The Scottish Oriental
Smaller Companies Trust plc

2020

The **Scottish Oriental** Smaller Companies Trust plc

Annual
Report and Accounts **2020**

Contents

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 free float-adjusted market capitalisation of between US$27m and US$3,635m. 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$3,000m 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.

Annual Report and Accounts 2020

Investment Objective

The investment objective of the Trust is to achieve long-term capital growth by investing mainly in smaller Asian quoted companies.

Financial Highlights

Total Return Performance *for the year ended 31 August 2020*

Net Asset Value[AB]	-13.2%	MSCI AC Asia ex Japan Index (£)	10.9%
Share Price[A]	-14.2%	MSCI AC Asia ex Japan Small Cap Index (£)	7.1%
Dividend Maintained at 11.5p per share		FTSE All-Share Index (£)	-12.7%

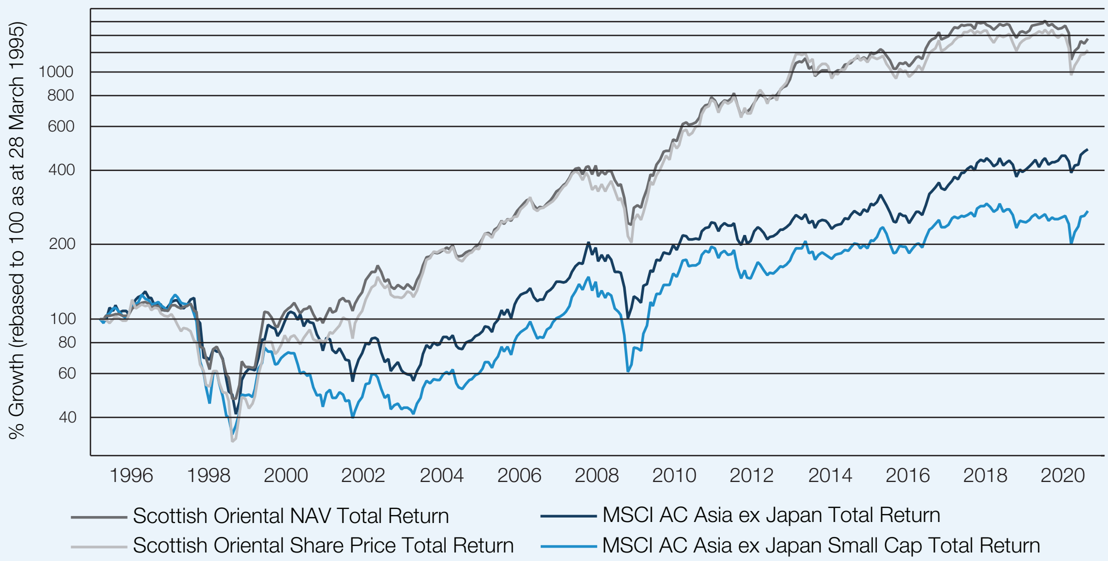
Summary Data *at 31 August 2020*

Shares in issue	29,174,030	Shareholders' Funds	£289.4m
Net Asset Value per share	992.14p	Market Capitalisation	£249.7m
Share Price	856.0p	Share Price Discount to Net Asset Value[AB]	13.7%
Ongoing Charges[ABC]	1.03%	Active Share[B] (MSCI AC Asia ex Japan Index)	99.7%
Net Cash[A]	7.6%	Active Share[B] (MSCI AC Asia ex Japan Small Cap Index)	97.5%

[A] Alternative Performance Measure.
[B] A glossary of terms and definitions is provided on pages 72 and 73.
[C] No performance fee was payable during the year (2019: nil).

Total Return Performance

Since 28 March 1995*



* The date of inception of the Company

Chairman's Statement

Scottish Oriental had a poor year. The reasons for this are explained in detail in the Managers' Report. The Net Asset Value ("NAV") per share fell by 13.2 per cent in total return terms over the 12 months to 31 August 2020 while the 'comparative indices', the MSCI AC Asia ex Japan Index and the MSCI AC Asia ex Japan Small Cap Index, rose by 10.9 per cent and 7.1 per cent respectively. As usual, we would stress that the Company is not invested with regard to any particular benchmark and these indices are shown to provide some context. In the Financial Highlights on the previous page you will see figures for the portfolio's active share against the two indices. These figures illustrate the extent to which our portfolio differs from each index; 100 per cent would indicate that there is no overlap whatsoever. The share price total return was minus 14.2 per cent. A performance fee was not earned this year.

The income per share was 8.19p compared to 12.50p last year. The earnings figure was boosted by a special dividend from SKF India. We are proposing an unchanged dividend of 11.5p. The shortfall will be taken from the revenue reserve, set out on page 31. Given the prevailing economic uncertainty and weakened earnings outlook for Asian companies, many have cut or suspended their dividends. As a result it is likely that the Company's dividend will be reduced next year.

During the year, the Company bought back 699,754 ordinary shares. 2,239,633 ordinary shares were held in Treasury at the year end. The Board continues to have 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.

The duration and extent of recent underperformance is a disappointment and a concern to both the Board and to the Investment Manager. In view of these concerns, FSSA, in conjunction with the Board, has conducted a review of the portfolio construction process and the portfolio controls employed in the management of Scottish Oriental, and has made a number of proposals intended to enhance existing processes with a view to improving performance. Rather than a radical overhaul, these proposals represent a reemphasis of a process that has proven successful through market cycles over the last 30 years, whilst acknowledging the need to adapt to the increasing challenges of investing in smaller listed companies across Asia. Scottish Oriental is important to FSSA and they are determined to achieve a recovery in investment performance.

We have been considering the structure of the Board and our plans for succession. As you may recall from previous statements, we do not regard long service as a disadvantage and believe that experience is an advantage for an investment trust. The Board at present consists of three directors recruited from diverse financial backgrounds, most recently Michelle Paisley whose details are shown on page 24, and two with long experience of the trust. We are not considering any further changes at present, but I intend to retire within the next two years.

This year's Annual General Meeting will be held on Tuesday, 8 December 2020. In addition to the usual business of the AGM, this year there is a resolution to approve changes to the Company's Investment Policy. The changes, which are described in detail in the Directors' Report on pages 33 and 34, provide the Investment Manager with more flexibility to invest in Asian smaller companies that have greater market capitalisations, as well as expanding the investment remit to include Australasia and Japan. The Board believes these changes are in the best interests of shareholders.

Owing to the restrictions imposed by the UK Government because of Covid-19, this year's AGM will follow an unusual format, as Shareholders will not be permitted to be present. Attendance will be limited to the minimum number of Directors and officers sufficient to form a quorum. Shareholders are strongly encouraged to vote by proxy and to ask any questions in advance (by email to the Company Secretary at cosec@patplc.co.uk). The Company or its Investment Manager will then reply to each question as appropriate.

James Ferguson
Chairman
30 October 2020

Scottish Oriental's Investment Management Team

The Scottish Oriental Smaller Companies Trust plc ("Scottish Oriental", the "Company" or the "Trust") is managed by the the FSSA Investment Managers ("FSSA") team which is a member of Mitsubishi UFJ, a global financial group, and offers a range of investment funds across the Asia Pacific, China and Emerging Markets.

Vinay Agarwal
Lead Manager

Vinay Agarwal is Lead Manager of The Scottish Oriental Smaller Companies Trust and is also a Director of FSSA Investment Managers. Joining FSSA Investment Managers in 2011, Vinay manages Regional Asia and Indian Subcontinent portfolios Vinay graduated in 2002 with a management degree with a major in Finance from the Indian Institute of Management Calcutta, and has more than 17 years of investment experience. He also holds a Bachelor of Commerce (Hons) degree with a major in Accountancy from Calcutta University.

Martin Lau
Co-Manager

Martin Lau is a Managing Partner of FSSA Investment Managers and the Co-Manager of The Scottish Oriental Smaller Companies Trust. He has been with the team for more than 17 years, starting with the firm as Director, Greater China Equities, in 2002. Martin is the lead manager of a number of First State funds, based in Hong Kong, he has more than 24 years of investment experience and graduated from Cambridge University with a Bachelor of Arts degree and a Master's degree in Engineering. He is also a CFA charterholder.

Scott McNab
Senior Investment Analyst

Scott McNab is a Senior Investment Analyst at FSSA Investment Managers. He joined in 2001 and is responsible for regional research, covering all relevant geographical regions and industry sectors. Scott has 20 years of investment experience and holds a Bachelor of Science (Hons) in Computer Science from the University of Durham. He is also a Chartered Accountant and a CFA charterholder.

Sreevardhan Agarwal
Investment Analyst

Sreevardhan Agarwal is an Investment Analyst at FSSA Investment Managers. Sree joined FSSA Investment Managers as a graduate from the National University of Singapore with a management degree and a specialisation in Finance in 2014, he provides research support to the portfolio managers, with a focus on Australia, India, and regional smaller companies.

Members of the FSSA team own 369,772 (2019: 367,467) shares in the Company.

Portfolio Managers' Report

The Market

During the year ending 31 August 2020, Asian equity markets' performance was strong. This strength is not fully reflected when measured in sterling, as a result of the appreciating pound. The US-China trade war had been the biggest driver of stock market performance for some time with the pattern continuing at the start of the period but the outbreak of Covid-19 in 2020 impacted stock markets significantly. Initially only Chinese markets suffered but a strong government response prompted a swift rebound. As it became apparent that the pandemic would not be contained, global stock markets then sold off sharply in March. This selloff led to significant fiscal stimulus and money printing from developed market governments and central bankers. The resulting easy monetary conditions then led to a sharp rally in global stock markets with Asian markets also rebounding, many ending the period at a similar level to that before the pandemic and some even higher.

Growth weakened notably over the period and a global recession in 2020 is almost inevitable. Earnings forecasts for Asian companies have been cut significantly, particularly in sectors exposed to domestic consumption. Asia's stock markets were mixed. The Chinese and Taiwanese markets rose sharply which was reflective of their respective governments' handling of the crisis and also the performance of a few behemoth technology companies. South East Asian stock markets performed very poorly. Indonesia, the Philippines, Singapore, Thailand and Vietnam all fell sharply. These countries' dependence on Chinese trade and tourism was highlighted by the pandemic. The Indian stock market also underperformed. Its economy had been slowing before the pandemic took hold. A hastily introduced lockdown then led to a massive contraction in economic activity.

Small companies performed in line with the broader Asian market over the year. Within individual countries, performance was much more varied. Smaller companies in China and Taiwan were weaker than their larger counterparts whereas smaller companies in Malaysia and Korea were very strong, predominantly as a result of exceptional share price performance from a number of smaller companies in the health care sector.

The Company's Performance

Scottish Oriental's investment performance over the year was poor. The biggest detractors from performance were the large weightings in India, Indonesia and the Philippines. It is mainly in these countries that we have found smaller companies we believe will be the winners in their respective markets with strong growth prospects in the long run. Unfortunately the Company's holdings in each of these countries performed in line with local stock markets which in all cases was disappointing, particularly so in Indonesia and the Philippines. We added to Scottish Oriental's positions in all of these markets during the year as share prices fell to very attractive levels. By contrast, Scottish Oriental owns relatively few companies in China which was one of the best performing stock markets.

The biggest contributor to performance was stock selection in Taiwan with the Company's Taiwanese holdings continuing to perform strongly. We significantly reduced Scottish Oriental's exposure to Taiwan during the period as this strong share price performance led to expensive valuations.

Portfolio Managers' Report – continued

Country Allocation at 31 August 2020 *(based on geographical area of activity)*

Country/Region	Scottish Oriental 2020 %	Scottish Oriental 2019 %	MSCI* 2020 %	MSCI Small Cap† 2020 %	Stock Market Performance (Sterling)‡ 2020 %
China	7.6	*9.1*	47.2	13.8	25.1
Hong Kong	7.8	*6.4*	8.3	8.1	(6.3)
Taiwan	3.9	*10.1*	13.7	25.4	26.4
Greater China	19.3	*25.6*	69.2	47.3	
Indonesia	12.6	*10.6*	1.6	1.9	(23.7)
Malaysia	–	*0.8*	1.8	4.3	(10.7)
Philippines	12.5	*9.8*	0.8	0.8	(26.5)
Singapore	1.2	*5.7*	2.5	6.9	(20.5)
Thailand	–	*–*	2.2	3.7	(30.3)
Vietnam	2.5	*2.3*	–	–	(19.2)
South East Asia	28.8	*29.2*	8.9	17.6	
Bangladesh	1.7	*1.8*	–	–	(16.7)
India	39.4	*29.1*	9.2	13.4	(6.2)
Pakistan	1.1	*1.5*	–	0.6	2.0
Sri Lanka	0.6	*2.1*	–	–	(21.8)
Indian Subcontinent	42.8	*34.5*	9.2	14.0	
South Korea	1.5	*1.1*	12.7	21.1	12.7
Net Current Assets	7.6	*9.6*	–	–	
Net Assets	*100.0*	*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 values are the Morgan Stanley Capital International total return indices in each country

Principal Contributors and Detractors to Performance

Top Five Contributors

Company	Country	Sector	Absolute Return (Sterling) %	Contribution Performance%
Tata Consumer Products	India	Consumer Staples	70	1.0
Nissin Foods	Hong Kong	Consumer Staples	23	0.8
Emami Limited	India	Consumer Staples	45	0.8
Sinbon Electronics	Taiwan	Technology	32	0.6
Gujarat Gas	India	Utilities	19	0.6

Tata Consumer Products (formerly Tata Global Beverages) benefited from pantry stocking in its core tea business in India as well as in its Tetley operations globally. Its new chief executive's focus on gaining market share in its core Indian tea business, while also scaling up its operations across categories such as branded salt, pulses and beverages has borne fruit and the company has reported strong results during the year.

Portfolio Managers' Report – continued

Nissin Foods' instant noodle sales also benefited from pantry stocking in both its major markets of China and Hong Kong and it raised prices for its products in China. Higher prices and strong volume growth led to an improvement in its profitability. The company has been using the tailwind of higher customer demand to launch several new products with an emphasis on premium products in China. It also improved its distribution in China, where Nissin's business is growing faster and earns higher margins than Hong Kong.

Emami Limited was impacted by the lockdown in India with its manufacturing plants and the bulk of its distribution channels closing. Its share price fell significantly as concerns over the coronavirus mounted. We had been looking closely at the company and purchased shares for Scottish Oriental after this fall. Management disclosed a sharp rebound in sales as India's lockdown eased and its share price subsequently recovered.

Sinbon Electronics reported strong operating performance with its profits rising on volume growth and an improvement in its product mix towards higher margin segments, with the company benefiting from increased demand for cables for ventilators and other medical equipment. The share price rose much more rapidly than profits, resulting in expensive valuations. Therefore we reduced the Company's exposure.

Gujarat Gas reported strong operating performance with profits boosted by growth in its industrial gas volumes. The introduction of a new regulation in its key operating region of Morbi has led to a shift among its industrial customers towards natural gas from more polluting fuel sources such as coal. However, the natural gas regulatory authority has stated its intention to introduce competition in major markets, which could affect Gujarat Gas' future profitability. Therefore, we sold the Company's position.

Top Five Detractors

Company	Country	Sector	Absolute Return (Sterling) %	Contribution Performance %
Max's Group	Philippines	Consumer Discretionary	(65)	(1.9)
Mahindra & Mahindra Financial Services	India	Financials	(56)	(1.6)
Concepcion Industrial	Philippines	Industrials	(41)	(1.3)
Sarimelati Kencana	Indonesia	Consumer Discretionary	(44)	(1.0)
Haw Par	Singapore	Consumer Staples	(33)	(0.9)

Max's Group was severely impacted by Covid-19 with all of its restaurants closed at one point. As activity gradually normalised, initial signs of customer demand were strong. Management are using this disruption to accelerate changes including consolidation of its restaurant formats by eliminating less profitable brands, increasing supply chain efficiencies, and encouraging a shift to a franchised model which we believe will lead to a significant improvement in profitability. We added to the Company's holding during the year.

Mahindra & Mahindra Financial Services declined as a result of the expectation that the disruption caused to the Indian economy by Covid-19 would lead to an increase in credit losses across its vehicle and housing finance businesses. We were particularly concerned about a six month moratorium on loan repayments mandated by the Reserve Bank of India. Customers may use this period of forbearance to divert their cash flows towards other uses leaving them unable to make loan repayments at the end of the loan moratorium. Therefore we sold Scottish Oriental's position.

Portfolio Managers' Report – continued

Concepcion Industrial was badly impacted by the lockdown in the Philippines which significantly impacted sales of its refrigerators and air conditioners during its busiest quarter of the year. We remain positive about the company's prospects and believe that the disruption to the sector will likely favour Concepcion in the long run as the impact on weaker competitors will have been even more severe. Recent months have witnessed an encouraging improvement in demand in both its consumer and commercial segments.

Sarimelati Kencana saw its Pizza Hut restaurants suffer as a result of the impact of Covid-19. However, its delivery operations have thrived. The company has renegotiated terms with its landlords and Yum! Brands, owner of Pizza Hut, has accepted a reduction in royalty payments all of which has mitigated the impact of Covid-19 for the company. We have been very impressed at management's handling of this crisis. We added to Scottish Oriental's position during the year.

Haw Par owns a large stake in Singapore's UOB Group, the value of which fell in the market selloff. In addition, sales of Haw Par's Tiger Balm fell sharply during the period as travel outlets such as duty free retailers represent one of its largest distribution channels. We reduced the Company's holding in Haw Par during the period as we concluded that management are less dynamic than we believed them to be given Tiger's dependence on traditional distribution channels.

