The Scottish Oriental
Smaller Companies Trust plc

2016

The **Scottish Oriental** Smaller Companies Trust plc

Annual
Report and Accounts 2016

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Annual Report and Accounts 2016

Financial Highlights

Performance *for the year ended 31 August 2016*

Net Asset Value*	31.5%	MSCI AC Asia ex Japan Index (£)*	33.0%
Share Price*	27.3%	MSCI AC Asia ex Japan Small Cap Index (£)*	28.9%
Dividend Maintained at 11.5p per share		FTSE All-Share Index (£)*	11.7%

*Total return (capital return with dividends reinvested).

Summary Data *at 31 August 2016*

Shares in issue	31,020,163†	Shareholders' Funds	£324.8m
Net Asset Value per share	1,047.12p	Market Capitalisation	£280.7m
Share Price	904.75p	Share Price Discount to Net Asset Value	13.6%

† Excludes shares held in Treasury.

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$40m and US$4,257m. 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 rose by 31.5 per cent in total return terms over the 12 months, while the MSCI AC Asia ex Japan Index rose by 33.0 per cent on the same basis. The share price increased in total return terms by 27.3% as the discount widened. A performance fee was not earned this year.

Revenue return per share was 9.50p compared to 15.58p last year. This fall is because of a special dividend paid last year by Asia Satellite Telecom which added 6.08p to revenue. We are proposing an unchanged dividend of 11.5p. The shortfall will be taken from the revenue reserve, as set out on page 47, reflecting our policy of using the reserve when necessary.

During the year the Company bought back 474,500 ordinary shares, of which 393,500 were held in Treasury at year end. Since the year end, a further 10,000 ordinary shares have been bought back for Treasury. 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 April, we announced arrangements to cover the maternity leave of our lead portfolio manager Wee-Li Hee. Vinay Agarwal was appointed as interim lead portfolio manager for the Company, effective from 20 July 2016. Vinay is supported by Martin Lau, Scott McNab and the rest of the First State Stewart Asia team. With more than 13 years of investment management experience, Vinay runs both Indian and Far East equity portfolios.

You will see from our managers' report that they are finding it difficult to identify good quality companies at suitable valuations and therefore they have been very selective in making new investments. However, with smaller companies and Asia being somewhat out of favour, it is worth reiterating the investment case for Scottish Oriental. Asia's economies continue to grow more quickly than developed markets and the companies represent better value. Within Asia, smaller companies offer exposure to domestic consumption which is growing strongly, given the region's superior demographic profile and developing middle class. Notwithstanding the current economic environment, the companies in which Scottish Oriental has invested should flourish in the years to come. The yield on our current equity portfolio is 2.6% and the historic price earnings ratio is 16 times, which, whilst higher than the historic average, has fallen from recent highs.

Following a review of the composition of the Board, we have decided to appoint an additional director. An announcement about this will be made in due course.

This year the Annual General Meeting will be held in London at the offices of First State Investments, Finsbury Circus House, 15 Finsbury Circus. There will be a brief presentation by our investment manager. I look forward to seeing shareholders there.

James Ferguson
Chairman
14 October 2016

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.

Wee-Li commenced a period of maternity leave on 20 July 2016. Vinay Agarwal has been appointed lead manager for the Trust for this period, supported by Martin Lau, Scott McNab and the broader First State Stewart Asia team.

Vinay Agarwal
Director of First State Stewart Asia

Vinay Agarwal is a Director of First State Stewart Asia and has more than 13 years of investment experience, with a focus on Indian and Asian equities. He joined the team in July 2011 and is based in Singapore. Vinay is the lead manager of the First State Indian Sub-Continent Fund. He is also responsible for managing a number of Far East Leaders and Indian equity portfolios on behalf of key client segregated accounts. Vinay graduated in 2002 with a management degree with a major in Finance from the Indian Institute of Management Calcutta. He also holds a Bachelor of Commerce (Hons) degree with a major in Accountancy from Calcutta University.

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, he has been closely involved with management of the Company portfolio since 2003. 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 247,900 shares in the Company.

Portfolio Managers' Report

Summary

In the year ending 31 August 2016, all Asian equity markets rose when measured in sterling. The Federal Reserve finally increased interest rates in December 2015 citing expanding economic activity. Positive sentiment was short-lived with a tumultuous start to 2016. China's stock markets led world markets down with the almost inevitable result of further economic stimuli and interest rate cuts from policymakers worldwide. Japan surprised markets by adopting negative interest rates for the first time ever in January and the European Central Bank lurched further into negative interest rate territory in March. Oil was initially very weak, almost halving between its October high and January on oversupply and growth concerns but rallied along with equity markets. By contrast, gold was very strong in January as investors grew wary and indeed weary of money printing. Gold continued to strengthen over 2016. Asian markets also strengthened for the rest of 2016 as short term expectations of further US interest rate rises diminished and Asian central banks loosened monetary policies. The impact of the Brexit vote was short-lived with stock markets quickly recovering from the initial sell-off. The impact on sterling was more marked which flattered returns for Scottish Oriental.

Scottish Oriental generated strong absolute returns over the year. Most of these returns, however, resulted from the pound's depreciation against Asian currencies. The Company underperformed its benchmark index with the biggest detractor from its relative performance being a low exposure to the Korean market, which performed strongly, as well as poor performance from its two Korean holdings, Amorepacific Group and Hana Tour Service.

Little has changed in our outlook for Asian markets, which remains uncertain. Despite the increasing prevalence of negative interest rates in developed markets, global growth remains muted. This lack of growth has resulted in challenging export conditions for Asian corporates. Low, and particularly negative, interest rates are likely to have many unforeseen consequences, but for now there are few inflationary pressures. If anything, the build-up of debt may become deflationary if cash flows are directed towards debt repayment. While inflation remains muted, interest rate cuts are more likely than increases in Asia as central banks look to stimulate domestic economies and avoid currency strength.

Valuations of the Company's holdings are high compared to its history but interest rates are as low as they have ever been. It is possible to make a case for the rationality of such valuations when using these record low interest rates in a discounted cash flow model or indeed comparing the dividend yields of many of our favoured companies to what can be earned on cash deposited in a savings account. Our concern remains that interest rates may return to their long term historic average. When this happens, in the absence of anything other than strong growth, equities will look less attractive than they do now. The difficulty is that we have little ability to forecast what central bankers might do and when.

Therefore, our focus remains the preservation of capital in both absolute and real terms, that is, we wish to avoid losing money but also want to preserve purchasing power. To this end, Scottish Oriental remains heavily invested in Asian focused businesses with defensible franchises that should be long-term winners no matter what the economic and monetary backdrop. We continue to place a significant emphasis on Indian companies where we find both growth and some of the best management teams in Asia. Pockets of value have been found in Taiwan and Indonesia recently and we continue to generate new investment ideas in India. 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.

Vinay Agarwal
Martin Lau
Scott McNab
First State Investment Management (UK) Limited, Investment Manager
14 October 2016

Portfolio Managers' Report – continued

Country Allocation *at 31 August 2016 (based on geographical area of activity)*

Country/Region	Scottish Oriental %	MSCI* %	MSCI Small Cap† %
China	15.4	31.1	24.2
Hong Kong	4.9	12.2	8.3
Taiwan	13.2	14.1	17.7
Greater China	33.5	57.4	50.2
Indonesia	4.7	3.2	2.5
Malaysia	2.4	3.2	3.5
Philippines	3.2	1.7	1.3
Singapore	12.5	4.5	6.2
Thailand	4.7	2.7	4.1
Vietnam	0.3	0.0	0.0
South East Asia	27.8	15.3	17.6
India	23.6	9.8	12.5
Sri Lanka	3.0	0.0	0.0
Indian Subcontinent	26.6	9.8	12.5
South Korea	3.7	17.5	19.7
Net current assets	14.5	–	–
Loan	(6.1)	–	–
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 2016*

Country	Sterling %	Local Currency %
China	27.1	8.4
Hong Kong	32.0	12.5
Taiwan	37.5	14.2
Indonesia	53.9	23.7
Malaysia	32.5	9.0
Philippines	30.8	11.0
Singapore	21.2	(0.2)
Thailand	40.0	15.1
Vietnam	23.7	4.5
India	26.4	8.4
Sri Lanka	2.8	(5.3)
South Korea	43.8	15.4
MSCI*	33.0	13.3

*Morgan Stanley Capital International AC Asia ex Japan Index

Portfolio Managers' Report – continued

Greater China

China underperformed despite its economy showing signs of stabilising. The domestic stock markets crashed at the start of 2016, partly on currency concerns as capital outflows accelerated. After a somewhat chaotic response from the authorities, markets were permitted to fall. The renminbi was allowed to weaken over the year in an attempt to stimulate growth. With recent reports of robust domestic consumption and an increase in fixed asset investment by state-owned enterprises, the country's large problem loans do not appear to be a concern for markets currently. However, longer term the same challenges face the central government: namely state-owned-enterprise reform; over-capacity in a number of industries; high corporate and public debt levels; declining exports; and balancing economic growth with the health of the environment.

