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The **Scottish Oriental**
Smaller Companies Trust PLC

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2009

The **Scottish Oriental** Smaller Companies Trust PLC

Annual
Report and Accounts 2009

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Annual Report and Accounts 2009

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

Financial Highlights

Performance

for the year ended 31st August 2009

Net Asset Value	20.5%	MSCI AC Asia ex Japan Index (£)*	9.0%
Share Price	25.0%	MSCI AC Asia ex Japan Small Cap Index (£)*	19.2%
		FTSE All-Share Index (£)*	-8.2%

* Total return (capital return with dividends reinvested).

Summary Data

at 31st August 2009

Shares in issue	30,213,650	Shareholders' Funds	£113.86m
		Market Capitalisation	£98.95m
Net Asset Value per share	376.85p	Share Price Discount to Net Asset Value	13.1%
Share Price	327.50p		

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

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

Investment Policy

- The Scottish Oriental Smaller Companies Trust PLC ("Scottish Oriental", "the Company" or "the Trust") aims to achieve long-term capital growth by investing in mainly smaller Asian quoted companies.
- The Trust invests mainly in the shares of smaller Asian quoted companies, that is companies with market capitalisations of below US$1,000m, or the equivalent thereof, at the time of first investment.
- The Trust may also invest in companies with market capitalisations of between US$1,000m and US$2,000m at the time of first investment, although not more than 20 per cent of the Trust's net assets at the time of investment will be invested in such companies.
- To enable the Trust to participate in new issues, it may invest in companies which are not quoted on any stock exchange, but only where the Investment Manager expects that the relevant securities will shortly become quoted.
- For investment purposes, the Investment Region includes China, India, Sri Lanka, Thailand, Malaysia, Singapore, Indonesia, Hong Kong, South Korea, Taiwan, Philippines, Pakistan and Vietnam. Countries in other parts of Asia may be considered with approval of the Board.
- With the objective of enhancing capital returns to shareholders, the Directors of the Trust will consider the use of long term borrowings up to a limit of 50 per cent of the net assets of the Trust at the time of borrowing.
- The Trust invests no more than 15 per cent of its gross assets in other listed investment companies (including listed investment trusts).
- The Trust invests no more than 20 per cent of its total assets in the securities of any one company or group of companies at the time of investment.
- The Trust reserves the right to invest in equity-related securities (such as convertible bonds and warrants) of companies meeting its investment criteria. In the event that the Investment Manager anticipates adverse equity market conditions, the Trust may invest in debt instruments in any country or currency.
- The majority of the Trust's assets are denominated in Asian currencies or US dollars. The Trust reserves the right to undertake foreign exchange hedging of its portfolio.

Investment Statement

- We aim to maximise the rate of return with due regard to risk. Risk is principally contained by focusing on soundly managed and financially strong companies, and by ensuring that the portfolio is reasonably well diversified geographically and by sector at all times. Quantitative analysis demonstrating the diversification of the Trust's portfolio of investments is contained on pages 9 and 11 within the Portfolio Review.
- While cultural, political, economic and sectoral influences play an important part in the decision-making process, the availability of attractively-priced, good quality companies with solid long-term growth prospects is the major determinant of investment policy.
- Our country weightings bear no relationship to regional stock market indices. We do not consider ourselves obliged to hold investments in any individual market, sector or company.
- Existing holdings are 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 the Trust is invested, or might invest.

Chairman's Statement

Last year I wrote about a disappointing performance and so it is pleasing to be able to report on a good year for Scottish Oriental. Smaller companies in general outperformed larger ones and the net asset value per share increased by 20.5 per cent over the 12 months. The MSCI AC Asia ex Japan Index rose by 9 per cent. The discount to net asset value narrowed during the year to 13.1 per cent and the share price rose by 25 per cent.

Earnings per share have increased again, being 7.63p compared to 6.64p last year. This is partly as a result of the Finance Act 2009, which means that dividends and other distributions received from foreign companies on or after 1st July 2009 are largely exempt from corporation tax. In a full year Scottish Oriental's tax liability will be reduced considerably.

Investing for yield has never been a primary objective for our managers but it is interesting to note that dividend payments have become more generous in Asia and that the median dividend yield on our portfolio was just over 3 per cent at the end of the year. We are proposing a dividend of 6p net, an increase of 20 per cent (2008: 5p net). The undistributed balance of £494,000 will be added to the revenue reserve, as set out on page 19. It remains our intention at least to maintain this proposed level of dividend, using reserves if necessary to smooth fluctuations in income.

You will see from the Directors' Report that First State's investment management fee was increased from 0.5 per cent to 0.75 per cent per annum, which is still below the fee of 1 per cent that existed until 2005 when the performance fee was introduced. So far the fee has not been earned in any year but it was always intended that the performance element should be hard to earn. The total expense ratio for the year was 1.04 per cent.

We continue to believe that there is a strong long term case for international portfolios to have exposure to smaller companies in Asia. I rehearsed the reasons for this last year and concluded by giving the statistics for our portfolio at the end of September. The figures for this year are as follows with last year in brackets: prospective price earnings ratio 12x (9x), dividend yield 3.1 per cent (4.1 per cent) and price to book ratio 1.6x (1.3x). The portfolio is well spread with 89 holdings, the largest of which represents 2.6 per cent of shareholders' funds. Our managers are still able to find companies that have good prospects at reasonable valuation. However, as this is written 6 per cent of shareholders' funds is in cash and there is no borrowing; this reflects our uncertainty about the short term outlook for Asian stock markets.

