



The **Scottish Oriental**
Smaller Companies Trust plc



2011
The **Scottish Oriental** Smaller Companies Trust plc

Interim Report
and Accounts
28th February 2011

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Interim Report and Accounts

2011

This document is important and requires your immediate attention. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker, solicitor, accountant or other independent professional adviser authorised under The Financial Services and Markets Act 2000 immediately. If you have sold or otherwise transferred all of your shares in The Scottish Oriental Smaller Companies Trust plc, please forward this document as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Corporate Objective

The investment objective of The Scottish Oriental Smaller Companies Trust plc (“Scottish Oriental”, “the Company” or “the Trust”) is to achieve long-term capital growth by investing in mainly smaller Asian quoted companies with market capitalisations of below US\$1,000m, or the equivalent thereof, at the time of investment. For investment purposes, the Region includes the Indian sub-continent but excludes Japan and Australasia.

This is an abridged version of Scottish Oriental’s investment policy and objective. A full statement of Scottish Oriental’s investment policy can be found on page 3 of the Annual Report and Accounts for the year ending 31st August 2010 (“the Annual Report and Accounts”).

Principal Risks and Uncertainties

Given the nature of its investment activities, the principal risks that Scottish Oriental faces from its financial instruments are market prices (comprising interest rate, currency and share price risks) and credit risk. The principal risks and uncertainties have not changed since the publication of the Annual Report and Accounts. A detailed explanation of these risks and how they are managed is set out in Note 15 on pages 43-45 of the Annual Report and Accounts. As Scottish Oriental’s assets mainly comprise readily realisable securities, other than in exceptional circumstances there should be no significant liquidity risk. Scottish Oriental’s investment portfolio is exposed to market price fluctuations and currency fluctuations which are monitored by the Investment Manager. Scottish Oriental does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

Directors’ Responsibility Statement

The Directors are responsible for preparing the half-yearly financial report in accordance with applicable law and regulations. The Directors confirm that, to the best of their knowledge:

- (a) the condensed set of financial statements within the half-yearly financial report, prepared in accordance with the Accounting Standards Board’s statement ‘Half-Yearly Financial Reports’, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- (b) the Interim Management Report includes a fair review of the information required by 4.2.7R of the Financial Services Authority’s Disclosure and Transparency Rules (important events that have occurred in the first six months of the Company’s financial year, together with their effect on the half-yearly financial statements to 28th February 2011 and a description of the principal risks and uncertainties for the remaining six months of the financial year) and 4.2.8R (related party transactions that have taken place during the first six months of the financial year and that have materially affected the financial position of the Company during that period and any changes in the related party transactions described in the last annual report that could do so).

The half-yearly report, for the six months to 28th February 2011, comprises the Interim Management Report, the Directors’ Responsibility Statement and a condensed set of financial statements and has not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

By order of the Board

James Ferguson
Chairman

22nd March 2011

Performance (Unaudited)

for the six months to 28th February 2011

Net Asset Value	6.0%	MSCI AC Asia ex Japan Index (£)*†	6.9%
Share Price	11.7%	MSCI AC Asia ex Japan Small Cap Index (£)*†	5.0%
		FTSE All-Share Index (£)*†	16.5%

†Total return (capital return with dividends reinvested).

*An explanation of the Trust's benchmark and comparative indices is given on page 13.

Summary Data (Unaudited)

at 28th February 2011

Shares in issue	30,213,650	Shareholders' Funds	£177.8m
Net Asset Value per share	588.6p	Market Capitalisation	£163.2m
Share Price	540.0p	Share Price Discount to Net Asset Value	8.3%

Interim Management Report

Investment Performance

In the six months ending 28th February 2011, Scottish Oriental's net asset value per share rose by 6.0 per cent to 588.6p. This compares with a sterling-adjusted increase of 6.9 per cent in the MSCI AC Asia ex Japan Index and a rise of 5.0 per cent in the MSCI AC Asia ex Japan Small Cap Index. The Trust's share price also increased by 11.7 per cent over the period and the discount to net asset value was 8.3 per cent on 28th February 2011. The Trust underperformed the FTSE All-Share Index, which rose by 16.5 per cent over the six months.

Scottish Oriental had no borrowings during the six month period and held cash equivalent to 4.7 per cent of net assets on 28th February 2011.