Scottish Oriental's overall exposure to China is relatively unchanged over the year. However, we sold three holdings – clothing retailers, Trinity and YGM Trading, and knitted fabric manufacturer Pacific Textiles, choosing to focus our attention on the remaining holdings. Trinity and YGM Trading have found the slowdown in luxury retail in China and Hong Kong an incredibly difficult challenge and we doubt the situation will improve in the medium term.

Hong Kong's economy was challenged with apartment prices, retail spending and exports falling over the year. This has resulted in weak employment and poor overall sentiment. A somewhat antagonistic approach to mainland China from segments of society is unlikely to help the situation. With robust institutions, excellent infrastructure and the rule of law, Hong Kong remains an important conduit for China but this role is by no means guaranteed.

The Company's exposure to Hong Kong was reduced over the year with Dickson Concepts and Tao Heung Holdings sold – both companies struggled in the more difficult retail environment in Hong Kong and China.

Taiwan's stock market performed strongly over the year despite its weak domestic economy and declining exports. The technology sector performed strongly driven by companies in the Apple supply chain. The new President Tsai Ing-wen has, so far, navigated relations with mainland China well, given Beijing's inherent suspicion of her pro-independence DPP party. Taiwan's future remains very much intertwined with that of China and its economy is dependent on global growth as a consequence of its reliance on exports.

Scottish Oriental's exposure to Taiwan increased over the year, predominantly as a result of strong performance from its holdings. We bought three new companies for the Company: garment manufacturer Makalot Industrial; networking equipment manufacturer Wistron NeWeb and point-of-sale-terminal producer Posiflex. These replaced pneumatic components producer Airtac; point-of-sale-terminal producer Flytech; and plastics and chemicals supplier Wah Lee Industrial.

South East Asia

Indonesia was the best performing stock market in Scottish Oriental's universe benefiting from a succession of interest rate cuts and economic stimulus packages. President Jokowi has managed to significantly reduce energy subsidies freeing up budgetary capacity for much-needed infrastructure spending. Moderating inflation and a manageable current account deficit give scope for further interest rate cuts which could serve to provide further stimulus to the domestic economy. Sharp rises in the minimum wage over the last several years have boosted domestic consumption but at the expense of Indonesia's regional competitiveness.

Scottish Oriental's exposure to Indonesia increased during the year. Ace Hardware was sold on valuation concerns but two new holdings were purchased. Acset Indonusa, a contractor specialising in high-rise building foundations, and Mitra Adiperkasa, a branded retailer, should both benefit from the growing economy.

Portfolio Managers' Report – continued

Malaysia's economy continued to be weak and the central bank cut interest rates for the first time since 2009 in an attempt to stimulate the economy, with further reductions expected. The ongoing financial controversy regarding the government-owned strategic development company, 1Malaysia Development Berhad, continues to hurt perceptions of the government. However, the opposition coalition is in disarray, raising the possibility that the government will hold early general elections. The continued pro-Malay stance of the government remains an issue as it undermines Malaysia's competitiveness.

The Company's Malaysian portfolio is relatively unchanged over the year.

The **Philippines** saw the inauguration of President Duterte. His diplomatic gaffes and the spate of extra judicial killings of purported drug dealers since he took office are unnerving. However, Duterte has been fortunate enough to inherit an economy in robust shape and there is capacity for his intended focus on infrastructure spending which should further boost consumption. Apart from the risk posed by President Duterte's combative style, falling exports combined with rising imports and a slowing in the growth of overseas remittances could see the current account slide into a deficit next year.

Scottish Oriental's exposure to the Philippines increased over the year through additions to its existing holdings and the purchase of Integrated Microelectronics, an electronics manufacturer controlled by the respected Ayala Group.

Singapore was the second-worst performing market we invest in. It 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. The government has maintained its restrictive policy on foreign labour which has kept unemployment levels low. The general election held in 2015 saw the ruling party returned with an increased majority. Singapore is a prisoner of global economic conditions but has a government that is far from complacent and is endeavouring to position Singapore well for the future.

The Company continues to have a large position in Singapore but significantly reduced its exposure over the year. Four companies were sold – Mechanical component manufacturer Interplex and traditional Chinese medicine retailer Eu Yan Sang were privatised; Singapore Post was sold following a number of senior management departures; and Ezion Holdings was sold on a bleak outlook for the offshore marine services sector. By contrast, only one new investment was made in iFast, an operator of investment platforms in several Asian countries.

Thailand's economy has been subdued with poor sentiment and high household indebtedness curtailing domestic spending. Private investment is still weak but the government is making progress in its infrastructure plans which should help support the economy. Tourism has remained strong but is vulnerable to an ongoing campaign of terror bombings. A referendum on a new constitution was passed in August which cements the military's role in Thai politics which is very much a step backwards for democracy in the kingdom. Despite this, the stock market performed strongly over the year.

The overall exposure to Thailand was relatively unchanged with the sale of MC Group, the leading domestic jeans company but with limited growth prospects, and the purchase of Hana Microelectronics, a sensibly managed electronics manufacturer.

Vietnam saw a new pro-business administration led by Prime Minister Phuc. The growth in its economy has disappointed this year because of the impact of a severe drought on its agriculture sector but its manufacturing sector has continued to gain market share from other countries in the region. The new government needs to further reduce corruption, continue to reform state-owned enterprises, and invest in infrastructure whilst balancing the books. If it can achieve this then the outlook should be positive even if the beneficial Trans-Pacific Partnership is not ratified, which seems likely given US politics.

Scottish Oriental made its first direct investment in Vietnam during the year. FPT is a leading provider of information technology outsourcing and telecommunication services in the country.

Portfolio Managers' Report – continued

Indian Subcontinent

India was relatively weak. The progress of economic reform by Prime Minister Narendra Modi and the Bharatiya Janata Party faltered with a deadlock in parliament slowing the passage of much-needed legislation. However, progress was subsequently made with an increase in some foreign direct investment limits and the passing of a bankruptcy law. The government has also commenced the massive task of recapitalising the public sector banks. We are optimistic that foundations for more sustainable growth are being laid.

During the year, Scottish Oriental maintained its overall exposure to India. However, four positions were sold – Blue Dart Express, Indian Hotels, Pidilite Industries and Trent – and six new stocks were purchased – Blue Star, Gujarat Gas, Hexaware Technologies, Mahanagar Gas, Mphasis and Suprajit Engineering.

Sri Lanka's economy struggled over the year and its stock market also performed poorly. A rising fiscal deficit and falling foreign exchange reserves necessitated a bailout loan by the International Monetary Fund. The central bank also increased interest rates twice in an attempt to contain rising inflation. Much still needs to be done to stamp out corruption, ensure fair competition and reduce the fiscal deficit without impacting growth.

The Company decreased its exposure to Sri Lanka by selling conglomerate CT Holdings and reducing its position in telecom operator Dialog Axiata. A position was initiated in Commercial Bank of Ceylon, in our view the best managed bank in the country.

