The Scottish Oriental
Smaller Companies Trust plc

Annual
Report and Accounts 2017

2017

The **Scottish Oriental** Smaller Companies Trust plc

Contents

Annual Report and Accounts 2017

Financial Highlights

Total Return Performance *for the year ended 31 August 2017*

Net Asset Value (cum-income)	15.7%	MSCI AC Asia ex Japan Index (£)	27.2%
Share Price	19.4%	MSCI AC Asia ex Japan Small Cap Index (£)	15.7%
Dividend Maintained at 11.5p per share		FTSE All-Share Index (£)	14.3%

Summary Data *at 31 August 2017*

Shares in issue	30,960,163†	Shareholders' Funds	£369.3m
Net Asset Value per share	1,192.68p	Market Capitalisation	£330.2m
Share Price	1,066.50p	Share Price Discount to Net Asset Value	10.6%

† Excludes shares held in Treasury.

Comparative Indices

Since 2003 the Directors have used the Morgan Stanley Capital International AC Asia ex Japan Index to measure the Company's performance, which covers the relevant markets with the exception of Bangladesh, Sri Lanka and Vietnam. 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 Company in March 1995.

For comparative purposes we are also displaying the Morgan Stanley Capital International AC Asia ex Japan Small Cap Index. This Index is currently made up of companies with a market capitalisation of between US$13m and US$3,573m. The range does not exactly match that of the Company, which has no lower limit and which invests mainly in companies with a market capitalisation of under US$1,500m at the time of first investment. Nevertheless, it gives a useful indication of the performance of smaller companies in Asia over recent years.

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

Chairman's Statement

Over the 12 months to August, the Company's Net Asset Value per share rose by 15.7 per cent in total return terms, while the 'comparative indices', MSCI AC Asia ex Japan Index and MSCI AC Asia ex Japan Small Cap Index, rose by 27.2 per cent and 15.7 per cent, respectively. The difference between the two comparative indices is attributable to the strong performance of larger companies, specifically Chinese and Korean Information Technology stocks. We would stress that the Company is not invested with regard to a particular benchmark and these indices are shown to provide some context. The share price increased in total return terms by 19.4 per cent as the discount narrowed. A performance fee was not earned this year.

The income per share was 6.77p compared to 9.50p last year. We are proposing an unchanged dividend of 11.5p. The shortfall will be taken from the revenue reserve, as set out on page 51, reflecting our policy of using the reserve when necessary. At the beginning of June we used some of the Company's cash reserves to repay the borrowing of £20 million, which was at a fixed rate until 2019. After breakage costs, there is a net saving of £732,000 over the remaining term of the loan, which will benefit the revenue account in future. As you can see from our managers' report on page 4, they are not finding enough attractive opportunities at present to justify gearing up the portfolio.

During the year, the Company bought back 60,000 ordinary shares, all of which were held in Treasury at year end. 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.

The cash flow statement on page 44 shows that the turnover within the portfolio was comparatively high this year. This included a further increase in our Indian Subcontinent holdings to 32.8 per cent from 26.6 per cent. Our manager continues to find smaller companies with strong growth prospects within the Indian Subcontinent. A further cause of portfolio turnover has been the reduction in the number of holdings, 67 investments at year end compared to 76 last year. A number of companies were sold where the manager saw relatively weak earnings growth. The portfolio is now more focused on a smaller number of faster growing companies.

In April we announced changes in our management arrangements as follows:

'Wee-Li Hee, the lead portfolio manager for The Scottish Oriental Smaller Companies Trust plc, ("the Company") is due to return from maternity leave in July. In discussion with the First State Stewart Asia management team and the Board of Scottish Oriental, Wee-Li has expressed a preference to step back from lead portfolio manager responsibility for the Company.

Vinay Agarwal has been managing the Company's portfolio during Wee-Li's maternity leave and will assume the role of lead portfolio manager on a permanent basis with immediate effect. On return from maternity leave, Wee-Li will assume the role of co-portfolio manager for the Company. Scott McNab will remain deputy manager. Martin Lau will no longer have a formal role with the Company but will continue to provide company analysis and oversight in his role as joint managing partner of the First State Stewart Asia team.'

Janet Morgan is retiring from the Board at the Annual General Meeting this year. She was one of the founding Directors and the Company has benefited consistently from her advice over the last 22 years. We thank her for her many astute contributions and wish her well. As announced recently, we have appointed Jeremy Whitley and Andrew Baird as Directors. Both of them have considerable global investment experience, particularly in the Asia Pacific region, and we welcome them. More details are shown on page 17.

Our investments represent reasonable value, the historic price earnings ratio being 21 times with expected earnings growth of 10 per cent in the current year and a 2.1 per cent historic dividend yield. However, our managers' caution is reflected in having 8.4 per cent in cash at the year end. We are optimistic about prospects for our holdings and we will use the cash reserves to add to them if prices weaken.

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

James Ferguson
Chairman
30 October 2017

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 ("FSSA") 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.

Vinay Agarwal
Lead Manager

Vinay Agarwal is a Portfolio Manager at First State Stewart Asia. Vinay joined the FSSA team in July 2011, is based in Singapore, and is a Director of First State Stewart Asia. With more than 14 years of investment management experience, Vinay is the Lead Manager of the First State Indian Subcontinent 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.

Wee-Li Hee
Co-Manager

Wee-Li Hee is a Portfolio Manager at First State Stewart Asia. Wee-Li has more than 15 years of investment experience, with a focus on Asia Pacific equities. She joined the FSSA team in April 2002 and is based in Edinburgh. Wee-Li graduated from the University of Leeds in 2000 with a Bachelor of Science (Hons) in Accounting with Information Systems and gained a Masters Degree in Law and Accounting from the London School of Economics and Political Science in 2001. She is also a CFA charterholder.

Scott McNab
Deputy Manager

Scott is a Senior Investment Analyst at First State Stewart Asia. 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's 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 86,000 shares in the Company.

Portfolio Managers' Report

Summary

During the year ending 31 August 2017, all Asian equity markets rose (measured in sterling) with the exception of the Philippines and Pakistan. After initial disbelief, markets responded positively to the election of Donald Trump in November 2016, expecting his presidency to be pro-growth. Global stock markets have risen, and in Asia, initial concerns that President Trump would be highly protectionist were quickly put to one side. The Federal Reserve increased rates in December and then again in March and June. As expectations for the speed of further rises declined, the US dollar weakened in 2017. Sterling continued to weaken into the autumn following the Brexit vote but has since rebounded and gained modestly against the US dollar.

The oil price has been relatively stable, with supply discipline from some of the larger producers countered by an increase in production of shale oil in the US when prices rise. Gold weakened in the latter half of 2016 but then strengthened in 2017, initially due to rising inflation expectations. These expectations diminished as 2017 progressed but gold continued to rise as the perilous situation on the Korean peninsula meant investors sought protection against a worst case outcome.

Scottish Oriental generated strong absolute returns over the year. However, the Company significantly underperformed the MSCI AC Asia ex Japan Index. Two factors caused this underperformance. The first was the difference in performance between smaller and larger companies with the performance of larger companies being driven by Chinese and Korean Information Technology stocks. The second was Scottish Oriental's country positioning with the Company being relatively heavily invested in South East Asia (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) and relatively lightly invested in North Asia (China, Hong Kong, Taiwan and South Korea). South East Asian companies have been much weaker than their North Asian counterparts over the past year with those in the North more exposed to the cyclical rebound in the global economy.

Although interest rates have increased in the US, a recent moderation in inflation has reduced pressure on Asia's central banks to raise rates, which has allowed domestic monetary policies to remain accommodative. Most Asian countries have experienced falling exports for the last two years, but there are signs export growth has now resumed. This, combined with various government-led infrastructure programmes, is resulting in a tentative return to investment.

The improved growth outlook appears to be priced into stock market valuations – particularly for the quality companies we favour. When we meet with companies, we are being told that volume growth is weak and it is difficult to increase prices given the lack of inflation expectations. Earnings growth has improved but in many cases this has been because of falling input costs which, in our view, is not sustainable. Debt levels in Asia are high, and getting higher. This will act as a significant dampener on Asia's economies when interest rates eventually rise. In the meantime, cheap money has lowered the cost of capital thereby increasing competition.

We continue to focus on the strength of company balance sheets and have sold some of the more leveraged holdings rather than giving their management teams the benefit of the doubt. It is also no coincidence that some of our larger weightings are in India, Indonesia and the Philippines. Given the size of their economies, these three countries have relatively low debt. Recent growth in these domestically-focused countries has come without notable increase to this debt. We believe the companies in the portfolio are well positioned to benefit from the growth that Asia offers and we would expect these companies to become bigger businesses in the years to come. The Company has relatively high cash levels and, while we would like to deploy these funds into such companies, we would prefer to make investments at more reasonable valuations, where we consider the risk-reward payoff to be more attractive.

