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THE SCOTTISH ORIENTAL
SMALLER COMPANIES TRUST PLC

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ANNUAL REPORT AND ACCOUNTS 2000



Contents

	PAGE
Directors and Advisers	2
Corporate Objective	3
Summary Data	3
Performance	3
Chairman's Statement	4
Manager's Review	
Investment Philosophy	5
Review	5
Outlook	6
Portfolio Review	
Country Allocation	8
Sector Allocation	10
Ten Largest Equity Holdings	10
List of Quoted Equity Investments	13
Directors' Report	15
Statement of Total Return	18
Balance Sheet	20
Cash Flow Statement	21
Accounting Policies	22
Notes on the Accounts	23
Statement of Directors' Responsibilities	28
Information for Investors	28
Report of the Auditors	29
Notice of Annual General Meeting	30



Directors and Advisers

DIRECTORS

Ivor Reginald Guild CBE, WS, FRSE, aged 76, previously Senior Partner of Shepherd & Wedderburn WS, Solicitors, is a former Chairman of Dunedin Worldwide Investment Trust, Dunedin Income Growth Investment Trust and The Edinburgh Investment Trust. He is currently a Director of New Fulcrum Investment Trust.

Sir Harnish Macleod KBE, aged 60, joined the Hong Kong Government in 1966 and served in various posts prior to serving as Financial Secretary from August 1991 to August 1995. He has a broad knowledge of the Asian region founded on the 30 years he spent in Hong Kong. He is Chairman of Fleming Asian Investment Trust.

Janet Morgan DPhil, aged 54, is a non-executive Director of Cable & Wireless, The Scottish American Investment Company, The Scottish Life Assurance Company, the Nuclear Generation Decommissioning Fund, NMT Group plc and BPB plc. From 1978 to 1981 Dr Morgan, who is an author, was a member of the Central Policy Review Staff of the Cabinet Office.

David Pike, aged 64, is a stockbroker with Brewin Dolphin. He joined J. A. Brewin, one of the predecessor partnerships of Brewin Dolphin Securities Ltd, in 1962 and has been successively a Partner and Director since 1967. He is Chairman of Brewin Dolphin, the English division of Brewin Dolphin Securities Ltd. As a stockbroker he has, since the mid-1980s, specialised in emerging markets, particularly those of Asia, and he travels extensively in the Far East on business.

Stanley Rowan BA, LLB, FCA, aged 65, was formerly a merchant banker with Singer & Friedlander Group and a Director of certain of its subsidiary companies. He managed discretionary client portfolios invested worldwide, with an emphasis on Far Eastern markets.

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Corporate Objective

The objective of Scottish Oriental is to achieve long-term capital growth by investing mainly in smaller Asian companies with market capitalisation under US\$500m, or the equivalent, at the time of investment. For investment purposes, the Region includes the Indian sub-continent but excludes Japan and Australasia.

Summary Data at 31st August 2000

Shares in issue	25,466,250	Shareholders' Funds	£28.27 million
Warrants in issue	4,747,400	Market Capitalisation	£21.52 million
Net Asset Value per share (undiluted)	111.03p	Warrant Price	24.25p
Share Price	84.50p	Package Price	89.35p
		Package equates to one share and one-fifth of a warrant	
Share Price Discount to Net Asset Value (undiluted)	23.9%	Package Price Discount to Net Asset Value (undiluted)	19.5%

Performance for the year ended 31st August 2000

Net Asset Value (undiluted)	+14.7%	*SG Asian (ex Japan) Smaller Companies Index (£)	-13.2%
Share Price	+11.2%	*MSCI AC Asia Free (ex Japan) Index (£)	+2.3%
Warrant Price	+3.2%		
Package Price	+10.7%	*FTSE All-Share Index	+9.2%

*COMPARATIVE INDICES

From inception until October 1999, the Trust adopted the Morgan Stanley Capital International AC Asia Free (ex Japan) Index ("MSCI") as its benchmark. Although the most widely recognised measure of Regional stockmarket performance, this Index—being dominated by larger companies—is far from an ideal measurement tool.

Your Board has therefore decided to adopt the SG Asian (ex Japan) Smaller Companies Index ("SGASCI") as its performance benchmark. This Index now covers all relevant Asian countries, including Korea and Taiwan which had previously been excluded. The SGASCI is comprised of companies with a market capitalisation of between US\$100m and US\$1,000m. This range does not match exactly that of the Trust, which has no lower limit and which is generally restricted to companies with a market capitalisation of under US\$500m. Nevertheless, this enlarged Index is deemed a much more accurate representation of the Trust's universe than the MSCI equivalent.

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



Chairman's Statement

I am pleased to present your Company's Annual Report for the year ending 31st August 2000.

There was a wide divergence in the performance of Asian stockmarkets over the period as country specific issues came to the fore. The dominance of the telecommunications, media and technology (TMT) sectors throughout the global investment universe resulted in funds flowing into those Asian countries with the greatest exposure, for example India and Taiwan. Likewise, Asia did not escape the "Internet bubble", with many investors attracted by the possibility of inflated returns from "new economy" stocks, mainly in Hong Kong and Korea. Politics has become more of an issue, particularly in Indonesia and the Philippines, where a lack of leadership undermined the confidence of both domestic and foreign investors. China-related companies performed well towards the end of the period owing to an improved outlook for the domestic economy, coupled with optimism about the country's imminent membership of the World Trade Organisation.

Smaller companies generally underperformed over the period owing to their limited representation within the heavily favoured TMT sectors. Your Trust, however, benefited from its investments in a number of well-positioned Internet and e-commerce related companies.

Scottish Oriental's undiluted net asset value appreciated 14.7 per cent to 111.03p over the twelve month period. This compares with a sterling-adjusted decline of 13.2 per cent in the SG Asian (ex Japan) Smaller Companies Index (the Trust's benchmark) and a 2.3 per cent rise in the MSCI AC Asia Free (ex Japan) Index. The FT-SE All-Share Index rose 9.2 per cent in the year ending 31st August 2000.

For those investors who acquired their holdings at the Trust's inception in late March 1995, it is reassuring to note that the market value of the original package (one share and one-fifth of a warrant) rose 10.7 per cent to 89.35p at the end of the financial year. That said, our original shareholders are still losing money on their initial investment.

Your Board has changed the benchmark for the Trust from the MSCI AC Asia Free (ex Japan) Index to the SG Asian (ex Japan) Smaller Companies Index. An explanation for this move can be found under *Comparative Indices on the previous page.

Notwithstanding the borrowing costs incurred, the Trust's income rose substantially over the period. This reflects favourably on the strong balance sheets and high dividend payouts of a number of the Trust's holdings.

Your Board is proposing a final dividend of 1.29p net (1999: 0.85p net). Although increased by over 50 per cent, this figure is well covered by the Trust's per share income return for the period.

Scottish Oriental's borrowings of 500 million yen (£3.2 million) represent approximately 11.4 per cent of net assets at 31st August 2000 (1999: 11.5 per cent). This borrowing continues to give the Trust greater flexibility to enhance long-term returns.

The Trust's share price remains at a disappointingly high discount to net asset value. Your Directors continue to monitor this situation closely, but note that both the Trust's size and shareholding structure make any share buy-back programme difficult to implement.

With its high quality portfolio and a closed-end structure particularly suited to smaller company investment, Scottish Oriental is ideally positioned to take advantage of the excellent investment opportunities currently available amongst Asian smaller companies.