Review

Asian stockmarkets continued to outperform in the four months ending 31st December 2010, supported by expectations of further monetary stimulus, particularly in the US, and high levels of foreign funds allocated to the Region. Economic growth in Asia remained robust which, combined with rising commodity prices, particularly food, resulted in higher than expected inflation. In January, the prospect of a tightening in monetary policy in the Region combined with relatively expensive valuations prompted a reversal in the flow of funds towards more developed stockmarkets. This movement picked up momentum in February as a result of the political unrest in North Africa and the Middle East.

India was the worst performing market in the Region, owing to concerns over persistently high inflation as well as evidence that the political support for economic reforms had stalled. South Korea and Taiwan outperformed as strong export data provided confirmation that both countries are benefiting from the recovery in US consumer spending, particularly for technology related products.

Asian smaller companies underperformed their larger counterparts with significant declines in India and Thailand.

Outlook

The short term outlook for Asia remains uncertain as higher oil prices put further upward pressure on inflation and the recent earthquake in Japan may disrupt supplies of some specialised components and materials. Those countries which subsidise fuel prices will also suffer from higher Government expenditure and possible deterioration in fiscal deficits, with India viewed as the most vulnerable. Central Banks are expected to tighten monetary policy further either via higher bank reserve requirements or interest rates. Following the recent correction, corporate valuations are now more attractive but, given the expected slowdown in economic growth rates, earnings may disappoint and forecasts could see further downward revisions.

There are, however, several reasons for being optimistic toward Asian equity markets over the longer term owing to the Region's promising economic growth prospects compared with those of the developed world, its relatively high savings rates and the evolution of economies increasingly driven by domestic consumption rather than exports.

Scottish Oriental will continue to invest in those well managed, soundly financed companies that are able to grow at a sustainable rate over the medium term.

Dividend

A dividend of 8.5p per share net (equivalent to 9.4p gross) was paid on 28th January 2011 for the year ending 31st August 2010 (31st August 2009: 6.0p per share net). It is too early to make a forecast of the distribution for the current financial year.

Ten Largest Equity Holdings

as at 28th February 2011

Company	Country	£'000	%
Security Bank	Philippines	3,076	1.7
CSE Global	Singapore	3,073	1.7
JVM	South Korea	3,045	1.7
Tai Cheung Holdings	Hong Kong	3,037	1.7
Venture Corporation	Singapore	2,975	1.7
Media Prima	Malaysia	2,866	1.6
Tisco Financial	Thailand	2,835	1.6
Jaya Real Property	Indonesia	2,759	1.6
IJM Corporation	Malaysia	2,731	1.6
CTCI Corporation	Taiwan	2,728	1.5
Representing 16.4% of shareholders' funds (excluding net income)		<u>29,125</u>	<u>16.4</u>

List of Quoted Equity Investments

at 28th February 2011 (percentage of shareholders' funds excluding net income)

	% of Shareholders' Funds		% of Shareholders' Funds		% of Shareholders' Funds
CHINA (14.2%)		INDIA (1.2%)		PHILIPPINES (3.7%)	
Consumer Discretionary (9.6%)		Consumer Staple (0.6%)		Consumer Discretionary (0.5%)	
Asia Satellite	1.1	Marico	0.6	Pancake House	0.5
Glorious Sun Enterprises	0.6	Materials (0.6%)		Financial (3.2%)	
Minth	1.0	Castrol (India)	0.6	Security Bank	1.7
Pacific Textiles	1.0	INDONESIA (7.5%)		SM Development	1.5
Pou Sheng International	0.8	Consumer Discretionary (2.2%)		SINGAPORE (13.3%)	
Samson Holding	1.5	Ace Hardware	1.0	Consumer Discretionary (0.8%)	
Sun Hing Vision	1.3	Pembangunan Jaya Ancol	0.7	Tan Chong International	0.8
Texwinca	1.2	Sumber Alfaria Trija	0.5	Consumer Staple (1.4%)	
YGM Trading	1.1	Energy (1.4%)		Petra Foods	1.4
Industrial (2.7%)		Salamander Energy	1.4	Energy (1.2%)	
Boer Power Holdings	0.8	Financial (3.9%)		Ezion Holdings	1.2
Greens Holdings	0.6	Bank OCBC NISP	0.8	Financial (2.3%)	
Lung Kee Holdings	1.3	BFI Finance	1.5	Bukit Sembawang	1.2
Information Technology (0.7%)		Jaya Real Property	1.6	Sabana Shariah Compliant Industrial REIT	1.1
Sinocom Software	0.7	MALAYSIA (9.0%)		Healthcare (1.2%)	
Utilities (1.2%)		Consumer Discretionary (3.0%)		Raffles Medical Group	1.2
Towngas China	1.2	Aeon Company	1.4	Information Technology (4.9%)	
HONG KONG (10.8%)		Media Prima	1.6	CSE Global	1.7
Consumer Discretionary (3.7%)		Financial (3.0%)		euNetworks	0.4
Aeon Stores	0.8	Aeon Credit Service	1.1	Nera Telecommunications	1.1
Dickson Concepts	1.2	Hong Leong Financial	1.0	Venture Corporation	1.7
Next Media	1.2	Quill Capita Trust	0.9	Telecommunication Services (1.5%)	
Tai Ping Carpets	0.5	Healthcare (1.4%)		MobileOne	1.5
Consumer Staple (1.4%)		Supermax	1.4		
Four Seas Mercantile	0.4	Industrial (1.6%)			
Vitasoy International	1.0	IJM Corporation	1.6		
Financial (5.7%)					
Aeon Credit Service	0.9				
Dah Sing Financial	1.1				
Keck Seng Investment	0.7				
Public Financial	1.3				
Tai Cheung Holdings	1.7				