Vinay Agarwal
Wee-Li Hee
Scott McNab
First State Investment Management (UK) Limited, Investment Manager
30 October 2017

Portfolio Managers' Report – continued

Country Allocation at 31 August 2017 *(based on geographical area of activity)*

Country/Region	Scottish Oriental %	MSCI* %	MSCI Small Cap† %
China	9.5	33.9	22.8
Hong Kong	7.2	11.6	7.9
Taiwan	11.4	13.8	19.9
Greater China	28.1	59.3	50.6
Indonesia	8.1	2.7	2.5
Malaysia	3.0	2.6	3.4
Philippines	7.5	1.3	1.1
Singapore	5.3	4.3	5.5
Thailand	2.4	2.5	3.9
Vietnam	1.1	0.0	0.0
South East Asia	27.4	13.4	16.4
Bangladesh	1.4	0.0	0.0
India	25.5	10.2	15.0
Pakistan	1.0	0.1	0.9
Sri Lanka	4.9	0.0	0.0
Indian Subcontinent	32.8	10.3	15.9
South Korea	3.3	17.0	17.1
Net current assets	8.4	0.0	0.0
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 2017*

Country	Sterling %	Local Currency %
China	37.5	36.2
Hong Kong	23.0	22.0
Taiwan	30.9	22.4
Indonesia	11.2	10.0
Malaysia	4.2	7.9
Philippines	(4.7)	2.9
Singapore	24.3	21.9
Thailand	15.3	8.8
Vietnam	3.1	3.3
Bangladesh	15.4	16.8
India	19.4	12.1
Pakistan	(7.0)	(8.1)
Sri Lanka	5.4	8.9
South Korea	26.6	25.9
*MSCI**	27.2	24.5

*Morgan Stanley Capital International AC Asia ex Japan Index

Portfolio Managers' Report – continued

Greater China

China was the best performing market with fears of a weakening currency and capital outflows abating during the year. The implementation of various capital controls has been effective with foreign exchange reserves stabilising and the currency strengthening. Economic growth has exceeded expectations and producer price inflation has turned positive after several years of exerting deflationary pressure. The government appears to be doing a reasonable job of managing excess industrial capacity and credit growth has moderated.

Scottish Oriental's exposure to China fell significantly over the year. We exited six holdings – nitrogenous fertiliser producer China Bluechemical; fabric producer Luthai Textile; shipping container manufacturer Singamas Container; handbag and leather goods manufacturer Sitoy; camera lens and module producer Sunny Optical; and infant formula producer Yashili. China Bluechemical and Singamas Container were sold on rebounds in their share prices. Luthai Textile and Yashili were sold on growth concerns. Sitoy was sold as we became increasingly concerned that management is being distracted from its attempts to build a branded retail business. Sunny Optical was sold on expensive valuations.

In contrast, we only purchased one new holding in China – Uni-President China, a manufacturer of beverages and instant noodles.

Hong Kong's economy improved with apartment prices buoyant despite various policy measures introduced to halt price rises. Retail spending and exports also resumed growth. This has seen a reduction in unemployment and an improvement in sentiment. An increasingly interventionist mainland China has raised questions over the integrity of the territory's Basic Law.

The Company's exposure to Hong Kong increased during the year with the purchase of restaurant operator Fairwood Holdings and bus company Kwoon Chung Bus. Both these companies show that it is still possible to find growth in Hong Kong's domestic economy.

Taiwan's stock market performed strongly over the year driven by its large technology sector. Relations with mainland China have deteriorated since the election of President Tsai Ing-wen evidenced by a significant decline in tourist arrivals from China. China has also sustained its efforts to isolate the island diplomatically. 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 was reduced over the year. Five positions were sold – industrial PC manufacturer Axiomtek; testing equipment manufacturer Chroma ATE; industrial barcode printer manufacturers Godex International and TSC Auto ID Technology; and garment manufacturer Makalot Industrial. Chroma ATE was sold following strong share price performance whereas the other four companies were sold on growth concerns.

South East Asia

Indonesia's domestic economy was subdued with the government's ambitious infrastructure plans taking longer to implement than targeted. Low inflation allowed the central bank to cut its policy rate again in 2017 which may provide a modest boost to growth. A significant disappointment was the jailing on blasphemy charges of the former mayor of Jakarta, which has unnerved the significant Chinese business community.

Scottish Oriental's exposure to Indonesia increased during the year primarily as a result of additions to existing holdings but also through the purchase of Astra Otoparts, a manufacturer and distributor of automotive parts.

Portfolio Managers' Report – continued

The **Malaysian** stock market performed poorly but there are indications that sentiment has reached its nadir with improving domestic demand; a return of foreign portfolio flows; infrastructure spending announcements; and significant Chinese investment pledges. Having survived the financial controversy regarding the strategic development company, 1Malaysia Development Berhad, the government is likely to focus its efforts on further stimulating the economy as a general election is due to take place within the next year.

The Company's Malaysian weighting is relatively unchanged over the year. One new holding was added – cement producer Lafarge Malaysia; and one position was sold, retailer Aeon Company.

The **Philippine** stock market fell when measured in sterling with the prospect of a current account deficit for 2017 seeing the currency weaken. Nevertheless, the economy continued to perform strongly with consumer confidence improving; remittances and outsourcing revenues rising; and infrastructure spending also providing a fillip to growth. President Duterte has been a wildcard but his high approval ratings domestically mean he is unlikely to change his behaviour.

Scottish Oriental's exposure to the Philippines increased over the year through additions to its existing holdings and the purchase of Concepcion Industrial, the country's leading manufacturer of air conditioners and refrigerators.

Singapore saw an improvement in its economy which benefited from the stronger external environment. The domestic economy has remained more muted, however, with weak employment growth meaning little wage inflation and poor sentiment. Private residential property prices continued to fall and the government removed some of its property cooling measures during the year.

The Company markedly reduced its exposure to Singapore over the year, with seven positions exited. Bukit Sembawang Estates and Tan Chong International were sold as we believed it was unlikely that the value in these companies would be realised for shareholders. M1 and Sheng Siong Group were sold on concerns about increasing competition. Hong Leong Finance was sold as it has found it increasingly difficult to grow; iFast on concerns over management's overseas strategy; and Tat Hong as it carried too much debt which management seemed unfocused on paying down.

Thailand's economy has been subdued with poor sentiment and high household indebtedness curtailing domestic spending. Investment has also been weak with government spending on infrastructure not meeting expectations. However, exports have been strong and the nation's high current account surplus has resulted in upward pressure on the baht, ironically leading to fears about falling export competitiveness. The death of King Bhumibol in October 2016 has left a void, and with the army showing little indication that it is willing to give up its grip on power, we are not expecting democratic elections.

The overall exposure to Thailand fell with Hana Microelectronics sold on expensive valuations and Somboon Advance Technology sold on growth concerns.

Vietnam was weak over the year. Following the election of Donald Trump, the US did not ratify the Trans-Pacific-Partnership, whilst a public sacking of a senior politburo official and downgrades to GDP forecasts have also impacted sentiment negatively. The government has clamped down on dissent, cut policy rates for the first time in three years, and increased its target for credit growth in response. The economy has many positives but care needs to be taken by the government to ensure past mistakes are not repeated.

Scottish Oriental added to its Vietnam position during the year with the purchase of conglomerate REE Corp.

Portfolio Managers' Report – continued

Indian Subcontinent

Bangladesh's economy has performed strongly with GDP growth of almost 7 per cent. Until recently, remittances from its overseas workers, combined with garment industry exports, allowed the country to run a current account surplus. However, a recent jump in imports has seen the current account swing into deficit which will require monitoring. An additional issue is the low tax take given the persistent government deficit. The government attempted to address this by unifying the VAT rate in its June budget but this simplification has since been suspended which is a backwards step.

Scottish Oriental made its first ever investment in Bangladesh during the year in mortgage provider Delta Brac Housing Finance, which operates in a very under-penetrated sector.

India's economy slowed during the year. In November 2016, the government surprised with a demonetisation of the rupee that saw 86 per cent of the notes in issue effectively outlawed overnight in an attempt to reduce the prevalence of so-called black money in the informal sector. An overall GST (goods and services tax) was introduced in July, replacing multiple local and central taxes. Both measures should benefit India in the long-term as foundations for sustainable growth, but acted as temporary breaks on the economy. Election wins in some key states cemented prime minister Narendra Modi's grip on power but with this strengthened hand comes an increased risk of Hindu nationalism.

During the year, Scottish Oriental increased its overall exposure to India. Seven new stocks were purchased – courier company Blue Dart Express; cancer treatment specialist Healthcare Global Enterprises; HeidelbergCement India; Domino's Pizza franchise holder Jubilant Foodworks; Mahindra CIE which predominantly manufactures auto components; consumer goods company Jyothy Laboratories; and department store operator Shoppers Stop. Six companies were sold from the portfolio. Three of these were sold on expensive valuations – city gas supplier Mahanagar Gas; consumer goods company Marico; and conglomerate Tube Investments. Information Technology outsourcers Hexaware Technologies and Tata Consultancy Services were sold on a dull growth outlook and branded tea producer Tata Global Beverages was sold following a boardroom coup at its parent, which, in our opinion, made the likelihood of management turning the business around less likely.

After a promising start **Pakistan's** stock market fell over the last year, responding negatively to the forced resignation of prime minister Nawaz Sharif on corruption charges. Its economy remains finely balanced having completed an IMF programme in 2016. Although the fiscal deficit has fallen in recent years, it is now widening as is the current account deficit and there are concerns about a return to fiscal and monetary ill-discipline. More positively, consumer spending has been strong aided by improved security. Chinese investment should help improve some of Pakistan's creaking infrastructure whilst also boosting growth.