James Ferguson
Chairman

15th October 2009

Directors

James Ferguson, aged 61, joined the Board in 2004. He is Chairman of Value and Income Trust plc, The Monks Investment Trust plc, Northern 3 VCT plc and Edinburgh US Tracker Trust plc and a Director of The Independent Investment Trust plc, Audax Properties plc and Lloyds TSB Scotland plc. He retired as Chairman of Stewart Ivory in 2000. He is a former deputy Chairman of the Association of Investment Companies.

Sir Hamish Macleod, aged 69, joined the Board in 1995 and is the senior independent director. He 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 a former Chairman of Fleming Asian Investment Trust.

Janet Morgan CBE, aged 63, joined the Board in 1995. She is a non-executive Director of Stagecoach plc, Murray International Trust plc and Albion Enterprise VCT plc. She is also Chairman of the Nuclear Liabilities Fund, the Nuclear Trust and the Nuclear Liabilities Financing Assurance Board.

Alexandra Mackesy, aged 47, joined the Board in 2004. Between 1988 and 2000, she worked as an investment analyst specialising in Asian equities, based in Hong Kong, becoming Director of Hong Kong and China equity research at Credit Suisse First Boston in 1998. Since 2000 she has worked as a consultant to Credit Suisse's Asian equities department. She is a non-executive Director of Henderson TR Pacific Investment Trust plc.

Portfolio Manager's Report

REVIEW

The performance of Asian equity markets was volatile for a second consecutive year. In the six months to February 2009, stockmarkets throughout the region fell sharply as the global credit crisis resulted in the collapse of economic growth rates. From late March, however, share prices enjoyed a strong recovery as evidence emerged that the fiscal stimulus packages and loose monetary policies were beginning to have a positive impact on the global economy. The rebuilding of inventories was also a positive factor for several countries from February onwards.

Malaysia was the best performing market during the period, as valuations for many companies remained attractive and corporate earnings were viewed as relatively defensive. Indonesia and the Philippines also outperformed, as their economies were more resilient owing to lower exposure to external demand. In contrast, Singapore and Taiwan underperformed because exports account for a larger portion of their economies.

Scottish Oriental achieved a satisfactory performance over the year both in absolute terms and also relative to its benchmark. This was attributed to the outperformance of smaller companies, as seen by the relative strengths of the MSCI Asia ex Japan Small Cap Index over the period under review. The cash position at year-end was higher than normal, owing to the timing of a number of trades.

Greater China

The authorities in **China** were proactive in their response to the credit crisis. In November they announced a large fiscal stimulus package and lowered interest rates. Although economic growth slowed in the fourth quarter of 2008, owing to a decline in exports and a weak property market, it rebounded in subsequent quarters, supported by fixed asset investment. Smaller companies significantly outperformed their larger counterparts over the year.

Hong Kong underperformed the region as its economy contracted in line with the decline in external demand. The corporate sector responded rapidly to the decline in sales by reducing costs. Domestic demand was weak owing to higher unemployment and lower incomes. In recent months the property market has recovered, supported by low interest rates and a robust banking sector.

In the fourth quarter of 2008, **Taiwan's** electronics manufacturers experienced an unprecedented decline in demand. The credit crisis forced companies throughout the supply chain to cut inventories. This resulted in higher unemployment, as companies cut costs, and a corresponding fall in domestic demand. The situation stabilised in March and orders for electronics products have gradually increased as companies rebuild inventories.

South East Asia

Singapore also underperformed over the year as the economy suffered from its high exposure to exports, particularly technology related products. The marine sector was also weak as shipping rates fell sharply in line with a worsening of the demand/supply imbalance. The residential property market was surprisingly strong owing to low interest rates and availability of bank finance.

Portfolio Manager's Report – continued

Thailand's economy contracted in line with the region during the year. The appointment of a new coalition Government, led by the Democratic Party, was a positive development. This resulted in a more proactive policy to stimulate the domestic economy, including higher fiscal spending and low interest rates.

Malaysia's economy was also negatively affected by the decline in exports. The appointment of a new Prime Minister had a limited impact on Government policy, which continued to favour loose fiscal and monetary policies. A key economic reform was the reduction in the minimum Bumiputra shareholding for listed companies.

The **Philippines'** economy was in a better position to withstand the global credit crisis than in the past, given its high foreign currency reserves and robust remittances from overseas workers. Inflation fell in line with lower fuel and food prices. Smaller companies significantly outperformed their larger counterparts over the period.

The elections in **Indonesia** passed smoothly, with the incumbent Susilo Bambang Yudhoyono retaining the Presidency. Domestic consumption has been surprisingly strong, supported by historically low inflation and interest rates.

Vietnam's economic growth and stockmarket levels peaked in 2007, as a result of the Government's measures to control inflation and control liquidity in the banking sector. Consequently, the impact of the global credit crisis on Vietnam has been less severe than for its regional peers.

Indian Subcontinent

India's stockmarket fell sharply in the first half of the period, owing to concerns over high inflation and expensive valuations. It rebounded in response to the strong performance of the Congress Party in the Parliamentary elections, as this gave the new Government power to push through much needed economic reforms. Although this summer's monsoon was poor, the impact on the overall economy has been limited.

The **Sri Lankan** stockmarket rose sharply following the military defeat of the Liberation Tigers of Tamil Eelam (LTTE). The cost of supporting this military campaign over the year has resulted in high fiscal deficits and interest rates.