Portfolio activity

Purchases

During the year we invested £154m, adding 18 new companies to the portfolio.

ACC Limited is one of the leading cement companies in India with a presence across all regional markets. It is majority owned by Ambuja Cements. The company benefits from the industry's low penetration and long term growth potential. Its new management team appointed over the last three years has focused on reducing costs. This is expected to continue, as ACC invests in setting up new waste heat recovery plants to reduce its power consumption and optimise its logistics network. It is also expected to benefit from higher synergies with its parent, Ambuja Cement. These initiatives should lead to a significant improvement in its profitability. ACC's market value at the time of purchase was only 40% of the replacement cost of its cement capacity, a level we have not witnessed in 20 years.

Ace Hardware Indonesia operates the leading chain of home improvement stores in Indonesia. The business was set up in 1996, after the founding Wibowo family signed a licensing agreement with Ace Hardware in the United States. The founding family continues to own a majority stake and is actively involved in its management. The company has a strong track record, as sales and profit growth has been uninterrupted since it listed in 2007. The company has built a dominant position in the home improvement industry in Indonesia. Most of its competitors operate in the informal sector and lack purchasing scale. Several of these competitors depend on avoiding taxes to compete with Ace on pricing. As tougher tax compliance regulations have been introduced in recent years, these small operators have found it difficult to compete. This gradual shift from low quality retailers to the formal sector led by Ace should continue in the coming years. Its management also expects to further improve its profitability by introducing private label products, which enjoy higher margins.

Ambuja Cements is the 2nd largest cement company in India with a presence across all regional markets. It is majority-owned by Lafarge-Holcim, which is among the leading cement manufacturers globally. The industry is underpenetrated and has the potential for attractive long term growth. Capacity addition across its regional markets is limited, which should lead to stable pricing. It has recently appointed a new chief executive, Neeraj Akhoury, who has a strong track record of improving the profitability of Ambuja's subsidiary, ACC Limited. The new chief executive's focus on driving higher cost efficiency and synergies between Ambuja and ACC Limited should lead to an improvement in the company's profitability. The company's upcoming expansion is also likely to lead to consistent volume growth in the years ahead. Ambuja Cements' market value at the time of purchase was near to half the replacement cost of its cement capacity which, as with ACC Limited, is a level we have not witnessed in 20 years.

Portfolio Managers' Report – continued

BASF India is the listed Indian subsidiary of BASF SE, the world's largest speciality chemical manufacturer. Its chemicals are used across several industries including agriculture, automotive, construction and textiles. The company has doubled its manufacturing capacity over the last seven years. However, weak industrial growth in India led to weak customer demand and resulted in low utilisation of its plants. Therefore, its operating profitability has been poor in recent years. The company has appointed a new chief executive, Narayan Krishnamohan, who has spent over twenty years across different roles in the BASF Group. His focus is on raising the company's profitability by cutting costs, improving production yields and introducing new products from the parent's large global portfolio to increase capacity utilisation across its plants. The recent completion of its large capital expenditure programme is also expected to result in consistent free cash flow generation in the coming years. At the time of purchase BASF India was valued at approximately 0.6 times its revenues, half the level of its parent company. This is despite the Indian business having better growth prospects. A meeting with the chief executive only added to our conviction.

Bosch Limited is the largest auto-component supplier in India. It is the only listed subsidiary of Robert Bosch GmbH. The company has a dominant position in supplying engine components to all major automotive original equipment manufacturers, including a monopoly in some segments such as tractors. Its parent has leading technology capabilities globally, as it spends 10 per cent of its annual sales on research and development resulting in a large active patent portfolio. The access to this technology allows Bosch India to enter new market segments. The company has suffered due to the significant downturn in the Indian automotive industry over the last three years which has led to lower profitability. The company has initiated a 'zero based budgeting' program which should lead to lower costs in the coming periods. The upcoming shift towards more stringent environmental and safety norms across vehicle categories should also lead to an increase in content per vehicle for Bosch.

Castrol India is the leading automotive lubricant brand in India, majority owned by British Petroleum. The company has operated in the country for over a century. It has built a strong consumer brand due to its superior product quality and consistent investment in advertising. Castrol's growth in recent years was affected by lower consumer demand and an increase in competitive intensity. For years its management had focused on margin expansion and not volume growth and had let its market share fall. A new managing director is taking several initiatives to improve growth. The company has formed a partnership with the Indian joint-venture between Reliance and British Petroleum, which will allow Castrol to exclusively sell its lubricants in over 5,000 fuel stations. The company is also increasing its distribution reach significantly by setting up automotive workshops. The upcoming change in emission regulations for Indian vehicles should also lead to a shift towards higher priced lubricants, thereby improving Castrol's profitability. We expect management to deliver volume growth and win back market share which would result in a re-rating of the share price.

Eicher Motors is the leading premium two-wheeler manufacturer in India, 49 per cent owned by the Lal Family. Siddhartha Lal, from the second generation of the family, has been the chief executive since the early 2000s. He is credited for turning around the performance of the Royal Enfield motorcycle brand. Royal Enfield has a dominant market share in the premium two wheeler category (over 250 cc) in India having enjoyed significant growth over the last decade. More recently, it has been hurt by high regulatory price increases and a slowdown in demand. The company subsequently appointed a professional chief executive for Royal Enfield, Vinod Dasari, who has a strong track record at other automotive businesses. His focus is on increasing distribution, building new revenue streams and strengthening the product portfolio. This should allow the company to improve its growth prospects. Higher volumes would also lead to better profitability. The company's commercial vehicle joint-venture with Volvo has also suffered due to a severe cyclical downturn in the commercial vehicle market. Its performance should improve as demand normalises.

Portfolio Managers' Report – continued

Emami Limited is a leading fast moving consumer goods company in India. The founding Agarwal and Goenka families own 54 per cent of the company's shares, with its management team comprising family members as well as reputed professionals. The company has dominant market shares in several niche product categories, such as balms, antiseptic creams, hair oils and men's skincare products. It has focused on creating new product categories since an early stage in its development, investing significantly in advertising and promotion which typically accounts for 15 to 20 per cent of the company's sales. The result is strong brands with a loyal following. In recent years, the company's sales growth was relatively weak resulting from a consumer slowdown in India as well as some issues related to its distribution and brand management which the management team have now addressed.

Hisense Home Appliances is the market leader in China's central air conditioning industry and also produces other air conditioning products, refrigerators and washing machines. It was founded in 1984 and majority control was acquired by the state-owned Hisense Group in 2006. Subsequently, it became the white goods arm of its parent. In 2020, ownership reforms were introduced, following which Hisense is likely to cease being a state-controlled company. This should have a positive impact for its management and governance structure. Central air conditioning is its key segment contributing over half of profits. It operates through a joint-venture with Johnson Controls-Hitachi and United Trading. The central air conditioning market is growing steadily in China, driven by the purchase of more expensive apartments. This trend for higher penetration of central air conditioning is likely to continue and Hisense has been gaining market share from global competitors. The company's valuation is exceptionally attractive given the growth opportunity with the shares valued at seven times forecast earnings and paying a dividend yield of four per cent.

Kansai Nerolac Paints is the third largest paint company in India. Its parent, Kansai Paint of Japan owns 75 per cent of the company's shares, while management is controlled by its longstanding professional team. 60 per cent of the company's sales come from decorative paints. This is an underpenetrated industry in India which has consistently grown at a steady pace, led by demand from Indian consumers to repaint houses. Unlike other markets, decorative paint demand in India is not cyclical, as it is dominated by repainting activities whereas cyclical new housing construction comprises only a small share of total demand. Kansai Nerolac has gained market share from the informal sector, by launching new products such as the Soldier brand of economy paints. Decorative paint has strong pricing power in India, which has allowed the company to improve its profitability consistently. Kansai Nerolac is also the market leader in industrial and automotive paints. In these segments, it has the advantage of Kansai Japan's technology, as its parent is a global leader in automotive paints. In recent years, the significant downturn in the Indian automotive industry hurt Kansai's automotive paint volumes. Auto penetration rates remains low in India. As demand improves, the growth for its industrial and automotive segment is likely to improve in the coming years.

Leeno Industrial produces pins and sockets used for testing printed circuit boards and integrated circuits respectively. Founded in 1978 by Chae-Yoon Lee, who is still chief executive, the company has consistently moved up the value chain by reinvesting profits in research and development and vertical integration and generates very attractive margins as a result of this investment. The company has a leading position in the test pin and socket categories. Its market share has been increasing, given its technological advantages and research and development capabilities. It also has strong customer relationships, as its engineers are placed within clients' offices, working together on the development of new products. As test pins and sockets are used in research and development, demand is less cyclical than components used for capital expenditure or production. Its sales growth and profitability are likely to improve in the coming years. The trend of miniaturisation of components has led to an increase in the selling prices of its pins and sockets. The introduction of 5G telecom services will also lead to an acceleration of demand for its key products. The company has also invested in building new businesses, such as probe heads for medical equipment. It has signed high quality global customers such as Siemens, which should underpin its growth in this segment.

Portfolio Managers' Report – continued

Metropolis Healthcare is among the leading diagnostics companies in India. Its current chief executive is Ameera Shah, from the second generation of the founder family. The chief executive has ensured that Metropolis maintains industry leading quality standards. The Indian diagnostics industry is highly fragmented, and dominated by 'mom and pop' laboratories where testing and safety practices are poor. As patients are becoming more aware of the need for higher quality testing services, these small laboratories are gradually losing market share to larger companies. Metropolis has also used its strong balance sheet to acquire smaller laboratory chains, and improve their processes and systems. It is leading the industry's consolidation. The disruption due to Covid-19 is likely to put a significant strain on these small operators, as customer footfall has fallen substantially. This is likely to be an inflection point to accelerate the consolidation in favour of larger groups such as Metropolis.

NHN KCP provides payment gateway and value added network (VAN) services for digital transactions in the Korean market. For every online payment processed via NHN KCP's gateway the company takes a percentage of the transaction value and NHN KCP is the market leader with approximately 25 per cent market share. Its online VAN sends and receives payment information between the payment gateway and credit card issuer and is fee based. NHN KCP is the market leader in this segment also with approximately 50 per cent market share. The VAN business is extremely profitable, as it has negligible marginal costs. Customers have very little incentive to switch, and therefore competition is limited. The company also cooperates with global payment companies, which reduces the risk of future competition from these global companies in the Korean market. E-commerce is growing rapidly in Korea, especially following the Covid-19 disruption. The company has benefited in recent years from its high quality reputation amongst online merchants. This has facilitated a number of contract wins with overseas companies entering Korea such as Apple & Tesla. With the increasing contribution from these global companies, NHN KCP expects to continue to outpace Korean ecommerce market growth.

Poya International is among the leading retail chains in Taiwan, with a focus on categories such as cosmetics, ladies' accessories and fast moving consumer goods. Its founding family owns a majority stake in the company. Tony Chen, from the second generation of the family, has been the chief executive for the last decade. Poya has successfully built a dominant franchise in the discount store format in Taiwan by offering a large selection of products at low prices and with better service than the traditional markets it competes against. Its management has also improved the company's profitability consistently. Its profit margins have steadily increased over the years as its sales mix has shifted towards higher margin products and operating efficiency at its stores has improved. In 2019, the company piloted the Poya Home format, focusing on hardware products. This format has increased the addressable market for the company significantly. Management expects to gain significant scale in this segment over the next five years.

United Breweries is India's dominant beer company with 52% market share. Heineken owns a controlling stake in the company. Annual per capita beer consumption is only four litres in India which is a fraction of other emerging markets. Beer consumption should grow rapidly, as more than 250 million Indians will reach the legal drinking age over the next decade. United Breweries has built an attractive portfolio across different segments. Its Kingfisher beer brand is the leader in India. It also has several regional brands and Heineken has introduced its own premium products into the company's range of beers. This should help United Breweries grow significantly in the coming years. Complex tax regulations which require capacity creation in each state, government control over distribution of alcohol, and prohibition on advertising create large barriers to entry for new players. The company is expensive when compared against its earnings but its market value represents only $3 per capita compared to $10-$15 for the leading Chinese brewers which have much lower market share. We expect United Breweries' margins to increase as the Indian market increasingly shifts to premium brands.

Portfolio Managers' Report – continued

Universal Robina is one of the Philippines' leading consumer staples companies, with leading market positions in snacks, candies, chocolate, instant coffee and ready to drink tea. It is majority owned by the Gokongwei family. In 2018 the company appointed Irwin Lee as its chief executive. With decades of experience in senior roles at Procter & Gamble, Irwin has led significant changes at Universal Robina, including higher brand investment, faster introduction of new products and increasing the direct distribution reach. This has led to an improvement in the company's market share across various categories over the last year. These market share gains should continue. Irwin has also targeted savings from higher efficiency in the company's supply chain and improving the profitability of acquired businesses in Australia and New Zealand. Universal Robina also has the opportunity to introduce new products in categories such as instant noodles and beverages through its joint ventures with leading brands including Nissin Foods and Vitasoy.

Voltas is the leading air conditioning brand in India. It is majority owned by the Tata group. The Indian air conditioner industry has a penetration rate of only five per cent, compared to over 70 per cent in China. The industry has been growing rapidly in recent years, led by higher disposable incomes and better availability of electricity in semi-urban and rural areas. Voltas has consistently strengthened its market position. Its market share has increased from 10 per cent in 2003 to over 24 per cent currently. Its larger scale gives it advantages in procurement, distribution and brand investment. This has led to the company having significantly higher profitability than its peers. It has recently introduced a range of consumer durable products including washing machines, refrigerators and dishwashers through a partnership with Arcelik Group of Turkey which operates the Beko brand. The company has significant long term potential to build a bigger presence in these categories.

Zhejiang Weixing New Building Materials is among the leading plastic pipe manufacturers in China. Its parent is a well reputed local conglomerate owned by management and employees and owns 70 per cent of the company's shares. The plastic pipe industry in China is highly fragmented. Most companies in the industry focus on selling low-end products in large quantities to real estate developers. Since its inception, Zhejiang Weixing has instead focused on building a strong relationship with retailers. Therefore, the majority of its sales come from purchases made directly by end customers. The company has consistently invested in brand building and upgrading its product portfolio. As a result, its profitability is industry leading. Its strong brand has also led to consistent market share gains.

Significant additions to existing positions

We added to Scottish Oriental's holdings in a number of companies as share price weakness resulted in more attractive valuations. These companies included Indian conglomerate **Godrej Industries**; Indian auto components manufacturer **Mahindra CIE Automotive**; Philippine casual dining restaurant operator **Max's Group**; Indonesia's **Mitra Adiperkasa**, an operator of franchises in food & beverage, department stores, sportswear and fashion apparel; Indian real estate developer **Oberoi Realty**; Indonesian Pizza Hut franchisee **Sarimelati Kencana**; Indonesian auto components manufacturer **Selamat Sempurna**; noodle and beverage manufacturer **Uni-President China**; and Hong Kong-based non-alcoholic beverage producer **Vitasoy**.

We continued to build up positions for the Company in Hong Kong-based premium noodle manufacturer **Nissin Foods**; convenience store operator **Philippine Seven**; and Indian food and beverage producer **Tata Consumer Products**. We added to Scottish Oriental's position in Philippine branded food producer **Century Pacific Food** on our increased conviction in the investment case.

Portfolio Managers' Report – continued

Sales

During the year we disposed of 17 holdings for the Company.

Hong Kong-based manufacturer of semiconductor production equipment **ASM Pacific Technology** was sold following rapid share price appreciation. The management of Philippine **China Banking Corporation** have shown a lack of urgency in improving returns. Sri Lankan Telecom operator **Dialog Axiata** has been operating in an increasingly uncertain regulatory environment. Indian city gas distributor **Gujarat Gas** has performed strongly for Scottish Oriental but as its share price rose, its valuation became more expensive despite increasing regulatory risks. Indian Cancer specialist centre group **Healthcare Global Enterprise** over-expanded, diversifying away from its core specialism which led to poor returns. Indian fast moving consumer goods company, **Jyothy Laboratories** disappointed us by appointing the daughter of the chairman as its chief executive rather than professionalising management as we had expected. Hong Kong bus operator **Kwoon Chung Bus** did not divest non-core assets which they had led us to believe they would do. Taiwanese window blind manufacturer **Nien Made** is highly exposed to discretionary spending in the United States which is likely to be challenged in the coming periods. We sold **Pak Suzuki Motor** preferring to focus on **Indus Motors** which we believe to be the stronger of the Pakistani auto manufacturers. We expect further earnings downgrades for Singapore hospital operator **Raffles Medical** which has seen its Singapore revenues fall because of Covid-19 at the same time as it is incurring start-up losses in China. The company has a large exposure to healthcare tourism, which is likely to be hurt significantly in the coming periods. Taiwanese analogue integrated circuit designer **Silergy**'s share price rose more quickly than its profits leading to expensive valuations. We concluded that Indian children's garment manufacturer **SP Apparels** did not have pricing power given its reliance on UK-based retailers who have had their own troubles. Indian mechanical automotive cable manufacturer **Suprajit Engineering** was sold because of the risks associated with businesses it acquired in Europe and the United States. Convenience store operator **Taiwan Familymart**'s share price was strong over the period leading to expensive valuations. Traditional Chinese medicine company **Tong Ren Tang Technologies** has not seen the strength of its brand matched by strength of execution by management. Taiwanese networking equipment manufacturer **Wistron NeWeb** has had difficulty passing on increases in component prices to its customers and, at the same time, is facing the threat of larger companies entering its market. Korean image solution provider **Vieworks** will likely see even fiercer competition from Chinese competitors in the future.