Scottish Oriental made its first ever investment in Pakistan during the year in auto assembler and retailer Indus Motors.

Sri Lanka had another tough year. The government has been carrying out a difficult balancing act – cutting expenditure and raising taxes to reduce the budget deficit, whilst trying to maintain growth levels. Interest rates were also raised to combat high inflation levels. Tax collections have improved but are behind target because of delays in the implementation of the 2017 budget proposals. An extended period of drought followed by floods added to pressure on the economy. Nevertheless, progress is being made in putting the country's finances on a sustainable footing.

The Company increased its exposure to Sri Lanka by purchasing conglomerate John Keells Holdings.

Portfolio Managers' Report – continued

South Korea

South Korea's stock market performed well, boosted by its large technology sector and despite a troubled year for the nation. President Park was impeached following a scandal surrounding bribes paid to her friend and "shaman advisor". The fallout led to Samsung heir Lee Jae-yong being arrested on charges of embezzlement, bribery and perjury and he was subsequently jailed. A diplomatic spat with China over South Korea's deployment of the American Terminal High Altitude Area Defense system led to an unofficial boycott of South Korean products by China. North Korea's increasingly bellicose behaviour further damaged sentiment.

Scottish Oriental's South Korean weighting was relatively unchanged over the year. Existing holdings were trimmed and two new holdings were added. Leeno Industrial is a producer of pins and sockets used in testing printed circuit boards and integrated circuits; and Vieworks is a provider of x-ray imaging technology.

Performance of individual equity holdings *for the year ending 31 August 2017*

Company	Country	Contribution Performance %	% of Shareholders' Funds (As of 31 Aug 2017)
Best			
Blue Star	India	1.4	2.7
Godrej Industries	India	1.4	1.6
Pacific Basin Shipping	Hong Kong	1.3	–
Godrej Properties	India	1.0	1.5
Jubilant Foodworks	India	1.0	2.4
Worst			
Tong Ren Tang	China	(0.5)	2.3
Raffles Medical Group	Singapore	(0.5)	1.4
M1	Singapore	(0.4)	–
Indoco Remedies	India	(0.4)	0.6
Delfi	Singapore	(0.4)	1.8

Blue Star, benefited from increasing demand for its air-conditioners and commercial refrigeration systems. **Godrej Industries** rose on strong share price performance from its subsidiary Godrej Properties as well as the expectation it will realise a significant gain when its agribusiness subsidiary Godrej Agrovet is listed. The share price of **Pacific Basin Shipping** rebounded as the market believed the outlook had improved in the commodity shipping sector. **Godrej Properties** is set to benefit from the introduction of GST in India which should favour the higher quality real estate developers. **Jubilant Foodworks** rose on the expectation of a successful turnaround following a change in management.

Tong Ren Tang was impacted by slowing growth in demand for its products but its brand remains one of the strongest in traditional Chinese medicine. **Raffles Medical Group** is incurring start-up losses as it gets closer to opening its Shanghai hospital. We are positive that this expansion will contribute meaningfully in the long term. **M1** has been hurt by increasing competition and as we did not see the situation improving we disposed of our M1 investment. **Indoco Remedies** received a US Food and Drug Administration warning letter regarding production standards and has also seen product launch delays and increased investment weigh on its recent earnings. **Delfi** has suffered from the weak consumer environment in Indonesia. We are monitoring both Indoco Remedies and Delfi closely.

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 25.5 per cent position. Consumer Discretionary accounted for 17.8 per cent of the portfolio, the largest sector weighting (see below). As at 31 August 2017, Scottish Oriental was invested in 67 different companies with the largest holding, SKF India, accounting for 3.0 per cent of the Portfolio (see page 12). The aggregate of the Company's ten largest holdings was 25.1 per cent.

Sector Allocation *at 31 August 2017*

Sector	%
Consumer Discretionary	17.8
Consumer Staples	13.7
	31.5
Industrials	16.5
Information Technology	9.4
Financials	9.3
Healthcare	7.3
Utilities	6.7
Materials	6.5
Real Estate	3.1
Telecommunication Services	1.3
	91.6
Net current assets	*8.4*
Net assets	**100.0**

Scottish Oriental's exposure to the Consumer Discretionary sector rose over the year predominantly as a result of the purchase of seven new holdings – Astra Otoparts, Fairwood Holdings, Indus Motors, Jubilant Foodworks, Mahindra CIE, Shoppers Stop and Texwinca Holdings. Several smaller positions were sold where we felt growth prospects were limited.

The Company's holdings in the Consumer Staples sector decreased over the period. Four companies were sold – Marico, Sheng Siong Group, Tata Global Beverages and Yashili. By contrast, only two new holdings were bought – Jyothy Laboratories and Uni-President China.

Scottish Oriental's position in the Industrials sector increased, owing to strong performance from investments such as Blue Star and Pacific Basin Shipping and establishing new positions in Blue Dart Express, Concepcion Industrial, John Keells Holdings, Kwoon Chung Bus, REE Corp and Voltronic Power, a producer of uninterruptible power supplies. Five positions were exited. Three of these – Pacific Basin Shipping, Singamas Container and Tube Investments – were sold following strong share price performance. The other two – Acset Indonusa and Tat Hong – were sold on balance sheet concerns.

Within the Information Technology sector, we have reduced our holdings in companies exposed to contract manufacturing including Axiomtek, Chroma ATE, Godex International, Hana Microelectronics, Hexaware Technologies, iFast, Sunny Optical, Tata Consultancy Services and TSC Auto ID Technology. Purchases included Leeno Industrial; cable and connector manufacturer Sinbon Electronics; and driver integrated circuit chip designer Sitronix Technology.

Exposure to the Financials sector increased with additions to some of the Company's existing holdings and the purchase of Delta Brac. One position, Hong Leong Finance, was sold.

Portfolio Review – continued

Scottish Oriental's Healthcare position increased slightly with the purchase of Healthcare Global Enterprises and Vieworks. Poor performance from the Company's existing holdings reduced the impact these new holdings had on the overall Healthcare weighting.

Exposure to the Utilities sector increased as a result of additions to existing holdings.

Overall exposure to the Materials sector was unchanged, with the reduction in existing holdings and the sale of China Bluechemical compensated for by the purchase of Heidelbergcement India and Lafarge Malaysia.

The Company's weighting in the Real Estate sector increased with the reclassification of Godrej Properties and Mahindra Lifespace from the Financials sector.

Scottish Oriental's weighting in the Telecommunication Services sector fell with the sale of M1 and also the sale of Indonesian mobile operator XL Axiata which has been finding it difficult to compete given the strength of the market leader.

Vinay Agarwal
Wee-Li Hee
Scott McNab
First State Investment Management (UK) Limited, Investment Manager
30 October 2017

Portfolio Review – continued

Ten Largest Equity Holdings *at 31 August 2017*

Company	Market	Value	% of Shareholders' Funds
SKF India	**India**	**£11,004,158**	**3.0%**

SKF India is the Indian subsidiary of the Sweden based SKF Group, which is a global leader in bearings, seals, mechatronics and lubrication systems. The company is the largest bearing manufacturer in India with a market share of more than 25 per cent. Its products are used in numerous segments including the automotive industry, heavy industry, energy, industrial machinery, oil and gas, and food and beverage. SKF India's focus on quality and product innovation should see it continue to grow for the foreseeable future.

Towngas China	**China**	**£10,228,493**	**2.8%**

Towngas China, a subsidiary of Hong Kong & China Gas, operates a gas distribution business in China focusing on both 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. The company's scale and reputation for safety and quality service should allow it to benefit from the government's policy to increase the share of natural gas in China's energy mix.

Blue Star	**India**	**£10,015,340**	**2.7%**

Blue Star was founded in 1943 in India as an agency for international air-conditioning and refrigeration brands of global companies. It has since established its own portfolio of air-conditioning and refrigeration products as well as being the exclusive distributor for several multinational brands in India. It has also entered into large air-conditioning engineering, procurement and construction (EPC) projects which will grow with the industrialisation of the country. Family owned but professionally run, the company is set to benefit from both growing consumer demand and a developing Indian economy.

Vitasoy International	**Hong Kong**	**£9,186,323**	**2.5%**

Vitasoy produces and distributes a wide range of non-alcoholic beverages to the Australasian, Hong Kong, Singaporean and mainland Chinese markets. The company's two main brands are VITASOY, a soybean-based soft drink, and VITA, a range of fruit juices, teas, milk, soft drinks and water. The company has performed strongly in China which now generates almost half of the company's revenues. Management is innovative yet conservative.

China Banking	**Philippines**	**£9,134,587**	**2.5%**

Established in July 1920, China Banking Corp has its roots catering mainly to the Chinese-Filipino market with many of the established Chinese-Filipino families as some of its earliest borrowers. Arguably the bank was too conservative historically, but in recent years it has evolved to become a more modern, retail-focused bank and growth has improved accordingly. The well-respected Sy family is the controlling shareholder which provides comfort in the culture and oversight of the bank.