	% of Shareholders' Funds		% of Shareholders' Funds		% of Shareholders' Funds
SOUTH KOREA (9.6%)		TAIWAN (14.5%)		THAILAND (9.5%)	
Consumer Staple (1.3%)		Consumer Discretionary (2.3%)		Consumer Discretionary (3.0%)	
Pacific Corp	1.3	E-Life Mall	1.3	Amarin Printing	0.7
Financial (1.9%)		Taiwan Familymart	1.0	Erawan Group	1.1
Daegu Bank	1.1	Financial (1.5%)		Home Product Center	1.2
Nice e-Banking Services	0.8	Ta Chong Bank	1.5	Financial (3.8%)	
Healthcare (3.1%)		Healthcare (1.3%)		Aeon Thana Sinsap	1.4
JVM	1.7	St. Shine Optical	1.3	Lalin Property	0.8
Yuhan Corp	1.4	Industrial (3.6%)		Tisco Financial	1.6
Industrial (2.3%)		104 Corporation	1.0	Healthcare (0.9%)	
Cosmax	0.9	CTCI Corporation	1.5	Bumrungrad Hospital	0.9
TK Corp	1.4	Yungtay Engineering	1.1	Industrial (0.6%)	
Information Technology (1.0%)		Information Technology (5.8%)		Dynasty Ceramic	0.6
Intelligent Digital		Chroma Ate	1.3	Information Technology (1.2%)	
Integrated Security	1.0	ITEQ	1.3	Hana Microelectronics	1.2
SRI LANKA (0.8%)		Powertech Technology	0.6	VIETNAM (1.2%)	
Telecommunication Services (0.8%)		Wah Lee Industrial	1.4	Financial (1.2%)	
Dialog Axiata	0.8	Taiflex Scientific	1.2	Vietnam Enterprise Investments	1.2

Sector Allocation

at 28th February 2011

Sector	%	Sector	%
Consumer Discretionary	25.1	Energy	2.6
Consumer Staple	4.7	Telecommunication Services	2.3
	29.8	Utilities	1.2
Financial	26.5	Materials	0.6
Information Technology	13.6		95.3
Industrial	10.8	Net current assets	4.7
Healthcare	7.9	Net Assets	100.0

Income Statement

for the six months to 28th February 2011

	Six months to 28th February 2011 (unaudited)			Six months to 28th February 2010 (unaudited)			Year ended 31st August 2010 (audited)		
	Revenue £000	Capital £000	Total* £000	Revenue £000	Capital £000	Total* £000	Revenue £000	Capital £000	Total* £000
Gains on investments	–	12,450	12,450	–	28,339	28,339	–	52,760	52,760
Income from investments	1,086	–	1,086	990	–	990	4,933	–	4,933
Other income	20	–	20	–	–	–	7	–	7
Investment management fee	(723)	–	(723)	(515)	–	(515)	(1,131)	(937)	(2,068)
Currency gains	–	74	74	–	674	674	–	825	825
Other administrative expenses	(225)	–	(225)	(169)	–	(169)	(323)	–	(323)
Net return before finance costs and taxation	158	12,524	12,682	306	29,013	29,319	3,486	52,648	56,134
Finance costs of borrowing	(1)	–	(1)	–	–	–	–	–	–
Net return on ordinary activities before taxation	157	12,524	12,681	306	29,013	29,319	3,486	52,648	56,134
Tax on ordinary activities	(51)	–	(51)	(44)	(77)	(121)	(289)	(129)	(418)
Net return attributable to equity shareholders	106	12,524	12,630	262	28,936	29,198	3,197	52,519	55,716
Net return per ordinary share (p)	0.3	41.5	41.8	0.9	95.8	96.7	10.6	173.8	184.4

*The total column of this statement is the Profit & Loss Account of the Company.