Significant reductions from existing positions

We reduced Scottish Oriental's holdings in a number of companies following strong share price appreciation which saw their valuations rise. These companies included **HeidelbergCement India**; Indian information technology outsourcer **Mphasis**; Taiwanese cable and connector manufacturer **Sinbon Electronics**; and Taiwanese uninterruptible power supply maker **Voltronic Power**.

We reduced the Company's holdings in several companies following the emergence of Covid-19 as we believed the increased risks warranted smaller positions in the portfolio. The companies included Chinese online recruitment platform **51job**; India's **Great Eastern Shipping**, an operator of offshore vessels, tankers and bulk carriers; Singapore conglomerate **Haw Par Corporation**; Chinese branded apparel retailer **JNBY Design**; and Indian information technology outsourcer **Zensar Technologies**.

We reduced Scottish Oriental's holdings in a number of companies where we have become less convinced at management's strategy. These companies included Malaysian auto component manufacturer **APM Automotive**; Sri Lanka's **Hatton National Bank**; and gas distributor **Towngas China**.

Portfolio Managers' Report – continued

Purchased and subsequently sold

Five companies were purchased during the year and subsequently sold. All but one of these sales were as a result of the suddenly changed outlook following the rapid spread of Covid-19. Indian tractor manufacturer **Escorts Limited** was purchased on improving governance and operational improvements which have led to better profitability. The share price rose rapidly shortly thereafter and we sold Scottish Oriental's holding as its valuation had become expensive. **Indian Hotels** was purchased as a new management team sought to sell off non-core assets and improve profitability but the pandemic has impacted the company severely and will likely continue to do so for some time. **IIFL Wealth Management** was purchased for its leading position in India's growing wealth management industry. Unfortunately this is a sector that struggles in times of uncertainty. **Jollibee Foods** has a dominant position in the Philippine quick service restaurant sector but recent overseas acquisitions did not perform well, which created a buying opportunity. Unfortunately with business significantly down, it will find it very difficult to service the debt it took on to make these acquisitions. Indian finance company **Mahindra & Mahindra Financial Services** was purchased after a liquidity squeeze impacted a number of finance companies in India. We expected management to navigate that crisis with aplomb as its competition pulled back but Covid-19 has resulted in a much more difficult situation for the company.

Portfolio quality

There has been a larger than usual amount of portfolio activity over the past year. In the main, companies that were purchased were larger and more liquid than those sold and these new additions typically generated higher returns on capital than those sold. The median market capitalisation of new holdings was US$2.1 billion compared to those sold at US$850 million. The median average value of shares traded in new holdings over the most recent six month period was US$6.3 million compared to US$1 million for those sold. And the median five year average return on capital employed of new holdings was 25 per cent compared to 12 per cent for those sold. We believe the end result is an even higher quality portfolio.

Portfolio Managers' Report – continued

Ten Largest Equity Holdings at 31 August 2020

Company	Country	Sector	% of Shareholders' Funds
Godrej Industries	India	Materials	4.2

Godrej Industries is the listed holding company of the Godrej Group, one of India's most accomplished and diversified groups. The stake in Godrej Consumer Products, a leader in personal and home care, contributes the majority of its value. Godrej Consumer Products holds the number one positions in hair colour, household insecticides and liquid detergents and number two in soaps in India. The stake in Godrej Properties, the Group's listed real estate arm, is the next biggest contributor. Another investment is in the agricultural company, Godrej Agrovet, one of India's largest palm oil producers. Godrej Industries also operates a standalone chemicals business.

Colgate-Palmolive India	India	Consumer Staples	3.7

Colgate-Palmolive India is the listed subsidiary of Colgate Palmolive Company. It has operated in India since 1937, and its parent owns a 51 per cent stake in the company. Colgate has been the dominant market leader in the Indian oral care industry for decades. Its market share of toothpaste has increased from 49 per cent to 52 per cent over 10 years. Per capita consumption of toothpaste in India is less than half of the average of other developing countries. Colgate should benefit from higher per capita consumption and the shift towards premium oral care products. In recent years, the company has focused on gaining share in the fast growing "natural" segment of the industry. Its parent also has a large portfolio of personal care, home care and pet care products, which the company is likely to introduce in India as per capita incomes grow.

Century Pacific Food	Philippines	Consumer Staples	3.7

Century Pacific Food is a leading branded producer of canned fish and meats in the Philippines and a significant manufacturer of canned tuna exports. It also has a small but growing dairy products division. The company listed in 2014, and was spun out of Century Canning Corporation, a privately-owned company founded by Ricardo S. Po in 1978. Christopher Po, son of the founder, joined as chief executive of Century Pacific after its listing (having starting his career outside of the family business) and took steps to revamp the company, with new business additions in coconut water, condiments and frozen meats. The family are heavily involved in the running of the company but their long term thinking is evident in terms of succession planning and in the desire to build a franchise that outlasts the family.

Selamat Sempurna	Indonesia	Consumer Discretionary	3.3

Selamat Sempurna grew from a small family run producer of automotive radiators to become a leading manufacturer of filter and radiator products based in Indonesia. It has an extensive product range, mainly under the flagship brands Sakura (filters) and ADR (radiators), and a majority of sales is derived from exports. As a testimony to its quality and expertise, the company has formed several joint ventures with well-known names such as Donaldson in the USA and POSCO in Korea. Growth will come from achieving further economies of scale and penetration into new export markets.

Philippine Seven	Philippines	Consumer Staples	3.2

Philippine Seven is the dominant convenience store operator in the Philippines, with the exclusive right to use the 7-Eleven brand. President Chain Store of Taiwan owns a majority stake. Management is led by its chief executive Victor Paterno who is from the second generation of the company's founding family and along with his family he owns a seven per cent stake in the company. Philippine Seven is the undisputed market leader in convenience stores resulting from its first mover advantage. It has approximately 3,000 stores which is a multiple of its next largest competitor. As the company has gained scale, its bargaining power with suppliers has increased. This has led to an improvement in its profitability and free cash flow generation. Increased cash generation is being used to fund an acceleration in its store network rollout, which should further strengthen its market position.

Portfolio Managers' Report – continued

Company	Country	Sector	% of Shareholders' Funds
Nissin Foods	**Hong Kong**	**Consumer Staples**	**3.1**

Nissin Foods is the leading noodle brand in Hong Kong. It was founded in 1984 by its Japanese parent, Nissin Foods Holdings. It is led by its chairman Kiyotoka Ando, from the third generation of the group's founding family. The company has a dominant franchise in Hong Kong, with over 60 per cent market share in noodles. Its operations in Hong Kong are growing modestly, as the company launches new products and increases its control over its distribution channels. It has a much larger growth opportunity in mainland China, where it has 20 per cent market share in the premium noodle segment. Nissin has built a strong brand in the mainland, based on its portfolio of healthier and higher quality products compared to its peers. Customer preferences are steadily shifting in favour of premium noodles and Nissin Foods is likely to be among the beneficiaries of this trend.

SKF India	**India**	**Industrials**	**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.

Emami Limited	**India**	**Consumer Staples**	**2.7**

Emami Limited is a leading fast moving consumer goods company in India. The founding Agarwal and Goenka families own 54 per cent of the company's shares, with its management team comprising family members as well as reputed professionals. The company has dominant market shares in several niche product categories, such as balms, antiseptic creams, hair oils and men's skincare products. It has focused on creating new product categories since an early stage in its development, investing significantly in advertising and promotion which typically accounts for 15 to 20 per cent of the company's sales. The result is strong brands with a loyal following. In recent years, the company's sales growth was relatively weak resulting from a consumer slowdown in India as well as some issues related to its distribution and brand management which the management team have now addressed.

Blue Star	**India**	**Industrials**	**2.5**

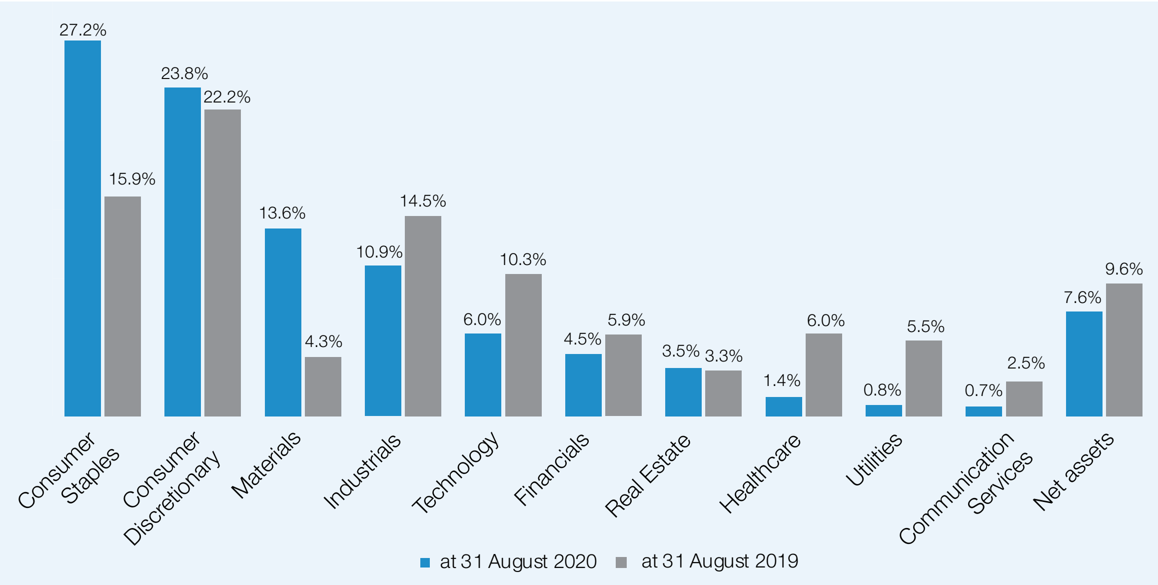
Blue Star was founded in 1943 in India as an agency for international air conditioning and refrigeration brands of global companies. It has since established its own portfolio of air conditioning and refrigeration products as well as being the exclusive distributor for several multinational brands in 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.

Mphasis	**India**	**Technology**	**2.5**

Mphasis was formed in June 2000 by the merger of the US-based information technology consulting company Mphasis Corporation and the Indian information technology services company BFL Software Limited. Its former controlling shareholder, Hewlett-Packard (now DXC Technology), sold its stake to private equity firm Blackstone in 2016. Its new owner installed a new management team and since then growth has been strong and the company no longer relies on DXC Technology for the bulk of its work.

Portfolio Managers' Report – continued

Sector Allocation (% of Shareholders' Funds)



Investment process

We are conviction-based, bottom-up stock selectors with a strong emphasis on high quality proprietary research. 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 Scottish Oriental's portfolio. Country weightings bear no relationship to regional stock market indices and we do not consider ourselves obliged to hold investments in any individual market, sector or company. As a result, the Company's asset allocation on a country and industry level is a residual of our stock selection process.

Having spoken to almost all of the management teams of Scottish Oriental's holdings over the last six months we are pleased that most are in good shape despite the pandemic. In many cases the crisis provided us with an attractive opportunity to add to some of our favourite companies. The sell down also provided us with the opportunity to buy a large number of new companies at attractive prices although such opportunities were short-lived given the speed of the rebound. A number of these purchases were larger companies which briefly qualified for Scottish Oriental's investment remit. A larger number of companies than we would expect were sold during the year. The two main drivers of these sales were where a company's position had fundamentally changed as a result of Covid-19 and where our ongoing reviews of management and franchises led us to conclude the investment rationale had weakened. Some of these sales have been in process for an extended period of time with declining liquidity in very small companies making it challenging to exit. We have become increasingly cautious on liquidity as, often it can be relatively easy to build a position in a small company, but much more difficult to sell.

We tend to be careful when buying a new stock for Scottish Oriental, typically starting with a small holding. This holding can give us improved access to management and we will increase the Company's exposure as our conviction builds. If this improved access does not result in stronger conviction we will sell. This can result in increased transaction activity. Such levels of activity are much rarer in the Company's top ten holdings where we have our maximum conviction. Only one of last year's top ten largest positions is no longer owned by the Company being **Gujarat Gas**, which ended the period with a share price notably higher than it was at the beginning. And only one of this year's top ten positions is new to the Company being **Emami Limited**. This is because

Portfolio Managers' Report – continued

its share price has risen significantly since we bought it making it a large position quickly. Our increased conviction in Scottish Oriental's largest holdings can be evidenced by their total weighting. As at the end of the period, the top ten holdings represented 32 per cent of Scottish Oriental's net assets compared to 30 per cent for the top ten holdings one year ago and 25 per cent three years ago. The top 20 holdings show a similar pattern representing 53 per cent at the end of the period compared to 50 per cent one year ago and 44 per cent three years ago. The portfolio has become increasingly focused on companies where we have higher conviction with these companies generating higher returns on capital and having improved liquidity.

At the start of the year, a global pandemic was not a risk that we were considering. It has caught us, and the management teams of Scottish Oriental's holdings, by surprise. When we invest we always pay heed to balance sheet strength and a key part of our investment process is to ask what might go wrong as well as what might go right. We cannot think of everything that might go wrong and spend little time forecasting earnings as we have found it to be a fruitless exercise over the years. Instead we prefer to focus on identifying franchises that are strong enough to survive all eventualities and management teams who can skilfully navigate changing conditions. However, a number of Scottish Oriental's portfolio holdings have been put in a very difficult position by the pandemic. Some of these companies were purchased at what we believed to be attractive valuations while they dealt with other underlying issues such as too much debt or an existing economic slowdown. In some of these cases the additional stress placed on these businesses has been too much and regretfully we chose to sell in these situations. It is always painful to make mistakes and realise we have lost capital but it is often in such turnaround situations where outsized returns can be made.

An example of a company where we see significant improvements over the coming years is **Emami Limited**. The company has spent decades building its brands but in recent years lost its way with key errors in brand management and distribution. This may well have been because the controlling families had been distracted by their personal debt which was taken on to invest in other businesses such as real estate, cement and hospitals. The families were required to pledge the majority of their shares in Emami to secure funds which is a situation we are never happy with. But recently, the family has made significant efforts to reduce their personal debt and remove the lien on their shares. The sale of their cement business has reduced their pledge by half, and further asset sales are likely to remove the pledge completely. This both reduces the risk of a sale of shares by the family to meet their debt obligations and has allowed the family to refocus on Emami. In terms of brand management and distribution, management have made several changes in these areas, which we expect to lead to an improvement in growth and higher profitability. The controlling families have hired high quality professional managers, including a head of sales from Hershey's, and a head of the healthcare division from Dabur India. The distribution infrastructure has been overhauled by reducing its share of the wholesale segment, which has been under pressure, and investing to increase its share of the faster growing modern trade and e-commerce segments. Following the Covid-19 disruption, as consumer spending shifted towards the health and hygiene segments, the company has also launched several new products in these segments (sanitisers, soaps, hand-washes) and is planning to enter new categories such as homecare. There has also been a company-wide cost reduction exercise, with the help of a management consulting firm, which should improve profitability meaningfully.

Understanding the intentions of a controlling family is very important for us. We wish to be aligned with a controlling shareholder as, if we are not, there is very limited potential for us to effect changes and we become hostages rather than partners. Therefore we are much more likely to invest Scottish Oriental's capital into a company where we have good access to management and the controlling shareholder and they are happy to share their thoughts with us as well as soliciting our views. One such company is **Godrej Industries**. It is the holding company for the Godrej family's

Portfolio Managers' Report – continued

interests in Godrej Consumer Products, Godrej Properties and Godrej Agrovet which are all separately listed. Normally we are very wary of holding companies as they tend to exist to perpetuate a controlling shareholder's interests, often at the expense of minority shareholders. This is not the case with the Godrej family. The structure is a legacy and is not something the family are committed to. They have looked at unwinding it but there are serious tax consequences. The situation isn't perfect but is understandable. The family have been very open in their thinking and frequently meet with us and other investors. They also make available senior managers within the group which gives us further conviction in both the quality of the family and their businesses. Godrej Consumer Products which represents about half of the value of Godrej Industries has not performed as well as it could have done over the last few years. However the openness of its chief executive Nisa Godrej and her management team and the changes they have made to address these disappointments gives us faith. The discount that Godrej Industries trades on compared to the value of its underlying holdings has increased in recent years and is now close to 60 per cent. This concerns the family but is an opportunity for Scottish Oriental to invest in a portfolio of strong businesses alongside the Godrej family at a very attractive valuation. And we trust the Godrej family to do the right thing.

Doing the right thing is important in business, even if it costs in the short term. Last year we purchased **Philippine Seven** for Scottish Oriental. We continued to build up the position this year and it is now a top ten holding. We have been very impressed as the company uses its leadership position to scale up new products such as fried chicken, premium fresh coffee and other takeaway food and beverage offerings as well as remittance and bill payment services. As the exclusive operator of 7-Eleven in the Philippines, the company was heavily impacted by the country's strict lockdown with many of its stores shut and others limited to restricted opening hours. Management responded quickly cutting costs where they could, increasing the company's available credit lines and seeking to renegotiate rents. The majority of Philippine Seven's stores operate as franchises and it is telling that management also helped renegotiate rents on behalf of its franchisees. In addition the company made available a memorable 711 million pesos in interest free loans to support its franchisees, many of whom have been struggling. Once a franchisee can afford to, they can make repayments monthly. If the franchisee decides they no longer wish to continue operating their 7-Eleven franchise then any outstanding loans will be waived. This is generous and will undoubtedly cost the company in the short term but should not be without long term gain. Management have ambitious store opening targets and want the bulk of new stores to be run as franchises. Offering such support now shows that franchisees are true partners of the company helping to build future success.