Portfolio Review – continued

Company	Market	Value	% of Shareholders' Funds
Jubilant Foodworks	**India**	**£9,037,450**	**2.4%**

Jubilant Foodworks is the largest quick service restaurant operator in India and is the exclusive franchisee for Domino's Pizzas for India, Nepal, Bangladesh and Sri Lanka as well as for Dunkin' Donuts in India. Having expanded aggressively for the past few years, the focus of the company is now on improving its margins. It has survived the onslaught of loss-making food delivery start-ups in India. These start-ups disappointed on service and are now struggling financially with a number of them becoming insolvent. This is easing pressure on salaries of lower level staff and seeing customers return to Domino's as it remains a reliable delivery specialist.

Uni-President China	**China**	**£8,686,863**	**2.3%**

Uni-President China produces instant noodles and beverages and it appears to be navigating the difficult Chinese market better than most. Having cut the number of its products back, it is now focusing on increasing margins through premium product launches and is driving sales growth by advertising as opposed to price promotions. The company has significant excess production capacity so is likely to have minimal capital expenditure requirements for the next few years which should see strong cash generation.

Concepcion Industrial	**Philippines**	**£8,507,524**	**2.3%**

Concepcion Industrial is the Philippines' leading manufacturer of air conditioners and refrigerators. The Concepcion family of RFM Corp controls the company and manages operations, dominating both the board and senior executive posts. Joint ventures with United Technologies, Electrolux and Midea provide leading technology and the company's extensive sales and servicing network both enables the company to retain existing and win new customers and acts as a significant barrier to entry for the competition.

Tong Ren Tang	**China**	**£8,465,604**	**2.3%**

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.

Manila Water Company	**Philippines**	**£8,425,501**	**2.3%**

Manila Water is a private water services utility company in the Philippines, majority-owned by the Ayala group. Since 1997 the company has operated the East Zone of Metro Manila (40 per cent of the capital city) under a long term concession agreement. Management's execution has been excellent; water availability has increased from 65 per cent to 99 per cent. The company's approach is appropriately long term, as evidenced by the attitude to risk, which has seen management avoid potential opportunities in China and India, where regulatory risk is high. The company is using cash flows to slowly grow elsewhere in the Philippines and regionally. The group's target is for half of profits to be generated outside its core concession by 2020.

Vinay Agarwal
Wee-Li Hee
Scott McNab
First State Investment Management (UK) Limited, Investment Manager
30 October 2017

List of Investments at 31 August 2017

	% of Shareholders' Funds
BANGLADESH (1.4%)	
Financials (1.4%)	
Delta Brac	1.4
CHINA (9.5%)	
Consumer Discretionary (2.1%)	
Asia Satellite Telecom	0.3
Minth	1.8
Consumer Staples (2.3%)	
Uni-President China	2.3
Healthcare (2.3%)	
Tong Ren Tang	2.3
Utilities (2.8%)	
Towngas China	2.8
HONG KONG (7.2%)	
Consumer Discretionary (2.0%)	
Texwinca Holdings	0.5
Fairwood Holdings	1.5
Consumer Staples (2.5%)	
Vitasoy International	2.5
Financials (1.9%)	
Aeon Credit Service	0.5
Public Financial	1.4
Industrials (0.8%)	
Kwoon Chung Bus Holding	0.8

	% of Shareholders' Funds
INDIA (25.5%)	
Consumer Discretionary (4.1%)	
Jubilant Foodworks	2.4
Mahindra CIE Automotive	0.5
Shoppers Stop	0.4
Suprajit Engineering	0.8
Consumer Staples (0.6%)	
Jyothy Laboratories	0.6
Healthcare (2.8%)	
Healthcare Global Enterprises	2.2
Indoco Remedies	0.6
Industrials (6.8%)	
Blue Dart Express	0.6
Blue Star	2.7
Container Corp of India	0.5
SKF India	3.0
Information Technology (1.4%)	
Mphasis	1.4
Materials (5.1%)	
Godrej Industries	1.6
HeidelbergCement India	1.3
Kansai Nerolac Paints	1.2
Linde India	1.0
Real Estate (3.1%)	
Godrej Properties	1.5
Mahindra Lifespace	1.6
Utilities (1.6%)	
Gujarat Gas	1.6

	% of Shareholders' Funds
INDONESIA (8.1%)	
Consumer Discretionary (5.0%)	
Astra Otoparts	1.6
Selamat Sempurna	1.4
Mitra Adiperkasa	2.0
Consumer Staples (1.6%)	
Hero Supermarket	1.6
Financials (1.5%)	
Bank OCBC NISP	1.5
MALAYSIA (3.0%)	
Consumer Discretionary (1.2%)	
APM Automotive	1.2
Industrials (0.4%)	
IJM Corporation	0.4
Materials (1.4%)	
Lafarge Malaysia	1.4
PAKISTAN (1.0%)	
Consumer Discretionary (1.0%)	
Indus Motors	1.0

List of Investments at 31 August 2017 – continued

	% of Shareholders' Funds
PHILIPPINES (7.5%)	
Financials (2.5%)	
China Banking	2.5
Industrials (2.3%)	
Concepcion Industrial	2.3
Information Technology (0.4%)	
Integrated Microelectronics	0.4
Utilities (2.3%)	
Manila Water Company	2.3
SINGAPORE (5.3%)	
Consumer Staples (3.9%)	
Delfi	1.8
Haw Par	2.1
Healthcare (1.4%)	
Raffles Medical Group	1.4
SOUTH KOREA (3.3%)	
Consumer Discretionary (0.7%)	
Hana Tour Service	0.7
Consumer Staples (1.3%)	
Amorepacific Group	1.3
Healthcare (0.8%)	
Vieworks	0.8
Information Technology (0.5%)	
Leeno Industrial	0.5

	% of Shareholders' Funds
SRI LANKA (4.9%)	
Financials (1.1%)	
Commercial Bank of Ceylon	1.1
Industrials (2.5%)	
Hemas Holdings	1.1
John Keells Holdings	1.4
Telecommunication Services (1.3%)	
Dialog Axiata	1.3
TAIWAN (11.4%)	
Consumer Discretionary (1.7%)	
Taiwan Familymart	1.7
Consumer Staples (1.5%)	
Standard Foods	1.5
Industrials (1.7%)	
Voltronic Power	1.7
Information Technology (6.5%)	
Lumax International	0.9
Posiflex Technologies	0.8
Sinbon Electronics	2.2
Sitronix Technology	1.2
Wistron NeWeb	1.4

	% of Shareholders' Funds
THAILAND (2.4%)	
Financials (0.9%)	
Aeon Thana Sinsap	0.9
Industrials (1.5%)	
Delta Electronics	1.5
VIETNAM (1.1%)	
Industrials (0.5%)	
REE Corp	0.5
Information Technology (0.6%)	
FPT	0.6

Ten Year Record

Capital

Year ended 31 August	Market Capitalisation £m	Shareholders' Funds £m	NAV p	Share Price p	Discount to NAV %
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
2017	330.19	369.26	1,192.68	1,066.50	10.6

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§
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
2017	6,431	2,097	6.77	11.50	0.99	0.99	91	100

* 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 2007 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
2007	100	100	100	100	100	100
2008	91	83	89	88	105	109
2009	109	104	94	77	120	130
2010	161	154	114	83	167	185
2011	179	191	115	86	179	196
2012	194	192	112	91	227	239
2013	233	234	120	105	229	250
2014	260	270	132	112	151	250
2015	237	230	117	105	245	250
2016	304	288	152	113	150	250
2017	346	340	188	125	107	250

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.

Andrew Baird joined the Board in June 2017. After a period with the Foreign and Commonwealth Office, Andrew worked for thirteen years at JP Morgan, culminating in a role as Head of Asian Equity Research and co-manager of the Asian Equities division in Hong Kong. He joined Goldman Sachs in 1998 as co-director of Asian Equity Research, followed by a senior management role in the European Equity Research department. On leaving Goldman Sachs in 2005 he co-founded Chayton Capital, an alternative investment management firm which he chaired until 2012. Since that time he has had a variety of non-executive roles in the investment management, social enterprise and charity sectors.

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 Schroder 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 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 and ScotGems plc, which is also managed by First State Investment Management (UK) Limited.

Jeremy Whitley joined the Board in March 2017. Following a twenty nine year investment career, Jeremy left full time employment at Aberdeen Asset Management at the end of March 2017, where he held the position of Head of UK and European equities since July 2009. Previous roles there include being a Senior Investment Manager on the Global Equities team as well as the Asian equities team, based in Singapore, where he was lead manager of the Edinburgh Dragon Trust. He began his investment career at SG Warburg & Co in 1988.

Strategic Report

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

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

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

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

Business and Status

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

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

Business Model and Strategy for Achieving Objectives

- We aim to maximise the rate of return with due regard to risk. Risk is principally contained by focusing on soundly managed and financially strong companies, and by ensuring that the portfolio is reasonably well diversified geographically and by sector at all times. Quantitative analysis demonstrating the diversification of the Trust's portfolio of investments is contained in the country allocation and sector allocation analysis within the Portfolio Managers' Report and Portfolio Review.

- While cultural, political, economic and sectoral influences play an important part in the decision-making process, the availability of attractively-priced, good quality companies with solid long-term growth prospects is the major determinant of investment policy.

- Our country weightings bear no relationship to regional stock market indices. We do not consider ourselves obliged to hold investments in any individual market, sector or company.

- Existing holdings are carefully scrutinised to ensure that our corporate performance expectations are likely to be met, and that market valuations are not excessive. Where otherwise, disposals are made.