South Korea

South Korea experienced high volatility in its currency and stockmarket over the period, both falling sharply on concerns over the collapse in external demand before rebounding as the global economic outlook improved. Domestic consumption was supported by relatively low interest rates.

Portfolio Manager's Report – continued

OUTLOOK

The short term outlook for Asian stockmarkets is uncertain. The strong momentum behind equity markets may result in further gains but at the risk of a harder correction in the future. The positive impact from the inventory replenishment cycle will eventually come to an end, leaving orders and output dependent on consumer spending in Europe and the US. This is unlikely to have a sustained rebound as individuals in the West continue to suffer from substantial personal debt and high unemployment.

Exports, particularly consumer related products, are still a major contributor to the region's economic growth. This dependence should diminish over time as domestic consumption rises, supported by economic reforms, particularly those relating to employment and healthcare. The current environment of low inflation and interest rates is also a positive factor, encouraging individuals to spend. This is currently reflected in the strong demand for residential property in most Asian countries.

There is a risk that the rate of inflation accelerates as a result of an extended period of quantative easing by the European and US central banks. As a result interest rates in Asia would rise. Given the regions high savings rate, a moderate increase in interest rates should have a positive impact on individual consumption.

Scottish Oriental continues to have a substantial position in consumer related companies. Moreover, these are mainly exposed to longer term trends, such as the demand for modern retail formats and high quality healthcare services.

Susie Rippingall
Scott McNab
Angus Tulloch
First State Investment Management (UK) Limited, Investment Manager

15th October 2009

Portfolio Review

Scottish Oriental's portfolio of investments is well diversified not only by country but also by sector. The largest country exposure is Singapore with a 17.5 per cent position. Financials accounted for 24.1 per cent of the portfolio, the largest sector weighting. As at 31st August 2009, Scottish Oriental was invested in 89 different companies, with the largest holding, Home Product Center, accounting for 2.6 per cent of the portfolio. The aggregate of the Trust's ten largest holdings was 18.2 per cent.

Country Allocation *at 31st August 2009*

Country/Region	Scottish Oriental %	MSCI* %	MSCI Small Cap† %	Country/Region	Scottish Oriental %	MSCI* %	MSCI Small Cap† %
China	10.1	26.2	18.2	India	3.9	10.6	14.8
Hong Kong	8.7	11.5	8.6	Sri Lanka	3.8	–	–
Taiwan	8.0	16.3	22.2	Pakistan	–	–	–
Greater China	26.8	54.0	49.0	*Indian sub-continent*	*7.7*	*10.6*	*14.8*
Singapore	17.5	6.7	8.4	*South Korea*	*10.5*	*19.3*	*17.1*
Thailand	11.4	1.9	2.8	*Net current assets*	7.7	–	–
Malaysia	6.9	4.2	4.6				
Philippines	5.9	0.7	1.0	***Net Assets***	100.0	100.0	100.0
Indonesia	5.1	2.6	2.3				
Vietnam	0.5	–	–				
ASEAN countries	*47.3*	*16.1*	*19.1*				

* Morgan Stanley Capital International AC Asia ex Japan Index

† Morgan Stanley Capital International AC Asia ex Japan Small Cap Index

Greater China

Scottish Oriental continues to have an underweight position in **China**-related companies because valuations are expensive and forecasts for corporate earnings appear optimistic. Many manufacturing companies continue to face high production costs and weak order books. The Government is likely to reduce its fiscal and monetary stimuli next year, given the recent acceleration in economic growth.

Hong Kong's position as a financial and trading centre makes it highly sensitive to the slowdown in global economic growth. The Trust acquired several new companies, such as Dickson Concepts and Tao Heung Holdings, which should benefit from their strong financial positions and exposure to the relatively resilient domestic economy.

Although the Trust increased its exposure to **Taiwan** in the first half, given the very strong share price appreciation in recent months, this position has since been reduced. Although the long term prospects for some smaller technology related companies are still positive, given the uncertain outlook for 2010 corporate earnings, valuations are expensive. Relations with China continue to improve with the announcement of new measures relating to issues such as property investment and transport.

Portfolio Review – continued

ASEAN Countries

Scottish Oriental's single largest country holding is **Singapore**. The holdings are diversified in terms of exposure with some, such as CSE Global and Ezion Holdings linked to global markets, while others, such as CDL Hospitality Trust and Raffles Medical, are more focused on the domestic economy. Despite the recent share price appreciation, there are a number of well-managed companies trading on attractive valuations.

The Trust retained its large position in **Thailand**. Domestic consumption is expected to improve, given a more stable political environment and low interest rates. Valuations are attractive, with a number of the Trust's holdings, such as Aeon Thana Sinsap and Dynasty Ceramics, providing dividend yields of more than 6%.

Exposure to **Malaysia** fell over the period as a number of holdings were sold after they reached the Manager's target valuation. In the medium term, the economy is expected to benefit from a stabilisation in demand for exports and low interest rates. During the year, Scottish Oriental acquired an interest in Kossan Rubber Industries, which produces rubber gloves mainly for the healthcare industry.

Scottish Oriental's holdings in the **Philippines** are mainly focused on the domestic economy. SM Development, part of the well respected SM Group, is a middle income residential property developer that is enjoying strong demand for the presale of its apartments.

The Trust's exposure to **Indonesia** was also reduced over the period. Although modest increases in inflation and interest rates are expected next year, domestic consumption should continue to improve. Additions have been made to Jaya Real Property and Pembangunan Jaya Ancol, given their attractive valuations and exposure to the improving residential property market.