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

All revenue and capital items derive from continuing operations.

Balance Sheet

as at 28th February 2011

	At 28th February 2011 £000 (unaudited)	At 28th February 2010 £000 (unaudited)	At 31st August 2010 £000 (audited)
EQUITY INVESTMENTS			
China	25,252	14,320	17,277
Hong Kong	19,135	14,524	17,715
India	2,198	3,063	2,542
Indonesia	13,365	8,702	11,532
Malaysia	15,986	11,533	12,815
Philippines	6,612	9,332	9,645
Singapore	23,626	19,171	20,397
South Korea	17,245	16,876	17,630
Sri Lanka	1,429	3,779	3,609
Taiwan	25,799	13,781	20,284
Thailand	16,700	16,648	20,036
Vietnam	2,103	1,674	2,226
Total equities	169,450	133,403	155,708
Net current assets	8,377	7,844	12,057
Shareholders' funds	177,827	141,247	167,765
Share capital and reserves			
Ordinary share capital	7,554	7,554	7,554
Share premium account	21,337	21,337	21,337
Warrant reserve – exercised	1,319	1,319	1,319
Capital reserves	143,779	107,672	131,255
Revenue reserve	3,838	3,365	6,300
	177,827	141,247	167,765
Net asset value per share	588.6p	467.5p	555.3p

Cash Flow Statement

for the six months to 28th February 2011

	Six months to 28th February 2011		Six months to 28th February 2010		Year to 31st August 2010	
	£000 (unaudited)	£000 (unaudited)	£000 (unaudited)	£000 (unaudited)	£000 audited	£000 audited
OPERATING ACTIVITIES:						
Dividends received from investments		1,589		1,112		4,667
Other income		10		–		7
		<u>1,599</u>		<u>1,112</u>		<u>4,674</u>
Investment management fee	(710)		(483)		(1,063)	
Secretarial fee	(26)		(25)		(51)	
Directors' fees	(46)		(36)		(71)	
Other expenses paid	(196)		(27)		(173)	
		<u>(978)</u>		<u>(571)</u>		<u>(1,358)</u>
Net cash inflow from operating activities		621		541		3,316
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE						
Interest paid on borrowings		(1)		–		–
TAXATION						
Total tax paid		(44)		(283)		(583)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT:						
Purchases of investments	(26,383)		(20,178)		(39,746)	
Sales of investments	24,899		20,152		42,558	
Indian capital gains tax	–		(77)		(129)	
Currency gains	74		674		825	
		<u>(1,410)</u>		<u>571</u>		<u>3,508</u>
Net cash (outflow)/inflow from capital expenditure and financial investment		(1,410)		571		3,508
EQUITY DIVIDEND PAID		(2,568)		(1,813)		(1,813)
(Decrease)/increase in cash		(3,402)		(984)		4,428

Reconciliation of Movements in Shareholders' Funds

for the period ended 28th February 2011

	Share Capital £000	Share Premium Account £000	Warrant Reserve Exercised £000	Capital Reserve £000	Revenue Reserve £000	Total £000
Balance at 31st August 2010	<u>7,554</u>	<u>21,337</u>	<u>1,319</u>	<u>131,255</u>	<u>6,300</u>	<u>167,765</u>
Realised gain on investments	–	–	–	14,737	–	14,737
Currency gain	–	–	–	74	–	74
Unrealised depreciation on investments in the period	–	–	–	(2,287)	–	(2,287)
Income retained in the period	–	–	–	–	106	106
Dividend paid in the period	–	–	–	–	(2,568)	(2,568)
Balance at 28th February 2011	<u>7,554</u>	<u>21,337</u>	<u>1,319</u>	<u>143,779</u>	<u>3,838</u>	<u>177,827</u>

for the year ended 31st August 2010

	Share Capital £000	Share Premium Account £000	Warrant Reserve Exercised £000	Capital Reserve £000	Revenue Reserve £000	Total £000
Balance at 31st August 2009	<u>7,554</u>	<u>21,337</u>	<u>1,319</u>	<u>78,736</u>	<u>4,916</u>	<u>113,862</u>
Realised gain on investments	–	–	–	20,058	–	20,058
Currency gain	–	–	–	825	–	825
Unrealised appreciation on investments in the year	–	–	–	32,702	–	32,702
Performance fee	–	–	–	(937)	–	(937)
Indian Capital Gains Tax	–	–	–	(129)	–	(129)
Income retained in the year	–	–	–	–	3,197	3,197
Dividend paid in the year	–	–	–	–	(1,813)	(1,813)
Balance at 31st August 2010	<u>7,554</u>	<u>21,337</u>	<u>1,319</u>	<u>131,255</u>	<u>6,300</u>	<u>167,765</u>