- Strong emphasis is placed on frequent visits to countries of the Region and on meeting the management of those companies in which the 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 10 to 13 and the investments held at the year end are listed on pages 14 and 15.

Investment Manager

First State Investment Management (UK) Limited has been Investment Manager since 20 March 1995. In order to comply with the Alternative Investment Fund Managers Directive, with effect from 2 July 2014 the Company 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 ("AIFM"). 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 49.

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 54 to 57.

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 26.

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 six Directors. Three are women and three are men. The Company has no employees.

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

On behalf of the Board

PATAC Limited
Company Secretary
30 October 2017

Directors' Report

The Directors have pleasure in submitting their Annual Report and Accounts for the year to 31 August 2017.

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 19 January 2018. 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 2016 (per Balance Sheet)	10,038	32.4
Dividend paid for year ended 31 August 2016	(3,560)	(11.5)
Net revenue earned in the year ended 31 August 2017	2,097	6.8
Revenue reserve as at 31 August 2017 (per Balance Sheet)	8,575	27.7
Dividend proposed for year ended 31 August 2017	(3,560)	(11.5)
Revenue reserve as at 31 August 2017	5,015	16.2

Pence per share figures are based on the number of shares in issue at 31 August 2017

Borrowings

The Company repaid it's £20 million five year fixed rate loan with National Australia Bank Limited on 1 June 2017, using its cash resources. The loan was due to expire on 14 August 2019. Further information on the repayment of the loan is contained within the Chairman's Statement on page 2.

Share Capital and Share Buy Backs

The Company's capital structure consisted of 31,413,663 ordinary shares of 25p each at 31 August 2017.

The Company's buy back authority was last renewed at the Annual General Meeting ("AGM") on 13 December 2016 in respect of 4,649,900 ordinary shares of 25p each.

During the year the Company bought back 60,000 ordinary shares at a total cost of £541,000. The Company held 453,500 ordinary shares in Treasury at 31 August 2017.

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 30 October 2017 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	2,692,430	8.7%
Clients of BMO Global Asset Management	2,314,365	7.5%
Clients of Alliance Trust Savings	2,308,278	7.5%
Clients of Hargreaves Lansdown	2,062,346	6.7%
Clients of Rathbones	1,549,761	5.0%
Clients of Investec Wealth & Investment	1,547,476	5.0%
Clients of Charles Stanley	999,447	3.2%

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 have also carried out a robust assessment of the principal risks as noted in the Strategic Report on page 20 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 49 to 58.

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 18 to 20 and in note 15 to the Accounts on pages 54 to 58.

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 7 December 2017 is given on pages 59 to 62. The resolutions to be proposed include a resolution to approve the Directors' Remuneration Report which is set out on pages 27 to 29.

Resolution 10 to be proposed at the Annual General Meeting as an ordinary resolution will, if approved, increase the maximum limit on fees for Directors as set out in the Company's Articles of Association from £120,000 per annum to £200,000 per annum in aggregate. The Directors believe that this increase will provide the Company with additional flexibility to continue to attract and retain the high calibre of Directors required to oversee the Company. Further details of the Company's policy on Directors' remuneration is set out on page 27.

Resolutions 11 and 12 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 11 is in respect of £774,004 in nominal value of relevant securities, representing approximately 10 per cent of the issued ordinary share capital at 30 October 2017. The power to disapply pre-emption rights being sought under Resolution 12 is also in respect of £774,004 of equity securities representing approximately 10 per cent of the ordinary shares of the Company (excluding Treasury Shares) in issue on 30 October 2017. The authority under Resolutions 11 and 12, 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 13 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 4,640,928 ordinary shares, just under 15 per cent of the Company's issued share capital at 30 October 2017) 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 authority, which may be used to buy back shares either for cancellation or to be held in Treasury, will be used to purchase shares only if, in the opinion of the Directors, a purchase would be in the best interests of the shareholder as a whole. 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 13. There are no options outstanding over the Company's share capital.

Directors' Report – continued

Notice Period for General Meetings

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

The 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 14 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 Secretary's office as detailed on page 64 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

PATAC Limited
Company Secretary
30 October 2017

Report of the Audit Committee

Membership of the Audit Committee changed recently, following changes to the composition of the Board. Formerly consisting of the whole Board, it is now chaired by Alexandra Mackesy and comprises Andrew Baird, Dr Janet Morgan and Jeremy Whitley.

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, 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. Ernst & Young LLP ("EY") resigned as tax advisor in October 2016 and PricewaterhouseCoopers LLP was subsequently appointed as tax advisor to the Company. EY provided no non-audit services for the year ended 31 August 2017.

At the request of the Board, the Audit Committee considered whether the 2017 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 Audit Committee has assumed that the reader of the Annual Report and Accounts has a reasonable level of knowledge of the investment industry.

Auditor

EY was appointed as auditor 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 2017 is the fourth year for the current partner Susan Dawe.

The Audit Committee assessed the effectiveness of the audit, the quality of the team and comments 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 seven 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 Board addresses these risks by having the following processes in place. The Company's accounting policy for valuing investments is set out on page 46 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 (b) on page 46 and all investment dividends are reconciled to the projected dividend schedule each quarter by the Company Secretary, who will investigate any unexpected differences.

Alexandra Mackesy
Director
30 October 2017

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 on 7 December 2017.

Remuneration Committee

The Company has six non-executive Directors. The Board as a whole fulfils the function of a Remuneration Committee which is chaired by James Ferguson. 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. This policy will be put to Shareholders at the AGM on 7 December 2017. Thereafter, it is intended that this policy will continue for three years until the AGM in 2020, unless a revised policy is approved by Shareholders prior to that AGM.

The fees of the non-executive Directors are set within maximum limits as defined in the Company's Articles of Association, and may be amended from time to time subject to shareholder approval at a general meeting. The current aggregate limit on Directors' fees is £120,000 per annum. A resolution to increase the aggregate limit on Directors' fees to £200,000 per annum will be put to shareholders at the forthcoming AGM. The Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. The Directors' fees are not performance related.

Directors' Service Contracts

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

Annual Report on Remuneration

The Board carried out a review of the level of Directors' fees during the year. It was resolved to increase the level of the Chairman's fee from £28,000 to £29,400 per annum and Directors' fees from £20,000 to £21,000 each per annum, effective from 1 July 2017. In setting these rates, the Board considers the factors set out in the Policy on Directors' Remuneration above. The Board has not received any views from the Company's shareholders in respect of the levels of Directors' remuneration.

Directors' Remuneration Report – continued

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 34 to 41.

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 2017 ordinary 25p shares	31 August 2016 ordinary 25p shares
James Ferguson	284,860	284,860
Andrew Baird (appointed 28 June 2017)	–	–
Alexandra Mackesy	10,000	21,000
Dr Janet Morgan	3,600	3,600
Anne West	2,000	2,000
Jeremy Whitley (appointed 6 March 2017)	19,500	–

There were no changes to the above holdings between 31 August 2017 and 30 October 2017. 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 2017 (£)	Fees 2016 (£)
James Ferguson (Chairman)	28,238	28,000
Andrew Baird (appointed 28 June 2017)	3,677	–
Alexandra Mackesy	20,170	20,000
Dr Janet Morgan	20,170	20,000
Anne West	20,170	20,000
Jeremy Whitley (appointed 6 March 2017)	9,922	–
	102,347	88,000

Statement of Voting at Annual General Meeting

Voting on the resolutions to approve the Directors' Remuneration Report at the Company's AGM on 13 December 2016 was as follows:

Resolution	Votes For	Votes Against	Votes Withheld
Approve Directors' Remuneration Report	11,533,316	10,300	nil

Directors' Remuneration Report – continued

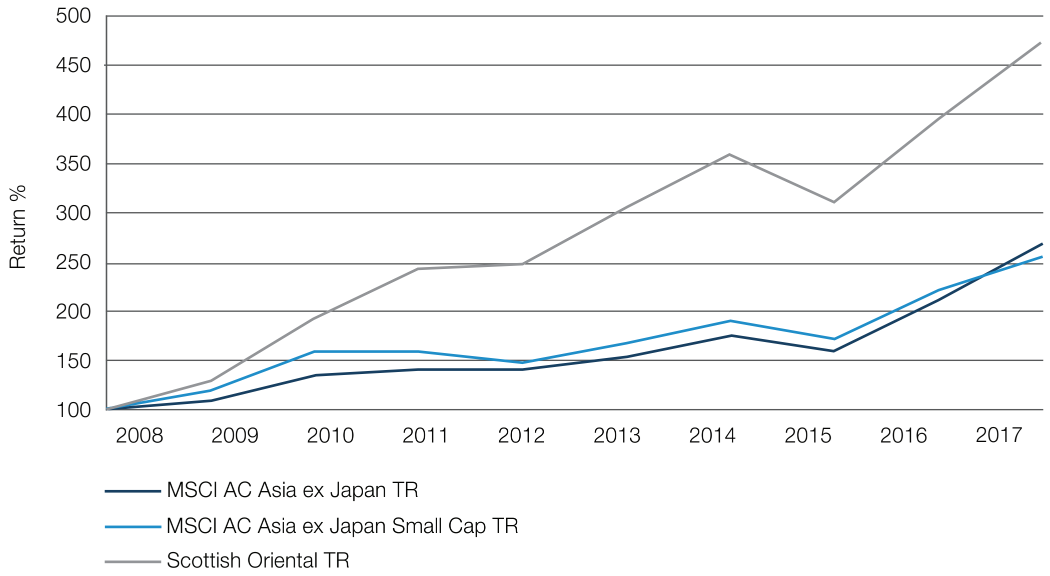
Relative Importance of Spend on Pay

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 index used for investment performance measurement purposes. The total return for the MSCI AC Asia ex Japan Small Cap Index is also displayed as it provides an indication of the performance of smaller companies in Asia over the period.