The Trust retains a small position in **Vietnam**. Although the long term outlook remains positive, economic growth is below its recent historic average and corporate valuations are not compelling. Exposure is via the Vietnam Enterprise Fund.

Indian Sub-Continent

Scottish Oriental continues to have a relatively small position in **India**, only a limited number of well managed, reasonably valued companies being available among the smaller listed companies. One exception is Castrol (India), which manufactures and distributes automotive and industrial lubricants.

The outlook for **Sri Lanka's** economy has certainly improved following the end of the civil war. However, the Government needs to come up with a sustainable policy for the re-construction and political assimilation of areas previously controlled by the Tamil Tigers. A number of well managed companies trade on attractive valuations.

South Korea

The Trust increased its position in **South Korea** over the period. The additions were mainly to consumer related companies, such as Pacific Corporation, the holding company for Amorepacific, one of the country's largest cosmetics companies. Scottish Oriental also acquired shares in Yuhan Corporation, one of the leading local pharmaceutical companies.

Portfolio Review – continued

Sector Allocation *at 31st August 2009*

Sector	%
Consumer: discretionary	22.3
Consumer: staple	5.7
	28.0
Financial	24.1
Information Technology	12.7
Industrial	8.8
Healthcare	6.4
Materials	3.9
Telecommunication Services	3.3
Utilities	2.9
Energy	2.2
	92.3
Net current assets	7.7
Net Assets	100.0

Scottish Oriental continues to have a very high exposure to both the **Consumer Discretionary** and **Consumer Staple** sectors. Companies in these sectors should continue to benefit from the recovery in domestic consumption within the region and are less exposed to a slowdown in global growth than exporters.

The Trust has a large position in **Financials**. Included in this sector are property companies as well as banks and consumer finance companies. The outlook for property markets, particularly in South East Asia, remains positive over the longer term.

Exposure to the **Information Technology** sector was reduced over the period as a number of companies reached the valuation target. The Trust's weighting in the Healthcare and Telecoms sectors increased, following the identification of a number of companies with attractive valuations and robust earnings.

Scottish Oriental continues to have a very limited exposure to stocks in the cyclical **Energy** and **Materials** sectors which, as price-takers rather than price-setters, are vulnerable to a further slowdown in the global economy. It also has a very low weighting in the **Utilities** sector, owing to the limited number of small, reasonably valued companies.

Portfolio Review – continued

Ten Largest Equity Holdings *at 31st August 2009*

Company	*Market*	*Value*	*% of Shareholders' Funds*
Home Product Center	**Thailand**	**£2.9m**	**2.6%**

Home Product Center, part of the Land & Houses Group, operates a network of stores selling a wide range of home improvement products. These include electrical items, light fittings, construction materials, tools and furniture. The company has about 12% of the home improvement market in Thailand, significantly larger than the competition which tends to be 'mom and pop' stores. Management believe that same store sales growth of 10% per annum is sustainable over the medium term owing to consumers' preference for modern retailing environments. Management is experienced and well incentivised.

Yuhan Corp	**South Korea**	**£2.7m**	**2.3%**

Established in 1926, Yuhan Corp is Korea's second largest pharmaceutical company in terms of sales. The company is involved in five different businesses: prescription drugs, over-the-counter drugs, active pharmaceutical ingredients as well as household products and veterinary drugs. Yuhan Corp also has five subsidiaries and joint ventures, all of which are profitable. The largest of these is Yuhan Kimberly which is the largest sanitary napkin and diaper supplier in Korea. This 30% owned joint venture with Kimberly-Clark currently supplies 100% of Kimberly's diaper requirements in China. This is a professionally managed company which not only benefits from the strength of its existing brands but also has a history of successfully developing new products.

MobileOne	**Singapore**	**£2.5m**	**2.2%**

MobileOne is Singapore's third largest mobile operator and data communications service provider with a market share of about 25%. The local telecommunications market is mature and there will be limited growth in terms of subscribers. However, competition is expected to ease over the medium term, given that it had increased significantly following the recent introduction of mobile number portability. MobileOne is also expected to benefit from the development of the Next Generation Broadband Network as it will be able to offer 'bundled products'. The company's modest earnings growth is more than compensated by its high and sustainable dividend yield.

Raffles Medical Group	**Singapore**	**£1.9m**	**1.7%**

Raffles Medical Group operates a network of medical clinics throughout Singapore as well as Raffles Hospital which was opened in March 2001. This is a general hospital with key specialities such as oncology and orthopaedics. The company has also obtained the appropriate licences and can now provide healthcare insurance products for individuals and companies. Future earnings growth will come from an increase in the number of hospital beds as well as further expansion of the network of medical clinics.

Aboitiz Power (AP)	**Philippines**	**£1.9m**	**1.7%**

AP is a holding company which invests in power generation and distribution assets throughout the Philippines. The company was listed in July 2007 and the major shareholder is Aboitiz Equity Ventures with 76% ownership. The generating assets are well diversified in terms of fuel with more than 50% of AP's capacity coming from hydro plants and the rest from diesel and coal. The company's generating capacity has increased significantly in recent years mainly due to acquisitions. Management is well regarded and has substantial experience in the Philippine power industry.