Outlook

It is no understatement to say that the outlook is cloudier than it has been at any time we can remember. The economic impact of the coronavirus pandemic has been acute. The numerous lockdowns that were introduced to try and contain it have stifled economies. Even without these lockdowns, consumers' behaviour would have changed. There has been a massive dislocation and there is no knowing how long this will last. Many Asian countries have largely contained the pandemic yet have still suffered severely. North Asia's wealthier, more industrialised economies have performed better than those in South and South East Asia, partly because of better containment of the virus, partly because their economies are more export focused with manufacturing less impacted than consumption, and partly because their wealthier governments have more tools at their disposal. The domestic focused economies of India, Indonesia and the Philippines where we have invested most of Scottish Oriental's capital have suffered much sharper contractions and this has been reflected in corporate earnings and share prices. Expectations are for equally sharp rebounds in these economies as normality returns but, even if this is the case, there may be some bad scarring. Asia's central bankers have followed their counterparts in the West and Japan in cutting interest rates with further cuts forecast. Should economies rebound there will be a large disconnect between interest rates and growth that would normally be expected to lead to

Portfolio Managers' Report – continued

inflation but there is a near universal consensus that inflation is not a worry. This worries us. Things that are not expected to happen tend to lead to bad outcomes if they do happen.

Despite the pandemic's impact, India, Indonesia and the Philippines continue to represent the bulk of Scottish Oriental's investment ideas. The countries' attractive demographics and burgeoning middle classes provide an opportunity to invest in small companies that are leaders in these respective markets which have decades of structural growth ahead of them. We cannot forecast when a rebound in demand will happen but we are confident that consumption will return and restaurants will again be busy in these countries. **Max's Group** has not been a successful investment for the Company so far. We built up the position as we were impressed at the controlling families' willingness to professionalise management with the appointment of Ariel Fermin as chief operating officer. There were a number of changes that needed to be made with too many formats and a lack of central sourcing leading to inefficiencies and it was easier for an outsider to identify these issues. On speaking to members of the controlling families and management it became apparent that despite his chief operating officer title, Ariel Fermin is de facto chief executive and is fully empowered to make all changes he sees fit. The disruption caused by the lockdown in the Philippines has impacted Max's heavily with revenues in the second quarter of 2020 falling by more than 70 per cent compared to the same period in 2019 and the company booked a large loss for this period. Management have responded by cutting costs, enhancing takeout and delivery offerings and shutting some weaker stores permanently. When the Philippines recovers, Max's will be very well positioned to take advantage with its leaner cost structure and greater focus on its core brands. The market value of Max's is now not much more than US$ 100 million. It operates almost 750 restaurants, the majority directly owned with the rest franchised. Its average restaurant generates more than US$ 500,000 of revenues yet the current stock market valuation ascribes less than US$ 200,000 for each directly owned restaurant and less than US$ 100,000 for each franchised restaurant. Should earnings return to prior levels, Max's will be on a price to earnings ratio of six times. However we expect profitability to improve with the operational changes made and there is still plenty scope for growth. We cannot forecast when things will get better but there is significant upside when they do. It seems unlikely to us that eating out will not be popular again as humans are by their nature a social creature. As a species we are impatient but patience is important when investing. We believe, if we are patient, Max's will generate strong returns for the Company over the coming years.

Another restaurant company that has performed poorly for Scottish Oriental this year has been **Sarimelati Kencana**. With more than 500 Pizza Hut outlets in Indonesia and by far the dominant operator in the country, the company's restaurants were impacted by declining confidence and various local lockdowns. However, approximately half of its outlets are exclusively for delivery and delivery sales increased significantly during the period. As a result, in the second quarter of 2020 revenues fell by only 17 per cent and the company still generated a profit albeit a very modest one. 2020 profits will be significantly down on last year's. But the demand for eating out has not gone away and comparing the current share price with 2019's profits shows Srimelati Kencana as being on a "normalised" price to earnings ratio of less than 10 times. The growth in pizza delivery may not have cannibalised dine-in as they serve two different purposes. Therefore as life returns to normal, the crisis may well turn out to have accelerated Sarimelati Kencana's growth by drawing customers' attention to its delivery operations. To give an indication of the potential, Domino's Pizza, the leader in the UK delivery market, has more than 1,000 outlets serving a population that is only one quarter of Indonesia's population. Sarimelati Kencana is now valued at only 0.5 times its revenues compared to Domino's in the UK at 4 times revenues and Domino's Indian franchisee on 9 times revenues. We believe that Sarimelati Kencana should prosper even if Indonesians never venture out to restaurants again. This seems unlikely and we expect its restaurants to be as busy as its delivery operations once confidence returns. We do not know if this will take months or years but the return available is well worth waiting for.

Portfolio Managers' Report – continued

Another industry that has seen a temporary setback has been air conditioners. Scottish Oriental owns the leading manufacturers in India (**Voltas** and **Blue Star**) and also the Philippines (**Concepcion Industrial**). Unfortunately both countries went into lockdown during the peak sales period leading into summer and all three companies saw revenues in the second quarter of 2020 more than halve from the same period the prior year. We do not believe that demand for air conditioning in either country has been reduced. Annual air conditioner sales in India are approximately five million for a population of 1.38 billion, compared to approximately 45 million in China for a similar population size. In the Philippines, annual sales of air conditioners are less than one million for a population of 110 million. Although India and the Philippines both have lower levels of per capita income than China, our analysis of demand trends across emerging markets suggests that per capita incomes in both India and Philippines are nearing levels at which demand for discretionary products such as air conditioners typically accelerates. Therefore we expect revenues for all three companies to resume growth in due course. One other observation worth highlighting is when compared to share prices at the end of February i.e. before fear of the coronavirus took hold, Voltas' share price has almost recovered, and Blue Star's share price is well on its way to recovering, whereas Concepcion's share price is still down significantly. The relative competitive positions of these companies are unchanged yet share price performance has been very different. Voltas' market capitalisation is a multiple of Blue Star's which is a multiple of Concepcion Industrial's. And the difference in the value of shares traded in each company is even more exacerbated. Therefore we believe the biggest driver of share price performance here has been liquidity rather than fundamentals. This is reflective of what we are seeing in stock markets everywhere. Money printing has driven flows into stock markets. These flows are directed towards larger more liquid companies. We believe that fundamentals will be reflected in time with patience rewarded as the Company's quality companies grow and produce outsized returns for shareholders. This was the case for Scottish Oriental's portfolio after both the Asian Financial Crisis and the Global Financial Crisis and we expect this pattern to repeat.

The Company's portfolio trades on a historic price earnings ratio of 20 times, with an expected earnings decline of 11 per cent in the current year. On these metrics, the Company's portfolio is as expensive as it has ever been. Earnings growth for the following year is forecast at 28 per cent which would take the portfolio back to a more reasonable valuation. Forecasting earnings is not our strength, particularly in times as uncertain as these. We do not know which way markets will go next and are comfortable with Scottish Oriental holding eight per cent cash meaning the portfolio is 92 per cent invested and should capture most upside if markets continue to rally. If markets fall again we will look to deploy this cash into our favourite companies. We have also been using the Company's cash to buy back shares in Scottish Oriental, effectively adding to the entire portfolio on behalf of shareholders.

Vinay Agarwal
Scott McNab
FSSA Investment Managers
30 October 2020

List of Investments at 31 August 2020

	% of Shareholders' Funds
BANGLADESH (1.7%)	
Financials (1.7%)	
Delta Brac	1.7
CHINA (7.6%)	
Communication Services (0.7%)	
51job	0.7
Consumer Discretionary (2.0%)	
Hisense Home Appliances	1.5
JNBY Design	0.5
Consumer Staples (2.4%)	
Uni-President China	2.4
Materials (1.7%)	
Zhejiang Weixing New Building Materials	1.7
Utilities (0.8%)	
Towngas China	0.8
HONG KONG (7.8%)	
Consumer Discretionary (2.8%)	
Fairwood Holdings	1.9
Nexteer Automotive Group	0.9
Consumer Staples (5.0%)	
Nissin Foods	3.1
Vitasoy International	1.9

	% of Shareholders' Funds
INDIA (39.4%)	
Consumer Discretionary (5.2%)	
Mahindra CIE Automotive	2.3
Bosch Limited	1.4
Voltas	1.5
Consumer Staples (8.2%)	
Colgate-Palmolive India	3.7
Emami Limited	2.7
Tata Consumer Products	1.4
United Breweries	0.4
Healthcare (1.4%)	
Metropolis Healthcare	1.4
Industrials (6.3%)	
Blue Star	2.5
Eicher Motors	0.2
Great Eastern Shipping	0.6
SKF India	3.0
Technology (2.9%)	
Mphasis	2.5
Zensar Technologies	0.4
Materials (11.9%)	
ACC	2.0
Ambuja Cements	1.6
BASF India	0.8
Castrol India	1.1
Godrej Industries	4.2
HeidelbergCement India	1.5
Kansai Nerolac Paints	0.7
Real Estate (3.5%)	
Mahindra Lifespace	1.6
Oberoi Realty	1.9

	% of Shareholders' Funds
INDONESIA (12.6%)	
Consumer Discretionary (10.1%)	
Ace Hardware Indonesia	1.4
Astra Otoparts	1.3
Mitra Adiperkasa	2.4
Sarimelati Kencana	1.7
Selamat Sempurna	3.3
Financials (1.1%)	
Bank OCBC NISP	1.1
Consumer Staples (1.4%)	
Hero Supermarket	1.4
MALAYSIA (0.0%)	
Consumer Discretionary (0.0%)	
APM Automotive	0.0
PAKISTAN (1.1%)	
Consumer Discretionary (1.1%)	
Indus Motor Company	1.1

List of Investments at 31 August 2020 – continued

	% of Shareholders' Funds
PHILIPPINES (12.5%)	
Consumer Discretionary (1.5%)	
Max's Group	1.5
Consumer Staples (9.0%)	
Century Pacific Food	3.7
Philippine Seven	3.2
Universal Robina	2.1
Industrials (2.0%)	
Concepcion Industrial	2.0
SINGAPORE (1.2%)	
Consumer Staples (1.2%)	
Haw Par	1.2
SOUTH KOREA (1.5%)	
Industrials (0.4%)	
Leeno Industrial	0.4
Financials (1.1%)	
NHN KCP	1.1
SRI LANKA (0.6%)	
Financials (0.6%)	
Hatton National Bank	0.6
TAIWAN (3.9%)	
Consumer Discretionary (1.1%)	
Poya International	1.1
Industrials (0.9%)	
Voltronic Power	0.9
Technology (1.9%)	
Sinbon Electronics	1.9
VIETNAM (2.5%)	
Industrials (1.3%)	
REE Corp	1.3
Technology (1.2%)	
FPT	1.2

Ten Year Record

Capital

Year ended 31 August	Market Capitalisation £m	Shareholders' Funds £m	NAV p	Share Price p	Discount to NAV %
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
2018	304.71	345.40	1,156.20	1,020.00	11.8
2019	301.73	346.06	1,158.42	1,010.00	12.8
2020	249.73	289.45	992.14	856.00	13.7

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*
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
2018	7,004	2,825	9.19	11.50	1.01	1.01	94	100
2019	7,648	3,734	12.50	11.50	1.01	1.01	88	100
2020	6,308	2,439	8.19	11.50	1.03	1.03	92	100

* A glossary of terms and definitions is provided on pages 72 and 73.

Cumulative Performance (taking year ended 31 August 2010 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
2010	100	100	100	100	100	100
2011	111	124	101	104	108	106
2012	120	125	98	110	136	129
2013	144	152	105	126	138	135
2014	162	176	116	135	91	135
2015	147	149	103	127	147	135
2016	189	187	133	137	90	135
2017	215	221	165	151	64	135
2018	208	211	164	152	87	135
2019	209	209	160	147	118	135
2020	179	177	173	124	77	135

Directors

James Ferguson (Chairman) joined the Board in 2004. He is Chairman of Value and Income 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. Mr Baird is also a member of the Audit Committee. After a period with the Foreign and Commonwealth Office, he 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.

Michelle Paisley joined the Board in April 2020. Michelle is a partner at global boutique advisory firm CC Strategic Partners focused on VC funds and early stage companies. Prior to that she was Managing Director at MVision, a global third-party advisor to Private Equity Funds. Michelle moved to Hong Kong in 2006 to head up Macquarie Securities' Kong Kong/China institutional equities business, leading a 50-strong team of traders, salespeople and analysts across Hong Kong and Shanghai. She was a fund manager during the dot com boom with Bankers Trust. Michelle started as an analyst at HSBC James Capel in London, before relocating to Australia with Citigroup in 1996.

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 Investments (UK) Limited.

Jeremy Whitley joined the Board in March 2017 and became Chairman of the Audit Committee in January 2019. Following a twenty nine year investment career, he 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 plc. He began his investment career at SG Warburg & Co in 1988. He is a non-executive Director of JPMorgan Indian Investment Trust plc and Polar Capital Global Healthcare Trust plc.

Strategic Report

The purpose of this report is to provide shareholders with details of the Company's strategy, objectives and business model as well as the principal and emerging risks and challenges the Company has faced during the year under review. It should be read in conjunction with the Chairman's Statement on page 2 and the Portfolio Managers' Report on pages 4 to 20, which provide a review of the Company's investment activity and a look to the future.

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 24.

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 Company's portfolio of investments is contained in the country allocation and sector allocation analysis within the Portfolio Managers' Report.
- 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 are not determined by reference 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 Investment Region and on meeting the management of those companies in which the Company is invested, or might invest.

Strategic Report – continued

Purpose and values

Purpose

To achieve long-term capital growth by investment in mainly smaller Asian quoted companies.

Values

Independence: to act independently in the interests of shareholders.

Sustainability: to ensure that the companies in which the company invests are supportive of good environmental, social and governance practices and that the manager encourages continuous improvement in these areas.

Transparency: to report transparently and accurately to shareholders on the condition, performance and prospects of the Company.

Culture

The board considers that its culture of open debate combined with strong governance and the benefits of a diverse board is central to delivering its purpose, values and strategy.

Investment Objective

- The Scottish Oriental Smaller Companies Trust plc aims to achieve long-term capital growth by investing in mainly smaller Asian quoted companies.

Investment Policy

- The Company invests mainly in the shares of smaller Asian quoted companies, that is, companies with market capitalisations of below US$3,000m, or the equivalent thereof, at the time of first investment.
- The Company may also invest in companies with market capitalisations of between US$3,000m and US$5,000m at the time of first investment, although not more than 20 per cent of the Company's net assets at the time of investment will be invested in such companies.
- To enable the Company 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 Company will consider the use of long-term borrowings up to a limit of 50 per cent of the net assets of the Company at the time of borrowing.
- The Company invests no more than 15 per cent of its total assets in other listed investment companies (including listed investment trusts).
- The Company 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 Company 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 Company may invest in debt instruments in any country or currency.

Strategic Report – continued

- The majority of the Company's assets are denominated in Asian currencies or US dollars. The Company reserves the right to undertake foreign exchange hedging of its portfolio.

A portfolio review by the Investment Manager is given on pages 4 to 20 and the investments held at the year end are listed on pages 21 and 22.

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 63.

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 by the Management Engagement Committee. In relation to the Management Engagement Committee'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 Management Engagement Committee, 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.

Responsible Investing

The Investment Manager takes a strategic approach to responsible investing and stewardship, focused on quality investment processes, a culture of stewardship across the organisation and engaging all employees in responsible investing. The team believe that environmental, social and governance ("ESG") issues comprise sources of long-term risk and return and can therefore impact long-term investment value. The team also believe that, as stewards of shareholders' funds, they can achieve better long-term investment outcomes through active company engagement and by exercising the equity ownership rights they hold on behalf of shareholders.

The Investment Manager is a signatory to the UK Stewardship Code and has maintained the highest tiering – Tier 1 – awarded by the Financial Reporting Council for the quality of stewardship related activities and disclosures. The Investment Manager is also a signatory to the Principles for Responsible Investment, achieving in its most recent assessment 7 A+ ratings and 1 A rating for the 8 areas of assessment, and it is fully compliant with the CFA Institute's Code of Ethics and Standards of Professional Conduct for asset managers.

Strategic Report – continued

Principal Risks and Uncertainties

The Board has carried out a careful assessment of the principal and emerging risks facing the Company, including the unprecedented situation surrounding the Covid-19 pandemic. The Board acknowledges that there are a number of related emerging risks resulting from the pandemic that may impact the Company. These include investment risks surrounding the companies in the portfolio such as reduced demand, reduced turnover and supply chain breakdowns. The Board continues to work with the Investment Manager, PATAC and its other advisers to manage these risks as far as possible in these uncertain times.

The principal and emerging risks and uncertainties facing the Company, together with a summary of the mitigating action the Board takes to manage these risks, are set out below.

