with all other variables remaining constant, the return attributable to ordinary shareholders for the year ended 31 August 2015 would have increased/(decreased) by £24,317,000 (2014 increased/(decreased) by £26,508,000) and equity reserves would have increased/(decreased) by the same amount.

Liquidity Risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company has the power to take out borrowings, which give it access to additional funding when required. The Company's current borrowing facility is detailed in Note 11 on page 46.

Notes on the Accounts – continued

The contractual maturities of financial liabilities at the year end, based on the earliest date on which payment can be required, are as follows:

	2015 3 months or less £000	2015 3 to 12 months £000	2015 More than 12 months £000	2014 3 months or less £000	2014 3 to 12 months £000	2014 More than 12 months £000
Bank loan	**186**	**472**	**21,852**	183	470	22,479
Amount due to brokers	**504**	**–**	**–**	1,353	–	–
Other creditors and accruals	**641**	**–**	**–**	686	–	–
Performance fee accrued	**107**	**–**	**–**	859	–	–
	1,438	**472**	**21,852**	3,081	470	22,479

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. Transactions are ordinarily done on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations before any transfer of cash or securities away from the Company is completed.

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 31 August 2015 was as follows:

Current assets	2015 Balance sheet £000	2015 Maximum exposure £000	2014 Balance sheet £000	2014 Maximum exposure £000
Receivables	**3,312**	**3,312**	1,009	1,009
Cash at bank	**31,974**	**31,974**	40,656	40,656
	35,286	**35,286**	41,665	41,665

Financial Instruments Measured at Fair Value

As at 31 August 2015	Level 1 £000	Level 2 £000	Level 3 £000	**Total £000**
Listed equities	243,170	–	–	**243,170**
Loan	–	(20,000)	–	**(20,000)**
Total financial instruments	**243,170**	**(20,000)**	**–**	**223,170**

As at 31 August 2014	Level 1 £000	Level 2 £000	Level 3 £000	**Total £000**
Listed equities	265,080	–	–	265,080
Loan	–	(20,000)	–	(20,000)
Total financial instruments	265,080	(20,000)	–	245,080

Notes on the Accounts – continued

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with Financial Reporting Standard 29 'Financial Instruments: Disclosures', the tables above provide an analysis of these investments based on the fair value hierarchy described below. Short term balances are excluded from the tables as their carrying value at the reporting date approximates to their fair value.

Fair Value Hierarchy

The fair value hierarchy used to analyse the fair values of financial assets is described below. The levels are determined by the lowest (that is, the least reliable or least independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

Level 1 – investments with prices quoted in an active market;

Level 2 – investments whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data.

16. Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on pages 26 to 28. An amount of £15,000 was outstanding to the Directors at the year end (2014: £14,000). 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.

17. Alternative Investment Fund Managers Directive

Under the Alternative Investment Fund Managers Directive the Company is required to publish maximum exposure levels for leverage on a 'Gross' and 'Commitment' basis. The process for calculating exposure under each method is largely the same, except that, where certain conditions are met, the Commitment method allows instruments to be netted off to reflect 'netting' or 'hedging' arrangements and the Company's leverage exposure would then be reduced. The AIFM set maximum leverage levels of 3.0 and 1.7 times the Company's net asset value under the 'Gross' and 'Commitment' methods respectively. At the Company's year end the levels were 1.0 and 1.1 times the Company's net asset value.

The Alternative Investment Fund Managers Directive requires the Alternative Investment Fund Manager ("AIFM") to make available certain remuneration disclosures to investors. This information is available from the AIFM on request.

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 Stewart Asia, 23 St Andrew Square, Edinburgh EH2 1BB on 15 December 2015 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 31 August 2015.
2. To approve the dividend of 11.50p per ordinary share of 25p each in the capital of the Company.
3. To re-elect James Ferguson, who retires from office annually, as a Director.
4. To re-elect Alexandra Mackesy, who retires from office annually, as a Director.
5. To re-elect Dr Janet Morgan, who retires from office annually, as a Director.
6. To re-appoint Ernst & Young LLP, Chartered Accountants and Statutory Auditor, as Auditor and to authorise the Directors to fix their remuneration.
7. To approve the Directors' Remuneration Report within the Report and Accounts for the financial year ended 31 August 2015.
8. 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 £785,250, (being approximately 10 per cent. of the nominal value of the issued share capital as at 28 October 2015) 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.

9. That, subject to the passing of resolution number 8 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 in the Company (as defined in Section 724 of the Act) for cash either pursuant to the authority conferred by resolution number 8 above or by way of a sale of treasury shares, 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

Notice of Annual General Meeting – continued

(b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £785,250 (being approximately 10 per cent of the nominal value of the issued share capital of the Company, (excluding treasury shares) as at 28 October 2015).

10. 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 4,708,900 as at 28 October 2015 ordinary shares representing 14.99 per cent 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 10, 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.

11. 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: 28 October 2015 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 11 December 2015 ("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 11 December 2015. 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.

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

Notice of Annual General Meeting – continued

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 23 St Andrew Square, Edinburgh EH2 1BB until the conclusion of the meeting.

(10) As at close of business on 28 October 2015, the Company's issued share capital comprised 31,413,663 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 28 October 2015 is 31,413,663.

(11) Any person holding 3 per cent 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/she 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 per cent 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 the sender's full name and address and be sent to the Company's registered address at 10 St Colme Street, Edinburgh EH3 6AA.

(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 appoint more than one corporate representative only 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.

Information for Investors

Financial Diary

The Company's financial year ends on 31 August. The preliminary results are announced in October or 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 £11,100 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.

Regulatory Status

Since Scottish Oriental is an investment trust pursuant to section 1158 of the Corporation Tax Act 2010, the FCA rules in relation to non-mainstream investment products do not apply to the Company.

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)370 707 1307.

Company Information

Registered Office
10 St Colme Street
Edinburgh EH3 6AA

Company Number
SC156108

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

Alternative Investment Fund Manager
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15 Finsbury Circus
London EC2M 7EB

Custodian
J.P. Morgan Chase Bank N.A.
25 Bank Street
Canary Wharf
London E14 5JP

Depositary
J.P. Morgan Europe Limited
25 Bank Street
Canary Wharf
London E14 5JP

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

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

Auditor
Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

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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

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