Portfolio Review – continued

Company	Market	Value	% of Shareholders' Funds
CSE Global	**Singapore**	**£1.9m**	**1.6%**

CSE Global provides control, automation and communication IT services for a range of industries, including oil/gas, power, water and mining. Since listing in 1999, the company has transformed itself from a traditional systems integration company in Singapore to a global IT services company with the majority of its revenues coming from the oil/gas industry. CSE Global has experienced strong orders in recent years with management attributing their success to the provision of 'one-stop' solutions and strong relationships with clients.

Security Bank	**Philippines**	**£1.8m**	**1.6%**

Established in 1959, Security Bank is an independent corporate bank with a strong position among the local affluent Chinese community. The Bank has recruited professional senior management with extensive experience. Security Bank is the 10th largest bank in the Philippines with about 3% share of the market by assets. Growth has come from the successful cross marketing of a range of innovative products, including corporate, consumer and investment banking services.

euNetworks	**Singapore**	**£1.8m**	**1.5%**

euNetworks was formed as part of a management buyout of most of the European assets of Metromedia Fiber. This was an American company that invested in fibre optic cables before obtaining protection from creditors, under Chapter 11 in 2002. The company then acquired half of Viatel's fibre assets in Europe which are predominantly inter-city. These assets enabled euNetworks to connect its metro network. The resulting network had an original build cost of more than €1billion and would cost considerably more to build today as the bulk of the investment is in civil works. The company's business strategy is focused on two areas; firstly providing offsite back-up services which can be done more efficiently via fibre and secondly the sale and lease of fibre optic cables to large organisations who want their own dedicated, secure network. Management has significant experience in this industry. Following a rights issue and investment from Columbia Capital, a US-based venture capital firm that specialises in technology investing, the company is now suitably capitalised.

Commercial Bank of Ceylon	**Sri Lanka**	**£1.7m**	**1.5%**

Commercial Bank of Ceylon is the leading private bank in Sri Lanka with more than 150 branches. One of the Bank's competitive advantages is its access to low cost deposits as well as its focus on fee based income. Management is highly regarded and the Bank has been judged the best bank in Sri Lanka by 'Global Finance' magazine for several years.

Hana Microelectronics	**Thailand**	**£1.7m**	**1.5%**

Hana Microelectronics is an independent 'electronic manufacturing service' company with facilities in Thailand and China. The company's main businesses are the manufacture of printed circuit boards and integrated circuit packaging. Although the medium term outlook for certain electronics sectors is uncertain, this is reflected in the current valuation. Hana Microelectronics should be a long term beneficiary of the electronics outsourcing trend, given its low-cost production base and extensive offering of services to suit clients' needs.

Susie Rippingall
Scott McNab
Angus Tulloch
First State Investment Management (UK) Limited, Investment Manager

15th October 2009

List of Quoted Equity Investments at 31st August 2009 (percentage of shareholders' funds)

CHINA (10.1%)	% of Shareholders' Funds
Consumer Discretionary (6.0%)	
Asia Satellite	1.4
Glorious Sun Enterprises	0.7
Integrated Distribution Services Group	1.0
Minth	1.4
Samson Holdings	0.2
Sun Hing Vision	1.3
Industrial (1.4%)	
IPE Group	0.4
Lung Kee Holdings	1.0
Materials (1.5%)	
Hung Hing Printing	0.3
Sino Gold Mining	1.2
Utilities (1.2%)	
Towngas China	1.2

HONG KONG (8.7%)	
Consumer Discretionary (2.8%)	
Aeon Stores	0.6
Dickson Concepts	0.7
Moiselle International	0.2
Next Media	0.6
Tai Ping Carpets	0.6
Tao Heung Holdings	0.1
Consumer Staple (1.7%)	
Four Seas Mercantile	0.6
Vitasoy International	1.1
Financial (4.2%)	
Aeon Credit Service	0.7
Dah Sing Financial	1.0
Keck Seng Investment	0.7
Public Financial	1.0
Tai Cheung Holdings	0.8

INDIA (3.9%)	% of Shareholders' Funds
Consumer Discretionary (0.6%)	
Indian Hotels	0.6
Consumer Staple (2.1%)	
Marico	0.7
Tata Tea	1.4
Materials (1.2%)	
Castrol	1.2

INDONESIA (5.1%)	
Consumer Discretionary (2.0%)	
Ace Hardware	1.3
Pembangunan Jaya Ancol	0.7
Financial (3.1%)	
Bank OCBC NISP	0.9
BFI Finance	1.0
Jaya Real Property	1.2

MALAYSIA (6.9%)	
Consumer Discretionary (2.5%)	
Aeon Company	1.2
Media Prima	1.3
Financial (1.7%)	
Hong Leong Financial	1.1
Quill Capita Trust	0.6
Industrial (1.5%)	
IJM Corporation	1.5
Materials (1.2%)	
Kossan Rubber Industries	1.2

PHILIPPINES (5.9%)	% of Shareholders' Funds
Consumer Discretionary (0.8%)	
Pancake House	0.8
Financial (2.6%)	
Security Bank	1.6
SM Development	1.0
Industrial (0.8%)	
Paxys Inc.	0.8
Utilities (1.7%)	
Aboitiz Power	1.7

SINGAPORE (17.5%)	
Consumer Discretionary (0.9%)	
Tan Chong International	0.9
Consumer Staple (0.8%)	
Petra Foods	0.8
Energy (2.2%)	
Ezion Holdings	1.1
Straits Asia Resources	1.1
Financial (2.6%)	
Allgreen Properties	0.7
Bukit Sembawang	0.7
CDL Hospitality Trusts	1.2
Healthcare (1.7%)	
Raffles Medical	1.7
Industrial (1.3%)	
Hi-P International	1.3