Ivor Guild
Chairman

19th October 2000



Manager's Review

INVESTMENT PHILOSOPHY

- 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 sectorally at all times.
- Whilst cultural, political, economic and sectoral influences play an important part in decision-making, the availability of attractively-priced companies with solid long-term growth prospects is the major determinant of investment policy.
- Our country weightings bear no relationship to Regional stock market indices. Regardless of index significance, we do not consider ourselves obliged to hold investments in any individual market.
- Although considerable attention is paid to "value", we are primarily "growth" investors. As most companies are family controlled, value on its own (i.e. unless associated with assets per share, sales, cash flow and/or earnings growth) is generally ignored by Regional markets.
- Existing holdings are constantly scrutinised to ensure that our corporate performance expectations are likely to be met, and that market valuations are not excessive. Where otherwise, disposals are made.
- Strong emphasis is placed on frequent visits to countries of the Region and on meeting the management of those companies in which we are invested, or might invest.

REVIEW

The twelve months to 31st August 2000 were a more difficult period for Asian stockmarkets than the previous year. While the direction of US interest rates provided the backdrop, the overriding theme was the investment community's infatuation with telecommunication, media and technology stocks—wireless telephony and media throughout the Region, the Internet in Hong Kong and Singapore, semiconductors in Korea and Taiwan, software in India. Retail investors were particularly active, attracted by the returns achieved by US Internet investors. The inevitable sell-down came in late March, triggered by a NASDAQ correction and an increased number of Internet-related companies coming to the markets. Confidence within the investment community evaporated, and share prices collapsed to a fraction of their previous highs, where many continue to languish. "Old economy" stocks with earnings and appealing valuations quickly returned to favour.

China and Hong Kong were amongst the top performing markets over the period, supported by evidence of domestic recovery as consumption picked up and deflationary pressures eased. China's membership of the World Trade Organisation will be positive for that country's economy in the long term. Progress has also been made in reforming the Chinese banking sector as well as the state-owned enterprises.

Taiwan experienced a volatile trading period. Performance was dull from September until mid-December as relations with China deteriorated. However, the stockmarket's heavy exposure to technology stocks, combined with a re-weighting within the MSCI Indices, resulted in better sentiment, at least until March. More recent performance has been dominated by domestic issues, which included the surprise election of the pro-independence presidential candidate Chen Shui Bian, a new anti-corruption campaign and proposed tax reforms aimed at reducing the growing fiscal deficit. Worries about the electronics cycle and stock valuation issues have not helped.

Korea's performance was relatively disappointing given the substantial returns achieved in the previous year. Frustration with the pace and extent of the restructuring of Daewoo and Hyundai chaebols undermined sentiment in this market despite the strong economic recovery. The KOSDAQ, Korea's



Manager's Review—continued

equivalent of NASDAQ, experienced substantial gains in early 2000 but this market has also experienced a sharp correction.

The Singapore market performed well up to the end of 1999. Stocks were supported by corporate restructuring, strong earnings growth and reasonable valuations. Malaysia, meanwhile, languished over this period owing to political concerns and foreign investment restrictions. In January 2000, the relative performance of these stockmarkets changed dramatically as investors switched from Singapore to Malaysia. The main reasons were relatively attractive valuations, stronger earnings growth as well as the Malaysian stockmarket's return to the MSCI Indices. Malaysia's rally proved short-lived, curtailed by slow progress in improving corporate governance as well as the market's limited exposure to TMT. Singapore's performance has since improved as investors increasingly focus on its position as a safe haven for funds earmarked to South East Asia.

India experienced a volatile performance over the period with a strong appreciation at the end of 1999, followed by a sharp correction through most of this year. Whilst the new BJP Government was initially well received, the lack of progress in addressing the outstanding economic problems, most notably the fiscal deficit, has undermined confidence. The outlook for the domestic economy has deteriorated following an increase of interest rates and rising oil prices. TMT euphoria also included Indian software companies, which experienced a substantial re-rating. Sri Lanka's performance was weak as the war against the Tamil Tigers escalated and President Kumarathunga was re-elected with a diminished majority, providing little hope of a resolution of the conflict in the short term. Pakistan was one of the best performing markets, reacting positively to the military coup and the possibility of improved economic management.

The underperformance of Indonesia, the Philippines and Thailand is partly attributed to these markets' relatively low exposure to TMT. However, weak political leadership and unwillingness to address sensitive economic issues were also common negative themes. Indonesia continues to suffer from a bankrupt banking system and a President who has shown limited understanding of the economy. Whilst the Philippine economy emerged from the Regional recession relatively unscathed, cronyism coupled with a weak administration have stalled reform and undermined both foreign and domestic confidence in the economy. In Thailand, the banking sector remains in disarray as vested interest and a lack of political will have delayed the restructuring process. An uncertain result at the forthcoming general election has also been a negative factor. While domestic issues limited the attractions of these markets, their reduced weighting within the Morgan Stanley Indices exacerbated their declines. However, negative factors are already reflected in the stockmarket valuations.

The Trust's performance versus its benchmark Index was particularly satisfactory in the second half of the period. Throughout the Region, smaller companies underperformed, with the exception of China and Sri Lanka. Scottish Oriental benefited from its overweight position in China-related companies combined with the re-rating of a number of its larger holdings.

OUTLOOK

The outlook for Asian stockmarkets is positive for a number of reasons. The Region's economies have passed the bottom of the cycle and domestic consumption is now picking up in many countries. Corporate governance is improving, if sometimes at a slow pace. Finally, valuations are still attractive on a global perspective.

Recovery however, is dependent on European growth and the continuation of present consumption levels in the US. Progress in restructuring the banking sectors of many countries in the Region will also have to be maintained. While domestic demand is now picking up in many countries, much of the short-term growth potential is already reflected in larger company valuations.



Manager's Review—continued

Currency stability cannot be taken for granted and substantial yen weakness or strength could still pose serious difficulties. A weaker US dollar would improve sentiment.

Asia is a net importer of oil and remains vulnerable to further increases in that commodity's price. A number of Regional governments control the price of fuel, limiting the initial impact on inflation. If the oil price remains at current levels or rises further, the additional costs will have to be passed on to consumers to avoid adverse fiscal side-effects.

Another concern that requires careful monitoring is the number of new issues. Approximately US\$20 billion is expected to be raised by the end of this year. This is particularly relevant for China and Taiwan.

The key to an international re-allocation of assets in favour of the Region is further tangible evidence of the end to deflation in China. A trend towards lower interest rates globally should be reflected within the Region and should encourage the return of the potentially very significant local investor. Peripheral stockmarkets, e.g. Indonesia, remain unloved but this will not always be so.

Valuations for Asian stocks are attractive, especially in the international context. Smaller companies continue to trade at substantial discounts to their larger counterparts. The portfolio is well positioned to benefit from the anticipated pickup in domestic consumption, particularly in China. Outsourcing will continue to be a major source of longer-term investment opportunities.