South Korea

South Korea's stock market performed strongly during the year with its information technology sector performing well. By contrast, the domestic economy remained weak and the necessary restructuring of the shipbuilding sector will likely see job losses and put pressure on banks that have extended loans to the shipbuilders. The country's anti-corruption legislation, which takes effect in September, is a long term positive but will reduce consumption in the short term. There was little sign of real improvement to corporate governance and this continues to make South Korea a difficult market for us.

The Company's exposure to South Korea fell over the year with the sale of rice cooker manufacturer Cuckoo Electronics and poor performance from its other holdings.

Performance of individual equity holdings *for the year ending 31 August 2016*

Company	Country	Contribution Performance %	% of Shareholders' Funds (As of 31 Aug 2016)
Best			
Minth	China	3.1	3.0
Sunny Optical	China	2.0	1.3
Marico	India	1.6	1.8
Tong Ren Tang	China	1.6	3.0
Kansai Nerolac Paints	India	1.3	2.2
Worst			
Hana Tour Service	South Korea	(0.6)	1.2
Pacific Basin Shipping	Hong Kong	(0.4)	1.0
Tao Heung Holdings	Hong Kong	(0.3)	–
Ezion Holdings	Singapore	(0.3)	–
China BlueChemical	China	(0.1)	0.8

Portfolio Managers' Report – continued

Minth, a producer of automobile body parts, announced strong results during the year that showed continued growth and an end to the falling margins that had accompanied its expansion. **Sunny Optical** also announced strong results with revenues and profits rising as its camera lenses and modules increasingly gain acceptance. **Marico's** strong brands continued to perform. **Tong Ren Tang** saw strong growth in demand for its traditional Chinese medicines. **Kansai Nerolac Paints** benefited from an increase in demand and market share gains.

Hana Tour Service was impacted by significant losses on its start-up duty free stores business. Having met company management we continue to back them, in the belief that there will be a turnaround in the performance of the new venture. The core tour business remains strong. **Pacific Basin Shipping** was hurt by low bulk shipping rates and chose to bolster its balance sheet with a rights issue during the year. We believe that we are nearing the bottom of the global shipping cycle and as such the valuation of the company is attractive. Profits at **Tao Heung Holdings'** restaurants were hit by rising rents and payroll costs as well as greater competition and a weak economy. **Ezion Holdings** faltered in the low oil price environment with customers postponing deliveries and delaying new contracts. **China BlueChemical** suffered from low selling prices for its nitrogenous fertilisers, however, it is attractively valued at 0.4 times its book value and has a net cash balance sheet.

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 23.6 per cent position. Consumer Staples accounted for 17.7 per cent of the portfolio, the largest sector weighting. As at 31 August 2016, Scottish Oriental was invested in 76 different companies with the largest holding, Minth, accounting for 3.0 per cent of the Portfolio (see page 11). The aggregate of the Company's ten largest holdings was 25.9 per cent.

Sector Allocation *at 31 August 2016*

Sector	%
Consumer Staples	17.7
Consumer Discretionary	14.8
	32.5
Information Technology	15.4
Industrials	13.1
Financials	9.8
Health Care	6.8
Materials	6.5
Utilities	4.5
Telecommunication Services	3.0
	91.6
Net current assets	*14.5*
Loan	*(6.1)*
Net assets	*100.0*

Portfolio Review – continued

Scottish Oriental's exposure to the Consumer Staples sector fell over the year primarily as a result of the sale of CT Holdings, where we felt management were distracted by operating too many businesses, and a reduction in its position in Marico on expensive valuations.

The Company's holdings in the Consumer Discretionary sector decreased over the period. Ten positions in total were sold. Three of these – Ace Hardware, Cuckoo Electronics and Indian Hotels – were sold on valuation grounds. Seven – Dickson Concepts, MC Group, Pacific Textiles, Tao Heung Holdings, Trent, Trinity and YGM – were sold on a challenging outlook for growth. By contrast, only three new companies were purchased – Makalot Industrial, Mitra Adiperkasa and Suprajit Engineering, India's largest manufacturer of automotive cables.

Scottish Oriental's position in the Information Technology sector increased, owing to strong performance from holdings such as Sunny Optical and Chroma ATE, and establishing new positions in FPT, Hana Microelectronics, iFast, Integrated Microelectronics, Posiflex Technologies, Wistron NeWeb and two Indian information technology outsourcers – Mphasis and Hexaware Technologies. During the year we sold Flytech Technology to make space for Posiflex and Wah Lee Industrial where growth prospects looked dull.

The Company's exposure to Industrials was reduced with Airtac International and Blue Dart Express sold on valuation concerns as well as Interplex Holdings and Singapore Post sold. New investments were made in Acset Indonusa and Blue Star, India's leading air-conditioning and commercial refrigeration company.

Exposure to the Financials sector decreased with significant reductions in the Company's holdings in Keck Seng Investments, Mahindra Lifespace and Tai Cheung Holdings not countering the increase in the position in China Banking and a new holding in Commercial Bank of Ceylon.

Scottish Oriental's Health Care weighting increased slightly with an addition to the existing position in Indoco Remedies and strong performance from Tong Ren Tang more than compensating for the sale of Eu Yan Sang.

Exposure to the Materials sector was relatively unchanged with the sale of Pidilite Industries on expensive valuations balanced by an increase to the Company's holding in Godrej Industries.

The Company's exposure to the Utilities sector increased with additions to existing holdings and new positions taken in Gujarat Gas and Mahanagar Gas – both benefiting for increased demand for natural gas in India.

Scottish Oriental's weighting in the telecoms sector fell with relatively poor performance from its holdings and a reduction in the position in Dialog Axiata.

The Company ended the year with no exposure to the energy sector following the complete sale of Ezion Holdings.

Vinay Agarwal
Martin Lau
Scott McNab
First State Investment Management (UK) Limited, Investment Manager
14 October 2016

Portfolio Review – continued

Ten Largest Equity Holdings *at 31 August 2016*

Company	Market	Value	% of Shareholders' Funds
Minth	**China**	**£9,746,659**	**3.0%**

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.

Tong Ren Tang	**China**	**£9,590,579**	**3.0%**

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.

Towngas China	**China**	**£8,843,833**	**2.7%**

Towngas China, a subsidiary of Hong Kong & China Gas, operates a gas distribution business in China. Its business includes the sale of LPG and piped gas to residential and commercial customers. The company also undertakes the construction of gas pipelines and other gas related services. The company continues to grow via investment in its existing operations as well as through acquisitions. Earnings should also benefit from management's focus on reducing costs and greater integration of the existing operations.

Standard Foods	**Taiwan**	**£8,702,260**	**2.7%**

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.

Taiwan Familymart	**Taiwan**	**£8,444,240**	**2.6%**

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 an approximately 30 per cent market share. This provides a steady platform for its expansion across China in a joint venture with its 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 should enhance future earnings growth for the company.

Portfolio Review – continued

Company	Market	Value	% of Shareholders' Funds
Raffles Medical Group	**Singapore**	**£8,081,805**	**2.5%**

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 in Singapore as well as further expansion of the network of medical clinics in Singapore and other countries and its new Shanghai hospital.

Amorepacific Group	**South Korea**	**£8,006,293**	**2.5%**

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.

Delfi	**Singapore**	**£7,892,976**	**2.4%**

Delfi Ltd, formerly known as 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. Delfi also distributes a portfolio of well-known third party brands. Growth will come as increased wealth leads to improving affordability and thus rising consumption.

Delta Electronics	**Thailand**	**£7,534,235**	**2.3%**

Delta Electronics Thailand is a subsidiary of Delta Electronics Taiwan which is about 40 per cent owned by group chairman Bruce Cheng. It is predominantly an original design manufacturer for power supplies and an original equipment manufacturer for other related parts used for cloud computing (network devices, storage and servers), telecommunication systems and industrial and medical devices. Management is professional and innovative and the company has a strong balance sheet.

Kansai Nerolac Paints	**India**	**£7,067,015**	**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.

