



The Scottish Oriental
Smaller Companies Trust plc

2014

The **Scottish Oriental** Smaller Companies Trust plc

Interim Report
and Accounts
28 February 2014

Contents	Page
Corporate Objective	1
Principal Risks and Uncertainties	1
Directors' Responsibility Statement	1
Performance (Unaudited)	2
Summary Data (Unaudited)	2
Interim Management Report	3
List of Quoted Equity Investments	4
Ten Largest Equity Holdings	6
Sector Allocation	6
Income Statement	7
Balance Sheet	8
Cash Flow Statement	9
Reconciliation of Movement in Shareholders' Funds	10
Changes in Equity Investments	11
Notes to Accounts	11
Information for Investors	12
Company Information	Inside back cover

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\$1,500m, or the equivalent thereof, at the time of investment. For investment purposes, this 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 31 August 2013 (“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 16 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 overdrafts 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 Conduct 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 28 February 2014 and a description of the principal risks and uncertainties for the remaining six months of the financial year). Rule 4.2.8R requires information on related party transactions. No related party transactions have taken place during the first six months of the financial year that have materially affected the financial position of the Company during that period and there have been no 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 28 February 2014 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

24 April 2014

Performance (Unaudited)

for the six months to 28 February 2014

Net Asset Value	(2.0%)	MSCI AC Asia ex Japan Index (£)*†	(1.0%)
Share Price	2.2%	MSCI AC Asia ex Japan Small Cap Index (£)*†	1.9%
		FTSE All-Share Index (£)*†	8.8%

†Total return (capital return with dividends reinvested).

*An explanation of the Trust's benchmark and comparative indices is given on page 12.

Summary Data (Unaudited)

at 28 February 2014

Shares in issue	31,643,650	Shareholders' Funds	£248.66m
Net Asset Value per share	785.82p	Market Capitalisation	£237.33m
Share Price	750.00p	Share Price Discount to Net Asset Value	4.6%

Interim Management Report

Investment performance

In the six months ending 28 February 2014, Scottish Oriental's net asset value per share declined 2.0 per cent to 785.8p. This compares with the MSCI AC Asia ex Japan Index recording a sterling adjusted decline of 1.0 per cent and the MSCI AC Asia ex Japan Small Cap Index rising 1.9 per cent. The Trust's share price also rose by 2.2 per cent over the period. The Trust's shares traded at a discount to net asset value of 4.6 per cent on 28 February 2014. The Trust underperformed the FTSE All-Share Index, which rose by 8.8 per cent over the six month period.

Scottish Oriental has borrowings of £19.4 million, equivalent to 7.8 per cent of net asset value, as of 28 February 2014. No new shares were issued during the six months under review. The Trust's cash level rose to £36.1m at the end of the period. Its cash position represented 14.5 per cent of net assets. The Manager will continue to invest this money gradually once suitable long term investment opportunities have been identified.

Review

Asian stock markets were weak in the six months ending 28 February 2014. Investor sentiment continued to be influenced by the outlook for the global economy, and specifically by monetary policies in China, the West, and Japan. Stock markets were more volatile as a result. Asian stock markets experienced significant fund outflows, in part because of the perceived cyclical attractiveness of the US and Europe.

India was the best performing Asian stock market. Investors reacted positively to news that the country's current account deficit had narrowed to a four year low. There was also an expectation that the opposition BJP candidate, Narendra Modi, who is perceived to be pro-business, will be successful in this year's general election. Thailand was the worst performing market; the political standoff in Bangkok showed little sign of ending.

Asian smaller companies generally outperformed their larger counterparts with a particularly strong return achieved in India.

Outlook

The near term performance of Asian equities will continue to be influenced by monetary policies globally. Easy money policies may well lead to a sudden inflationary spike. However, at present, deflation, rather than inflation, prevails. The stimulus programme being undertaken is unprecedented and the long term consequences remain unknown. For this reason we are cautious.

The valuations of locally focused consumer companies have become stretched. We are also wary of potential asset bubbles emerging for small companies in certain sectors and countries. Only a small number of companies in the Trust's investment universe offer significant upside over the longer term.

Dividend

A dividend of 11.5p per share was paid on 31 January 2014 for the year ending 31 August 2013 (31 August 2012: 11.0p per share). It is too early to make a forecast of the distribution for the current financial year.