Susie Rippingall
Angus Tulloch
Colonial First State Investments, Manager
19th October 2000



Portfolio Review

COUNTRY ALLOCATION

at 31st August 2000

Country/Region	Scottish			Country/Region	Scottish		
	Oriental %	SGASCI† %	MSCI* %		Oriental %	SGASCI† %	MSCI* %
Hong Kong	40.2	19.8	23.9	India	4.3	10.9	9.8
China	14.1	0.5	8.6	Sri Lanka	3.7	0.1	0.1
Taiwan	2.4	21.0	17.0	Pakistan	—	0.7	0.4
<i>Greater China</i>	<u>56.7</u>	<u>41.3</u>	<u>49.5</u>	<i>Indian sub-continent</i>	<u>8.0</u>	<u>11.7</u>	<u>10.3</u>
Singapore	11.8	10.4	11.1	<i>Korea</i>	<u>7.4</u>	<u>9.7</u>	<u>16.0</u>
Thailand	10.9	3.2	2.2	<i>Cash</i>	<u>4.4</u>	<u>—</u>	<u>—</u>
Malaysia	7.2	16.6	8.6	<i>Gross Assets</i>	111.4	100.0	100.0
Indonesia	3.5	3.9	1.3	<i>Borrowing</i>	(11.4)	—	—
Philippines	1.5	3.2	1.0	<i>Net Assets</i>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<i>ASEAN countries</i>	<u>34.9</u>	<u>37.3</u>	<u>24.2</u>				

* Morgan Stanley Capital International AC Asia Free (ex Japan) Index

† SG Asian (ex Japan) Smaller Companies Index

Greater China

The improving outlook for the **Chinese** economy supports the Trust's overweight position. The favoured sectors continue to be infrastructure and domestic consumption. The investments are mainly undertaken via the Hong Kong stockmarket owing to its more stringent reporting requirements and greater transparency.

The Trust's largest position continues to be **Hong Kong** where there is an abundance of well-managed and soundly financed smaller companies. These companies offer exposure to both the domestic as well as Chinese economic recoveries. Valuations are extremely attractive given the quality of management and strong earnings growth.

The Trust continues to be substantially underweight in **Taiwan**. This reflects the expensive valuation of smaller companies, particularly as accounting standards often overstate profitability. The current stage of the electronic outsourcing cycle is a concern, particularly for smaller companies, which tend to be high risk given their product specialisation.

ASEAN Countries

Singapore continues to be a major position for the Trust as excellent economic management should allow strong growth to be maintained, even if electronic exports begin to slow down. Shares look reasonably priced given the defensive nature of this market.

The Trust retains its sizeable exposure in **Thailand**, despite the market's substantial underperformance. The economic recovery is now established, supported by strong exports and improving consumer spending. Interest rates should remain low as excess industrial capacity limits the need for capital investment and demand for borrowing. An uncertain outcome from the forthcoming election, combined with long-delayed bank restructuring, has exacerbated investors' loss of confidence in this stockmarket. However, there are a number of very attractive valued companies with impressive earnings growth.

The Trust's position in **Malaysia** is focused on a limited number of well-managed, politically unaffiliated companies. Whilst the current political landscape should remain stable short term, the



Portfolio Review—continued

ruling party must work hard to win back its core support in the rural hinterland. Economic performance has been favourable with strong exports, supported by an undervalued exchange rate, resulting in a substantial current account surplus. Domestic consumption has improved as reflected by the rising demand for residential property. Cronyism, however, appears to be delaying the essential, post-crisis corporate restructuring process.

The economic outlook for **Indonesia** has stabilised but the currency and inflation/interest rates remain vulnerable to civil unrest and political uncertainty. The bad debt restructuring process remains painfully slow. The Government's handling of secessionist movements must be monitored carefully. President Wahid has failed to inspire confidence in the investment community. The Trust continues to hold a number of well managed, financially sound companies which trade on attractive valuations.

The Trust's reduced exposure in the **Philippines** reflects the deteriorating outlook for the economy. President Estrada continues to suffer from lack of credibility and popularity in the wake of a number of scandals. Inflationary pressures are building with electricity, gas and petrol price increases pending. Interest rates are likely to rise to curtail inflation and limit currency depreciation. Valuations are not overwhelmingly cheap and earnings growth looks dull from a Regional perspective.

Indian Sub-Continent

The Trust remains overweight in **Sri Lanka** despite another year of disappointing returns. From a humanitarian, political, economic and stockmarket perspective, Sri Lanka's number one problem remains the devastating ongoing war in the North and East of the country, which has recently taken a turn for the worse. On a positive note, there are signs that the economy may be bottoming out, as tourism improves and commodity prices rise from very depressed levels. From a bottom-up perspective, the market is probably the most attractively valued in the Region with a number of well-managed companies with strong earnings growth trading on single digit price/earnings ratios.

The Trust continues to have an underweight exposure in **India** given the problems in identifying well-managed smaller companies. The current Government is having a tough time controlling the eighteen party ruling coalition, and the last budget failed to make any significant headway on India's number one problem, the budget deficit. There are signs of a broadening economic recovery, and FY01 GDP growth should again be above the Regional average. However, the real attractions remain at the micro level with continued corporate restructuring, improvements in corporate governance and the emergence of a thriving knowledge-based economy.

The Trust currently has no exposure in **Pakistan**. The situation is being monitored following the military coup in October 1999. Tangible evidence of progress include several excellent key appointments, a crackdown on corruption and the early implementation of a series of sensible micro economic policies. Valuations are not expensive, but a lack of clarity over the repatriation of foreign capital continues to put this market off limits for now.

Korea

The Trust remains underweight in **Korea**, reflecting the shortage of well positioned, attractively valued smaller companies. Korea's dramatic economic recovery has so far failed to ignite any significant inflationary pressures. The fallout from the Daewoo and Hyundai restructuring has now been contained. However, systematic risk still remains in the corporate debt market, with many medium-sized chaebols struggling to roll over maturing bonds.



Portfolio Review—continued

SECTOR ALLOCATION

at 31st August 2000

<i>Sector</i>	<i>%</i>	<i>Sector</i>	<i>%</i>
Manufacturing	32.0	Country Fund	2.0
Food and beverage	20.3	Leisure	1.7
Financial services	9.2	Utilities	1.7
Miscellaneous services	8.8	Telecom	1.6
Transport	7.0	Resources	0.2
Holding companies	6.4		
Retail and distribution	6.4	Cash	4.4
Media	4.3		
Property	3.6	Gross Assets	111.4
Healthcare	1.8	Gearing	(11.4)
		Net Assets	<u>100.0</u>

The Trust continues to focus on companies with well-known brand names and established domestic franchises. These are found mainly in service industries, for example the media sector. Such holdings should benefit from further domestic consumption recovery.

Although manufacturing tends to be more export-orientated, the Trust's exposure in this area has been substantially increased over the year. The potential of Asian companies to add value as a provider in the rapidly expanding field of global outsourcing, becomes more apparent almost on a daily basis. Care, however, is being taken not to overpay in what generally remain cyclical businesses.

Elsewhere financial services and infrastructure are sectors which continue to produce particularly attractive investment opportunities.

TEN LARGEST EQUITY HOLDINGS

at 31st August 2000

<i>Company</i>	<i>Market</i>	<i>Value</i>	<i>% of Shareholders' Funds</i>
Vitasoy International	Hong Kong	£1,025,107	3.6%

Vitasoy produces and distributes a wide range of non-alcoholic beverages to the Australasian, Hong Kong, North American, Singaporean and mainland Chinese markets. The Company's two main brands are VITASOY, a soybean-based soft drink, and VITA, a range of fruit juices, teas, milk, soft drinks and water. Over the last few years, Vitasoy has established a 70 per cent owned joint venture in Shenzhen with its Chinese partner to service the Guangdong market, rationalised Hong Kong production at its Taipo facility and set up an operation in Shanghai, as well as an Australian joint venture. More recently, the company has successfully diversified into other soya-based products such as tofu which is enjoying very strong demand especially in the United States. Management is innovative yet conservative.