Vinay Agarwal
Martin Lau
Scott McNab
First State Investment Management (UK) Limited, Investment Manager
14 October 2016

List of Investments at 31 August 2016

	% of Shareholders' Funds
CHINA (15.4%)	
Consumer Discretionary (6.0%)	
Asia Satellite Telecom	0.6
Luthai Textile	1.9
Minth	3.0
Sitoy	0.5
Consumer Staples (0.9%)	
Yashili	0.9
Healthcare (3.0%)	
Tong Ren Tang	3.0
Industrials (0.7%)	
Singamas Container	0.7
Materials (0.8%)	
China BlueChemical	0.8
Information Technology (1.3%)	
Sunny Optical	1.3
Utilities (2.7%)	
Towngas China	2.7
HONG KONG (4.9%)	
Consumer Staples (1.7%)	
Vitasoy International	1.7
Financials (2.2%)	
Aeon Credit Service	0.5
Keck Seng Investments	0.2
Public Financial	1.5
Tai Cheung Holdings	0.03
Industrials (1.0%)	
Pacific Basin Shipping	1.0

	% of Shareholders' Funds
INDIA (23.6%)	
Consumer Discretionary (0.9%)	
Suprajit Engineering	0.9
Consumer Staples (3.6%)	
Marico	1.8
Tata Global Beverages	1.8
Financials (1.9%)	
Godrej Properties	1.5
Mahindra Lifespace	0.4
Healthcare (1.4%)	
Indoco Remedies	1.4
Industrials (5.4%)	
Blue Star	1.7
Container Corp of India	1.1
SKF India	0.6
Tube Investments of India	2.0
Information Technology (4.3%)	
Hexaware Technologies	1.3
Mphasis	1.6
Tata Consultancy	1.4
Materials (5.8%)	
Godrej Industries	2.0
Kansai Nerolac Paints	2.2
Linde India	1.6
Utilities (0.3%)	
Mahanagar Gas	0.2
Gujarat Gas	0.1

	% of Shareholders' Funds
INDONESIA (4.7%)	
Consumer Discretionary (0.9%)	
Selamat Sempurna	0.6
Mitra Adiperkasa	0.3
Consumer Staples (1.0%)	
Hero Supermarket	1.0
Financials (1.3%)	
Bank Nisp OCBC	1.3
Industrials (1.1%)	
Acset Indonusa	1.1
Telecommunication Services (0.4%)	
XL Axiata	0.4
MALAYSIA (2.4%)	
Consumer Discretionary (1.5%)	
Aeon Company	0.9
APM Automotive	0.6
Industrials (0.9%)	
IJM Corporation	0.9
PHILIPPINES (3.2%)	
Financials (1.2%)	
China Banking	1.2
Information Technology (0.6%)	
Integrated Microelectronics	0.6
Utilities (1.4%)	
Manila Water Company	1.4

List of Investments at 31 August 2016 – continued

	% of Shareholders' Funds
SINGAPORE (12.5%)	
Consumer Discretionary (0.4%)	
Tan Chong International	0.4
Consumer Staples (5.3%)	
Delfi	2.4
Haw Par	1.6
Sheng Siong Group	1.3
Financials (1.4%)	
Bukit Sembawang Estates	0.3
Hong Leong Finance	1.1
Healthcare (2.5%)	
Raffles Medical Group	2.5
Industrials (0.5%)	
Tat Hong	0.5
Information Technology (0.7%)	
iFast	0.7
Telecommunication Services (1.7%)	
M1	1.7
SOUTH KOREA (3.7%)	
Consumer Discretionary (1.2%)	
Hana Tour Service	1.2
Consumer Staples (2.5%)	
Amorepacific Group	2.5

	% of Shareholders' Funds
SRI LANKA (3.0%)	
Financials (0.9%)	
Commercial Bank of Ceylon	0.9
Industrials (1.2%)	
Hemas Holdings	1.2
Telecommunication Services (0.9%)	
Dialog Axiata	0.9
TAIWAN (13.2%)	
Consumer Discretionary (3.4%)	
Makalot Industrial	0.8
Taiwan Familymart	2.6
Consumer Staples (2.7%)	
Standard Foods	2.7
Information Technology (7.1%)	
Axiomtek	0.9
Chroma ATE	0.9
Godex International	0.3
Lumax International	0.7
Posiflex Technologies	1.9
TSC Auto ID Technology	0.9
Wistron NeWeb	1.5

	% of Shareholders' Funds
THAILAND (4.7%)	
Consumer Discretionary (0.5%)	
Somboon Advance Technology	0.5
Financials (0.9%)	
Aeon Thana Sinsap	0.9
Industrials (2.3%)	
Delta Electronics	2.3
Information Technology (1.0%)	
Hana Microelectronics	1.0
VIETNAM (0.3%)	
Information Technology (0.3%)	
FPT	0.3

Ten Year Record

Capital

Year ended 31 August	Market Capitalisation £m	Shareholders' Funds £m	NAV (p)	Share Price (p)	Discount to NAV %
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)
2016	280.65	324.82	1,047.12	904.75	(13.6)

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§
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
2016	6,740	2,966	9.50	11.50	1.04	1.04	92	106

* 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 less current liabilities and all cash and fixed interest securities (excluding convertibles) divided by shareholders' funds

§ Total assets less current liabilities divided by shareholders' funds

Cumulative Performance (taking year ended 31 August 2006 as 100)

Year ended 31 August	NAV	Share Price	MSCI AC Asia ex Japan Index	FTSE All-Share Index	Earnings per share	Dividend per share
2006	100	100	100	100	100	100
2007	123	128	137	108	133	128
2008	112	107	121	95	139	139
2009	135	133	129	84	160	167
2010	199	197	156	90	221	236
2011	222	244	158	93	238	250
2012	239	246	153	99	301	306
2013	287	299	164	113	305	319
2014	321	346	181	121	201	319
2015	292	294	160	114	326	319
2016	375	369	207	123	199	319

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. 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 Murray International Trust plc.

Dr Janet Morgan CBE joined the Board in 1995. She taught politics and modern history at Oxford University, before moving to the Central Policy Review Staff in the Cabinet Office. She has worked for governments in many countries and for a number of public companies. She was formerly chairman of the Nuclear Liabilities Fund and the Nuclear Liabilities Financing Assurance Board. She is a non-executive Director of Albion Enterprise VCT plc and NDA Archives Ltd.

Anne West joined the Board in July 2010. She retired from Cazenove Capital Management at the end of 2012 which she joined in 1989, assuming responsibility for Asian and Japanese portfolios. 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 16.

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 Company 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 9 to 12 and the investments held at the year end are listed on pages 13 and 14.

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 terminated its investment management agreement with First State Investment Management (UK) Limited and appointed First State Investments (UK) Limited as its Alternative Investment Fund Manager. First State Investments (UK) Limited 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 45.

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 50 to 53.

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 modified 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. Compliance with regulatory rules is monitored on a daily basis by the Company Secretary who reports to the Board at each Board Meeting. 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 and Outlook

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

The Chairman provides an outlook for the Company in his Statement on page 2.

On behalf of the Board

Steven K Davidson
Company Secretary
14 October 2016

Directors' Report

The Directors have pleasure in submitting their Annual Report and Accounts for the year to 31 August 2016.

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 20 January 2017. The basis of accounting is to reflect the dividend in the year in which the Company pays it.

	£000	Pence per share
Revenue reserve as at 31 August 2015 (per Balance Sheet)	10,684	34.4
Dividend paid for year ended 31 August 2015	(3,612)	(11.5)
Net revenue earned in the year ended 31 August 2016	2,966	9.5
Revenue reserve as at 31 August 2016 (per Balance Sheet)	10,038	32.4
Dividend proposed for year ended 31 August 2016	(3,567)	(11.5)
Revenue reserve as at 31 August 2016	6,471	20.9

Pence per share figures are based on the number of shares in issue at 31 August 2016 (excluding dividend paid for year ended 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 49.

Share Capital and Share Buy Backs

The Company's capital structure consisted of 31,413,663 ordinary shares of 25p each in issue at 31 August 2016.

The Company's buy back authority was last renewed at the Annual General Meeting ("AGM") on 15 December 2015 in respect of 4,708,900 ordinary shares of 25p each.

During the year the Company bought back 474,500 ordinary shares at a total cost of £3,406,000, of which 393,500 ordinary shares were held in Treasury at 31 August 2016.