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



The Directors' Remuneration report on pages 27 to 29 was approved by the Board of Directors on 30 October 2017 and signed on its behalf by

James Ferguson
Chairman
30 October 2017

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 Nominations 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. Anne West is a director of ScotGems plc which is also managed by First State Investment Management (UK) Limited. As a result, for the purposes of the AIC Code, Anne West is deemed to be non-independent subsequent to this appointment in June 2017. Ms West was deemed independent at the time of attending the two Audit Committee meetings held during the year to 31 August 2017. Following the appointment to ScotGems plc, Ms West is no longer a member of the Audit Committee.

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	2/2
Andrew Baird (appointed 28 June 2017)	1/1	–	1/1	–
Alexandra Mackesy	4/4	2/2	1/1	2/2
Dr Janet Morgan	4/4	2/2	1/1	2/2
Anne West	4/4	2/2	1/1	2/2
Jeremy Whitley (appointed 6 March 2017)	2/2	1/1	1/1	1/1

Independence of Directors

The Board considers its non-executive Directors (save for Anne West) 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. As noted on page 30, Anne West is on the board of another company managed by the Investment Manager and is therefore not considered to be independent. 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

Dr Janet Morgan will retire at the forthcoming AGM. James Ferguson and Alexandra Mackesy, having served on the Board for more than nine years, offer themselves for re-election at the AGM. Andrew Baird and Jeremy Whitley, who were appointed by the Board on 28 June 2017 and 6 March 2017 respectively, offer themselves for election. The Board confirms that each of these Directors makes a significant contribution to Board deliberations. The Board therefore believes that it is in the interests of shareholders that Mr Ferguson and Mrs Mackesy be re-elected and Mr Baird and Mr Whitley be elected. The Articles of Association provide that each Director is subject to election at the first AGM after his or her appointment and must retire by rotation every three years. His or her re-election is subject to shareholder approval, based upon the recommendations of the full Board. Biographical details of all Directors are set out on page 17 of this Annual Report to enable shareholders to take an informed decision on their election. From these details, it will be seen that the Board has a breadth of investment, commercial and professional experience with an international and, more specifically, Asian perspective. New Directors 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 which is chaired by James Ferguson.

The Nominations Committee terms of reference are available on the Company's website and clearly define the Committee's responsibilities. Once a decision is made to appoint a new Director, each Director is invited to submit potential candidates for consideration by the Nominations Committee. The Nominations Committee considers a broad range of skills and experience when seeking potential candidates including diversity and gender. Given the rigour and extent of our process, neither an external search consultant nor open advertising was used to assist in the appointments of Andrew Baird and Jeremy Whitley.

The Nominations Committee meets at least annually.

On behalf of the Board

PATAC Limited
Company Secretary
30 October 2017

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 Directors consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. 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.

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
30 October 2017

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 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Scottish Oriental Smaller Companies Trust plc which comprise:

- Income Statement for the year then ended 31 August 2017
- Statement of Financial Position as at 31 August 2017
- Cash Flow Statement for the year then ended 31 August 2017
- Statement of Changes in Equity for the year then ended 31 August 2017
- Accounting Policies
- Related notes 1 to 17 to the financial statements

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Report of the Independent Auditor – continued

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures as set out on page 20 in the Annual Report that describe those risks and explain how they are being managed or mitigated;
- the Directors' confirmation as set out on page 22 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 Directors' statement as set out on page 22 in the Annual Report 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;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation as set out on page 22 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.

Overview of our audit approach

Key audit matters	• Incorrect calculation of the performance fee • Incomplete or inaccurate revenue recognition • Incorrect valuation and existence of the investment portfolio
Materiality	• Materiality of £3.69m which represents 1% of equity shareholder's funds (2016: £3.25).

Report of the Independent Auditor – continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated 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 26 of the Report of the Audit Committee). For the year ended 31 August 2017, there was no performance fee payable (2016: £nil).	**We performed the following procedures:** We have re-performed the calculation of the performance fee in line with the Investment Management Agreement. We have vouched the key external inputs in the calculation to independent sources. We discussed any areas of interpretation with First State Investment Management (UK) Limited (the 'Investment Manager').	**The results of our audit procedures are:** We are satisfied that the fee has been calculated using the basis prescribed in the Investment Management Agreement. There was no performance fee payable in the year.
Incomplete or inaccurate revenue recognition (as described on page 26 of the Report of the Audit Committee). The investment income receivable by the Company during the year directly drives the Company's ability to make a dividend payment to shareholders. The investment income receivable for the year to 31 August 2017 was £6.38m (2016: £6.66m). If the Company is not entitled to receive the dividend income recognised in the financial statements or the income recognised does not relate to the current financial year, this will impact the extent of the profits available to fund dividend distributions to shareholders. The accounting treatment adopted has a direct impact on the profits available for distribution to shareholders of the Company by way of dividends. In particular this can be impacted by the incorrect allocation of special dividends between revenue and capital. In addition, there is also a risk that inappropriate journal entries applied to the income account could result in a manipulation of the Company's revenue to support performance and dividend targets.	**We performed the following procedures:** We gained an understanding of the Administrator's ("PATAC") and the Investment Manager's process in relation to the revenue recognition particularly in relation to the identification of special dividends. We agreed on a sample basis dividend rates from independent sources and recalculated the income based on the appropriate holdings. We traced dividends receivable, using the rates and entitlements from an independent source for a sample of investments held at dividend entitlement dates, to the income reports. We agreed 100% of accrued dividends to an independent source and traced a sample of items to the post year end bank statements. We reviewed the accounting records for evidence of special dividends above our testing threshold. We tested the appropriateness of manual journal entries posted to the income account during the year and other adjustments made in the preparation of the financial statements.	**The results of our audit procedures are:** We noted no issues in agreeing the rates and entitlement for a sample of dividends received on the income receipts report to an independent source. We noted no issues in tracing dividends receivable, using the rates and entitlements from an independent source for a sample of investments held at dividend entitlement dates, to the income reports. We noted no issues in agreeing 100% of accrued dividends to an independent source and tracing a sample of items to the post year end bank statements. We noted no special dividends above our testing threshold. We noted no issues in testing the appropriateness of manual journal entries posted to the income account during the year and other adjustments made in the preparation of the financial statements.

Report of the Independent Auditor – continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The incorrect valuation and existence of the investment portfolio (as described on page 26 of the Report of the Audit Committee). The valuation of the portfolio at 31 August 2017 was £338.39 million (2016: £297.74 million). 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 the portfolio valuation and the return generated for shareholders. The Company's accounting policy is for listed investments to be held at fair value through profit or loss which is deemed to be bid price or last traded price. All investments are held by an independent Custodian, JP Morgan Chase Bank, which mitigates the risk of misappropriation of assets.	**We performed the following procedures:** We gained an understanding of the Administrator's and the Investment Manager's processes and controls to gain an understanding of the investment pricing for quoted investments. We agreed 100% of the prices used to value the investment portfolio to an independent source. We reviewed pricing exception reports as at 31 August 2017 for unusual or static movements in prices. To confirm the existence of the assets held as at 31 August 2017 we independently obtained confirmation from the Custodian and Depositary of all securities held at the year end and agreed all securities held from the Company's records to those of the Depositary.	**The results of our audit procedures are:** We have no matters to communicate with respect to our review of the process in relation to the investment pricing for quoted investments. We noted no issues in comparing 100% of the prices used to value the investment portfolio to an independent source. We noted no issues in reviewing the pricing exception reports. We noted no differences between the confirmation obtained from the Custodian and Depositary and the Company's records.

An overview of 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. Taken together, this enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation and effectiveness of controls, changes in the business environment and other factors when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

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 £3.69m (2016: £3.25m) which is 1% (2016: 1%) of equity shareholders' funds. We have used equity shareholders' funds as the basis for setting materiality since it is the basis for the key measurement of the Company's performance.

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.

Report of the Independent Auditor – continued

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely £2.77m (2016 £2.44m). 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 £0.13m (2016: £0.16m) 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 £0.18m (2016: £0.16m), 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.

Other information

The other information comprises the information included in the Annual Report including the Chairman's Statement, Portfolio Managers' Report, Portfolio Review, List of Investments, Ten Year Record, Strategic Report, Directors' Report, Report of the Audit Committee, Directors' Remuneration Report, Corporate Governance, and Statement of Directors' Responsibilities sections, as set out on pages 2 to 33, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 25 –** the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 25 –** the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

Report of the Independent Auditor – continued

- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 30 –** the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- based on the work undertaken in the course of the audit:
  - 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;
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;
  - the information given in the Report of the Audit Committee set out on page 26 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures and in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules) is consistent with the financial statements and has been prepared in accordance with applicable legal requirement; and
  - information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; 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.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 33, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Report of the Independent Auditor – continued

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with those charged with governance of the entity.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and section 1158 of the Corporation Tax Act 2010.

- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report of the Independent Auditor – continued

Other matters we are required to address

- Following the recommendation of the audit committee, we were appointed as auditors by the Audit Committee and signed an engagement letter on 28 September 2017. We were reappointed by the Company at the AGM to audit the financial statements for the year ending 31 August 2017 and subsequent financial periods. The period of total uninterrupted engagement, including previous renewals and reappointments, is 4 years, covering the years ending 31 August 2014 to 31 August 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

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

30 October 2017

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 auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the 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 2017

		2017			2016		
		Revenue	Capital	Total*	Revenue	Capital	Total*
	Note	£000	£000	£000	£000	£000	£000
Gains on investments	8	–	47,524	47,524	–	69,895	69,895
Income from investments	1	6,383	–	6,383	6,657	–	6,657
Other income	1	48	–	48	83	–	83
Investment management fee	2	(2,625)	–	(2,625)	(2,110)	–	(2,110)
Currency gains		–	79	79	–	1,801	1,801
Other administrative expenses	3	(801)	–	(801)	(731)	–	(731)
Net return before finance costs and taxation		3,005	47,603	50,608	3,899	71,696	75,595
Finance costs of borrowing	4	(471)	(649)	(1,120)	(629)	–	(629)
Net return on ordinary activities before taxation		2,534	46,954	49,488	3,270	71,696	74,966
Tax on ordinary activities	5	(437)	(513)	(950)	(304)	–	(304)
Net return attributable to equity shareholders		2,097	46,441	48,538	2,966	71,696	74,662
Net return per ordinary share	7	6.77p	149.94p	156.71p	9.50p	229.72p	239.22p

*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 2017 (2016: 11.50p per share) which, if approved, will be payable on 19 January 2018 to shareholders recorded on the Company's shareholder register on 8 December 2017.

The accounting policies on pages 46 to 48 and the notes on pages 49 to 58 form part of these accounts.

All revenue and capital items derive from continuing operations.

Statement of Financial Position

as at 31 August 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
FIXED ASSETS – EQUITY INVESTMENTS	8				
Bangladesh			**5,127**		–
China			**35,237**		49,932
Hong Kong			**26,591**		16,255
India			**94,060**		76,178
Indonesia			**30,067**		15,271
Malaysia			**10,988**		8,025
Pakistan			**3,602**		–
Philippines			**27,679**		10,265
Singapore			**19,578**		40,618
South Korea			**12,302**		11,930
Sri Lanka			**17,980**		9,678
Taiwan			**41,976**		42,853
Thailand			**8,989**		15,608
Vietnam			**4,209**		1,124
			338,385		297,737
CURRENT ASSETS					
Debtors	9	**2,083**		7,458	
Cash and deposits		**32,816**		47,352	
		34,899		54,810	
CURRENT LIABILITIES (due within one year)					
Creditors	10	**(4,028)**		(7,728)	
		(4,028)		(7,728)	
Net Current Assets			**30,871**		47,082
Total Assets less Current Liabilities			**369,256**		344,819
CREDITORS (due after one year)					
Loan	11		**–**		(20,000)
Equity Shareholders' Funds			**369,256**		324,819
Represented by					
CAPITAL AND RESERVES					
Ordinary share capital	12		**7,853**		7,853
Share premium account			**34,259**		34,259
Capital redemption reserve			**58**		58
Capital reserve			**318,511**		272,611
Revenue reserve			**8,575**		10,038
			369,256		324,819
Net asset value per share	13		**1,192.68p**		1,047.12p

These accounts were approved by the Board on 30 October 2017 and signed on its behalf by

James Ferguson
Director

The accounting policies on pages 46 to 48 and the notes on pages 49 to 58 form part of these accounts.

Cash Flow Statement

for the year ended 31 August 2017

	Note	2017 £000	2016 £000
Net cash outflow from operations before dividends, interest, purchases and sales	14	**(3,022)**	(3,191)
Dividends received from investments		**6,796**	6,389
Interest received from deposits		**48**	83
Purchases of investments		**(177,941)**	(72,604)
Sales of investments		**185,734**	90,814
Cash from operations		**11,615**	21,491
Taxation		**(1,009)**	(261)
Net cash inflow from operating activities		**10,606**	21,230
Financing activities			
Interest paid on borrowings		**(471)**	(630)
Repayment of loan including breakage costs		**(20,649)**	–
Equity dividend paid		**(3,560)**	(3,612)
Buyback of ordinary shares		**(541)**	(3,411)
Net cash outflow from financing activities		**(25,221)**	(7,653)
(Decrease)/increase in cash and cash equivalents		**(14,615)**	13,577
Cash and cash equivalents at the start of the period		**47,352**	31,974
Effect of currency gains		**79**	1,801
Cash and cash equivalents at the end of the period*		**32,816**	47,352

*Cash and cash equivalents represents cash at bank.

Statement of Changes in Equity

for the year ended 31 August 2017

	Ordinary Share Capital £000	Share Premium Account £000	Capital Redemption Reserve £000	Capital Reserve £000	Revenue Reserve £000	Total £000
Balance at 31 August 2016	7,853	34,259	58	272,611	10,038	324,819
Total comprehensive income:						
Return for the year	–	–	–	46,441	2,097	48,538
Transactions with owners recognised directly in equity:						
Buyback of ordinary shares†	–	–	–	(541)	–	(541)
Dividend paid in the year‡	–	–	–	–	(3,560)	(3,560)
Balance at 31 August 2017	**7,853**	**34,259**	**58**	**318,511**	**8,575**	**369,256**

† See note 12. ‡ See note 6.

for the year ended 31 August 2016

	Ordinary 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**

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

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 on page 64.

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 "SORP"). These accounts are prepared on a going concern basis.

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 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.

(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.

Accounting Policies – continued

(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.

Reserves

Share premium account

(s) 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

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

Accounting Policies – continued

Warrant reserve exercised

(u) 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

(v) 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

(w) 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.

Notes on the Accounts

1. Income

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

2. Investment Management Fee

	2017 £000	2016 £000
Investment management fee	**2,625**	2,110

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 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 (2016: £nil) is due to be paid for the year ended 31 August 2017.

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

	2017 £000	2016 £000
Auditor's remuneration for :		
– audit services	**21**	22
– non-audit services in respect of taxation compliance	**–**	6
Directors' fees	**102**	88
Company secretarial fees	**111**	109
Bank, custodial and other expenses	**567**	506
	801	731

Company Secretary

PATAC Limited provides company secretarial, accounting and administrative services. The fee for the year ended 31 August 2017, which is payable quarterly in advance and linked to the movement in the Retail Price Index annually, was £111,000 (2016: £109,000). The appointment is terminable on three months' notice.

4. Finance Costs of Borrowing

Costs in relation to bank borrowing:

	2017			2016		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Interest costs	**471**	**–**	**471**	629	–	629
Breakage costs	**–**	**649**	**649**	–	–	–
	471	**649**	**1,120**	629	–	629

5. Taxation

(a) Analysis of charge in the year

Overseas tax:

	2017			2016		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Tax on overseas dividends	**437**	**–**	**437**	304	–	304
Indian capital gains tax	**–**	**513**	**513**	–	–	–
	437	**513**	**950**	304	–	304

Notes on the Accounts – continued

(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:

	2017 £000	2016 £000
Return for the year before taxation	**49,488**	74,966
Total return for the year before taxation multiplied by the standard rate of corporation tax of 19.00% (2016: 20.00%)	**9,403**	14,993
Effect of:		
Capital returns not subject to corporation tax	**(9,045)**	(14,339)
Non-taxable income	**(1,213)**	(1,331)
Overseas tax	**950**	304
Unutilised management expenses	**855**	677
Total tax charge for the year	**950**	304

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 £5,227,000 (2016: £4,748,000) at 31 August 2017 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.

6. Dividends

	2017 £000	2016 £000
Dividends paid in the period:		
Dividend of 11.50p per share paid 20 January 2017 (2016 – 11.50p)	**3,560**	3,612

The below proposed dividend in respect of the financial year 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.

	2017 £000	2016 £000
Income available for distribution	**2,097**	2,966
Proposed dividend for the year ended 31 August 2017 – 11.50p payable 19 January 2018 (2016 – 11.50p)	**(3,560)**	(3,560)
Amount transferred from retained income	**(1,463)**	(594)

Notes on the Accounts – continued

7. Return per Ordinary Share

	2017 Revenue p	2017 Capital p	2017 Total p	2016 Revenue p	2016 Capital p	2016 Total p
Net return per share	**6.77**	**149.94**	**156.71**	9.50	229.72	239.22

	2017	2016
Revenue return	**£2,097,000**	£2,966,000
Capital return	**£46,441,000**	£71,696,000
Weighted average ordinary shares in issue	**30,973,341**	31,210,771

There are no dilutive or potentially dilutive shares in issue.

8. Equity Investments

	£000
Cost at 31 August 2016	214,738
Unrealised appreciation	82,999
Valuation at 31 August 2016	297,737
Purchases at cost	174,147
Sales – proceeds	(181,023)
Sales – realised gains on sales	53,939
Unrealised depreciation on investments in the year	(6,415)
Valuation at 31 August 2017	338,385
Cost at 31 August 2017	261,801
Closing unrealised appreciation	76,584

Gains on Investments

Realised gains on sales	53,939
Unrealised losses on the fair value of investments during the year	(6,415)
	47,524

All investments are listed on recognised stock exchanges.