IOI Corporation	Malaysia	£879,033	3.1%
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IOI Corporation is one of Malaysia's largest plantation groups, also with significant property interests through its 58 per cent stake in IOI Properties. Recent earnings have been severely impacted by sharply-reduced palm oil prices and economic recession in Malaysia. However, its well-positioned land bank and positive palm oil production profile, coupled with a stronger Malaysian economy, should ensure above-average earnings growth over the next few years. Valuations, especially relative to its listed property subsidiary, are exceptionally attractive.



Portfolio Review—continued

<i>Company</i>	<i>Market</i>	<i>Value</i>	<i>% of Shareholders' Funds</i>
Thai President Foods (TPF)	Thailand	£756,670	2.7%
<p>One of the most autonomous Saha Pathana Group associates, TPF manufactures noodles and biscuits which are marketed through the Group's distribution arm (Saha Pathanapibul). Controlling 54 per cent of the local noodle market, TPF has established some well-recognised brand names. Domestic capacity is being increased, expansion into Indo-China has taken place and inroads into export markets such as Australia are being successfully achieved. Management is focused and professional. Reliance on imported raw materials makes earnings vulnerable to currency fluctuations over the short term.</p>			
Sime Darby Hong Kong	Hong Kong	£671,948	2.4%
<p>Sime Darby HK has the distribution rights for BMW, Caterpillar, Ford and Mitsubishi (amongst others) in Hong Kong. The company also had interests in rice trading and business travel (Westminster Travel). Profits fell in FY99 owing to a collapse in sales to China, following the import clampdown. However, the recovery in FY00 results reflect the improved performance from motor sales and construction equipment in Hong Kong combined with the company's successful cost control. Overall, Sime Darby is well positioned to benefit from the economic recovery given its strong brands and distribution network.</p>			
Texwinca	Hong Kong	£660,933	2.3%
<p>Texwinca produces dyes and sells knitted fabric and yarn and also retails and distributes casual apparel and accessories under the "Baleno" brand name in China, Taiwan and Hong Kong. 1998 and 1999 were difficult years for the retailing business as consumer confidence was badly shaken by the Asian crisis. The textile business was adversely impacted by pricing pressure on Asian sales, although the US and Europe remain the largest markets for its textile products. The future for the company looks bright, with significant productivity improvements in the textile business. In addition retail earnings should benefit from lower rents, a pick up in consumption and the planned opening of more shops in China. Management is also exploring other retail markets in Asia.</p>			
Clipsal Industries	Singapore	£636,080	2.3%
<p>A member of the Gold Peak Group, Clipsal is involved in the development, manufacture and marketing of electrical wiring accessories (switches, fuses and conduits) as well as electronic control devices. The Company operates from four plants in China and one each in Indonesia, Malaysia, Singapore (assembly only) and Sri Lanka. Products are distributed throughout the Asian region, while the US market is being tackled by a joint venture with General Electric. Clipsal also has a 50 per cent stake in Gerard Industries, which is based in Australia. 1998 and 1999 earnings suffered from the slowdown in construction activity across the Region, but the long-term outlook remains positive. Schneider Electric, a competitor in some product areas in Asia, has been increasing its stake in Clipsal.</p>			
JCG Holdings	Hong Kong	£634,848	2.2%
<p>JCG is the most efficient retail-based consumer finance company in Hong Kong. The company's targeted customers have low to middle incomes and make up over 80 per cent of the working population. Despite the economic slowdown, loan demand is expected to grow at +10 per cent per annum over the next three years, helped by strong immigration flows into the Special Administrative Region. Some provisions have, however, been required for loans made to taxi owners/drivers. JCG Holdings is 65 per cent owned by Public Bank of Malaysia and its balance sheet reflects the prudence of the parent company.</p>			



Portfolio Review—continued

<i>Company</i>	<i>Market</i>	<i>Value</i>	<i>% of Shareholders' Funds</i>
Tai Ping Carpets (TPC)	Hong Kong	£634,580	2.2%
<p>Controlled by the Kadoorie family, the company is a carpet manufacturer whose products include the well known, high quality Tai Ping brand. TPC also has substantial overseas interests in Thailand. The relocation of its Hong Kong manufacturing facilities to China in 1996 has recently resulted in a substantial improvement in the company's competitive position. Following the appointment of a new management team, Tai Ping has now completed a major restructuring. This resulted in the disposal of peripheral assets in China and Hong Kong, as well as the establishment of a much improved balance sheet.</p>			
Four Seas Mercantile (FSM)	Hong Kong	£622,898	2.2%
<p>Controlled by the Tai family, FSM is the leading distributor of Japanese confectionery and snack products in Hong Kong. Over a third of Group sales are in mainland China, a figure which is expected to rise to a half within the next three years. The Company holds the distribution rights for Cadbury confectionery brands and Ernst & Gallo wines and coolers in the Special Administrative Region. Equally significant has been the solidification of FSM's ties with its Japanese suppliers through the establishment of manufacturing joint-ventures in China, over which the Group retains distribution control.</p>			
Hite Brewery	Korea	£588,900	2.1%
<p>Hite Brewery is Korea's largest brewer with over 50 per cent market share. Despite operating margins well above international peers, until recently Hite has been unable to convert impressive operating gains into earnings for its shareholders, due to an inappropriate, heavily-g geared capital structure. However, this is expected to change, following the introduction of foreign shareholders in 1999, with Capital Asset Management and Carlsberg both taking large stakes in the company. Subsequent recapitalisation has resulted in significant deleveraging and an increased focus on profitability, which should enable the company to realise its full potential.</p>			



Portfolio Review—continued

LIST OF QUOTED EQUITY INVESTMENTS
at 31st August 2000 (percentage of shareholders' funds)

	% of Shareholders' Funds		% of Shareholders' Funds		% of Shareholders' Funds
CHINA (14.1%)		Manufacturing (13.4%)		Food and Beverages (0.7%)	
Food and Beverages (1.0%)		Glorious Sun	0.5	Multi Bintang	0.7
Want Want	1.0	Kingmaker Footwear	1.5	Manufacturing (2.5%)	
Healthcare (0.7%)		Leefung Asco	1.9	Komatsu Indonesia	0.5
China Pharmaceutical	0.7	Lung Kee Holdings	1.9	Semen Gresik	0.6
Manufacturing (4.7%)		Moulin International	1.3	Unilever Indonesia	1.4
Brilliance China	1.2	Tai Ping Carpets	2.2		
Chen Hsong	1.2	Texwinca	2.3	KOREA (7.4%)	
Guangdong Kelon	0.7	Varitronix	1.8	Financial Services (1.1%)	
Sinopec Zhenhai Refining	1.6	Media (1.8%)		Koram Bank	1.1
Miscellaneous Services (1.1%)		Shaw Brothers	1.8	Food and Beverages (4.4%)	
Asia Satellite	1.1	Miscellaneous Services (5.4%)		Hite Brewery	2.1
Property (0.5%)		ABC Communications	1.6	Lotte Confectionary	1.3
New World China	0.5	Hong Kong Aircraft & Maint.	1.4	Nam Yang Dairy	1.0
Resources (0.2%)		Next Media	0.3	Healthcare (1.1%)	
AMR Technologies	0.2	Ocean Land	0.6	Shinhung	0.7
Transport (5.9%)		Prosters	0.7	Su Heung Capsule	0.4
Beijing Capital Int. Airport	1.8	Technology Ventures	0.8	Manufacturing (0.8%)	
Guangshen Railway	1.3	Retail and Distribution (5.5%)		Dahaam E-Tec	0.8
Road King Infrastructure	1.0	China HK Photo	1.2	MALAYSIA (7.2%)	
Zhejiang Expressway	1.8	Dickson Concepts	1.0	Food and Beverages (1.2%)	
HONG KONG (40.2%)		Esprit	0.9	Carlsberg Brewery Malaysia	1.2
Financial Services (5.4%)		Sime Darby HK	2.4	Holding Company (3.1%)	
Aeon Credit	1.2	INDIA (4.3%)		IOI Corporation	3.1
Iregent Group	0.6	Country Fund (2.0%)		Leisure (0.9%)	
JCG Holdings	2.2	Arisaig India Fund	2.0	Tanjong	0.9
Winton	1.4	Financial Services (1.7%)		Manufacturing (1.5%)	
Food and Beverages (8.7%)		HDFC	1.7	Chemical Company of Malaysia	0.4
Café de Coral	1.3	Miscellaneous Services (0.6%)		Malaysian Oxygen	1.1
Four Seas E-Food	0.9	Visualsoft	0.6	Miscellaneous Services (0.5%)	
Four Seas Mercantile	2.2	INDONESIA (3.5%)		Fujitsu Systems Business	0.5
HK Catering Management	0.7	Financial Services (0.3%)			
Vitasoy International	3.6	Panin Bank	0.3		