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 31 August 2016 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	3,519,227	11.3%
Clients of Alliance Trust Savings	2,217,296	7.1%
Clients of BMO Global Asset Management	2,197,365	7.1%
Clients of Hargreaves Lansdown	1,962,942	6.3%
Clients of Rathbones	1,648,162	5.3%
Clients of Investec Wealth & Investment	1,623,871	5.2%

There have been no changes notified in respect of the above holdings, and no new holdings notified, since the end of the year.

Directors' Report – continued

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 at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Viability Statement

The Board considered its obligation to assess the viability of the Company over a period longer than the twelve months from the date of approval of the financial statements required by the 'going concern' basis of accounting. The Board concluded that a period of five years was appropriate for this review.

The Board considers the Company, with no fixed life, to be a long term investment vehicle but, for the purposes of this viability statement, has decided that a period of five years is an appropriate period over which to report. The Board considers that this period reflects a balance between looking out over a long term horizon and the inherent uncertainties of looking out further than five years.

When deciding on this period the Directors considered the Company's portfolio of Asian smaller companies, the holding period of which is typically three to five years. The Directors also considered the Company's fixed rate loan of £20 million which is drawn to August 2019.

The Directors have also carried out a robust assessment of the principal risks as noted in the Strategic Report on page 17 and discussed in note 15 to the accounts that are facing the Company over the period of the review, including those that would threaten its business model, future performance, solvency or liquidity.

Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of their assessment.

Financial Instruments

Information on the Company's financial instruments can be fround in the Notes to the Accounts on pages 50 to 53.

Principal Risks and Risk Management

Information on the principal risks to shareholders and management of these risks can be found in the Strategic Report on pages 17 to 19 and in note 15 to the Accounts on pages 50 to 53.

Directors' Indemnity

The Company's Articles of Association entitle any Director or Officer of the Company to be indemnified out of the assets of the Company against any loss or liability incurred by him or her in the execution of his or her duties in relation to the Company's affairs to the extent permitted by law. The Company maintains insurance in respect of Directors' and Officers' liability in relation to their acts on behalf of the Company.

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.

Disclosure of Information to the 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.

Annual General Meeting

The notice convening the Annual General Meeting to be held on 13 December 2016 is given on pages 55 to 58. The resolutions to be proposed include a resolution to approve the Directors' Remuneration Report which is set out on pages 26 to 28.

Resolutions 9 and 10 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 9 is in respect of £775,254 in nominal value of relevant securities, representing approximately 10 per cent of the issued ordinary share capital at 14 October 2016. The power to disapply pre-emption rights being sought under Resolution 10 is also in respect of £775,254 of equity securities representing approximately 10 per cent of the ordinary shares of the Company (excluding Treasury Shares) in issue on 14 October 2016. The authority under Resolutions 9 and 10, 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 11 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 4,649,900 ordinary shares, just under 15 per cent of the Company's issued share capital at 14 October 2016) 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 11. There are no options outstanding over the Company's share capital.

Notice Period for General Meetings

Resolution 12 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).

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 12 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
14 October 2016

Report of the Audit Committee

An Audit Committee has been established consisting of all the Directors, with three constituting a quorum. James Ferguson is Chairman of the Audit Committee 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 auditor 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 2016. The Board consider that the provision of such services at this 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 2016 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 2016 is the third 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 auditor 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 eight 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, calculation of the performance fee and recognition of investment income. The Company's accounting policy for valuing investments is set out on page 44 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 43 and all investment dividends are reconciled to the projected dividend schedule each quarter.

James Ferguson
Chairman
14 October 2016

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 (resolution received 99.95 per cent of votes for, 0.04 per cent of votes against, and 0.01 per cent of votes were withheld), 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 Company'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 until it is put to Shareholders at the AGM in December 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 maintain the level of the Chairman's fee at £28,000 per annum and Directors' fees at £20,000 each per annum. 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 38.

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 2016 ordinary 25p shares	31 August 2015 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 2016 and 14 October 2016. 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 2016 (£)	Fees 2015 (£)
James Ferguson (Chairman)	28,000	26,750
Alexandra Mackesy	20,000	19,167
Dr Janet Morgan	20,000	19,167
Anne West	20,000	19,167
	88,000	84,251

Statement of Voting at Annual General Meeting

Voting on the resolutions to approve the Directors' Remuneration Report at the Company's AGM on 15 December 2015 was as follows:

Resolution	Votes For	Votes Against	Votes Withheld
Approve Directors' Remuneration Report	9,186,997	27,579	nil

Relative Importance of Spend on Pay

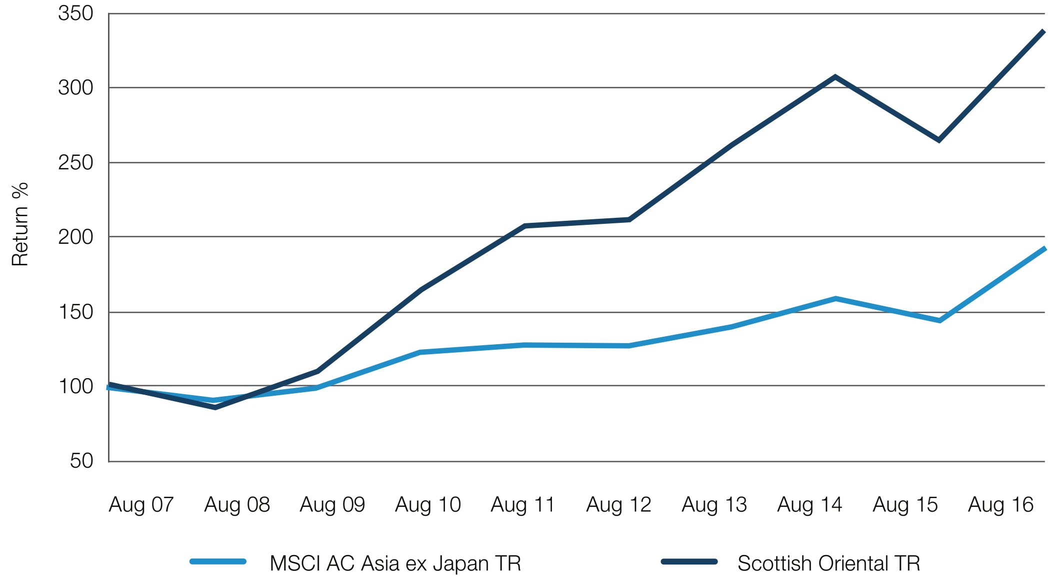
As the Company has no employees it is not possible to present a table comparing remuneration paid to employees with distributions to shareholders.

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 14 October 2016 and signed on its behalf by

James Ferguson
Chairman
14 October 2016

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 four times per year 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	Remuneration Committee	Nominations Committee
James Ferguson	4/4	2/2	1/1	1/1
Alexandra Mackesy	3/4	2/2	1/1	1/1
Dr Janet Morgan	4/4	2/2	1/1	1/1
Anne West	4/4	2/2	1/1	1/1

In addition to the Meetings above there was one Committee Meeting, attended by James Ferguson, to approve the financial statements for the year ending 31 August 2015.

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 Company 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

Anne West retires by rotation at the AGM and offers herself for re-election. 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 Mrs West, 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 16 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 Company, given that the Company has no employees.

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 Company'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 is considering the appointment of a new Director during the next year.