List of Quoted Equity Investments

as at 28 February 2014

	% of Shareholders' Funds		% of Shareholders' Funds		% of Shareholders' Funds	
CHINA (16.6%)		HONG KONG (9.2%)		INDIA (19.6%)		
Consumer Discretionary (4.6%)		Consumer Discretionary (4.8%)		Consumer Discretionary (2.4%)		
Minth	2.1	Aeon Stores	0.3	Indian Hotels	0.4	
Pacific Textiles	0.7	Dickson Concepts	1.1	Motherson Sumi Sys.	0.6	
Trinity	0.9	Keck Seng Investment	1.0	Tube Investments of India	1.4	
YGM Trading	0.9	Tai Ping Carpets	0.4	Consumer Staples (5.4%)		
Healthcare (3.3%)		Tao Heung Holdings	2.0	Marico	2.6	
Microport Scientific	1.3	Consumer Staples (1.0%)		Tata Global Beverages	2.8	
Tong Ren Tang	2.0	Vitasoy International	1.0	Energy (0.6%)		
Industrial (1.4%)		Financial (3.2%)		Great Eastern Shipping	0.6	
Singamas Container	1.4	Aeon Credit Service	0.6	Financial (2.4%)		
Materials (2.2%)		Public Financial	1.9	Godrej Properties	0.9	
CPMC Holdings	2.2	Tai Cheung Holdings	0.7	Mahindra Lifespace Developer	1.5	
Telecommunication Services (2.0%)		Industrial (0.2%)		Industrial (2.9%)		
Asia Satellite Telecom	2.0	Pacific Basin Shipping	0.2	Blue Dart Express	0.8	
Utilities (3.1%)						
Towngas China	3.1					
Materials (3.6%)						
EID Parry (India)						1.2
Kansai Nerolac Paints						1.0
Linde India						1.4
Information Technology (2.3%)						
CMC						2.3
INDONESIA (1.2%)						
Consumer Discretionary (0.6%)						
Ace Hardware						0.6
Consumer Staples (0.4%)						
Modern Internasional						0.4
Financial (0.2%)						
Bank OCBC						0.2

	% of Shareholders' Funds		% of Shareholders' Funds		% of Shareholders' Funds
MALAYSIA (3.8%)		SOUTH KOREA (4.2%)		TAIWAN (16.1%)	
Consumer		Consumer		Consumer	
Discretionary (2.2%)		Discretionary (0.8%)		Discretionary (3.2%)	
Aeon Company	1.5	Hana Tour Service	0.8	Taiwan Familymart	2.7
Media Prima	0.7	Consumer Staples (1.6%)		Wowprime	0.5
Healthcare (0.7%)		Amorepacific		Consumer Staples (2.3%)	
Supermax	0.7	Financial (1.0%)		Standard Foods	
Industrial (0.9%)		DGB Financial		Healthcare (1.7%)	
IJM Corporation	0.9	Healthcare (0.8%)		Pacific Hospital Supply	
PHILIPPINES (0.9%)		Interojo		Industrial (2.7%)	
Utilities (0.9%)		SRI LANKA (3.5%)		KD Holdings	
Manila Water	0.9	Consumer		Yungtay Engineering	
SINGAPORE (15.1%)		Discretionary (0.7%)		Information	
Consumer		Aitken Spence Hotels		Technology (6.2%)	
Discretionary (0.5%)		Consumer Staples (0.7%)		Chroma Ate	
Tan Chong International	0.5	CT Holdings		Lumax International	
Consumer Staples (2.1%)		Industrial (1.0%)		Taiflex Scientific	
Petra Foods	1.4	Expolanka Holdings		Wah Lee Industrial	
Sheng Siong Group	0.7	Hemes Holdings		THAILAND (3.1%)	
Energy (2.3%)		Telecommunication		Consumer	
Ezion Holdings	2.3	Services (1.1%)		Discretionary (0.4%)	
Financial (2.5%)		Dialog Axiata		Somboon Advance	
Bukit Sembawang Estates	1.0			Technology	
Hong Leong Finance	1.5			Financial (2.7%)	
Healthcare (3.7%)				Aeon Thana Sinsap	
Eu Yang Sang				Lalin Property	
International	0.5			Ticon Industrial	
Haw Par	1.1			Tisco Financial	
Raffles Medical Group	2.1				
Industrial (4.0%)					
Amtek Engineering	1.6				
Singapore Post	1.0				
Tat Hong	0.4				
Yongnam Holdings	1.0				

Ten Largest Equity Holdings

as at 28 February 2014

Company	Country	Market Valuation £'000	% of Shareholders' Funds
Towngas China	China	7,588	3.1
Tata Global Beverages	India	7,035	2.8
Taiwan Familymart	Taiwan	6,691	2.7
Marico	India	6,402	2.6
Chroma Ate	Taiwan	5,997	2.4
CMC	India	5,833	2.3
Standard Foods	Taiwan	5,829	2.3
Ezion Holdings	Singapore	5,766	2.3
CPMC Holdings	China	5,586	2.2
Raffles Medical Group	Singapore	5,202	2.1
Total		61,929	24.8