Portfolio Review—continued

	% of Shareholders' Funds		% of Shareholders' Funds		% of Shareholders' Funds
PHILIPPINES (1.5%)		SRI LANKA (3.7%)		Property (1.0%)	
Food and Beverages (1.5%)		Holding Company (2.4%)		Central Pattana	0.4
Alaska Milk	0.8	Aitken Spence	0.9	Golden Land	0.6
Del Monte Pacific	0.7	John Keells Holdings	1.5	Telecommunications (0.5%)	
		Manufacturing (1.3%)		United Communications Ind.	0.5
SINGAPORE (11.8%)		Ceylon Oxygen	0.9	Utilities (1.7%)	
Financial Services (0.7%)		Colombo Dockyard	0.4	EGCO	1.7
OCBC Finance	0.7				
Holding Company (0.2%)		TAIWAN (2.4%)			
United Industrial Corp	0.2	Food and Beverages (0.1%)			
Leisure (0.8%)		Standard Foods	0.1		
Eng Wah Organisation	0.8	Manufacturing (2.3%)			
Manufacturing (3.7%)		Chroma ATE	1.0		
Clipsal Industries	2.3	Premier Camera	1.3		
Sembcorp Marine	1.4				
Miscellaneous Services (1.2%)		THAILAND (10.9%)			
Informatics	1.2	Food and Beverages (2.7%)			
Property (2.1%)		Thai President Food	2.7		
Bukit Sembawang	0.8	Holding Company (0.7%)			
Wing Tai	1.3	Saha Pathana Interholding	0.7		
Retail and Distribution (0.9%)		Manufacturing (1.8%)			
Courts	0.9	Thai Carbon Black	1.3		
Telecommunications (1.1%)		Thai Rung Union	0.5		
Nera Telecommunications	1.1	Media (2.5%)			
Transport (1.1%)		Amarin Printing	1.1		
TIBS Holdings	1.1	Matichon	1.4		

Susie Rippingall
 Angus Tulloch
Colonial First State Investments, Manager
 19th October 2000



Directors' Report

RESULTS AND DIVIDEND

	<i>Year to</i> 31st August 2000 £000	<i>Year to</i> 31st August 1999 £000
Income available for Ordinary Shareholders	498	275
Proposed final dividend of 1.29p net (1999: 0.85p net) payable on 22nd January 2001	<u>(329)</u>	<u>(216)</u>
Transfer to Revenue Reserve	<u>169</u>	<u>59</u>

A review of the Company's business is to be found in the Chairman's Statement on page 4 and in the Manager's and Portfolio Reviews on pages 5 to 14.

PRINCIPAL ACTIVITY AND STATUS

The Company is an investment company within the meaning of the Companies Act 1985. Inland Revenue approval as an investment trust for the purposes of the Income and Corporation Taxes Act 1988 has been given for the year ended 31st August 1999, and the Company intends to direct its affairs to enable it to continue to seek such approval.

The Ordinary shares of the Company currently qualify for inclusion in a £1,500 "non-qualifying" PEP scheme and are eligible for inclusion in an ISA. It is the present intention of the Directors that the Company's portfolio will be constructed so as to continue to qualify for this status. Whilst PEP investors will continue to enjoy tax reliefs on capital accumulated in their PEP, further contributions to PEPs ceased in April 1999.

DIRECTORS

The following Directors served throughout the year and had the following beneficial interests in the share capital of the Company at:

	<i>31st August 2000</i>		<i>31st August 1999</i>	
	<i>Ordinary</i> <i>25p shares</i>	<i>Warrants</i>	<i>Ordinary</i> <i>25p shares</i>	<i>Warrants</i>
Ivor Guild	167,575	5,000	154,575	5,000
Sir Hamish Macleod	1,000	9,000	1,000	9,000
Dr Janet Morgan	3,000	600	3,000	600
David Pike	50,000	30,000	50,000	30,000
Stanley Rowan	25,000	5,000	25,000	5,000

There were no changes to these holdings between 31st August 2000 and 19th October 2000. The Company has no service contracts with its Directors and has not entered into any other contract in which a Director has an interest.

In accordance with the Articles of Association Dr Janet Morgan and Stanley Rowan retire by rotation at the Annual General Meeting and their re-election is recommended by the Board.



Directors' Report—continued

MANAGEMENT

Stewart Ivory & Company Limited is employed as Manager and Secretary under a contract providing for the payment of a management fee of 0.25 per cent of the value of the Company's adjusted net assets at the end of each calendar quarter and a secretarial fee, based on £35,000 per annum until 31st March 1996 and subsequently increased in line with the UK Retail Prices Index annually. Stewart Ivory's appointment as Manager is subject to termination on one year's notice. The appointment as Secretary is subject to termination by not less than six months' notice.

CREDITOR PAYMENT POLICY

The Company's payment policy for the year to 31st August 2001 is to agree terms of payment before business is transacted, to ensure suppliers are aware of these terms and to settle bills in accordance with them. The Company has no trade creditors.

CORPORATE GOVERNANCE

Following the publication of Internal Control Guidance for Directors on the Combined Code in September 1999, by the Internal Control Working party of the Institute of Chartered Accountants in England and Wales (The Turnbull Report), the Board can state that the Company has complied with all aspects of the Combined Code on Corporate Governance relevant to an Investment Trust throughout the year, apart from the provisions relating to re-election of Directors which only became effective from 17th January 2000. The Directors are all non-executive and independent of the Manager and matters concerning the audit, and the appointment and remuneration of the Directors are dealt with by the full Board rather than by a Committee of the Board. Each Director must retire by rotation every three years and their re-election is subject to shareholder approval, based upon the recommendations of the full Board. The Board has a formal schedule of matters specifically reserved to it for decision and there is a procedure in place for Directors to take independent professional advice, if necessary, at the Company's expense. The Directors confirm that the Company Secretary is responsible for ensuring the Board procedures are followed and for compliance with applicable rules and regulations including the Combined 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.