On behalf of the Board

Steven K Davidson
Company Secretary
14 October 2016

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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
14 October 2016

Report of the Independent Auditor

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

Our 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 2016 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The Scottish Oriental Smaller Companies Trust plc's financial statements comprise:

Income Statement for the year then ended 31 August 2016
Statement of Financial Position as at 31 August 2016
Cash Flow Statement for the year then ended 31 August 2016
Statement of Changes in Equity for the year then ended 31 August 2016
Accounting Policies
Related notes 1 to 17 to the financial statements

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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Overview of our audit approach

Risks of material misstatement	• Incorrect calculation of the performance fee • Incomplete or inaccurate revenue recognition • Incorrect valuation and ownership of the investment portfolio
Audit scope	• We performed an audit of the complete financial information of The Scottish Oriental Smaller Companies Trust plc
Materiality	• Materiality of £3.25m which represents 1% of equity shareholder's funds (2015: £2.57m)

Report of the Independent Auditor – continued

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Performance fees are not calculated correctly in accordance with the Investment Management Agreement (IMA) or the methodology is open to interpretation (as described on page 25 of the Report of the Audit Committee). No performance fee has been charged for the year ended 31 August 2016 (2015: £0.11m).	We performed the following procedures: Reperformed the performance fee calculation and ensured the calculations are in line with the IMA. Validated all key external inputs used in the calculations to third party source data. Discussed any areas of interpretation with First State Investment Management (UK) Limited (the 'Investment Manager').	We are satisfied that the terms of the Investment Management Agreement have been correctly applied within the performance fee calculations. For all key external inputs we noted no issues in agreeing the amounts to source data. There was no performance fee payable in the year.
Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or apply appropriate accounting treatment (as described on page 25 of the Report of the Audit Committee). Most of the Company's income is received in the form of dividends, being £6.66m (2015: £8.62m) for the year. The investment income receivable by the Company during the period directly affects the Company's ability to pay a dividend to shareholders and there is also a manual and judgemental element in allocating special dividends between revenue and capital. During the year the Company received two special dividends above our testing threshold with an aggregate value of £0.51m.	We performed the following procedures: Agreed a sample of dividends from the underlying financial records of the Company to an external third party source. Agreed a sample of investee Company dividends from an external third party source to the underlying financial records of the Company. Agreed 100% of accrued dividends to an independent source. Reviewed the process in place at PATAC Limited ("the Administrator") to identify and account for special dividends. Performed a review of these two special dividends and assessed the appropriateness of the accounting treatment adopted for evidence of management bias.	We noted no issues in agreeing the sample of dividends and interest receipts to and from an independent source. We noted no issues in agreeing the accrued dividends to an independent source and Company bank statements. We agreed with the allocation of special dividends between revenue and capital.
The incorrect valuation and existence of the investment portfolio (as described on page 25 of the Report of the Audit Committee). The valuation of the portfolio at 31 August 2016 was £297.74m (2015: £243.17m), consisting of listed equities. The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders.	We performed the following procedures: Agreed 100% of investment valuations and exchange rates to an independent source. Obtained confirmations from the Custodian (JP Morgan Chase Bank) and Depositary (JP Morgan Europe Limited) of all securities held at the year end and agreed those to the Company's records.	For all investments, we noted no material differences in market value or exchange rates. We noted no differences between the custodian and depositary confirmations and the Company's underlying financial records.

Report of the Independent Auditor – continued

The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, and changes in the business environment when assessing the level of work to be performed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £3.25 million (2015: £2.57 million), which is 1% (2015: 1%) of equity shareholders' funds. We derived our materiality calculation from a proportion of total equity as we consider that to be the most important financial metric on which shareholders judge the performance of the Company.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Company's overall control environment, our judgment was that the overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75% of planning materiality, being £2.44m (2015: £1.92m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate testing threshold of £0.16m (2015: £0.26m) for the revenue column of the Income Statement, being 5% of the revenue return on ordinary activities before taxation.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.16m (2015: £0.13m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Report of the Independent Auditor – continued

Scope of the audit of the financial statements

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Director's 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 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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; and
- the information given in the Report of the Audit Committee set out on pages 24 and 25 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Report of the Independent Auditor – continued

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial 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 report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	We are required to report to you if, in our opinion: ● adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received; 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; or ● a Corporate Governance Statement has not been prepared by the Company.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: ● the directors' statement in relation to going concern, *set out on page 21*, and longer-term viability, *set out on page 21*; and ● the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review	We have no exceptions to report.

Report of the Independent Auditor – continued

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: ● the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; ● the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; ● the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and ● the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Sue Dawe (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh

14 October 2016

Notes:

1. The maintenance and integrity of **The Scottish Oriental Smaller Companies Trust plc** web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

For the year ended 31 August 2016

		2016			2015		
	Note	Revenue £000	Capital £000	Total* £000	Revenue £000	Capital £000	Total* £000
Gains/(losses) on investments	8	—	69,895	69,895	—	(28,037)	(28,037)
Income from investments	1	6,657	—	6,657	8,623	—	8,623
Other income	1	83	—	83	93	—	93
Investment management fee	2	(2,110)	—	(2,110)	(2,136)	(107)	(2,243)
Currency gains		—	1,801	1,801	—	1,268	1,268
Other administrative expenses	3	(731)	—	(731)	(779)	—	(779)
Net return before finance costs and taxation		**3,899**	**71,696**	**75,595**	5,801	(26,876)	(21,075)
Finance costs of borrowing	4	(629)	—	(629)	(630)	—	(630)
Net return on ordinary activities before taxation		**3,270**	**71,696**	**74,966**	5,171	(26,876)	(21,705)
Tax on ordinary activities	5	(304)	—	(304)	(242)	—	(242)
Net return attributable to equity shareholders		**2,966**	**71,696**	**74,662**	4,929	(26,876)	(21,947)
Net return per ordinary share	7	**9.50p**	**229.72p**	**239.22p**	15.58p	(84.95p)	(69.37p)

*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.

There are no items of other comprehensive income, therefore this statement is the single statement of comprehensive income of the Company.

The Board is proposing a dividend of 11.50p per share for the year ended 31 August 2016 (2015: 11.50p per share) which, if approved, will be payable on 20 January 2017 to shareholders recorded on the Company's shareholder register on 9 December 2016.

The accounting policies on pages 43 and 44 and the notes on pages 45 to 54 form part of these accounts.

All revenue and capital items derive from continuing operations.

Statement of Financial Position

as at 31 August 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
FIXED ASSETS – EQUITY INVESTMENTS	8				
China			**49,932**		37,841
Hong Kong			**16,255**		21,255
India			**76,178**		59,322
Indonesia			**15,271**		8,531
Malaysia			**8,025**		5,339
Philippines			**10,265**		3,300
Singapore			**40,618**		42,895
South Korea			**11,930**		12,629
Sri Lanka			**9,678**		9,745
Taiwan			**42,853**		31,637
Thailand			**15,608**		10,676
Vietnam			**1,124**		—
			297,737		243,170
CURRENT ASSETS					
Debtors	9	**7,458**		3,312	
Cash and deposits		**47,352**		31,974	
		54,810		35,286	
CURRENT LIABILITIES (due within one year)					
Creditors	10	**(7,728)**		(1,281)	
		(7,728)		(1,281)	
Net Current Assets			**47,082**		34,005
Total Assets less Current Liabilities			**344,819**		277,175
CREDITORS (due after one year)					
Loan	11		**(20,000)**		(20,000)
Equity Shareholders' Funds			**324,819**		257,175
Represented by					
CAPITAL AND RESERVES					
Ordinary share capital	12		**7,853**		7,874
Share premium account			**34,259**		32,940
Capital redemption reserve			**58**		37
Warrant reserve exercised			**—**		1,319
Capital reserve			**272,611**		204,321
Revenue reserve			**10,038**		10,684
			324,819		257,175
Net asset value per share	13		**1,047.12p**		816.57p

These accounts were approved by the Board on 14 October 2016 and signed on its behalf by

James Ferguson
Director

The accounting policies on pages 43 and 44 and the notes on pages 45 to 54 form part of these accounts.

Cash Flow Statement

for the year ended 31 August 2016

	Note	2016 £000	2015 £000
Net cash outflow from operations before dividends, interest, purchases and sales	14	**(3,191)**	(3,824)
Dividends received from investments		**6,389**	8,503
Interest received from deposits		**83**	99
Purchases of investments		**(72,604)**	(58,009)
Sales of investments		**90,814**	48,844
Cash from operations		**21,491**	(4,387)
Taxation		**(261)**	(242)
Net cash inflow/(outflow) from operating activities		**21,230**	(4,629)
Financing activities			
Interest paid on borrowings		**(630)**	(627)
Equity dividend paid		**(3,612)**	(3,639)
Buyback of ordinary shares		**(3,411)**	(1,055)
Net cash outflow from financing activities		**(7,653)**	(5,321)
Increase/(decrease) in cash and cash equivalents		**13,577**	(9,950)
Cash and cash equivalents at the start of the period		**31,974**	40,656
Effect of currency gains		**1,801**	1,268
Cash and cash equivalents at the end of the period*		**47,352**	31,974

*Cash and cash equivalents represents cash at bank.