Risk	Mitigation
Investment objective and strategy The Board is responsible for setting the investment objective and strategy of the Company. An inappropriate or unattractive objective and strategy may have an adverse effect on Shareholder returns or cause a reduction in demand for the Company's shares, both of which could lead to a widening discount.	The Board conduct an annual strategy review and consider investment performance, shareholder views and developments in the marketplace as well as emerging risks which could impact the Company. The Board reviews changes to the shareholder register at quarterly Board meetings and engages the Administrator to continually monitor the discount at which the Company's shares trade, reporting regularly to the Board and buying back shares when appropriate.
Investment performance The Board is responsible for monitoring investment performance. Poor investment performance may have an adverse effect on Shareholder returns.	The Board reviews investment performance at each quarterly Board meeting. The Investment Manager reports on the Company's performance, transaction activity, individual holdings, portfolio characteristics and outlook. Investment performance and the portfolio composition has been monitored specifically in light of the Covid-19 pandemic. The Investment Manager is formally appraised at least annually by the Management Engagement Committee.
Financial and Economic The Company's investments are impacted by financial and economic factors including market prices, interest rates, foreign exchange rates, liquidity and credit which could cause losses to the investment portfolio.	The Board regularly reviews and agrees policies for managing market price risk, interest rate risk, foreign currency risk, liquidity risk and credit risk. These are explained in detail in note 13 to the financial statements on pages 68 to 71.

Strategic Report – continued

Risk	Mitigation
Operational The Company is reliant on third party service providers including FSSA Investment Managers as Investment Manager, PATAC as Company Secretary and Administrator, J P Morgan as Depositary and Custodian and Computershare are Registrar. Failure of the internal control systems of these third parties could result in inaccurate information being reported or risk to the Company's assets.	Operationally, Covid-19 is affecting each of the Company's key service providers and each has put in place the appropriate arrangements for their staff to work from home. To date these services have continued without disruption and the operational arrangements have proven adequate. The Board will continue to monitor these arrangements. The Audit Committee formally reviews each service provider at least annually, considering their reports on internal controls. Further details of the Company's internal control and risk management system is provided on page 38.
Regulatory The Company operates in a regulatory environment. Failure to comply with s1158 of the Corporation Tax Act 2010 could result in the Company losing investment trust status and being subject to tax on capital gains. Failure to comply with other regulations could result in financial penalties or the suspension of the Company's listing on the London Stock Exchange.	Compliance with relevant regulations is monitored on an ongoing basis by the Company Secretary and Investment Manager who report regularly to the Board. The Board monitors changes in the regulatory environment and receives regulatory updates from the Company Secretary, Lawyers and Auditors as relevant. The Board has been updated on any regulatory changes proposed in respect of the response to the Covid-19 pandemic as required.

Duty to Promote the Success of the Company

The Directors have a duty to promote the success of the Company for the benefit of its shareholders as a whole. The Directors are required to include a report explaining how they have discharged their duties under Section 172(1) of the Companies Act 2006 and how they have considered the views of the Company's key stakeholders in regard to any key decisions taken. The report includes specific matters the Board has considered during the Covid-19 pandemic. The Company being an investment trust, the key stakeholders comprise its shareholders, the Investment Manager and its third-party service providers (including the Company Secretary and Administrator, the Registrar, the Depositary and the Custodian).

The Board welcomes the views of shareholders and places considerable importance on communications with them. The Investment Manager reports back to the Board on meetings with shareholders and the Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company and presentations held in London in the normal course provide a forum, both formal and informal, for shareholders to meet and discuss issues with the Board.

Strategic Report – continued

The Company's primary business relationships are with its Investment Manager and AIFM, First State Investments (UK) Limited, and its Company Secretary and Administrator, PATAC. First State are specialists in Asia Pacific and Global Emerging Markets equity strategies with a team of dedicated investment professionals based in Hong Kong, Singapore and Edinburgh. They are bottom-up investors, using fundamental research and analysis to construct high-conviction portfolios. First Sate conduct more than a thousand direct company meetings a year, seeking to identify high quality companies that they can invest in for the long term. As responsible, long-term shareholders, First State engage extensively on environmental, labour and governance issues and are signatories to the UN Principles for Responsible Investment. They also support social impact initiatives across the Asia region through the strategic philanthropic work of Manan Trust.

PATAC provides Company Secretarial and Administration services to the Company. PATAC also seeks to maintain constructive relationships with the Company's other third-party suppliers, for example the Registrar, the Depositary and the Custodian, on behalf of the Board typically through regular communication and provision of information.

Since the emergence of the Covid-19 pandemic the Directors have had increased interaction with the Investment Manager and PATAC to ensure the continued operation of the Company and its portfolio for the benefit of its key stakeholders in uncertain circumstances. To date the Company has continued to function without disruption.

The Board continued to monitor the discount levels at which the Company's shares traded to its net asset value, and in the year bought back 699,754 shares to be held in Treasury. The Board also undertook a review of the new AIC Code and established a separate Management Engagement Committee to better reflect its obligations under the Code. A decision was also taken during to the year to appoint Michelle Paisley to the Board, please refer to page 46 for further details.

Social, Community and Human Rights Issues

The Board undertakes an annual review of environmental, social and governance factors in the context of the Company's investment portfolio, considering the Investment Manager's approach to the responsible investment of shareholders' funds.

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 five Directors. Two 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 2020

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year to 31 August 2020.

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 11.50p per share proposed to be paid on 15 January 2021. The basis of accounting is to reflect the dividend in the year in which the Company pays it.

	£000
Revenue reserve as at 31 August 2019 (per Statement of Financial Position)	8,140
Dividend paid for year ended 31 August 2019	(3,435)
Net revenue earned in the year ended 31 August 2020	2,439
Revenue reserve as at 31 August 2020 (per Statement of Financial Position)	7,144
Dividend proposed for year ended 31 August 2020	(3,326)
Revenue reserve as at 31 August 2020 (after payment of proposed dividend)	3,818

Share Capital and Share Buy Backs

The Company's capital structure consisted of 31,413,663 ordinary shares of 25p each at 31 August 2020.

The Company's buy back authority was last renewed at the Annual General Meeting on 17 December 2019 in respect of 4,478,080 ordinary shares of 25p each.

During the year the Company bought back 699,754 ordinary shares to be held in Treasury. The Company held 2,239,633 ordinary shares in Treasury at 31 August 2020.

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

Substantial Shareholders

At 31 August 2020 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 City of London Investment Management	3,860,523	13.2%
Clients of BMO Global Asset Management	2,618,871	9.0%
Clients of Brewin Dolphin Securities	2,335,568	8.0%
Clients of Alliance Trust Savings	2,315,394	7.9%
Clients of Hargreaves Lansdown	1,907,929	6.5%
Clients of Investec Wealth & Investment	1,511,277	5.2%
Clients of Rathbones	1,140,755	3.9%

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

In assessing the Company's ability to continue as a going concern the Directors have considered the Company's investment objective detailed on page 1, risk management policies detailed on pages 28 and 29, the nature of its portfolio and expenditure projections and believe that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future and for at least 12 months from the date of this Report. In addition, the Board has had regard to the Company's investment performance (see page 1), the price at which the Company's shares trade relative to their NAV (see page 1) and ongoing investor interest in the continuation of the Company (including feedback from meetings and conversations with Shareholders).

The Directors performed an assessment of the Company's ability to meet its liabilities as they fall due. In performing this assessment, the Directors took into consideration the uncertain economic outlook in the wake of the Covid-19 pandemic including:

- cash and cash equivalents balances and the portfolio of readily realisable securities which can be used to meet short-term funding commitments;
- the ability of the Company to meet all of its liabilities and ongoing expenses from its assets;
- revenue and operating cost forecasts for the forthcoming year;
- the ability of third-party service providers to continue to provide services; and
- potential downside scenarios including stress testing the Company's portfolio for a 30% fall in the value of the investment portfolio; a 50% fall in dividend income; a similar level of share buybacks to the current year, the impact of which would leave the Company with a positive cash position.

Based on this assessment, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and therefore have prepared the financial statements on a going concern basis.

Viability Statement

The Board considered its obligation to assess the viability of the Company over a period longer than the 12 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 and emerging risks that are facing the Company over the period of the review, including those that would threaten its business model, future performance, solvency or liquidity, as noted in the Strategic Report on pages 28 and 29 and discussed in note 13 to the Accounts.

The Directors have also taken account of the liquidity of the portfolio, which consists of listed equities, and the level of ongoing charges when considering the viability of the Company over the next five years and its ability to meet liabilities as they fall due.

Directors' Report – continued

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.

In making this assessment, the Board has considered in particular the potential short and longer term impact of Covid-19, in the form of a period of significant stock market volatility, a significant reduction in the liquidity of the portfolio or changes in investor sentiment, and how these factors might affect the Company's prospects and viability in the future. The Board has also evaluated the ability of third party suppliers to continue to deliver services to the Company during Covid-19.

Financial Instruments

Information on the Company's financial instruments can be found in the Notes on the Accounts on pages 63 to 71.

Principal Risks and Risk Management

Information on the principal and emerging risks to shareholders and management of these risks can be found in the Strategic Report on pages 28 and 29 and in note 13 to the Accounts on pages 68 to 71.

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.

Greenhouse Gas Emissions and Streamlined Energy & Carbon Reporting ('SECR')

All of 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 for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. For the same reasons as set out above, the Company is a low energy user under the SECR regulations and has no energy and carbon information to disclose.

Criminal Finances Act 2017

The Company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

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 8 December 2020 (the "AGM") is given on pages 74 to 79. The resolutions to be proposed include a resolution to approve the Directors' Remuneration Report which is set out on pages 40 to 43.

Resolution 11 to be proposed at the Annual General Meeting as an ordinary resolution will, if approved, amend the Company's investment policy to provide the Investment Manager with the flexibility to invest in companies with greater market capitalisations.

Directors' Report – continued

The Company's current investment objective is to achieve long-term capital growth by investing in mainly smaller Asian quoted companies. There is no intention to change this investment objective. However, in order to facilitate its achievement, permission is being sought to widen the definition of what constitutes a smaller company for the purposes of the Company's investment policy. The full text of the Company's current objective and investment policy is set out on pages 26 and 27.

The Investment Manager is beginning to see an increase in the number of Asian smaller companies that have a market capitalisation of between US$3,000 million and US$5,000 million. At present the Investment Manager is limited to the number of investments that can be made in companies that have a market capitalisation in excess of US$3,000 million as the existing investment policy restricts the investment in companies within this bracket to 20 per cent. of the Company's net assets at the time of investment. The Board is therefore proposing to amend the investment policy to give the Investment Manager the flexibility to invest in any Asian smaller company that has a market capitalisation of below US$5,000 million at the time of first investment. In addition, the Investment Manager has seen increased investment opportunities arising in Australasia and Japan and the Company would like to specifically permit investments within these regions in its policy to remove the hurdle of Board approval on each such investment.

To allow an easy comparison to be made between the current and proposed investment policies, the full terms of each are set out on page 80 (with the changes to the existing investment policy highlighted in bold and underlined).

Resolutions 12 and 13 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 12 is in respect of £722,999 in nominal value of relevant securities, representing approximately 10 per cent of the issued ordinary share capital at 30 October 2020. The power to disapply pre-emption rights being sought under Resolution 13 is also in respect of £722,999 of equity securities representing approximately 10 per cent of the ordinary shares of the Company (excluding Treasury Shares) in issue on 30 October 2020. The authority under Resolutions 12 and 13, 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 14 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 4,335,104 ordinary shares, representing 14.99 per cent of the Company's issued share capital at 30 October 2020) 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 the Company's 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 14. There are no options outstanding over the Company's share capital.

Directors' Report – continued

Notice Period for General Meetings

Resolution 15 is being proposed to enable general meetings to be held on 14 clear days' notice.

The minimum notice period for listed company general meetings is 21 clear days, but companies have an ability to reduce this period 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 15 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.

Amendments to the Articles of Association

Resolution 16, which will be proposed as a special resolution, seeks shareholder approval to adopt new Articles of Association (the '**New Articles**') in order to update the Company's current Articles of Association (the '**Existing Articles**'). The changes introduced in the New Articles are primarily to enable the Company to hold shareholder meetings more flexibly, should the need arise, and to reflect changes in law and regulation and developments in market practice. The changes include: (i) allowing the Company to pay dividends from the Company's capital profits; (ii) enabling the Company to hold virtual and hybrid general meetings (including annual general meetings) in the future; (iii) enabling the Company to postpone annual and general meetings where it becomes impossible or impractical to hold any meeting on the scheduled date; (iv) changes in response to the requirements of the Alternative Investment Fund Managers Directive (2011/61/EU) ("**AIFMD**"); and (v) changes in response to the introduction of international tax regimes requiring the exchange of information.

A summary of the principal amendments being introduced in the New Articles which the Board considers will be of most interest to shareholders is set out in the Appendix to the AGM Notice (on pages 81 and 82 of this document). Other amendments, which are of a minor, technical or clarifying nature, have not been summarised in the Appendix.

While the New Articles will permit the Company to pay dividends from capital profits, the Investment Manager remains positive about the dividend generation from our investments and the Board does not presently intend to change its approach to the payment of dividends by utilising this new power to pay dividends out of capital. However, the Board may seek to use this power in the future where it considers it is in the best interests of shareholders to do so.

While the New Articles (if adopted) would permit shareholder meetings to be conducted using electronic means, the Directors have no present intention of holding a virtual-only meeting. These provisions will only be used where the Directors consider it is in the best of interests of shareholders for a hybrid or virtual-only meeting to be held. Nothing in the New Articles will prevent the Company from holding physical shareholder meetings.

A copy of the proposed new Articles of Association of the Company, together with a copy of the existing Articles of Association of the Company marked to show the changes being proposed, will be available for inspection on the Company's website, www.scottishorienal.com, from the date of the Notice of the Annual General Meeting until the close of the meeting. In the event that the current Coronavirus related restrictions are lifted before the Annual General Meeting, a hard copy of these documents will be available for inspection at 28 Walker Street, Edinburgh, EH7 3HR until the close of the meeting.

Directors' Report – continued

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 places great importance on communication with shareholders. In addition to the regular annual and half year reports, monthly factsheets, investment updates and general information are available on the Company's website www.scottishoriental.com. The Investment Manager has a policy of meeting major shareholders and reports to the Board following such meetings. The Chairman and members of the Board are available to meet with shareholders as appropriate. 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 84 of this report. 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.

Update Statement

In relation to the resolution at the 2019 AGM seeking the re-appointment of James Ferguson as director 5,775,042 (55.74%) proxy votes were received in favour, 4,581,441 (44.22%) proxy votes were received against, 3,466 (0.04%) proxy votes were discretionary and 2,246,769 proxy votes were withheld.

In relation to the resolution at the 2019 AGM seeking the re-appointment of Alexandra Mackesy as director 6,980,045 (55.38%) proxy votes were received in favour, 5,620,371 (44.59%) proxy votes were received against, 3,466 (0.03%) proxy votes were discretionary and 2,836 proxy votes were withheld.

The Board committed at the time to make every effort to engage with shareholders who voted against the resolutions to understand and discuss their concerns, the main reason behind the votes against both James Ferguson and Alexandra Mackesy was their length of tenure.

Many institutional shareholders follow proxy voting recommendations issued by external agencies which take a view that tenure of over 9 years deems a director non-independent. The Board's view is that directors must demonstrate independence from the Investment Manager in mind, character and judgement, and that longer periods of service from non-executive directors is in the best interests of shareholders. As reported in the 2019 Annual Report and Accounts, the Board has been mindful of the need for a carefully considered succession plan and has been working to refresh the Board while maintaining depth of experience. The Board understands that a more comprehensive disclosure of the succession plan would have been helpful for shareholders, though it has, since the AGM, implemented the Board changes discussed in the Interim Report.

On behalf of the Board

PATAC Limited
Company Secretary
30 October 2020

Report of the Audit Committee

The Audit Committee is chaired by Jeremy Whitley and also comprises Andrew Baird and Michelle Paisley.

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") provided no non-audit services for the year ended 31 August 2020.

At the request of the Board, the Audit Committee considered whether the 2020 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. 2020 is the second year for the current partner, Caroline Mercer.

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, in the opinion of the Audit Committee, are objective and independent.

The Audit Committee 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.

Audit tender

During the year the Audit Committee undertook a tender process and the Board has agreed to appoint Johnston Carmichael ("JC") to succeed EY as auditor. The Committee invited a number of audit firms to tender for the audit. Two audit firms were invited to present to the Committee in July 2020. The presentations were gauged against a number of objective and subjective measures. Based on this, the Audit Committee determined that JC would be the most suitable appointee for the

Report of the Audit Committee – continued

Company's requirements. JC presented a knowledgeable team who exhibited a good understanding of the Company and its reporting requirements and the risks associated with the Company; and were competitive as to proposed audit fees. It was therefore agreed by the Committee to recommend to the Board that JC be appointed as auditor. A resolution to that effect will be put to shareholders at the forthcoming AGM, such that the first year to be audited by JC will be the year to 31 August 2021.

The Audit Committee thanks EY for their audit work over the past seven years.

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. As the Company has no employees and delegates its operations to key service providers the Audit Committee does not consider it necessary to have an internal audit function. The Audit Committee receives and examines reports on internal controls from all key service providers. 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 Administrator 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 principal and emerging risks faced by the Company and the Investment Manager's and Company Secretary and Administrator'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.