List of Quoted Equity Investments at 31st August 2009 (percentage of shareholders' funds) – continued

	% of Shareholders' Funds
SINGAPORE (17.5%) (continued)	
Information Technology (5.8%)	
CSE Global	1.6
euNetworks Group	1.5
Nera Telecommunications	1.3
Venture Corporation	1.4
Telecommunication Services (2.2%)	
Mobileone	2.2
SOUTH KOREA (10.5%)	
Consumer Staple (1.1%)	
Pacific Corp	1.1
Financial (2.4%)	
Daegu Bank	1.4
Nice e-Banking Services	1.0
Healthcare (3.6%)	
JVM	1.3
Yuhan	2.3
Industrial (2.4%)	
Cosmax	1.3
S1 Corporation	1.1
Information Technology (1.0%)	
Intelligent Digital Integrated Security	1.0

	% of Shareholders' Funds
SRI LANKA (3.8%)	
Consumer Discretionary (1.2%)	
Aitken Spence	1.2
Financial (1.5%)	
Commercial Bank of Ceylon	1.5
Telecommunication Services (1.1%)	
Dialog Telecom	1.1
TAIWAN (8.0%)	
Consumer Discretionary (2.0%)	
E-Life Mall	0.9
Taiwan Familymart	1.1
Financial (1.6%)	
Sinyi Realty	0.6
Ta Chong Bank	1.0
Information Technology (4.4%)	
Everlight Electronics	0.7
ITEQ	0.9
New Era Electronics	1.0
Powertech Technology	1.0
Wah Lee Industrial	0.8

	% of Shareholders' Funds
THAILAND (11.4%)	
Consumer Discretionary (3.5%)	
Amarin Printing	0.9
Home Product Center	2.6
Financial (3.9%)	
Aeon Thana Sinsap	0.7
Lalin Property	0.6
Preuksa Real Estate	1.1
Tisco Bank	1.5
Healthcare (1.1%)	
Bumrungrad Hospital	1.1
Industrial (1.4%)	
Dynasty Ceramic	1.4
Information Technology (1.5%)	
Hana Microelectronics	1.5
VIETNAM (0.5%)	
Financial (0.5%)	
Vietnam Enterprise Investments	0.5

Ten Year Record

Capital

Year ended 31st August	Market Capitalisation £m	Shareholders' Funds £m	NAV Diluted (p)	NAV Undiluted (p)	Price Ordinary (p)	Price Warrant (p)	Share (Discount)/Premium Diluted %	Share (Discount)/Premium Undiluted %
2000	21.52	28.27	114.96	111.03	84.50	24.25	(26.5)	(23.9)
2001	23.43	28.20	112.55	110.72	92.00	30.00	(18.3)	(16.9)
2002	31.51	35.29	133.77	138.56	123.75	49.50	(7.5)	(10.7)
2003	39.73	44.55	163.94	174.91	156.00	67.50	(4.8)	(10.8)
2004	39.94	46.00	169.14	180.50	156.75	69.50	(7.3)	(13.2)
2005	54.23	61.57	219.95	241.56	212.75	112.50	(3.3)	(11.9)
2006	64.41	73.26	256.22	279.24	245.50	144.00	(4.2)	(12.1)
2007	94.87	104.14	344.67	344.67	314.00	–	(8.9)	(8.9)
2008	79.16	94.50	312.78	312.78	262.00	–	(16.2)	(16.2)
2009	98.95	113.86	376.85	376.85	327.50	–	(13.1)	(13.1)

Revenue

Year ended 31st August	Gross revenue £'000	Available for ordinary shareholders £'000	Earnings per share* p	Dividend per share (net) p	Total expense ratio %	Actual gearing†	Potential gearing‡
2000	1,180	498	1.96	1.29	1.58	107	112
2001	1,387	654	2.56	1.81	1.43	100	112
2002	1,211	445	1.75	1.50	1.51	105	109
2003	1,314	496	1.95	1.50	1.28	100	109
2004	1,567	547	2.14	1.575	1.54	102	108
2005	2,262	960	3.77	2.60	1.48	93	105
2006	2,416	1,239	4.78	3.60	0.88	94	101
2007	3,379	1,812	6.35	4.60	0.83	94	101
2008	3,643	2,008	6.64	5.00	0.78	98	101
2009	3,744	2,307	7.63	6.00	1.04	94	101

*The calculation of earnings per share is based on the revenue from ordinary activities after taxation and the weighted average number of ordinary shares in issue.

†Total assets (including all debt used for investment purposes) less all cash and fixed interest securities (excluding convertibles) divided by shareholders' funds.

‡ Total assets (including all debt used for investment purposes) divided by shareholders' funds

Cumulative Performance (taking 1999 as 100)

Year ended 31st August	NAV per share	Price per share	Price per warrant	MSCI AC Asia ex Japan Index	FTSE All Share Index	Earnings per share	Dividend per share
1999	100	100	100	100	100	100	100
2000	112	111	103	104	112	181	152
2001	109	121	128	72	92	237	213
2002	130	163	211	73	75	162	176
2003	159	205	287	85	79	181	176
2004	164	206	296	86	87	198	185
2005	214	280	479	110	108	349	306
2006	249	323	613	131	126	443	424
2007	335	413	–	183	141	588	541
2008	304	345	–	167	129	615	588
2009	366	431	–	182	118	706	706

Scottish Oriental's Investment Management Team

Scottish Oriental is managed by First State Investment Management (UK) Limited, previously known as Stewart Ivory & Company Limited (the "Investment Manager"). First State is part of Colonial First State Global Asset Management, the consolidated asset management business of The Commonwealth Bank of Australia. The Investment Manager offers a range of products across categories including Asia Pacific and global emerging markets, global resources and global equities, property securities and infrastructure.