Statement of Changes in Equity

for the year ended 31 August 2016

	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 2015	7,874	32,940	37	1,319	204,321	10,684	257,175
Total comprehensive income:							
Return for the year	—	—	—	—	71,696	2,966	74,662
Transactions with owners recognised directly in equity:							
Buyback of ordinary shares†	(21)	—	21	—	(3,406)	—	(3,406)
Dividend paid in the year‡	—	—	—	—	—	(3,612)	(3,612)
Transfer of warrant reserve to share premium*	—	1,319	—	(1,319)	—	—	—
Balance at 31 August 2016	**7,853**	**34,259**	**58**	**—**	**272,611**	**10,038**	**324,819**

* As approved by the Board on 15 December 2015. † See Note 12. ‡ See Note 6.

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
Total comprehensive income:							
Return for the year	—	—	—	—	(26,876)	4,929	(21,947)
Transactions with owners recognised directly in equity:							
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

Share premium account

The share premium represents the difference between the nominal value of new ordinary shares issued and the consideration the Company receives for these shares. This account is non-distributable.

Capital redemption reserve

The capital redemption reserve represents the nominal value of ordinary shares bought back for cancellation. This reserve is non-distributable.

Warrant reserve exercised

The warrant reserve represents proceeds from the issue of warrants. As all warrants have been exercised, the Board approved the transfer of the warrant reserve to the share premium account on 15 December 2015. This reserve is non-distributable.

Capital reserve

Gains and losses on the realisation of investments, realised exchange differences of a capital nature and returns of capital are accounted for in this reserve. Increases and decreases in the valuation of investments held at the year end and unrealised exchange differences of a capital nature are also accounted for in this reserve. The articles of the Company stipulate that this reserve is non-distributable. However, subject to a change to the Company's articles approved by shareholders, this reserve could be made distributable should the need arise.

Revenue reserve

Any surplus/deficit arising from the net revenue return for the year is taken to/from this reserve. This reserve is distributable to shareholders by way of dividend.

Accounting Policies

Basis of accounting

(a) The Scottish Oriental Smaller Companies Trust plc is a public company limited by shares, incorporated and domiciled in Scotland, and carries on business as an investment trust. Details of the Company's registered office can be found in the 'Company Information' section, inside the back cover.

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, UK Generally Accepted Accounting Practice ("UK GAAP"), including FRS 102, and the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in November 2014 (the "new SORP") which superseded the SORP issued in January 2009.

The Company has adopted FRS 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland' for its financial year ending 31 August 2016. Following the adoption of FRS 102 and the new SORP, there have been no changes to the Company's accounting policies and no restatement of the Company's Income Statement, Statement of Financial Position (previously called the Balance Sheet), Cash Flow Statement, or Statement of Changes in Equity (previously called the Reconciliation of Movements in Shareholders Funds) at the transition date of 1 September 2014.

In order to better 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 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. 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. Interest on securities is accounted for on a time apportioned basis so as to reflect the effective yield on the investment.

(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.

Financial Instruments

(g) The Company has elected to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Accounting Policies – continued

(h) Financial assets and liabilities are recognised in the Company's Statement of Financial Position when it becomes party to the contractual provisions of the instrument.

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

(j) Equities include ordinary shares and warrants.

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

(l) Debtors and creditors do not carry any interest, are short term in nature, and are stated as nominal value less any allowance for irrecoverable amounts as appropriate. This is deemed to be the recoverable amount for debtors and the settlement amount for creditors.

(m) Long-term borrowings are initially measured at proceeds less transaction costs and subsequently measured at amortised cost using the effective interest method. 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.

Foreign currency

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

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

Dividends

(p) 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

(q) Current tax payable is based on taxable profit for the year. In accordance with the SORP, any tax relief on expenses is allocated between capital and revenue on the marginal basis using the Company's effective rate of corporation tax for the year.

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.

Significant judgements and estimates

(r) The preparation of the Company's financial statements requires the directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods. There have been no significant judgements, estimates or assumptions for the current or preceding financial year.

Notes on the Accounts

1. Income

Income from investments relates to dividends. Other income relates to bank deposit interest.

2. Investment Management Fee

	2016 £000	2015 £000
Investment management fee	**2,110**	2,136
Performance fee	–	107
	2,110	2,243

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 terminated its investment management agreement with First State Investment Management (UK) Limited and appointed First State Investments (UK) Limited as its Alternative Investment Fund Manager. First State Investments (UK) Limited 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. No performance fee (2015: £107,000) is due to be paid for the year ended 31 August 2016.

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

	2016 £000	2015 £000
Auditor's remuneration for :		
– audit services	22	18
– non-audit services in respect of taxation compliance	6	6
Directors' fees	88	84
Company secretarial fees	109	108
Bank, custodial and other expenses	506	563
	731	779

Company Secretary

PATAC Limited provides company secretarial, accounting and administrative services. The fee for the year ended 31 August 2016, which is payable quarterly in advance and linked to the movement in the Retail Price Index annually, was £109,000 (2015: £108,000). The appointment is terminable on three months' notice.

4. Finance Costs of Borrowing

	2016 £000	2015 £000
Costs in relation to bank borrowing	629	630

5. Taxation
(a) Analysis of charge in the year

	2016 £000	2015 £000
Current tax: overseas tax	304	242

(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:

	2016 £000	2015 £000
Return for the year before taxation	74,966	(21,705)
Total return for the year before taxation multiplied by the standard rate of corporation tax of 20.00% (2015: 20.58%)	14,993	(4,467)
Effect of:		
Capital returns not subject to corporation tax	(14,339)	5,509
Non-taxable income	(1,331)	(1,775)
Overseas tax	304	242
Unutilised management expenses	677	733
Total tax charge for the year	304	242

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 £4,748,000 (2015: £4,606,000) at 31 August 2016 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

	2016 £000	2015 £000
Dividends paid in the period:		
Dividend of 11.50p per share paid 22 January 2016 (2015 – 11.50p)	**3,612**	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.

	2016 £000	2015 £000
Income available for distribution	**2,966**	4,929
Proposed dividend for the year ended 31 August 2016 – 11.50p payable 20 January 2017 (2015 – 11.50p)	**(3,567)**	(3,612)
Amount transferred (from retained income)/to revenue reserve	**(601)**	1,317

7. Return per Ordinary Share

	2016 Revenue p	2016 Capital p	2016 Total p	2015 Revenue p	2015 Capital p	2015 Total p
Net return per share	**9.50**	**229.72**	**239.22**	15.58	(84.95)	(69.37)

	2016	2015
Revenue return	**£2,966,000**	£4,929,000
Capital return	**£71,696,000**	(£26,876,000)
Weighted average ordinary shares in issue	**31,210,771**	31,638,801

There are no dilutive or potentially dilutive shares in issue.

Notes on the Accounts – continued

8. Equity Investments

	£000
Cost at 31 August 2015	215,744
Unrealised appreciation	27,426
Valuation at 31 August 2015	243,170
Purchases at cost*	79,057
Sales – proceeds*	(94,385)
Sales – realised gains on sales	14,322
Unrealised appreciation on investments in the year	55,573
Valuation at 31 August 2016	297,737
Cost at 31 August 2016	214,738
Closing unrealised appreciation	82,999

Gains on Investments

Realised gains on sales	14,322
Unrealised gains on the fair value of investments during the year	55,573
	69,895

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 £208,000 (2015: £137,000) on the purchase of investments and £354,000 (2015: £150,000) on the sale of investments.