The Directors are 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 Board has a number of procedures in place which follow the principles set out in the Combined Code. It has delegated by contract the management of the investment portfolio, custody, which includes the safeguarding of the assets, accounting and company secretarial services. The Board monitors the quality and cost of the services provided. The Board also reviews the terms and conditions of the Manager's appointment on a regular basis and assesses the quality and effectiveness of the accounting records and management information maintained on behalf of the Company. In addition, 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 covered by these accounts. These include reports at regular Board Meetings, held on a quarterly basis, of all security and revenue transactions effected on the Company's behalf. These transactions can only be entered into following appropriate authorisation procedures determined by the Board. A full review of all internal controls is undertaken annually. These systems can, however, only provide reasonable and not absolute assurance against material misstatement or loss.



Directors' Report—continued

On the basis of these procedures, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

SUBSTANTIAL SHAREHOLDERS

At 19th October 2000 the Company was aware of the following interests exceeding 3 per cent of the issued Ordinary share capital:

	<i>Number of Shares held</i>	<i>Percentage held</i>
Discretionary clients of Stewart Ivory & Company Limited*	10,977,500	43.11
Merseyside Pension Fund	1,890,000	7.42
Stryx Lucrum Fund	1,325,740	5.20
Quilter High Investment Trust Fund	1,050,000	4.12
Clients of Brewin Dolphin Securities	941,598	3.70
Clients of Philip J Milton	866,692	3.40
* (Includes The Scottish American Investment Company plc)	10,000,000	39.27

AUDITORS

A resolution to re-appoint Chiene & Tait, CA as auditors of the Company will be proposed at the Annual General Meeting.

ANNUAL GENERAL MEETING

The Notice convening the Annual General Meeting to be held on 23rd January 2001 is given on pages 30 to 31.

Resolutions 6 and 7 to be proposed at the Annual General Meeting will, if approved, authorise the Directors to allot a limited number of unissued Ordinary shares and empower them to allot some 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 6 is in respect of £636,646 of relevant securities comprising the unissued Ordinary share capital of the Company on 19th October 2000 (and representing 10 per cent of the issued Ordinary share capital on that date). The power to disapply pre-emption rights being sought under Resolution 7 is in respect of £318,328 of equity securities comprising 5 per cent of the Ordinary shares of the Company in issue on 19th October 2000. The authority under Resolution 6 will lapse on 22nd January 2006 and under Resolution 7 on 22nd April 2002 or, if earlier, the date of the Annual General Meeting to be held in 2002.

The Directors, who have no present intention of exercising their authority to allot any of the same, will only allot relevant securities under this authority 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.

By Order of the Board

Michael G Tulloch
for Stewart Ivory & Company Limited
Secretary
19th October 2000



Statement of Total Return
for the year ended 31st August 2000

The Statement of Total Return on this and the next page is set out in a format that is different from that recommended by the Statement of Recommended Practice for Investment Trusts issued by the Association of Investment Trust Companies. The Statement does, however, contain all the required information and the Directors believe that the format of this Statement makes the accounts easier to understand and analyse. The Income Return on this page is the Income Account of the Company, and shows its income and expenses over the year together with dividends payable to shareholders.

	Note	2000 £000	1999 £000
INCOME RETURN			
Income			
Dividends from companies listed overseas		1,144	709
Interest on deposits		36	16
Total income		1,180	725
Expenses			
Investment management fee	1	(267)	(198)
Other administrative expenses	2	(232)	(174)
Total expenses		(499)	(372)
Income on ordinary activities before tax		681	353
Tax	3	(183)	(78)
Income attributable to shareholders		498	275
Dividend (1.29p per share; 1999: 0.85p)		(329)	(216)
Transfer to Revenue Reserve		169	59
INCOME RETURN PER SHARE – Basic	4	1.96p	1.08p

Information regarding the fully-diluted return per share figures is given in note 4. The accounting policies on page 22 and the notes on pages 23 to 27 form part of these accounts.



Statement of Total Return
for the year ended 31st August 2000

The Capital Return Statement details changes in value and gains and losses on investments and currencies in the year. The capital profits attributable to Ordinary shareholders are transferred to capital reserves. Investment trust companies are not permitted to distribute capital profits.

	<i>Note</i>	2000 £000	1999 £000
CAPITAL RETURN			
Capital profits and losses			
Realised gains on investments		1,373	323
Unrealised gains on investments		2,404	12,845
Unrealised loss on currency loan		(386)	(218)
Currency gains		<u>55</u>	<u>22</u>
Capital profits attributable to shareholders		<u>3,446</u>	<u>12,972</u>
CAPITAL RETURN PER SHARE	4	<u>13.53p</u>	<u>50.94p</u>

The Total Return Statement is the sum of the income and capital returns. The total return per share is calculated by adding the income and capital returns attributable to shareholders and dividing by the number of shares in issue during the year. This gives a measure of the total return achieved by the Company over the year. However, the total return received by shareholders depends on their individual tax rates and on the movement in share price over the year. It should also be noted that whilst the income return is likely to be relatively consistent from one year to the next, the capital return can fluctuate considerably.

	<i>Note</i>	2000 £000	1999 £000
TOTAL RETURN			
Income attributable to shareholders		498	275
Capital profits attributable to shareholders		<u>3,446</u>	<u>12,972</u>
Total return attributable to shareholders		<u>3,944</u>	<u>13,247</u>
TOTAL RETURN PER SHARE	4	<u>15.49p</u>	<u>52.02p</u>

Information regarding the fully-diluted return per share figures is given in note 4.
The accounting policies on page 22 and the notes on pages 23 to 27 form part of these accounts.



Balance Sheet
as at 31st August 2000

	Note	£000	2000 £000	£000	1999 £000
EQUITY INVESTMENTS	5				
China			3,984		1,731
Hong Kong			11,372		9,522
India			1,201		835
Indonesia			988		676
Malaysia			2,034		1,499
Philippines			410		1,042
Singapore			3,351		4,053
South Korea			2,103		1,746
Sri Lanka			1,057		1,434
Taiwan			664		919
Thailand			3,088		3,332
			<u>30,252</u>		<u>26,789</u>
CURRENT ASSETS					
Debtors	6	245		213	
Cash and deposits		1,502		939	
			<u>1,747</u>	<u>1,152</u>	
CURRENT LIABILITIES (due within one year)					
Creditors	7	(131)		(197)	
Dividend payable		(329)		(216)	
			<u>(460)</u>	<u>(413)</u>	
Net Current Assets			<u>1,287</u>		<u>739</u>
			<u>31,539</u>		<u>27,528</u>
CREDITORS (due after one year)					
Foreign currency loan	8		(3,222)		(2,836)
PROVISION FOR LIABILITIES AND CHARGES					
Deferred tax	9		(43)		(33)
Equity Shareholders' Funds			<u>28,274</u>		<u>24,659</u>
<i>Represented by</i>					
CAPITAL AND RESERVES					
Ordinary share capital	10		6,367		6,367
Share premium account	12		17,776		17,776
Warrant Reserve	12		1,319		1,319
Capital Reserves					
realised	12		2,864		1,436
unrealised	12		(634)		(2,652)
Revenue Reserve	12		582		413
			<u>28,274</u>		<u>24,659</u>
Net asset value per share (undiluted)	14		111.03p		96.83p
Net asset value per share (fully-diluted)	14		114.96p		102.89p

These accounts were approved by the Board on 19th October 2000 and signed on its behalf by
Ivor Guild, Director *I. R. Guild* Janet Morgan, Director *Janet Morgan*

The accounting policies on page 22 and the notes on pages 23 to 27 form part of these accounts.