Changes in Equity Investments

	Valuation at 31st August 2010 £000	Purchases £000	Sales £000	Appreciation/ (depreciation) £000	Valuation at 28th February 2011 £000
China	17,277	8,069	(77)	(17)	25,252
Hong Kong	17,715	2,307	(1,635)	748	19,135
India	2,542	–	–	(344)	2,198
Indonesia	11,532	960	(2,588)	3,461	13,365
Malaysia	12,815	3,539	(989)	621	15,986
Philippines	9,645	864	(5,386)	1,489	6,612
Singapore	20,397	3,867	(2,694)	2,056	23,626
South Korea	17,630	415	(1,923)	1,123	17,245
Sri Lanka	3,609	–	(2,470)	290	1,429
Taiwan	20,284	4,895	(2,291)	2,911	25,799
Thailand	20,036	1,078	(4,649)	235	16,700
Vietnam	2,226	–	–	(123)	2,103
	<u>155,708</u>	<u>25,994</u>	<u>(24,702)</u>	<u>12,450</u>	<u>169,450</u>

Notes to Accounts

- 1 The position as at 31st August 2010 on page 9 is an abridged version of that contained in the Annual Report and Accounts, which received an unqualified audit report and which have been filed with the Registrar of Companies. This Interim Report has been prepared under the same accounting policies adopted for the year to 31st August 2010.

	At 28th February 2011 £000	At 28th February 2010 £000	At 31st August 2010 £000
2 DIVIDENDS			
Amounts recognised as distributions in the period:			
Dividend for the year ending 31st August 2010 of 8.5p (2009 – 6.0p), paid 28th January 2011	<u>2,568</u>	<u>1,813</u>	<u>1,813</u>

3 CONTINGENT LIABILITIES

Under the terms of the Investment Management Agreement, an annual performance fee may be payable to the Investment Manager at the end of the year. A detailed explanation of the performance fee computation is set out on page 21 of the Annual Report and Accounts.

Assuming no change in share price, MSCI AC Asia Free ex Japan Index Total Return and shares in issue between 28th February and 31st August 2011, the estimated performance fee for the year ending 31st August 2011 would amount to £2,651,852.

Information for Investors

Financial Diary

The Company's financial year ends on 31st August. The preliminary results are announced in October and the annual report and accounts are published in November. Any dividend payable on the ordinary shares will be paid in January, on shareholdings registered approximately one month before the payment date.

Capital Gains Tax

An individual tax payer is currently entitled to an annual total tax free gain, (£10,100 as at 28th February 2011) 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 is 92.59p per ordinary share and 37.05p per warrant.

Benchmark and Comparative Indices

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

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

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

For comparison purposes, the Trust is also displaying the MSCI AC Asia ex Japan Small Cap Index which covers the relevant markets with the exception of Pakistan and Sri Lanka. This Index is made up of companies with a market capitalisation of between US\$200m and US\$800m. The range does not match exactly that of the Trust, which has no lower limit and which mainly invests in companies with a market capitalisation of under US\$1,000m. Nevertheless, it gives a useful indication of the performance of smaller companies in Asia over recent years.

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

Company Information

Board of Directors

James Ferguson
Alexandra Mackesy
Dr Janet Morgan
Anne West
All Non-Executive Directors

Investment Manager

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

For further information, please contact the following at the above address:

Fund Management

Susie Rippingall
Angus Tulloch
Scott McNab

Secretary

Steven Davidson
Personal Assets Trust
Administration Company Limited
10 St Colme Street
Edinburgh EH3 6AA
(from 1 March 2011)

Registered Office

10 St Colme Street
Edinburgh EH3 6AA
(from 1 March 2011)

Registrar

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol BS99 6ZY

Company Number

SC 156108

Further Information

If you require any further information please contact:
Client Services, Personal Assets Trust Administration Company Limited
Tel: +44 (0)131 538 6610
or for registry queries contact Computershare on:
Tel: +44 (0)870 707 1307

The Interim Report and Accounts for the six months to 28th February 2011 has been produced by First State Investment Management (UK) Limited.

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The Association of
Investment Companies

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



First State
Investments