Susie Rippingall
Portfolio Manager of Scottish Oriental

Susie has been part of the Asian Equities team since 1995, when she joined Stewart Ivory & Company. Between 1991 and 1995 Susie worked at Lehman Brothers Global Asset Management and prior to that she worked in corporate finance with Credit Lyonnais Securities. She graduated with an Honours degree in Economics at Edinburgh University. Susie is based in Hong Kong.

Scott McNab
Senior Analyst, Global Emerging Markets/Asia Pacific (ex Japan) Equities

Scott joined the Asian Equities team of First State Investments in 2001. Between 1999 and 2001 he worked for Ernst & Young in Bermuda. Prior to this Scott was a graduate trainee in the audit department of KPMG. He graduated with an Honours degree in Computer Science from the University of Durham. Scott is a Chartered Accountant, a CFA charterholder and an Associate member of the UK Society of Investment Professionals.

Angus Tulloch
Joint Managing Partner of Global Emerging Markets/Asia Pacific (ex Japan) Equities

Angus graduated from Clare College, Cambridge in 1970 with an Honours degree in Economics and History. After working as an accountant with Whinney Murray (now Ernst & Young), the National Bus Company and Elba Growers, he joined Cazenove in 1980 where he specialised in Far East equity investment. Angus returned to Scotland in 1988, joining Stewart Ivory & Company to establish an Asia Pacific (ex Japan) capability. Since then, this team has gained industry recognition as one of the leading managers in their sector.

The Investment Manager was named "Asia Fund Manager of the Year" at the Investment Week Fund Manager of the Year Awards 2009, and has also received numerous Asia Pacific sector awards, including; Professional Adviser Awards 2009 "Best Asia Pacific ex Japan Group" and winner of "Best Asia Pacific Equity Fund", Morningstar Fund Awards 2009.

Company Information

Registered Office
23 St Andrew Square
Edinburgh EH2 1BB, Scotland

Investment Manager and Secretary
First State Investment Management (UK) Limited
23 St Andrew Square
Edinburgh EH2 1BB, Scotland
(Authorised and regulated by The Financial Services Authority)
Tel: 0131-473 2200 Fax: 0131-473 2222

Registrar
Computershare Investor Services plc
PO Box 82, The Pavilions, Bridgwater Road,
Bristol BS99 7NH
Shareholder Helpline
Tel: 0870-707 1307

Auditors
Chiene + Tait
Chartered Accountants and Statutory Auditors
61 Dublin Street
Edinburgh EH3 6NL, Scotland

Information for Investors

Warrants

The final conversion date for the warrants occurred on 31st January 2007.

Financial Diary

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

Capital Gains Tax

An individual tax payer is currently entitled to an annual total tax-free gain, presently £10,100, 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.

Where to find Scottish Oriental's Share Price

Scottish Oriental's share price appears daily in the Investment Trust Sector of the Financial Times and other leading daily newspapers.

The Internet

Scottish Oriental's website provides up-to-date information on the share price, net asset value and discount. We hope you will visit the site at: www.scottishoriental.com.

Investor Centre from Computershare (Scottish Oriental's registrar) enables you to monitor your shareholdings. For this purpose you can register free with Investor Centre at www.investorcentre.co.uk/contactus.

Further Information

If you require any further information please contact Client Services, First State Investments
Tel (+44) 131 525 8870 Fax (+44) 131 473 2516
Freephone (UK only) 0800 587 4141

Directors' Report

The Directors have pleasure in submitting their Annual Report and Accounts for the year to 31st August 2009.

Business Review

Principal Activity, Status and Review

The Company is an investment company within the meaning of the Companies Act 2006. HM Revenue and Customs 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 2008, and the Company has subsequently directed its affairs so as to enable it to continue to seek such approval.

In the Directors' view, the description of the Company's development over the year and the identification of its key performance indicators are contained in the Financial Highlights, Ten Year Record, Chairman's Statement and Portfolio Manager's Report. In the year under review there was a significant change to the taxation of foreign profits. In the Finance Act 2009, dividends and other distributions received from foreign companies from 1st July 2009, are for the most part, exempt from corporation tax. This is discussed in further detail within the Chairman's Statement. The principal risks facing the Company relate to its investment activities and include market price risk and foreign currency risk. Further details of these risks are disclosed in note 15 of the Accounts on pages 40 to 42 and the Chairman's Statement on page 4. Information on the Company's internal controls is set out on pages 23 to 24.

In common with most investment trusts, the Company has no employees.

The Company has given discretionary voting powers to the Manager. The Board supports the integration by the Manager of environmental, social and governance issues in its investment decision-making and the Manager's view that this assists the long-term sustainable performance of the Company.

The table below shows the revenue position and dividends payable by the Company under the former basis of accounting, (subject to shareholders' approval at the Annual General Meeting of the proposed final dividend of 6 pence per share to be paid on 29th January 2010).