Sector Allocation

as at 28 February 2014

Sector	% of Shareholders' Funds
Consumer Discretionary	20.2
Consumer Staples	13.5
Industrial	13.1
Financial	12.0
Healthcare	10.2
Information Technology	8.5
Materials	5.8
Utilities	4.0
Telecommunication Services	3.1
Energy	2.9
Net current assets	93.3
Net Assets	100.0

Income Statement

for the six months to 28 February 2014

	Six months to 28 February 2014 (unaudited)			Six months to 28 February 2013 (unaudited)			Year ended 31 August 2013 (audited)		
	Revenue £000	Capital £000	Total* £000	Revenue £000	Capital £000	Total* £000	Revenue £000	Capital £000	Total* £000
(Losses)/gains on investments	-	(34)	(34)	-	65,798	65,798	-	41,060	41,060
Income from investments	1,763	-	1,763	1,949	-	1,949	7,859	-	7,859
Other income	29	-	29	37	-	37	44	-	44
Investment management fee	(961)	(373)	(1,334)	(932)	(1,505)	(2,437)	(1,946)	(1,725)	(3,671)
Currency (losses)/gains	-	(1,155)	(1,155)	-	132	132	-	(460)	(460)
Other administrative expenses	(339)	-	(339)	(247)	-	(247)	(635)	-	(635)
Net return before finance costs and taxation	492	(1,562)	(1,070)	807	64,425	65,232	5,322	38,875	44,197
Finance costs of borrowing	(221)	-	(221)	(225)	-	(225)	(460)	-	(460)
Net return on ordinary activities before taxation	271	(1,562)	(1,291)	582	64,425	65,007	4,862	38,875	43,737
Tax on ordinary activities	(39)	-	(39)	(62)	-	(62)	(344)	-	(344)
Net return attributable to equity shareholders	232	(1,562)	(1,330)	520	64,425	64,945	4,518	38,875	43,393
Net return per ordinary share (p)	0.73p	(4.93p)	(4.20p)	1.71p	211.87p	213.58p	14.56p	125.31p	139.87p

*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 28 February 2014

	At 28 February 2014 £000 (unaudited)	At 28 February 2013 £000 (unaudited)	At 31 August 2013 £000 (audited)
EQUITY INVESTMENTS			
China	41,269	45,784	39,552
Hong Kong	22,828	27,932	25,180
India	48,657	4,130	27,248
Indonesia	3,058	14,830	10,820
Malaysia	9,503	19,710	12,870
Philippines	2,349	9,285	4,744
Singapore	37,628	44,549	37,314
South Korea	10,532	28,067	17,920
Sri Lanka	8,743	6,013	6,097
Taiwan	39,728	31,102	32,862
Thailand	7,649	26,162	12,992
Vietnam	-	3,879	-
Total equities	<u>231,944</u>	261,443	227,599
Net Current Assets	<u>16,720</u>	<u>32,437</u>	26,034
Total Assets less Current Liabilities	248,664	293,880	253,633
CREDITORS (due after one year)			
Loan	-	(21,438)	-
Equity Shareholders' Funds	<u>248,664</u>	<u>272,442</u>	<u>253,633</u>
CAPITAL AND RESERVES			
Ordinary share capital	7,911	7,834	7,911
Share premium account	32,940	30,274	32,940
Warrant reserve exercised	1,319	1,319	1,319
Capital reserves	199,903	227,015	201,465
Revenue reserve	6,591	6,000	9,998
	<u>248,664</u>	<u>272,442</u>	<u>253,633</u>
Net asset value per share	785.82p	869.49p	801.53p

Cash Flow Statement

for the six months to 28 February 2014

	Six months to 28 February 2014 £000 (unaudited)	Six months to 28 February 2013 £000 (unaudited)	Year ended 31 August 2013 £000 (audited)
OPERATING ACTIVITIES			
Dividends received from investments	2,257	2,368	7,805
Other income	147	108	193
	2,404	2,476	7,998
Investment management fee	(966)	(380)	(1,845)
Secretarial fee	(52)	(25)	(103)
Directors' fees	(42)	(40)	(79)
Other expenses paid	(300)	(169)	(394)
Net cash inflow from operating activities	1,044	1,862	5,577
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid on borrowings	(225)	(226)	(460)
Net cash outflow from investments and servicing of finance	(225)	(226)	(460)
TAXATION			
Total tax paid	(53)	(64)	(343)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchases of investments	(65,342)	(26,826)	(89,519)
Sales of investments	61,646	31,650	103,394
Currency (losses)/gains	(2,702)	1,084	10
Performance fee	(1,725)	(1,795)	(1,795)
Net cash (outflow)/inflow from capital expenditure and financial investment	(8,123)	4,113	12,090
FINANCING ACTIVITIES			
Equity dividends paid	(3,639)	(3,324)	(3,324)
Issue of ordinary shares	-	7,789	11,995
Cost of issue of ordinary shares	-	-	(35)
Net cash (outflow)/inflow from financing activities	(3,639)	4,465	8,636
(Decrease)/increase in cash	(10,996)	10,150	25,500