Transaction Costs

During the year the Company incurred transaction costs of £490,000 (2016: £208,000) on the purchase of investments and £511,000 (2016: £354,000) on the sale of investments.

9. Debtors

	2017 £000	2016 £000
Sales awaiting settlement	**1,398**	6,109
Accrued income	**617**	999
Sundry debtors	**68**	350
	2,083	7,458

Notes on the Accounts – continued

10. Creditors (amounts falling due within one year)

	2017 £000	2016 £000
Purchases awaiting settlement	**3,163**	6,957
Management fee payable	**691**	609
Other creditors	**174**	135
Interest due on loan	**–**	27
	4,028	7,728

11. Creditors (amounts falling due after one year)

	2017 £000	2016 £000
£20,000,000 fixed rate loan 3.135% 14/08/2019	**–**	20,000

The £20,000,000 loan was repaid in full including all interest on 1 June 2017. Breakage costs of £649,000 were incurred and charged to capital in accordance with the Company's accounting policies.

12. Share Capital

The allotted and fully paid capital is £7,853,416 (2016: £7,853,416) represented by 31,413,663 ordinary shares of 25p each (2016: 31,413,663). During the year the Company bought back 60,000 (2016: 474,500) ordinary shares at a total cost of £541,000 (2016: £3,406,000), all of which are held in Treasury (2016: 393,500 held in Treasury and 81,000 cancelled). The Company held 453,500 ordinary shares in Treasury at the year end (2016: 393,500), being 1.4 per cent of share capital, with a nominal value of £113,375 (2016: £98,375). There have been no shares issued or bought back since the year end.

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 page 19.

13. Net Asset Value per Ordinary Share

Net assets per share are based on total net assets of £369,256,000 (2016: £324,819,000) divided by 30,960,163 (2016: 31,020,163) ordinary shares of 25p each in issue (excludes shares held in Treasury).

Notes on the Accounts – continued

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

	2017 £000	2016 £000
Net return on activities before finance costs and taxation	**50,608**	75,595
Net gains on investments	**(47,524)**	(69,895)
Currency gains	**(79)**	(1,801)
Dividend income	**(6,383)**	(6,657)
Interest income	**(48)**	(83)
Increase in creditors	**122**	–
Decrease/(increase) in debtors	**282**	(350)
Net cash outflow from operations before dividends, interest, purchases and sales	**(3,022)**	(3,191)

15. Risk Management, Financial Assets and Liabilities

The Company invests mainly in smaller Asian quoted companies. Other financial instruments comprise cash balances and short-term debtors and creditors. The Investment Manager follows the investment process outlined on page 19 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 available on the website and summarised 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 loan was repaid in full on 1 June 2017. The Company is 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 at 31 August is shown below.

Interest Rate Risk Profile

	2017 £000	2016 £000
Cash	**32,816**	47,352
Fixed rate bank loan	**–**	(20,000)
	32,816	27,352

Notes on the Accounts – continued

Interest Rate Sensitivity

Considering effects on cash balances and fixed rate borrowings, an increase of 50 basis points in interest rates would have increased net assets and total return for the period by £164,000 (2016: £137,000). 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 in which the Company reports its results) as at 31 August 2017. The Balance Sheet therefore can be significantly affected by movements in foreign exchange rates. It is not the Company's policy to hedge this risk on a continuing basis but the Company reserves the right to undertake foreign exchange hedging of its portfolio. The revenue account is subject to currency fluctuation arising on dividends paid in foreign currencies. The Company does not hedge this currency risk.

Foreign Currency Risk Exposure by Currency of Denomination

	31 August 2017			31 August 2016		
	Overseas investments £000	Net monetary assets £000	Total currency exposure £000	Overseas investments £000	Net monetary assets £000	Total currency exposure £000
Indian rupee	94,060	(1,008)	93,052	76,178	203	76,381
Hong Kong dollar	61,828	214	62,042	66,187	–	66,187
Taiwanese dollar	41,976	257	42,233	42,853	784	43,637
Indonesian rupiah	30,067	(527)	29,540	15,271	(819)	14,452
Philippine peso	27,679	(6)	27,673	10,265	–	10,265
Singapore dollar	19,578	125	19,703	40,618	202	40,820
US dollar	–	19,351	19,351	–	19,303	19,303
Sri Lankan rupee	17,980	–	17,980	9,678	(101)	9,577
Korean won	12,302	–	12,302	11,930	–	11,930
Malaysian ringgit	10,988	–	10,988	8,025	–	8,025
Thai baht	8,989	644	9,633	15,608	24	15,632
Vietnamese dong	4,209	3,164	7,373	1,124	–	1,124
Bangladeshi taka	5,127	–	5,127	–	–	–
Pakistan rupee	3,602	(963)	2,639	–	–	–
Total foreign currency	338,385	21,251	359,636	297,737	19,596	317,333
Sterling	–	9,620	9,620	–	7,486	7,486
Total currency	338,385	30,871	369,256	297,737	27,082	324,819

Notes on the Accounts – continued

15. Risk Management, Financial Assets and Liabilities – continued

Currency Risk Sensitivity

At 31 August 2017, 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 2016.

	2017 £000	2016 £000
Indian rupee	**4,653**	3,819
Hong Kong dollar	**3,102**	3,309
Taiwanese dollar	**2,112**	2,182
Indonesian rupiah	**1,477**	723
Philippine peso	**1,384**	513
Singapore dollar	**985**	2,041
US dollar	**968**	965
Sri Lankan rupee	**899**	479
Korean won	**615**	597
Malaysian ringgit	**549**	401
Thai baht	**482**	782
Vietnamese dong	**369**	56
Bangladeshi taka	**256**	–
Pakistan rupee	**132**	–
Total	**17,983**	15,867

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 2017 would have increased/(decreased) by £33,838,500 (2016: increased/(decreased) by £29,773,700) 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 could give it access to additional funding when required.

Notes on the Accounts – continued

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

	2017 3 months or less £000	2017 3 to 12 months £000	2017 More than 12 months £000	2016 3 months or less £000	2016 3 to 12 months £000	2016 More than 12 months £000
Bank loan (repaid 1 June 2017)	–	–	–	184	470	21,225
Amount due to brokers	3,163	–	–	6,957	–	–
Other creditors and accruals	865	–	–	744	–	–
	4,028	–	–	7,885	470	21,225

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.

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 August 2017 was as follows:

Current assets	2017 Balance sheet £000	2017 Maximum exposure £000	2016 Balance sheet £000	2016 Maximum exposure £000
Receivables	2,083	2,083	7,458	7,458
Cash at bank	32,816	32,816	47,352	47,352
	34,899	34,899	54,810	54,810

Financial Instruments Measured at Fair Value

As at 31 August 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Listed equities	338,385	–	–	338,385
Total financial instruments	338,385	–	–	338,385

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

Notes on the Accounts – continued

15. Risk Management, Financial Assets and Liabilities – continued

The tables on page 57 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 27 to 29. An amount of £22,000 was outstanding to the Directors at the year end (2016: £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.

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 0.98 and 1.01 times the Company's net asset value.

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

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of The Scottish Oriental Smaller Companies Trust plc will be held at the offices of First State Stewart Asia, 23 St Andrew Square, Edinburgh EH2 1BB on 7 December 2017 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 2017.
2. To approve the dividend of 11.50 pence per ordinary share of 25 pence each in the capital of the Company.
3. To elect Andrew Baird, as a Director.
4. To elect Jeremy Whitley, as a Director.
5. To re-elect James Ferguson, who retires from office annually, as a Director.
6. To re-elect Alexandra Mackesy, 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 Policy on Directors' Remuneration.
9. To approve the Directors' Remuneration Report within the Report and Accounts for the financial year ended 31 August 2017.
10. To approve the increase of the aggregate annual limit on Directors' fees to £200,000 per annum.
11. 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 £774,004, (being approximately 10 per cent of the nominal value of the issued share capital as at 30 October 2017) 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.

12. That, subject to the passing of resolution number 11 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 11 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:

Notice of Annual General Meeting – continued

(a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

(b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £774,004 (being approximately 10 per cent of the nominal value of the issued share capital of the Company (excluding treasury shares) as at 30 October 2017).

13. 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 4,640,928 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 13, 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.

14. 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: 30 October 2017 By Order of the Board

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

PATAC Limited
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 5 December 2017 ("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 5 December 2017. 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 her/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 21 Walker Street, Edinburgh EH3 7HX before, during and after the meeting. They will also be available on the date of the meeting at 23 St Andrew Square, Edinburgh EH2 1BB until the conclusion of the meeting.

(10) As at close of business on 30 October 2017, the Company's issued share capital comprised 31,413,663 ordinary shares of 25p each of which 453,500 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 30 October 2017 is 30,960,163.

(11) Any person holding 3 per cent of the total voting rights in the Company who appoints a person other than the Chairman as her/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 £11,300 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 address on page 64, 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

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10 St Colme Street
Edinburgh EH3 6AA

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SC156108

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Depositary
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Company Secretary
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The Association of Investment Companies

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