Report of the Audit Committee – continued

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 management and 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 61 and the prices of all investments are agreed to an independent source by the Administrator. The assets held within the investment portfolio are also agreed regularly to the custodian's records by the Administrator. Any performance fee payable is calculated by the Company Secretary and reviewed by another team member at PATAC Limited. The recognition of investment income is undertaken in accordance with Accounting Policy (b) on page 60 and all investment dividends are reconciled to the projected dividend schedule each quarter by the Company Secretary, who will investigate any unexpected differences.

Jeremy Whitley
Director
30 October 2020

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 Annual General Meeting in December 2017 (resolution received 99.82 per cent of votes for, 0.12 per cent of votes against, and 0.06 per cent of votes were withheld), will again be put to shareholders at the forthcoming Annual General Meeting in December 2020.

Remuneration Committee

The Remuneration Committee is chaired by James Ferguson and comprises all independent non-executive Directors. 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 Annual General Meeting in 2020. It is intended that the policy would next be put to shareholders at the Annual General Meeting in 2023, unless a revised policy is approved by shareholders prior to that Annual General Meeting.

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 £200,000 per annum. 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 contracts of service with the Company. All of the Directors have entered into 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 £31,500 to £32,500 per annum, the Audit Committee Chairman's fee from £25,200 to £26,000 per annum and Directors' fees from £22,500 to £23,000 per annum, effective from 1 July 2020. 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 48 to 55.

Directors' interests (audited)

The Directors at the year end 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 2020 ordinary 25p shares	31 August 2019 ordinary 25p shares
James Ferguson	134,860	134,860
Andrew Baird	2,000	–
Michelle Paisley	–	–
Anne West	22,000	22,000
Jeremy Whitley	76,000	67,500

There were no changes to the above holdings between 31 August 2020 and 30 October 2020. 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 2020 (£)	Fees 2019 (£)
James Ferguson (Chairman)	31,667	29,750
Andrew Baird	22,583	21,250
Alexandra Mackesy*	13,471	22,195
Michelle Paisley†	9,198	–
Anne West	22,583	21,250
Jeremy Whitley (Audit Committee Chairman‡)	25,333	22,855
	124,835	117,300

* Retired as Audit Committee Chairman on 16 January 2019 and as a Director on 2 April 2020.

† Appointed on 6 April 2020.

‡ Appointed as Audit Committee Chairman on 16 January 2019.

The Directors are remunerated exclusively by fixed fees as set out above and do not receive pension contributions, bonus payments or taxable benefits.

Directors' Remuneration Report – continued

Statement of Voting at Annual General Meeting

Voting on the resolutions to approve the Directors' Remuneration Report at the Company's AGM on 17 December 2019 was as follows:

Resolution	Votes For	Votes Against	Votes Withheld
Approve Directors' Remuneration Report	12,537,982	44,816	23,921

Relative Importance of Directors' Fees

	2020 £'000	2019 £'000
Directors' fees	125	117
Expenses	3,168	3,368

	2020 %	2019 %
Directors' fees as a percentage of expenses	3.9	3.5

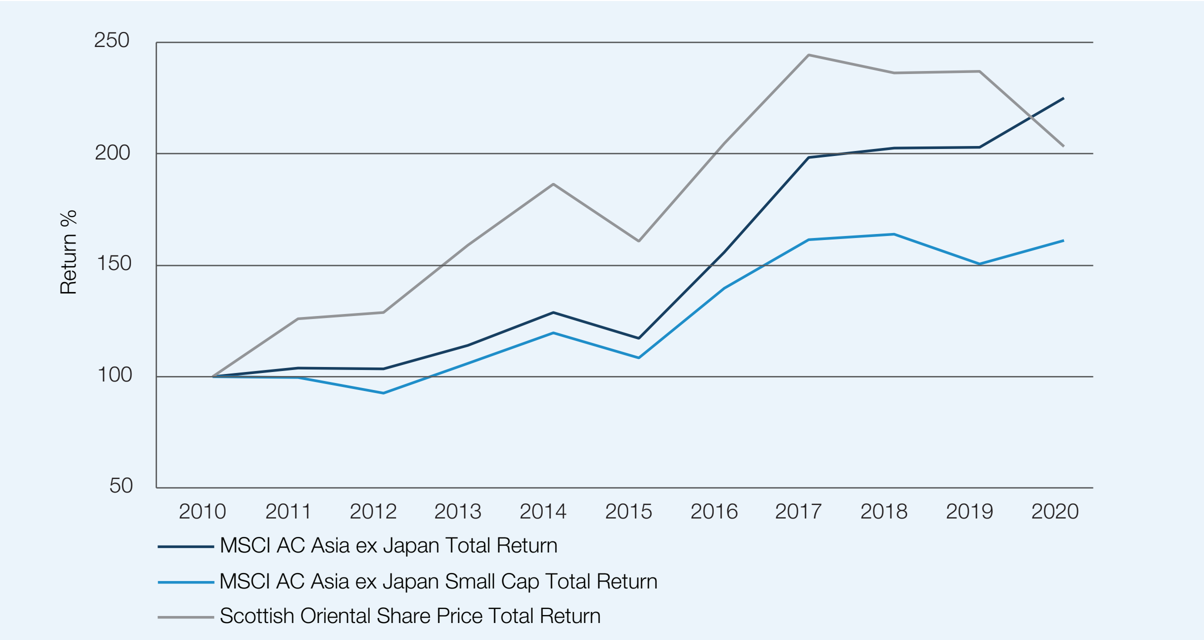
Further details of the Company's expenses can be found in note 3 on page 64.

Company Performance

The graph on the following page 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.

Directors’ Remuneration Report – continued

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



The Directors’ Remuneration report on pages 40 to 43 was approved by the Board of Directors on 30 October 2020 and signed on its behalf by

James Ferguson
Chairman
30 October 2020

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"). The AIC Code 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 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 Investments (UK) Limited. As a result, for the purposes of the AIC Code, Anne West is deemed to be non-independent following this appointment in June 2017.

Conflicts of Interest

The Companies Act 2006 requires that a Director of the Company must avoid a situation in which he or she 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, Nominations Committee and Management Engagement 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	Management Engagement Committee
James Ferguson	4/4	2/2*	1/1	1/1	1/1
Andrew Baird	4/4	2/2	1/1	1/1	1/1
Alexandra Mackesy†	3/3	2/2	n/a	1/1	n/a
Michelle Paisley‡	1/1	n/a	1/1	n/a	1/1
Anne West	4/4	2/2*	1/1	1/1	1/1*
Jeremy Whitley	4/4	2/2	1/1	1/1	1/1

* Attended meetings by invitation.

† Retired on 2 April 2020.

‡ Appointed on 6 April 2020.

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 44, Anne West is on the board of another company managed by the Investment Manager and is therefore not considered to be independent for the purposes of the AIC Code. The Board deems the Chairman to be independent having taken into consideration his previous directorship with the Investment Manager until 2000. James Ferguson and Anne West 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, Andrew Baird. 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

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. The Board has adopted annual re-election of Directors. Each Directors' 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 24 of this Annual Report to enable shareholders to take an informed decision on their re-election. From these details, it will be seen that the Board has a breadth of investment, commercial and professional experience with an international and, more specifically, Asian perspective. The 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 all Directors be re-elected.

Corporate Governance – continued

James Ferguson and Anne West have served on the Board for more than nine years. 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.

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.

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 research consultant nor open advertising was used to assist in the appointment of Michelle Paisley.

The Board believes that length of service does not necessarily compromise the independence or contribution of directors of an investment trust company. Indeed, in its opinion, continuity and experience often add significantly to the strength of the board. The Directors are mindful of the need for a carefully considered succession plan and will continue to focus on this area over the next few years.

The Nominations Committee meets at least annually.

Management Engagement Committee

A Management Engagement Committee was established on 2 April 2020. The Committee comprises all the independent Directors of the Company and is chaired by Mr Baird. The Committee meets at least annually to consider the performance and remuneration of the Investment Manager and to review the terms of the investment management contract.

On behalf of the Board

PATAC Limited
Company Secretary
30 October 2020

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 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 and emerging risks and uncertainties that the Company faces.

By order of the Board

James Ferguson
Chairman
30 October 2020

Report of the Independent Auditor

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

Opinion

We have audited the financial statements of The Scottish Oriental Smaller Companies Trust plc (the 'Company') for the year ended 31 August 2020 which comprise the Income Statement, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 14, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 August 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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.

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 in the annual report set out on pages 28 and 29 that describe the principal and emerging risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 32 in the annual report that they have carried out a robust assessment of the principal and emerging risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 32 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- 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 set out on page 32 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	• Risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the income statement; • Risk of incorrect valuation or ownership of the investment portfolio; and • Impact of Covid-19.
Materiality	• Overall materiality of £2.89m which represents 1% of shareholders' funds

Report of the Independent Auditor – continued

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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
Incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the income statement (as described on page 39 in the Report of the Audit Committee and as per the accounting policy set out on page 60). During the year, the total revenue recognised for the year to 31 August 2020 was £6.273m (2019: £7.544m), consisting of dividend income from the investment portfolio. The total of special dividends received by the Company during the year was £0.65m (2019: £0.68m). All of these special dividends were allocated to revenue. There is a risk of incomplete or inaccurate revenue recognition through the failure to recognise proper income entitlements or the failure to apply the appropriate accounting treatment. In addition to the above, the directors are required to exercise judgment in determining whether income receivable in the form of special dividends should be classified to 'revenue' or 'capital' in the Income Statement.	**We have performed the following procedures:** We obtained an understanding of the processes and controls surrounding revenue recognition by performing walkthrough procedures. For 100% of dividends selected from the accounting records, we agreed the receipt of dividend payments to bank statements and the applicable dividend per share and exchange rate to an independent data vendor. To test the completeness of ordinary and special dividends, for a sample of investments held we compared the total dividends declared during the year from an independent data vendor to the income recorded by the Company. For all dividends accrued at the year end, we agreed the dividend entitlement to an independent data vendor and agreed the amount receivable to post year-end bank statements. We assessed the appropriateness of the Company's classification of special dividends to either revenue or capital with reference to publicly available information.	The results of our procedures identified no material misstatement in relation to incomplete or inaccurate revenue recognition, including incorrect classification of special dividends to revenue or capital in the Income Statement. Based on the work performed we had no matters to report to the Audit Committee.

Report of the Independent Auditor – continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect valuation or ownership of the investment portfolio (as described on page 39 in the Report of the Audit Committee and as per the accounting policy set out on page 61). The valuation of the portfolio at 31 August 2020 was £267.33m (2019: £312.74m) consisting of listed equity investments. 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 investment pricing, or a failure to maintain proper legal title of the investments held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders. The fair value of listed investments is determined using quoted stock exchange market bid prices or last traded prices at the reporting date.	**We performed the following procedures:** We obtained an understanding of the Manager's and the Administrator's processes surrounding pricing of listed securities by performing walkthrough procedures. For all listed investments in the portfolio, we compared the market prices and exchange rates applied to an independent pricing vendor and recalculated the investment valuations as at year-end. We also inspected the stale pricing reports produced by the Administrator to identify prices that have not changed and verified whether the listed price is a valid fair value. We compared the Company's investment holdings at 31 August 2020 to an independent confirmation received directly from the Company's Custodian and Depositary, testing any reconciling items to supporting documentation.	The results of our procedures identified no material misstatements in relation to incorrect valuation or ownership of the investment portfolio. Based on the work performed we had no matters to report to the Audit Committee.
Impact of Covid-19 (as described on pages 28 and 29 in the Strategic Report and as per the accounting policy set out on page 60). The Covid-19 pandemic has adversely impacted global commercial activity and contributed to significant volatility in global equity and debt markets. As of the date of our audit report, the longer-term impact remains uncertain. This uncertainty had an impact on our risk assessment and, as a result, on our audit of Financial Statements. The Covid-19 pandemic and most significant impact on our audit of Financial Statements in the following areas: **Going concern** There is increased uncertainty in certain assumptions underlying management's assessment of future prospects, which includes the ability of the Company to fund ongoing costs. **Financial Statement disclosures** There is a risk that the impact of Covid-19 is not adequately described in the Financial Statements.	**We performed the following procedures:** **Going concern** We inspected the Directors' assessment of going concern, which includes consideration of the impact of Covid-19, and challenged the assumptions made in the preparation of the revenue and expenses forecast. We have agreed the inputs and assumptions used in the assessment to historically observed results of the Company. **Financial statements disclosures** We reviewed the adequacy of the going concern disclosures by evaluating whether they were consistent with the directors' assessment. We reviewed the disclosures for compliance with the reporting requirements.	As a result of our procedures, we have determined that the director's conclusion that there is no material uncertainty relating to going concern is appropriate. We have reviewed the disclosures relating to going concern and the impact of Covid-19 and determined that they are appropriate.

Report of the Independent Auditor – continued

We re-assessed the risks determined in the prior year and at the planning stage of the audit and, due to the uncertainty in global markets caused by the Covid-19 pandemic, we revised our risk assessment to include the Key Audit Matter 'Impact of Covid-19'. Our other Key Audit Matters are unchanged from our assessment at the planning stage for the year 31 August 2020.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including changes in the business environment 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 £2.89m (2019: £3.46m) which is 1% of shareholders' funds. We believe that shareholders' funds provides us with materiality aligned to 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.

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% of our planning materiality, namely £2.17m (2019: £2.59m). 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 revenue testing threshold of £0.16m (2019: £0.21m) for the revenue column of the Income Statement of 5% of the net revenue return 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 £0.14m (2019: £0.17m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Report of the Independent Auditor – continued

Other information

The other information comprises the information included in the annual report, 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 47 –** 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 pages 37 to 39 –** the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 44 –** 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.

In our opinion, 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; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Report of the Independent Auditor – continued

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 47, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

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 the directors 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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 both those charged with governance of the entity and management.

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 FRS 102, the Companies Act 2006, AIC SORP, the Listing Rules, the UK Corporate Governance Code, AIC Code and Section 1158 of the Corporation Tax Act 2010.

Report of the Independent Auditor – continued

- 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.
- 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. We identified fraud risks with respect to the incomplete or inaccurate income recognition through incorrect classification of special dividends. Further discussion of our approach is set out in the section on key audit matters above.
- 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.

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.

Other matters we are required to address

- Following the recommendation of the Audit Committee, we were appointed by the Company on 24 April 2014, to audit the financial statements for the year ending 31 August 2014 and subsequent financial periods. Our appointment was subsequently ratified at the annual general meeting of the Company held on 19 February 2015.

  The period of total uninterrupted engagement, including previous renewals and reappointments is seven years, covering the years ending 31 August 2014 to 31 August 2020.
- 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.

Use of our report

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.

Caroline Mercer (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh

30 October 2020

Notes:

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

Income Statement

For the year ended 31 August 2020

		2020			2019		
		Revenue	**Capital**	**Total***	Revenue	Capital	Total*
	Note	**£000**	**£000**	**£000**	£000	£000	£000
Losses on investments	7	**–**	**(45,575)**	**(45,575)**	–	(649)	(649)
Income from investments	1	**6,273**	**–**	**6,273**	7,544	–	7,544
Other income	1	**35**	**–**	**35**	104	–	104
Investment management fee	2	**(2,301)**	**–**	**(2,301)**	(2,544)	–	(2,544)
Currency (losses)/gains		**–**	**(4,002)**	**(4,002)**	–	1,252	1,252
Other administrative expenses	3	**(867)**	**–**	**(867)**	(824)	–	(824)
Net return on ordinary activities before taxation		**3,140**	**(49,577)**	**(46,437)**	4,280	603	4,883
Tax on ordinary activities	4	**(701)**	**(256)**	**(957)**	(546)	(238)	(784)
Net return attributable to equity shareholders		**2,439**	**(49,833)**	**(47,394)**	3,734	365	4,099
Net return per ordinary share	6	**8.19p**	**(167.34)p**	**(159.15)p**	12.50p	1.22p	13.72p

*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 2020 (2019: 11.50p per share) which, if approved, will be payable on 15 January 2021 to shareholders recorded on the Company's shareholder register on 4 December 2020.

The accounting policies on pages 60 to 62 and the notes on pages 63 to 71 form part of these Accounts.

All revenue and capital items derive from continuing operations.

Statement of Financial Position

as at 31 August 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS	7				
Bangladesh			**4,952**		6,182
China			**21,950**		31,500
Hong Kong			**22,349**		22,000
India			**113,874**		100,822
Indonesia			**36,558**		36,558
Malaysia			**127**		2,882
Pakistan			**3,317**		5,082
Philippines			**36,190**		34,061
Singapore			**3,369**		19,617
South Korea			**4,422**		3,853
Sri Lanka			**1,615**		7,409
Taiwan			**11,367**		34,836
Vietnam			**7,236**		7,934
			267,326		312,736
CURRENT ASSETS					
Debtors	8	**1,044**		8,483	
Cash and deposits		**22,459**		40,949	
		23,503		49,432	
CURRENT LIABILITIES (due within one year)					
Creditors	9	**(1,381)**		(16,104)	
		(1,381)		(16,104)	
Net Current Assets			**22,122**		33,328
Total Assets less Current Liabilities			**289,448**		346,064
CAPITAL AND RESERVES					
Ordinary share capital	10		**7,853**		7,853
Share premium account			**34,259**		34,259
Capital redemption reserve			**58**		58
Capital reserve			**240,134**		295,754
Revenue reserve			**7,144**		8,140
Total Equity Shareholders' Funds			**289,448**		346,064
Net asset value per share	11		**992.14p**		1,158.42p

These Accounts were approved by the Board on 30 October 2020 and signed on its behalf by

James Ferguson
Director

The accounting policies on pages 60 to 62 and the notes on pages 63 to 71 form part of these Accounts.