Reconciliation of Movements in Shareholders' Funds

for the six months ended 28 February 2014

	Share Capital £000	Share Premium Account £000	Warrant Reserve Exercised £000	Capital Reserves £000	Revenue Reserve £000	Total £000
Balance at 31 August 2013	7,911	32,940	1,319	201,465	9,998	253,633
Realised gain on investments	-	-	-	7,121	-	7,121
Currency loss	-	-	-	(1,155)	-	(1,155)
Unrealised loss on investments in the period	-	-	-	(7,155)	-	(7,155)
Performance fee	-	-	-	(373)	-	(373)
Income retained in the period	-	-	-	-	232	232
Dividend paid in the period	-	-	-	-	(3,639)	(3,639)
Balance at 28 February 2014	7,911	32,940	1,319	199,903	6,591	248,664

for the year ended 31 August 2013

	Share Capital £000	Share Premium Account £000	Warrant Reserve Exercised £000	Capital Reserves £000	Revenue Reserve £000	Total £000
Balance at 31 August 2012	7,554	21,337	1,319	162,590	8,804	201,604
Realised gain on investments	-	-	-	36,244	-	36,244
Currency loss	-	-	-	(460)	-	(460)
Unrealised gain on investments in the year	-	-	-	4,816	-	4,816
Performance fee	-	-	-	(1,725)	-	(1,725)
Issue of new ordinary shares	357	11,603	-	-	-	11,960
Income retained in the year	-	-	-	-	4,518	4,518
Dividend paid in the year	-	-	-	-	(3,324)	(3,324)
Balance at 31 August 2013	7,911	32,940	1,319	201,465	9,998	253,633

Changes in Equity Investments

	Valuation at 31 August 2013 £000	Purchases £000	Sales £000	Appreciation £000	Valuation at 28 February 2014 £000
China	39,552	11,843	(11,109)	983	41,269
Hong Kong	25,180	2,149	(2,970)	(1,531)	22,828
India	27,248	20,539	(2,671)	3,541	48,657
Indonesia	10,820	1,749	(8,160)	(1,351)	3,058
Malaysia	12,870	–	(3,385)	18	9,503
Philippines	4,744	1,725	(3,565)	(555)	2,349
Singapore	37,314	12,320	(10,474)	(1,532)	37,628
South Korea	17,920	1,908	(10,099)	803	10,532
Sri Lanka	6,097	2,356	–	290	8,743
Taiwan	32,862	9,726	(1,913)	(947)	39,728
Thailand	12,992	917	(6,507)	247	7,649
	<u>227,599</u>	<u>65,232</u>	<u>(60,853)</u>	<u>(34)</u>	<u>231,944</u>

Notes to Accounts

- The position as at 31 August 2013 on page 8 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 31 August 2013.
- The return per Ordinary share figure is based on the net loss for the six months of £1,330,000 (six months ended 28 February 2013: net profit of £64,945,000; year ended 31 August 2013: net profit of £43,393,000) and on 31,643,650 (six months ended 28 February 2013: 30,407,214; year ended 31 August 2013: 31,023,198 Ordinary shares, being the weighted average number of Ordinary shares in issue during the respective periods).
- At 28 February 2014 there were 31,643,650 Ordinary shares in issue (28 February 2013: 31,333,650; 31 August 2013: 31,643,650).

	At 28 February 2014 £000	At 28 February 2013 £000	At 31 August 2013 £000
4 Amounts recognised as distributions in the period: Dividend for the year ending 31 August 2013 of 11.5p (2012 – 11.0p), paid 31 January 2014	<u>3,639</u>	<u>3,324</u>	<u>3,324</u>

Notes to Accounts (continued)

- 5 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. The total fee payable to the Investment Manager is capped at 1.5% per annum of the Company's net assets.

Assuming no change in share price, MSCI AC Asia Free ex Japan Index Total Return and shares in issue between 28 February and 31 August 2014, the estimated performance fee for the year ending 31 August 2014 would amount to £745,000. An amount of £372,500 has been accrued in the six months to 28 February 2014.

Information for Investors

Financial Diary

The Company's financial year ends on 31 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 (£11,000 for tax year 2014/15) 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\$0.1m and US\$3,822m. The range is not an exact match to that of the Trust, which has no lower limit and which mainly invests in companies with a market capitalisation of under US\$1,500m. Nevertheless, it gives a useful indication of the performance of smaller companies in Asia over recent years.

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

Company Information

Board of Directors

James Ferguson
Alexandra Mackesy
Dr Janet Morgan
Anne West

Investment Manager

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Further Information

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aic
The Association of
Investment Companies

The Scottish Oriental Smaller Companies
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First State
Investments