Cash Flow Statement
for the year ended 31st August 2000

	2000		1999	
	£000	£000	£000	£000
OPERATING ACTIVITIES:				
Dividends received from investments		1,109		740
Interest received		35		16
		<u>1,144</u>		<u>756</u>
Investment management fee	(261)		(176)	
Secretarial fee	(39)		(38)	
Directors' fees	(40)		(40)	
Other cash payments	(112)		(76)	
		<u>(452)</u>		<u>(330)</u>
Net cash inflow from operating activities		692		426
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest paid on borrowings		(62)		(13)
TAXATION:				
Total tax paid		(115)		(106)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT:				
Purchases of investments	(18,615)		(14,167)	
Sales of investments	18,824		11,432	
Currency gains	55		22	
		<u>264</u>		<u>(2,713)</u>
Net cash inflow/(outflow) from capital expenditure and financial investment		264		(2,713)
EQUITY DIVIDEND PAID		(216)		(216)
Net cash inflow/(outflow) before financing		563		(2,622)
FINANCING				
Foreign currency yen loan		—		2,618
Increase/(decrease) in cash		563		(4)

The notes to the Cash Flow Statement are contained in note 16.



Accounting Policies

These accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention modified to include the revaluation of investments, the Companies Act 1985 and, unless otherwise stated, the Investment Trust Statement of Recommended Practice (SORP).

- (a) Dividends on securities are brought into account on the date on which the security is quoted "ex dividend" on the stock exchange in the country in which the security is listed. Interest on securities is accounted for on a time apportioned basis. Foreign dividends include any withholding taxes payable to the tax authorities.
- (b) Overseas income is recorded at rates of exchange ruling at the date of receipt.
- (c) Bank interest receivable, interest payable and expenses of management are dealt with on an accruals basis.
- (d) Deferred tax is provided at the anticipated rates on timing differences to the extent that it is probable that the tax will be payable in the future.
- (e) Investment management and secretarial fees have been charged in full to the Income Account.
- (f) Equities include Ordinary shares, convertible stocks and warrants.
- (g) Listed investments have been valued on the basis of mid-market or last traded prices. Unrealised gains and losses are included in Capital Reserve—unrealised.
- (h) Gains and losses arising from the sale of investments are included in Capital Reserve—realised.
- (i) Exchange rate differences on capital items are included in Capital Reserve, and on income items in Revenue Reserve.
- (j) All assets and liabilities denominated in foreign currencies have been translated at year end exchange rates.
- (k) Finance costs incurred on long-term borrowings are charged to income on a time apportioned basis over the life of the liability.



Notes on the Accounts

	2000	1999
1. Investment Management Fee	£000	£000
Investment management fee	<u>267</u>	<u>198</u>

The basis of calculation of the investment management fee is given on page 16.

2. Other Administrative Expenses		
Auditors' remuneration—audit	6	6
Directors' fees	40	40
Secretarial fees	39	39
Bank, custodial and other expenses	93	76
Financing cost of foreign currency loan	54	13
	<u>232</u>	<u>174</u>

The emoluments of the Chairman for the year to 31st August 2000 were £10,000 (1999: same).

Each other Director received fees of £7,500 for the year to 31st August 2000 (1999: same).

	2000	1999
3. Tax	£000	£000
UK corporation tax		
Current tax on income for the period at 26.6% (1999: 22.5%)	173	79
Relief for overseas taxation	<u>(29)</u>	<u>(14)</u>
	144	65
Overseas taxation	<u>29</u>	<u>14</u>
Tax on profit of ordinary activities	173	79
Deferred tax	<u>10</u>	<u>(1)</u>
	<u>183</u>	<u>78</u>

	2000			1999		
	<i>Income</i>	<i>Capital</i>	<i>Total</i>	<i>Income</i>	<i>Capital</i>	<i>Total</i>
	<i>p</i>	<i>p</i>	<i>p</i>	<i>p</i>	<i>p</i>	<i>p</i>
4. Return per Ordinary Share	<u>1.96</u>	<u>13.53</u>	<u>15.49</u>	<u>1.08</u>	<u>50.94</u>	<u>52.02</u>

Income return per Ordinary share is based on the net income on ordinary activities of £498,000 (1999: £275,000), and on 25,466,250 (1999: same) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

Capital return per Ordinary share is based on net capital gains for the financial year of £3,446,000 (1999: £12,972,000), and on 25,466,250 (1999: same) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

The Directors do not believe that the fully-diluted return figures for 1999 or 2000, if calculated in accordance with FRS14, are an appropriate indication of the effects of dilution. Given the relationship between the share, warrant and warrant exercise prices, it is unreasonable to assume that any holders would exercise their warrants. For this reason, the fully-diluted returns have been omitted from the Statement of Total Return.



Notes on the Accounts—continued

5. Equity Investments	<i>Equities</i> £000
Cost at 31st August 1999	29,223
Unrealised depreciation	(2,434)
Valuation at 31st August 1999	<u>26,789</u>
Purchases	18,501
Sales	(18,815)
Realised gains	1,373
Unrealised appreciation in the year	<u>2,404</u>
Valuation at 31st August 2000	<u>30,252</u>
Cost at 31st August 2000	<u>30,281</u>

Equity investments include warrants valued at £13,819 (1999: £160,868). All of the investments are listed on recognised stock exchanges.

6. Debtors	<i>2000</i> £000	<i>1999</i> £000
Sales of investments	—	8
Tax recoverable	94	95
Accrued income	<u>151</u>	<u>110</u>
	<u>245</u>	<u>213</u>

7. Creditors (amounts falling due within one year)

Purchases of investments	—	114
Corporation tax	58	—
Other creditors	<u>73</u>	<u>83</u>
	<u>131</u>	<u>197</u>

8. Creditors (amounts due after more than one year)

Japanese yen loan (24th February 2003)	1,805	1,588
Japanese yen loan (3rd August 2003)	<u>1,417</u>	<u>1,248</u>
	<u>3,222</u>	<u>2,836</u>

An unsecured loan facility of JPY280,000,000 was entered into on 24th February 1999 for a period of four years, with the rate of interest fixed at 1.69 per cent on drawn funds by way of an interest rate swap. JPY150,000,000 was drawn down on 24th February 1999 and JPY130,000,000 on 7th May 1999.

An additional four-year facility of JPY220,000,000 was drawn down on 3rd August 1999, with the interest rate also fixed by way of an interest rate swap at 1.81 per cent.



Notes on the Accounts—continued

9. Deferred Tax

This represents tax at 30% (1999: same) on accrued income receivable.

10. Share Capital

The authorised capital is £8,190,058 (1999: same) represented by 32,760,234 Ordinary 25p shares (1999: same). The allotted capital is £6,366,562 (1999: same) represented by 25,466,250 Ordinary 25p shares (1999: same).

11. Subscription Warrants

At 31st August 2000 there were outstanding 4,747,400 (1999: same) Warrants to subscribe for one Ordinary share at 100p, exercisable on 31st January in any one of the years, 2001 to 2007 inclusive.

12. Reserves	<i>Share Premium Account £000</i>	<i>Warrant Reserve £000</i>	<i>Capital Reserve Realised £000</i>	<i>Capital Reserve Unrealised £000</i>	<i>Revenue Reserve £000</i>
Balance at 31st August 1999	17,776	1,319	1,436	(2,652)	413
Realised gain on investments	—	—	1,373	—	—
Currency gain	—	—	55	—	—
Unrealised appreciation on investments in the year	—	—	—	2,404	—
Unrealised depreciation on currency loans	—	—	—	(386)	—
Income retained in the year	—	—	—	—	169
Balance at 31st August 2000	<u>17,776</u>	<u>1,319</u>	<u>2,864</u>	<u>(634)</u>	<u>582</u>

13. Contingent Liabilities

There were no contingent liabilities at 31st August 2000 (1999: same).