Cash Flow Statement

for the year ended 31 August 2020

	Note	2020 £000	2019 £000
Net cash outflow from operations before dividends, interest, purchases and sales	12	**(3,239)**	(3,418)
Dividends received from investments		**6,332**	7,720
Interest received from deposits		**35**	104
Purchases of investments		**(169,109)**	(92,436)
Sales of investments		**161,576**	112,925
Cash from operations		**(4,405)**	24,895
Taxation		**(957)**	(808)
Net cash (outflow)/inflow from operating activities		**(5,362)**	24,087
Financing activities			
Equity dividend paid		**(3,435)**	(3,435)
Buyback of ordinary shares		**(5,691)**	(1)
Net cash outflow from financing activities		**(9,126)**	(3,436)
(Decrease)/increase in cash and cash equivalents		**(14,488)**	20,651
Cash and cash equivalents at the start of the period		**40,949**	19,046
Effect of currency (losses)/gains		**(4,002)**	1,252
Cash and cash equivalents at the end of the period*		**22,459**	40,949

*Cash and cash equivalents represents cash at bank.

Statement of Changes in Equity

for the year ended 31 August 2020

	Ordinary Share Capital £000	Share Premium Account £000	Capital Redemption Reserve £000	Capital Reserve £000	Revenue Reserve £000	Total £000
Balance at 31 August 2019	7,853	34,259	58	295,754	8,140	346,064
Total comprehensive income:						
Return for the year	–	–	–	(49,833)	2,439	(47,394)
Transactions with owners recognised directly in equity:						
Buyback of Ordinary shares	–	–	–	(5,787)	–	(5,787)
Dividend paid in the year‡	–	–	–	–	(3,435)	(3,435)
Balance at 31 August 2020	**7,853**	**34,259**	**58**	**240,134**	**7,144**	**289,448**

‡ See note 5.

for the year ended 31 August 2019

	Ordinary Share Capital £000	Share Premium Account £000	Capital Redemption Reserve £000	Capital Reserve £000	Revenue Reserve £000	Total £000
Balance at 31 August 2018	7,853	34,259	58	295,389	7,841	345,400
Total comprehensive income:						
Return for the year	–	–	–	365	3,734	4,099
Transactions with owners recognised directly in equity:						
Dividend paid in the year‡	–	–	–	–	(3,435)	(3,435)
Balance at 31 August 2019	**7,853**	**34,259**	**58**	**295,754**	**8,140**	**346,064**

‡ See note 5.

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 84.

These Accounts have been prepared under the historical cost convention (modified to include the revaluation of fixed asset investments which are recorded at fair value) and in accordance with 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 October 2019 (the "SORP"). The Directors considered the impact of the Covid-19 pandemic and the impact this may have on the Company, in particular noting that, in addition to its net current assets, the Company holds a portfolio of largely liquid assets that, if required, can be sold to maintain adequate cash balances to meet expected cash flows. The Directors are satisfied that the contingency plans and working arrangements of the key service providers are sustainable. Therefore, the going concern basis has been adopted in preparing the Company's Financial Statements.

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 this is the currency of the Company's share capital and the currency in which most of its shareholders operate.

Income

(b) Dividends on securities are recognised 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. Special dividends are credited to revenue or capital based on the nature of the dividend.

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

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

Expenses

(e) Expenses are accounted for 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.

Accounting Policies – continued

(i) Listed investments have been classified 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 (excluding any transaction costs). Subsequent to initial recognition, investments are valued at fair value which for listed investments is deemed to be bid price or last traded price. Gains and losses arising from changes in fair value are included as a capital item in the Income Statement and are ultimately recognised in the Capital Reserve. Gains and losses arising on realisation of investments are shown in the Capital Reserve.

(j) Equities include ordinary shares and warrants.

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

(l) Debtors and creditors do not carry any interest, are short term in nature, and are stated as nominal value less any allowance for irrecoverable amounts as appropriate.

Foreign currency

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

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

Dividends

(o) 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

(p) 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

(q) 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.

Accounting Policies – continued

Reserves

Share premium account

(r) 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

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

Capital reserve

(t) 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. Any performance fee due is deducted from the capital reserve. The cost of shares bought back to be held in Treasury is also deducted from 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

(u) 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

	2020 £000	2019 £000
Investment management fee	**2,301**	2,544

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 (2019: £nil) is due to be paid for the year ended 31 August 2020.

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

	2020 £000	2019 £000
Auditor's remuneration for audit services	**32**	23
Directors' fees	**125**	117
Company secretarial fees	**155**	119
Bank, custodial and other expenses	**555**	565
	867	824

Company Secretary

PATAC Limited provides company secretarial, accounting and administrative services. The fee for the year ended 31 August 2020, which is payable monthly in arrears and linked to the movement in the Retail Price Index annually, was £155,000 (2019: £119,000). As reported in the 2019 Annual Report the fee will rise to £195,000 for the year to 31 August 2021 and £195,000 per annum plus an annual adjustment to reflect the increase in the Consumer Price Index thereafter. The appointment is terminable on three months' notice.

4. Taxation

(a) Analysis of charge in the year

Overseas tax:

	2020 Revenue £000	2020 Capital £000	2020 Total £000	2019 Revenue £000	2019 Capital £000	2019 Total £000
Tax on overseas dividends	**701**	**–**	**701**	546	–	546
Indian capital gains tax	**–**	**256**	**256**	–	238	238
	701	**256**	**957**	546	238	784

(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:

	2020 Revenue £000	2020 Capital £000	2020 Total £000	2019 Revenue £000	2019 Capital £000	2019 Total £000
Return for the year before taxation	**3,140**	**(49,577)**	**(46,437)**	4,280	603	4,883
Total return for the year before taxation multiplied by the standard rate of corporation tax of 19.00% (2019:19.00%)	**597**	**(9,420)**	**(8,823)**	813	115	928
Effect of:						
Non-taxable losses on investments	**–**	**8,659**	**8,659**	–	123	123
Non-taxable losses/(gains) on foreign currency	**–**	**761**	**761**	–	(238)	(238)
Non-taxable income	**(1,192)**	**–**	**(1,192)**	(1,433)	–	(1,433)
Overseas tax	**701**	**256**	**957**	546	238	784
Unutilised management expenses	**595**	**–**	**595**	620	–	620
Total tax charge for the year	**701**	**256**	**957**	546	238	784

Notes on the Accounts – continued

4. Taxation – continued

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 £6,953,000 (2019: £6,421,000) at 31 August 2020 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.

5. Dividends

	2020 £000	2019 £000
Dividends paid in the period:		
Dividend of 11.50p per share paid 17 January 2020 (2019 – 11.50p)	**3,435**	3,435

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.

	2020 £000	2019 £000
Income available for distribution	**2,439**	3,734
Proposed dividend for the year ended 31 August 2020 – 11.50p payable 15 January 2021 (2019 – 11.50p)	**(3,326)**	(3,435)
Amount transferred (from)/to retained income	**(887)**	299

6. Return per Ordinary Share

		2020			2019	
	Revenue p	**Capital p**	**Total p**	Revenue p	Capital p	Total p
Net return per share	**8.19**	**(167.34)**	**(159.15)**	12.50	1.22	13.72

	2020	2019
Revenue return	**£2,439,000**	£3,734,000
Capital return	**£(49,833,000)**	£365,000
Weighted average ordinary shares in issue	**29,779,419**	29,873,784

There are no dilutive or potentially dilutive instruments in issue.

Notes on the Accounts – continued

7. Equity Investments

	2020 £000	2019 £000
Opening book cost	**298,469**	292,617
Unrealised gains	**14,267**	33,111
Opening valuation	**312,736**	325,728
Purchases at cost	**154,344**	107,721
Sales – proceeds	**(154,179)**	(120,064)
Loss on investments	**(45,575)**	(649)
Closing valuation	**267,326**	312,736
Closing book cost	**291,839**	298,469
Closing unrealised (losses)/gains	**(24,513)**	14,267

The Company received £154,179,000 (2019: £120,064,000) from investments sold in the year. The average book cost of these investments when they were purchased was £160,974,000 (2019: £101,869,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of investments.

All investments are listed on recognised stock exchanges.

Transaction Costs

During the year the Company incurred transaction costs of £334,000 (2019: £266,000) on the purchase of investments and £449,000 (2019: £376,000) on the sale of investments.

8. Debtors

	2020 £000	2019 £000
Sales awaiting settlement	**770**	8,167
Accrued income	**257**	316
Other debtors	**17**	–
	1,044	8,483

9. Creditors (amounts falling due within one year)

	2020 £000	2019 £000
Purchases awaiting settlement	**614**	15,283
Management fee payable	**560**	651
Other creditors	**207**	170
	1,381	16,104

Notes on the Accounts – continued

10. Share Capital

The allotted and fully paid capital is £7,853,416 (2019: £7,853,416) represented by 31,413,663 ordinary shares of 25p each (2019: 31,413,663). During the year the Company bought back 699,754 ordinary shares (2019: nil). The Company held 2,239,633 ordinary shares in Treasury at the year end (2019: 1,539,879), being 7.1 per cent of share capital, with a nominal value of £559,908 (2019: £384,970). 254,055 ordinary shares have been 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 and the other reserves. It is managed in accordance with its investment policy in pursuit of its investment objective, detailed on pages 26 and 27.

11. Net Asset Value per Ordinary Share

Net assets per share are based on total net assets of £289,448,000 (2019: £346,064,000) divided by 29,174,030 (2019: 29,873,784) ordinary shares of 25p each in issue (excludes shares held in Treasury).

12. Cash Flow Statement

	2020 £000	2019 £000
Reconciliation of net return before taxation to net cash outflow from operations before dividends, interest, purchases and sales		
Net return before taxation	**(46,437)**	4,883
Net losses on investments	**45,575**	649
Currency losses/(gains)	**4,002**	(1,252)
Dividend income	**(6,273)**	(7,544)
Interest income	**(35)**	(104)
Decrease in creditors	**(54)**	(50)
Increase in debtors	**(17)**	–
Net cash outflow from operations before dividends, interest, purchases and sales	**(3,239)**	(3,418)

Notes on the Accounts – continued

13. 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 pages 26 and 27 and in addition the Board conducts quarterly reviews with the Investment Manager. The Investment Manager's Risk and Compliance department monitors the Investment Manager's compliance with 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.

To mitigate this risk, the Investment Manager focuses on investing in soundly managed and financially strong companies with good growth prospects and ensures the portfolio is diversified geographically and by sector at all times. Existing holdings are scrutinised to ensure corporate performance expectations are met and valuations are not excessive. The portfolio valuation and transactions undertaken by the Investment Manager are regularly reviewed by the Board.

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.

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

	2020 £000	2019 £000
Cash	22,459	40,949
	22,459	40,949

Interest Rate Sensitivity

Considering effects on cash balances, an increase of 50 basis points in interest rates would have increased net assets and total return for the period by £112,000 (2019: £205,000). A decrease of 50 basis points would have had an equal but opposite effect. The calculations are based on the cash balances at date of the Statement of Financial Position 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 2020. The Statement of Financial Position therefore can be significantly affected by movements in foreign exchange rates. It is not the Company's policy to hedge this risk on a continuing basis but the Company reserves the right to undertake foreign exchange hedging of its portfolio. The revenue account is subject to currency fluctuation arising on dividends paid in foreign currencies. The Company does not hedge this currency risk.

Notes on the Accounts – continued

13. Risk Management, Financial Assets and Liabilities – continued

Foreign Currency Risk Exposure by Currency of Denomination

	31 August 2020 Overseas investments £000	Net monetary assets £000	Total currency exposure £000	31 August 2019 Overseas investments £000	Net monetary assets £000	Total currency exposure £000
Indian rupee	**113,874**	**615**	**114,489**	100,822	(3,387)	97,435
Hong Kong dollar	**42,252**	**56**	**42,308**	47,877	87	47,964
Indonesian rupiah	**36,558**	**39**	**36,597**	36,558	(188)	36,370
Philippine peso	**36,190**	**–**	**36,190**	34,061	–	34,061
US dollar	**2,047**	**16,670**	**18,717**	5,623	27,993	33,616
Taiwanese dollar	**11,367**	**–**	**11,367**	34,836	(781)	34,055
Vietnamese dong	**7,236**	**298**	**7,534**	7,934	–	7,934
Bangladeshi taka	**4,952**	**–**	**4,952**	6,182	–	6,182
Korean won	**4,422**	**–**	**4,422**	3,853	–	3,853
Singapore dollar	**3,369**	**54**	**3,423**	19,617	121	19,738
Pakistan rupee	**3,317**	**–**	**3,317**	5,082	–	5,082
Sri Lankan rupee	**1,615**	**–**	**1,615**	7,409	–	7,409
Malaysian ringgit	**127**	**24**	**151**	2,882	–	2,882
Total foregin currency	**267,326**	**17,756**	**285,082**	312,736	23,845	336,581
Sterling	**–**	**4,366**	**4,366**	–	9,483	9,483
Total currency	**267,326**	**22,122**	**289,448**	312,736	33,328	346,064

Currency Risk Sensitivity

At 31 August 2020, 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 2019.

	2020 £000	2019 £000
Indian rupee	**5,724**	4,872
Hong Kong dollar	**2,115**	2,398
Indonesian rupiah	**1,830**	1,818
Philippine peso	**1,810**	1,703
US dollar	**936**	1,681
Taiwanese dollar	**568**	1,703
Vietnamese dong	**377**	397
Bangladeshi taka	**248**	309
Korean won	**221**	193
Singapore dollar	**171**	987
Pakistan rupee	**166**	254
Sri Lankan rupee	**81**	370
Malaysian ringgit	**8**	144
Total	**14,255**	16,829

Notes on the Accounts – continued

13. Risk Management, Financial Assets and Liabilities – continued

Other Price Risk

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

Other Price Risk Sensitivity

If market values at the date of the Statement of Financial Position 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 2020 would have increased/(decreased) by £26,732,600 (2019: increased/(decreased) by £31,273,600) 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.

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

		2020			2019	
	3 months or less £000	**3 to 12 months £000**	**More than 12 months £000**	3 months or less £000	3 to 12 months £000	More than 12 months £000
Amount due to brokers	**614**	**–**	**–**	15,283	–	–
Other creditors and accruals	**767**	**–**	**–**	821	–	–
	1,381	**–**	**–**	16,104	–	–

Credit Risk

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

Investment transactions are carried out with a large number of approved brokers, whose credit-standing is reviewed periodically by the Investment Manager. Transactions are ordinarily done on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations before any transfer of cash or securities away from the Company is completed.

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

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

Notes on the Accounts – continued

13. Risk Management, Financial Assets and Liabilities – continued

In summary, compared to the amounts in the Statement of Financial Position, the maximum exposure to credit risk at 31 August 2020 was as follows:

	2020		2019	
Current assets	**Statement of Financial Position £000**	**Maximum exposure £000**	Statement of Financial Position £000	Maximum exposure £000
Receivables	1,027	1,027	8,483	8,483
Cash at bank	22,459	22,459	40,949	40,949
	23,486	23,486	49,432	49,432

Fair Value Hierarchy

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with FRS102, these investments are analysed using the fair value hierarchy described below. Short term balances are excluded as their carrying value at the reporting date approximates their fair value.

The levels are determined by the lowest 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.

All of the Company's investments were categorised as Level 1 for the year to 31 August 2020 (2019: All investments Level 1).

14. Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on pages 40 to 43. An amount of £21,000 was outstanding to the Directors at the year end (2019: £21,000). No Director has a contract of service with the Company. During the year no Director had any related party transactions requiring disclosure under section 412 of the Companies Act 2006.

The management fees for the year are detailed in note 2 and amounts payable to the Investment Manager at year end are detailed in note 9. The Investment Management team's holdings in the Company are set out on page 3.

Alternative Investment Fund Managers Directive (unaudited)

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 respectively 0.98 and 1.00 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.

Glossary of Terms and Definitions

Active Share

Active share shows the percentage of the investment portfolio that is different from an index, with 0 per cent representing total overlap and 100 per cent representing no common holdings with the index.

Actual Gearing

Total assets less current liabilities and all cash and fixed interest securities (excluding convertibles) divided by shareholders' funds. A figure of 100 represents no gearing, a figure below 100 represents net cash and above 100 represents gearing e.g. a figure of 105 represents gearing of 5 per cent.

Alternative Performance Measure

Alternative performance measures are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes UK GAAP, including FRS 102, and the AIC SORP.

Discount

The amount by which the share price is lower than the net asset value per share, expressed as a percentage of the net asset value per share.

			2020 £000	2019 £000
NAV per share	a		**992.1p**	1,158.4p
Share price	b		**856.0p**	1,010.0p
Discount	c	c=(b-a)/a	**13.7%**	12.8%

Earnings Per Share

The earnings per share is calculated by dividing the net return attributable to equity shareholders by the weighted average number of ordinary shares in issue.

Net Asset Value or NAV

The value of total assets less liabilities. To calculate the net asset value per share the net asset value is divided by the number of shares in issue (which excludes shares held in Treasury).

Net Cash

The value of current assets less current liabilities, divided by the total assets of the Company, expressed as a percentage.

Ongoing Charges

The management fee and all other administrative expenses expressed as a percentage of the average daily net assets during the year.

	2020 £000	2019 £000
Investment management fee	**2,301**	2,544
Administrative expenses	**867**	824
Ongoing charges	**3,168**	3,368
Average net assets	**306,945**	334,866
Ongoing charges ratio	**1.03%**	1.01%

There was no performance fee payable for the year to 31 August 2020 (2019: nil).