9. Debtors

	2016 £000	2015 £000
Sales awaiting settlement	**6,109**	2,538
Accrued income	**999**	731
Sundry debtors	**350**	–
Overseas tax recoverable	**–**	43
	7,458	3,312

10. Creditors (amounts falling due within one year)

	2016 £000	2015 £000
Purchases awaiting settlement	**6,957**	504
Management fee payable	**609**	483
Interest due on loan	**27**	29
Other creditors	**135**	153
Performance fee	**–**	107
Stamp duty payable on share buybacks	**–**	5
	7,728	1,281

Notes on the Accounts – continued

11. Creditors (amounts falling due after one year)	**2016 £000**	2015 £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 and fully paid capital is £7,853,416 (2015: £7,873,666) represented by 31,413,663 ordinary shares of 25p each (2015: 31,494,663). During the year the Company bought back 474,500 (2015: 148,987) ordinary shares at a total cost of £3,406,000 (2015: £1,060,000), of which 81,000 ordinary shares were cancelled. The Company held 393,500 ordinary shares in Treasury at the year end (2015: nil), being 1.3% of share capital, with a nominal value of £98,375 (2015: £nil). Since the year end the Company has bought back a further 10,000 ordinary shares to be held in Treasury at a cost of £95,000.

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 17 and 18.

13. Net Asset Value per Ordinary Share

Net assets per share are based on total net assets of £324,819,000 (2015: £257,175,000) divided by 31,020,163 (2015: 31,494,663) ordinary shares of 25p each in issue (excludes shares held in Treasury).

14. Cash Flow Statement **Reconciliation of total return on ordinary activities before finance costs and tax to net cash outflow before dividends, interest, purchases and sales**	**2016 £000**	2015 £000
Net return on activities before finance costs and taxation	**75,595**	(21,075)
Net (gains)/losses on investments	**(69,895)**	28,037
Currency gains	**(1,801)**	(1,268)
Dividend income	**(6,657)**	(8,623)
Interest income	**(83)**	(93)
Decrease in creditors	**–**	(802)
Increase in debtors	**(350)**	–
Net cash outflow from operations before dividends, interest, purchases and sales	**(3,191)**	(3,824)

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 17 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 other 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.

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.

During the year the Company held a £20 million five year fixed rate loan with National Australia Bank. The Company is also exposed to 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 at 31 August are shown below.

Interest Rate Risk Profile

	2016 £000	2015 £000
Fixed rate bank loan – Sterling denominated	**20,000**	20,000

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 £137,000 (2015: £60,000). 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 2016. 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.

Notes on the Accounts – continued

Foreign Currency Risk Exposure by Currency of Denomination

	31 August 2016			31 August 2015		
	Overseas investments £000	Net monetary assets £000	Total currency exposure £000	Overseas investments £000	Net monetary assets £000	Total currency exposure £000
Indian rupee	76,178	203	76,381	59,322	2,165	61,487
Hong Kong dollar	66,187	–	66,187	60,222	101	60,323
Taiwanese dollar	42,853	784	43,637	31,637	393	32,030
Singapore dollar	40,618	202	40,820	41,769	1,017	42,786
US dollar	–	19,303	19,303	–	18,601	18,601
Thai baht	15,608	24	15,632	10,676	63	10,739
Indonesian rupiah	15,271	(819)	14,452	8,531	–	8,531
Korean won	11,930	–	11,930	12,629	–	12,629
Philippine peso	10,265	–	10,265	3,300	(20)	3,280
Sri Lankan rupee	9,678	(101)	9,577	9,745	–	9,745
Malaysian ringgit	8,025	–	8,025	5,339	–	5,339
Vietnamese dong	1,124	–	1,124	–	–	–
Total foreign currency	297,737	19,596	317,333	243,170	22,320	265,490
Sterling	–	7,486	7,486	–	(8,315)	(8,315)
Total currency	297,737	27,082	324,819	243,170	14,005	257,175

Currency Risk Sensitivity

At 31 August 2016, 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 2015.

	2016 £000	2015 £000
Indian rupee	3,819	3,074
Hong Kong dollar	3,309	3,016
Taiwanese dollar	2,182	1,602
Singapore dollar	2,041	2,139
US dollar	965	930
Thai baht	782	537
Indonesian rupiah	723	427
Korean won	597	631
Philippine peso	513	164
Sri Lankan rupee	479	487
Malaysian ringgit	401	267
Vietnamese dong	56	–
Total	15,867	13,274

Notes on the Accounts – continued

15. Risk Management, Financial Assets and Liabilities – continued

Other Price Risk

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

Other Price Risk Sensitivity

If market values at the Balance Sheet date had been 10 per cent higher or lower with all other variables remaining constant, the return attributable to ordinary shareholders for the year ended 31 August 2016 would have increased/(decreased) by £29,773,700 (2015 increased/(decreased) by £24,317,000) 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 49.

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

		2016			2015	
	3 months or less £000	**3 to 12 months £000**	**More than 12 months £000**	3 months or less £000	3 to 12 months £000	More than 12 months £000
Bank loan	**184**	**470**	**21,225**	186	472	21,852
Amount due to brokers	**6,957**	**–**	**–**	504	–	–
Other creditors and accruals	**744**	**–**	**–**	641	–	–
Performance fee accrued	**–**	**–**	**–**	107	–	–
	7,885	**470**	**21,225**	1,438	472	21,852

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.

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

Notes on the Accounts – continued

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 August 2016 was as follows:

	2016		2015	
Current assets	**Balance sheet £000**	**Maximum exposure £000**	Balance sheet £000	Maximum exposure £000
Receivables	7,458	7,458	3,312	3,312
Cash at bank	47,352	47,352	31,974	31,974
	54,810	54,810	35,286	35,286

Financial Instruments Measured at Fair Value

As at 31 August 2016	Level 1 £000	Level 2 £000	Level 3 £000	**Total £000**
Listed equities	297,737	–	–	297,737
Total financial instruments	297,737	–	–	297,737

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

The tables above provide an analysis of financial assets and financial liabilities 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 and liabilities is described below. The Company has early adopted 'Amendments to FRS102: Fair Value Hierarchy Disclosures', issued by the Financial Reporting Council in March 2016, for the purpose of this hierarchy disclosure.

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 (2015: £15,000). 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.

Notes on the Accounts – continued

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 0.97 and 1.06 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 Investments, Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB on 13 December 2016 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 2016.
2. To approve the dividend of 11.50 pence per ordinary share of 25 pence each in the capital of the Company.
3. To re-elect Anne West, as a Director.
4. To re-elect James Ferguson, who retires from office annually, as a Director.
5. To re-elect Alexandra Mackesy, who retires from office annually, as a Director.
6. To re-elect Dr Janet Morgan, who retires from office annually, as a Director.
7. To re-appoint Ernst & Young LLP, Chartered Accountants and Statutory Auditor, as Auditor and to authorise the Directors to fix their remuneration.
8. To approve the Directors' Remuneration Report within the Report and Accounts for the financial year ended 31 August 2016.
9. 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 £775,254, (being approximately 10 per cent of the nominal value of the issued share capital as at 14 October 2016) 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.

10. That, subject to the passing of resolution number 9 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 9 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 £775,254 (being approximately 10 per cent of the nominal value of the issued share capital of the Company (excluding treasury shares) as at 14 October 2016).

11. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be 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 4,649,900 or if less the number of ordinary shares representing 14.99 per cent of the Company's issued share capital (excluding treasury shares) at the date of the passing of this resolution;

(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 11, 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.

12. 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: 14 October 2016 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 9 December 2016 ("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 9 December 2016. 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 Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB until the conclusion of the meeting.

(10) As at close of business on 14 October 2016, the Company's issued share capital comprised 31,413,663 ordinary shares of 25p each of which 403,500 ordinary shares are held in Treasury. 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 14 October 2016 is 31,010,163.

(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 October or 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 PATAC 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

Investment Manager
First State Investment Management (UK) Limited
23 St Andrew Square
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(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

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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
PATAC Limited
10 St Colme Street
Edinburgh EH3 6AA

Registrar
Computershare Investor Services plc
The Pavilions, Bridgwater Road,
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Auditor
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Ten George Street
Edinburgh EH2 2DZ

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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