Notes on the Accounts—continued

14. Net Asset Value per Ordinary share

Net assets per share are based on total net assets of £28,274,917 (1999: £24,658,851) divided by 25,466,250 (1999: same) Ordinary shares in issue. The fully diluted net assets per share has been calculated on the assumption that the share warrants in issue were exercised at £1.00 per share at the year end. In accordance with FRS14 the resulting number of Ordinary shares in issue on that date is calculated using the difference between the year end share price 84.5p and the subscription price 100.0p. The Directors do not believe that the fully-diluted figures, calculated in accordance with FRS14, are an appropriate indication of the effects of dilution as the subscription price is greater than the year end share price.

	2000 £000	1999 £000
15. Reconciliation of Movements in Shareholders' Funds		
Opening shareholders' funds	24,659	11,628
Total return attributable to shareholders	3,944	13,247
Dividend payable	(329)	(216)
Closing shareholders' funds	<u>28,274</u>	<u>24,659</u>

16. Cash Flow Statement

(a) **Reconciliation of total income to net cash inflow from operating activities**

Income	1,180	725
Administration expenses	(443)	(359)
(Increase)/decrease in debtors	(34)	26
(Decrease)/increase in creditors	(11)	34
Net cash inflow from operating activities	<u>692</u>	<u>426</u>

(b) **Analysis of changes in cash and net debt during the year**

	<i>At the Start of the Year £000</i>	<i>Cash Flows £000</i>	<i>Currency Movements £000</i>	<i>At the End of the Year £000</i>
Cash	939	563	—	1,502
Foreign Currency Loan	(2,836)	—	(386)	(3,222)
Net debt	<u>(1,897)</u>	<u>563</u>	<u>(386)</u>	<u>1,720</u>



Notes on the Accounts—continued

17. Derivatives and Other Financial Instruments

The Company invests mainly in smaller Asian quoted companies. Other financial instruments consist of cash, short-term debtors and creditors and foreign currency borrowings.

The main risks arising from the Company's financial instruments are market price, foreign currency and interest rate risks. As the Company's assets mainly comprise readily realisable securities, other than in exceptional circumstances, there is no significant liquidity risk. The Manager's policies of managing these risks, which have been applied throughout the year, are summarised below.

Market Price Risk

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the Manager. Overall market price risk is mitigated by having a diversified portfolio of investments. Securities held by the Company are valued at mid-market prices or last traded prices (Accounting Policy (g)). These valuations are also deemed to represent the fair value of the investments.

Foreign Currency Risk

As Scottish Oriental invests overseas the balance sheet can be affected by movements in foreign currency exchange rates. The list of quoted equity investments on pages 13 and 14 shows the countries in which the Company is invested. Most securities in the portfolio are priced in local currency with the exception of those which are marked with an asterisk and are priced in US dollars. The Company does not hedge the sterling value of investments. Income received in other currencies is converted to sterling on or near the date of receipt.

An analysis of net monetary assets in foreign currencies at the year end (excluding investments but including cash, outstanding sales and purchases of securities, foreign exchange dealing and outstanding income) is shown below.

Currency	<i>Sterling Equivalent</i>
US dollars	587,554
Malaysian ringgits	341,180
Philippino pesos	22
	<u>928,756</u>

At 31st August 2000 the Company had borrowings totalling 500 million yen (£3.2 million).

Interest Rate Risk

As detailed in Note 8 the rates of interest on the yen borrowings have been fixed by way of interest rate swaps. The weighted average interest rate on these borrowings is 1.74 per cent and the weighted average period is four years. The fair value of these loans is estimated not to be materially different to the carrying value.

Other short-term debtors and creditors have been excluded from the disclosures of the financial instruments, except those included in the above section on the disclosure of foreign currency risk.



Statement of Directors' Responsibilities

The Directors are responsible for the preparation of accounts, which give a true and fair view of the state of affairs of the Company at the end of each financial year, and of the total return for that year. The Directors are also responsible for ensuring that adequate accounting records are maintained, for safeguarding the assets of the Company and 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.

By Order of the Board



Michael G Tulloch
for Stewart Ivory & Company Limited
Secretary

19th October 2000

Information for Investors

WARRANTS

The warrants to subscribe for one Ordinary share at 100p are exercisable on 31st January in any of the years 2001 to 2007 inclusive.

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 entitled to an annual total tax-free gain, presently £7,200, from the sale of any shares and other capital assets. Any gain beyond that amount will be liable to additional 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.



Report of the Auditors

To the members of The Scottish Oriental Smaller Companies Trust PLC.

We have audited the accounts on pages 18 to 27, which have been prepared on the basis of the accounting policies set out on page 22.

Respective responsibilities of Directors and Auditors

As described on page 28 the Company's Directors are responsible for the preparation of the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion on whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 16 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Directors' statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Company's corporate governance procedures or its risks and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31st August 2000 and of its total return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chiene & Tait, CA
Registered Auditors
Edinburgh, 19th October 2000

Ch. Chiene, C.A.



Notice of Annual General Meeting

Notice is hereby given that the sixth Annual General Meeting of The Scottish Oriental Smaller Companies Trust PLC will be held at 23 St Andrew Square, Edinburgh on 23rd January 2001 at 1.00 p.m. for the purpose of transacting the following business.

Ordinary Business

1. To receive the reports of the Directors and auditors and to adopt the financial statements for the financial year ended 31st August 2000.
2. To approve the dividend of 1.29p per Ordinary share.
3. To re-elect Dr Janet Patricia Morgan as a Director.
4. To re-elect Thomas Stanley Rowan as a Director.
5. To re-appoint Chiene & Tait, CA as auditors and to authorise the Directors to fix their remuneration.

Special Business

6. To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

“that in substitution for any existing authority under section 80 of the Companies Act 1985 (as amended and in force from time to time) (the “Act”), the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal value of £636,646, such authority to expire on 22nd January 2006, but so that such authority shall allow the Company to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.”

7. To consider, and if thought fit, pass the following resolution as a special resolution of the Company:

“that in substitution for any existing power under section 95 of the Act, the Directors be and are hereby empowered until 22nd April 2002, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the above authority as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of:

- (i) equity securities in connection with a rights issue in favour of the holders of Ordinary shares on the register on a date fixed by the Directors where the equity securities respectively attributable to the interests of all the holders of Ordinary shares are proportionate (as nearly as practicable) to the respective numbers of Ordinary shares held by them on that date, provided that the Directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal problems under the laws of, or requirements of any recognised regulatory body or stock exchange in, any territory; and



Notice of Annual General Meeting—continued

- (ii) (otherwise than pursuant to sub-paragraph (i) above) equity securities up to an aggregate nominal value of £318,328;

but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.”

Dated: 30th October 2000

Registered Office:
23 St Andrew Square
Edinburgh EH2 1BB

By Order of the Board

Michael G Tulloch
for Stewart Ivory & Company Limited
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 21st January 2001 ("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, that 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 before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.
- (2) 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 and, on a poll, vote in their place. The instruments appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be delivered to the offices of the Company's Registrars, Computershare Services PLC, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG, not less than 48 hours before the time appointed for the holding of the meeting. Return of a completed form of proxy will not preclude a member from attending and voting personally at the meeting.