Glossary of Terms and Definitions – continued

Potential Gearing
Total assets less current liabilities divided by shareholders' funds.

Prior Charges
The name given to all borrowings including debentures, loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.

Total Assets
Total assets less current liabilities (excluding prior charges as defined above).

Total Return
Net asset value/share price total return measures the increase/(decrease) in net asset value per share/share price plus the dividends paid in the period, which are assumed to be reinvested at the time that the share price is quoted ex-dividend.

NAV Total Return

	2020 £000	2019 £000
Opening NAV per share	**1,158.4p**	1,156.2p
(Decrease)/increase in NAV per share	**(166.3)p**	2.2p
Closing NAV per share	**992.1p**	1,158.4p
% (decrease)/increase in NAV	**(14.4)%**	0.2%
Impact of dividends reinvested*	**1.2%**	0.9%
NAV total return	**(13.2)%**	1.1%

* Assumes that the dividend of 11.5p (2019: 11.5p) paid by the Company was reinvested at the ex-dividend date.

Share Price Total Return

	2020 £000	2019 £000
Opening share price	**1,010.0p**	1,020.0p
Decrease in share price	**(154.0)p**	(10.0)p
Closing share price	**856.0p**	1,010.0p
% decrease in share price	**(15.2)%**	(1.0)%
Impact of dividends reinvested*	**1.0%**	1.3%
Share price total return	**(14.2)%**	0.3%

* Assumes that the dividend of 11.5p (2019: 11.5p) paid by the Company was reinvested at the ex-dividend date.

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 PATAC Limited, 28 Walker Street, Edinburgh EH3 7HR on 8 December 2020 at 12.15 pm. Given the ongoing Covid-19 pandemic, and in accordance with measures currently imposed by the Government, the board of directors of the Company (the "Board" or the "Directors") has decided to put in place arrangements that mean that the Annual General Meeting will not follow its usual format. Only the statutory formal business (consisting of voting on the resolutions set out below) will be conducted and only those Shareholders nominated by the Board to form the minimum quorum to hold the meeting will be permitted to attend. The meeting will be facilitated by the Company in line with the Government's social distancing guidelines. **Please do not attend the meeting in person. Anyone seeking to attend the meeting in person (other than those forming the quorum) will be refused entry.**

Instead, please fill in the proxy form sent to you with this document and return it to our registrars as soon as possible. They must receive it by 12.15pm on 4 December 2020. CREST members can also appoint proxies by using the CREST electronic proxy appointment service.

In light of the social distancing measures imposed by the Government as a result of the current Covid-19 pandemic, any proxy you appoint other than the Chairman may be refused entry to the meeting. Shareholders are strongly encouraged to vote by proxy and to ask any questions in advance (by email to the Company Secretary at cosec@patplc.co.uk). The Company or its Investment Manager will then reply to each question as appropriate.

If circumstances change and social distancing measures are relaxed before the Annual General Meeting, the Company will consider these changes and, if it is appropriate, notify Shareholders of any changes to the proposed format for the Annual General Meeting as soon as possible via an RIS.

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 2020.
2. To approve the dividend of 11.50 pence per ordinary share of 25 pence each in the capital of the Company.
3. To re-elect James Ferguson, who retires from office annually, as a Director.
4. To elect Michelle Paisley as a Director.
5. To re-elect Anne West, who retires from office annually, as a Director.
6. To re-elect Jeremy Whitley, who retires from office annually, as a Director.
7. To re-elect Andrew Baird, who retires from office annually, as a Director.
8. To appoint Johnston Carmichael LLP, Chartered Accountants and Statutory Auditor, as Auditor and to authorise the Directors to fix their remuneration.
9. To approve the Policy on Directors' Remuneration.
10. To approve the Directors' Remuneration Report within the Report and Accounts for the financial year ended 31 August 2020.
11. That the proposed investment policy set out on page 80 of the Annual Report and Accounts for the year ended 31 August 2020, a copy of which has been produced to the Meeting and signed by the Chairman for the purposes of identification, be and is hereby adopted as the investment policy of the Company to the exclusion of all previous investment policies of the Company.
12. 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

Notice of Annual General Meeting – continued

("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 £722,999, (being approximately 10 per cent of the nominal value of the issued share capital as at 30 October 2020) 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.

13. That, subject to the passing of resolution number 12 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 12 above or by way of a sale of treasury shares, as if Section 561(1) of the Act did not apply to any such allotment of equity securities, provided that this power:

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

    (b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £722,999 (being approximately 10 per cent of the nominal value of the issued share capital of the Company (excluding treasury shares) as at 30 October 2020).

14. 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 4,335,104 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

Notice of Annual General Meeting – continued

(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, 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.

15. 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.

16. That the Articles of Association produced to the meeting and signed by the chairman of the meeting for the purposes of identification be approved and adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association with effect from the conclusion of the meeting.

Dated: 30 October 2020 — By Order of the Board

Registered Office:
28 Walker Street
Edinburgh EH3 7HR

PATAC Limited
Company Secretary

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 4 December 2020 ("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. **You are reminded that in light of social distancing measures imposed by the Government as a result of the current Covid-19 pandemic, any member seeking to attend the meeting in person may be refused entry.**

(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 4 December 2020. 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. **In light of the social distancing measures imposed by the Government as a result of the current Covid-19 pandemic, any proxy you appoint other than the Chairman may be refused entry to the meeting.** 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

Notice of Annual General Meeting – continued

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. **However, in light of social distancing measures imposed by the Government as a result of the current Covid-19 pandemic, any Shareholder attempting to attend the meeting in person may be refused entry to 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 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 28 Walker Street, Edinburgh EH3 7HR until the conclusion of the meeting. **Inspection of these documents may only take place in accordance with measures imposed by the Government in connection with the Covid-19 pandemic. If you wish to inspect any of these documents, you should email cosec@patplc.co.uk to arrange an appointment. You are reminded that anyone seeking to attend the Annual General Meeting in person (other than those forming the quorum) may be refused entry.**

(10) As at close of business on 30 October 2020, the Company's issued share capital comprised 31,413,663 ordinary shares of 25p each of which 2,493,688 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 2020 is 28,919,975.

Notice of Annual General Meeting – continued

(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 Guidance 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.

However, you are reminded that in light of social distancing measures imposed by the Government as a result of the current Covid-19 pandemic, any member seeking to attend the meeting in person may be refused entry to the meeting. If a member has a question in relation to the business of the meeting or a question for the Board that would have been raised at the meeting, it can be sent by email to cosec@patplc.co.uk.

(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 28 Walker Street, Edinburgh EH3 7HR.

(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). **However, you are reminded that in light of social distancing measures imposed by the Government as a result of the current Covid-19 pandemic, any such corporate representative may be refused entry to the meeting.**

(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.

(18) The full terms of the proposed amendments to the Company's articles of association would have been made available for inspection as required under LR 13.8.10R (2) but for the Government restrictions, including the Stay at Home measures, implemented in response to the Coronavirus outbreak. As an alternative, a copy of the proposed new articles of association of the Company, together with a copy of the existing articles of association of the Company marked to show the changes being proposed, will instead be available for inspection on the Company's website, www.scottishoriental.com, from the date of the Notice of the Annual General Meeting until the close of the meeting. These documents will also be available for inspection at the meeting venue from 15 minutes before and during the Annual General Meeting. In the event that the current Coronavirus related restrictions are lifted before the Annual

Notice of Annual General Meeting – continued

General Meeting, a hard copy of the proposed new articles of association of the Company, together with a copy of the existing articles of association of the Company marked to show the changes being proposed, will be available for inspection at 28 Walker Street, Edinburgh, EH7 3HR until the close of the meeting.

(19) Given the risks posed by the spread of Covid-19 and in accordance with the provisions of the Articles of Association and Government guidance, including the rules on physical distancing and limitations on public gatherings in place as at the date of this Notice, attendance at the annual general meeting is unlikely to be possible. If law or Government guidance so requires at the time of the meeting, the Chairman of the Meeting will limit, in his sole discretion, the number of individuals in attendance at the meeting. If the current Government guidance is in place at the time of the meeting, such attendance will be limited to two persons. Should the Government guidance change and the restrictions on public gatherings be relaxed by the time of the meeting, the Company may still impose entry restrictions on certain persons wishing to attend the meeting in order to ensure the safety of those attending the meeting.

Current and Proposed Objective and Investment Policy

To be voted on at the AGM on 8 December 2020

Current objective and investment policy	Amended objective and investment policy
Objective The Scottish Oriental Smaller Companies Trust plc aims to achieve long-term capital growth by investment in mainly smaller Asian quoted companies.	*Objective* The Scottish Oriental Smaller Companies Trust plc aims to achieve long-term capital growth by investment in mainly smaller Asian quoted companies.
Investment policy The Company invests mainly in the shares of smaller Asian quoted companies, that is, companies with market capitalisations of below US$3,000 million, or the equivalent thereof, at the time of first investment.	*Investment policy* The Company invests mainly in the shares of smaller Asian quoted companies, that is, companies with market capitalisations of below **US$5,000 million**, or the equivalent thereof, at the time of first investment.
The Company may also invest in companies with market capitalisations of between US$3,000 million and US$5,000 million at the time of first investment, although not more than 20 per cent. of the Company's net assets at the time of investment will be invested in such companies.	~~The Company may also invest in companies with market capitalisations of between US$3,000 million and US$5,000 million at the time of first investment, although not more than 20 per cent. of the Company's net assets at the time of investment will be invested in such companies.~~
To enable the Company to participate in new issues, it may invest in companies which are not yet quoted on any stock exchange, but only where the Investment Manager expects that the relevant securities will shortly become quoted.	To enable the Company to participate in new issues, it may invest in companies which are not yet 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.	For investment purposes, the Investment Region includes **Australasia,** China, Hong Kong, India, Indonesia, **Japan,** 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 Company will consider the use of long-term borrowing up to a limit of 50 per cent. of the net assets of the Company at the time of borrowing.	With the objective of enhancing capital returns to shareholders, the Directors of the Company will consider the use of long-term borrowing up to a limit of 50 per cent. of the net assets of the Company at the time of borrowing.
The Company invests no more than 15 per cent. of its total assets in other listed investment companies (including listed investment trusts).	The Company invests no more than 15 per cent. of its total assets in other listed investment companies (including listed investment trusts).
The Company 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 Company 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 Company 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 Company may invest in debt instruments in any country or currency.	The Company 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 Company may invest in debt instruments in any country or currency.
The majority of the Company's assets are denominated in Asian currencies or US dollars. The Company reserves the right to undertake foreign exchange hedging of its portfolio.	The majority of the Company's assets are denominated in Asian currencies or US dollars. The Company reserves the right to undertake foreign exchange hedging of its portfolio.

Appendix to the AGM Notice describing the principal amendments to the Articles

Summary of the principal amendments to the Company's articles of association

Set out below is a summary of the principal amendments which will be made to the Company's Existing Articles through the adoption of the New Articles if Resolution 16 to be proposed at the AGM is approved by shareholders.

This summary is intended only to highlight the principal amendments which are likely to be of interest to shareholders. It is not intended to be comprehensive and cannot be relied upon to identify amendments or issues which may be of interest to all shareholders. This summary is not a substitute for reviewing the full terms of the New Articles which will be available for inspection on the Company's website, www.scottishoriental.com from the date of the AGM Notice until the close of the AGM, and will also be available for inspection at the venue of the AGM from 15 minutes before and during the AGM.

Distribution of capital profits by way of dividend

The Companies Act 2006 (Amendment of Part 23) (Investment Companies) Regulations 2012 removed the requirement that the articles of association of an investment company must prohibit the distribution of capital profits. In compliance with the previous statutory regime, the Company currently has a provision in its articles of association which expressly prohibits the distribution of capital profits.

In the light of the amended statutory rules and in order to provide the Board with increased flexibility in relation to the payment of dividends in the future, the Board no longer considers it appropriate to have such a prohibition in the Company's articles and therefore proposes that it is removed. The proposed new articles of association therefore reflect this change and remove all references to the prohibition of the distribution of capital profits.

The Board does not presently intend to change its approach to the payment of dividends by utilising this new power to pay dividends out of capital. However, the Board may seek to use this power in the future where it considers it is in the best interests of shareholders to do so.

Virtual/hybrid general meetings

The New Articles permit the Company to hold general meetings (including annual general meetings) where shareholders are not required to attend in person but may attend and participate virtually. A meeting can be wholly virtual if attendees participate only by way of electronic means or a meeting may be "hybrid", where some attendees are based in a single physical location and others attend electronically. Certain consequential changes to facilitate this amendment have been made throughout the New Articles.

It should be noted that, while the New Articles will allow for meetings to be held and conducted in such a way that persons who are not present together at the same physical location may attend, speak and vote at the meeting by electronic means, the Directors have no present intention of holding wholly virtual meetings. These provisions will only be used where the Directors consider it is in the best interests of shareholders for a virtual or hybrid meeting to be held. Nothing in the New Articles will prevent the Company from continuing to hold physical general meetings.

Postponement of general meetings (including annual general meetings)

In order to give the Directors as much flexibility as possible in exceptional circumstances, the New Articles permit the Company to postpone any general meeting (including any annual general meeting) if the Board, in its absolute discretion, considers that it is impractical or unreasonable for any reason to hold any such meeting on the date or at the time or place and/or through any electronic platform specified in the notice calling the general meeting,

Appendix to the AGM Notice describing the principal amendments to the Articles – continued

The Alternative Investment Fund Managers Directive (2011/61/EU) ('AIFMD') and the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773) (the 'AIFM Regulations')

The Board is proposing to take this opportunity to make amendments to the Existing Articles in response to the AIFMD and all applicable rules and regulations implementing that Directive. The proposed new provisions are as follows:

(i) The Existing Articles will be amended to provide that the net asset value per share of the Company shall be calculated at least annually and be disclosed to shareholders from time to time in such manner as may be determined by the Board. The amendment will have no bearing on current practice and simply articulates the minimum requirements of the AIFM Regulations.

(ii) The AIFM Regulations require that prior to any new or existing investor making an investment in the Company, certain prescribed information is to be made available to them. Therefore, the New Articles will include language with the effect that such information shall be made available to prospective and existing shareholders in such manner as may be determined by the Board from time to time (including, in certain cases, on the Company's website or by electronic notice).

(iii) The New Articles stiplulate that the valuation of the Company's assets will be performed in accordance with prevailing accounting standards, in line with guidance from the Financial Conduct Authority. This reflects best practice and has no bearing on current practice and simply articulates the minimum requirements of the AIFM Regulations.

(iv) The Existing Articles will be amended to provide that the Company's annual report and accounts may be prepared either in accordance with generally accepted accounting principles of the United Kingdom or such other international accounting standards as may be permitted under Scots law. The amendment will have no bearing on current practice and simply articulates the minimum requirements of the AIFM Regulations.

International tax regimes requiring the exchange of information

The Board is proposing to include provisions in the New Articles to provide the Company with the ability to require shareholders to co-operate in respect of the exchange of information in order to comply with the Company's international tax reporting obligations.

The Hiring Incentives to Restore Employment Act 2010 of the United States of America, commonly known as the Foreign Account Tax Compliance Act, and all associated regulations and official guidance ('**FATCA**') imposes a system of information reporting on certain entities including foreign financial institutions such as the Company following the enactment of the UK International Tax Compliance (United States of America) Regulations 2013 on 1st September 2013. These regulations have now been replaced by the International Tax Compliance Regulations 2015 (the '**Regulations**').

The Existing Articles are being amended to provide the Company with the ability to require shareholders to co-operate with it in ensuring that the Company is able to comply with its obligations under the Regulations in order to avoid being deemed to be a 'Nonparticipating Financial Institution' for the purposes of FATCA and consequently having to pay withholding tax to the US Internal Revenue Service. The Existing Articles will also be amended to ensure that the Company will not be liable for any monies that become subject to a deduction or withholding relating to FATCA, as such liability would be to the detriment of shareholders as a whole.

The Regulations also include the automatic exchange of information regimes brought in by the tax regulation under the OECD (Organisation for Economic Co-operation and Development) Common Reporting Standard for Automatic Exchange of Financial Account Information (the Common Reporting Standard) which requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. As a result, the Company is required to provide information annually to the local tax authority on the tax residency of a number of non-UK based certified shareholders and corporate entities.

Therefore, the Existing Articles are being amended in order to provide the Company with the ability to require shareholders to co-operate in respect of these broader obligations including its obligations under the OECD and FATCA.

Information for Investors

Financial Diary

The Company's financial year ends on 31 August. The 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 £12,300 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.

Data Protection

The Company is committed to ensuring the privacy of any personal data provided to it. Further details of the Company's privacy policy can be found on the Company's website www.scottishoriental.com.

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 the following page or by telephone on +44 (0)131 378 0500

For registry queries contact Computershare by telephone on +44 (0)370 707 1307.

Company Information

Registered Office
28 Walker Street
Edinburgh EH3 7HR

Company Number
SC156108

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

Alternative Investment Fund Manager
First State Investments (UK) Limited
15 Finsbury Circus
London EC2M 7EB

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

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

Company Secretary and Administrator
PATAC Limited
28 Walker Street
Edinburgh EH3 7HR
Email: cosec@patplc.co.uk
Tel: +44 (0)131 378 0500

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

Auditor
Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh EH3 8EX

The Association of
Investment Companies

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