	£000	Pence per share
Revenue reserve as at 31 August 2008	2,609	8.64
Net revenue earned in the year	2,307	7.63
Dividends payable	(1,813)	(6.00)
Revenue reserve as at 31 August 2009	3,103	10.27

Pence per share figures are based on the number of shares in issue at 31/08/09

Share Capital

The Company's capital structure consists of 30,213,650 ordinary shares of 25p each in issue at 31st August 2009. Each ordinary share entitles the holder to one vote on a show of hands and, on a poll, to one vote for every share held.

Directors' Report – continued

Management

First State Investment Management (UK) Limited has been appointed as Investment Manager and Secretary under an agreement dated 20th March 1995 (as amended by supplemental agreements dated 23rd and 31st July 1998, 28th October and 22nd November 2005, 27th September 2006 and 24th March 2009) ("the Agreement").

The terms of the Agreement provide for payment of a base fee of 0.75% per annum of the Company's net assets payable quarterly in arrears. In addition an annual performance fee may be payable to the Investment Manager. These fees are capped, in aggregate, at an amount not exceeding or equal to 5% of the lower of (1) the gross asset value of the Company and (2) its market capitalisation, in each case at the relevant 31st August year end.

The performance fee is based on the Company's Share Price Total Return ("SPTR"), taking the change in share price and dividend together, over a three year period. If the Company's SPTR exceeds the SPTR of the Company's benchmark index (the MSCI AC Asia ex Japan Index) over the three year period plus ten percentage points then a performance fee is payable to the Investment Manager. The objective of the performance fee is to give the Investment Manager ten per cent of the additional value generated for shareholders by such outperformance. If the Company's SPTR for the relevant period is not positive then the performance fee will be nil. The fourth period for calculation of the performance fee ended on 31st August 2009 with no performance fee being payable to the Investment Manager. Any performance fee payable would be charged to capital.

A secretarial fee, initially based on £35,000 per annum until 31st March 1996 and subsequently increased in line with the UK Retail Prices Index annually, is also payable to the Investment Manager.

The Investment Manager's appointment as investment manager is subject to termination on one year's notice. Its appointment as Secretary is subject to termination by not less than six months' notice. The Company is entitled to terminate the Investment Manager's appointment as investment manager and secretary on less than the specified notice period subject to compensation being paid to the Investment Manager for the period of notice not given. The compensation in the case of the Investment Manager's termination as investment manager is based on 0.75% of the value of the Company's net assets up to the date of termination on a pro rata basis. In addition a termination performance fee amount may be due to the Investment Manager based on the Company's three year performance up to the date of termination and paid on a pro rata basis. In the case of the Investment Manager's appointment as Secretary the compensation is based on the secretarial fee for the last full year prior to termination and paid on a pro rata basis.

Continuing Appointment of the Investment Manager

The Board regularly appraises the performance and effectiveness of the managerial and secretarial arrangements of the Company. As part of this process, such arrangements are reviewed formally once a year. In relation to the Board's formal review, the performance and effectiveness of such arrangements are measured against certain criteria. These include the Company's growth and return; performance against the Company's peer group; the success of the Company's investment strategy; the effectiveness, quality and standard of investment resource dedicated by the Investment Manager to the Company; the level of the Investment Manager's fee in comparison to its peer group; and the effectiveness and continuity of the secretarial support provided to the Company. The Board, having conducted its review, considers that the Investment Manager's continued appointment as investment manager and company secretary to the Company is in the best interests of shareholders.

Directors' Report – continued

Creditor Payment Policy

The Company's payment policy for the year to 31st August 2010 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.

Substantial Shareholders

At 15th October 2009 the Company was aware of the following interests exceeding 3 per cent of the issued ordinary share capital:

	Number of Shares held	Percentage held
Clients of City of London Investment Management	3,526,190	11.7%
Heward Investment Management	2,615,693	8.7%
Scottish Widows Investment Partnership	2,391,796	7.9%
Henderson Global Investors Limited	1,000,000	3.3%
Clients of Rensburg Sheppards Investment Management	1,005,720	3.3%
Clients of Rathbone	909,638	3.0%

Going Concern

After making enquiries, 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.

Directors' Statement on Corporate Governance

The Financial Services Authority's Listing Rules ("the Listing Rules") state that companies must include in their annual report and accounts a narrative statement of how they have applied the principles set out in Section 1 of the Combined Code on Corporate Governance (as appended to the Listing Rules) published in June 2008 ("the Code"). Companies must also include a statement as to whether or not they have complied throughout the accounting period with the Code's provisions and give reasons for any non-compliance.

The Board can state that the Company has complied throughout the accounting period with all currently applicable aspects of the Code which it believes are relevant to an investment trust, and the principles of the AIC Code on Corporate Governance in all material respects, except that James Ferguson is Chairman of the Audit Committee. The Board believes it is appropriate for Mr Ferguson to be Chairman of the Committee as he is considered to be independent and there are no conflicts of interest.

Directors

The following Directors served during the year and had the following interests in the share capital of the Company. All the Directors' interests, save as otherwise disclosed, are beneficial interests in the share capital of the Company.

Directors' Report – continued

	31st August 2009 Ordinary 25p shares	31st August 2008 Ordinary 25p shares
James Ferguson*	**292,290**	292,290
Alexandra Mackesy	**37,200**	37,200
Sir Hamish Macleod	**10,000**	10,000
Dr Janet Morgan	**3,600**	3,600
Stanley Rowan**	**30,000**	30,000

* 272,290 ordinary shares in the Company are family interests.

** Retired as Director on 31st October 2008

There were no changes to these holdings between 31st August 2009 and 15th October 2009. The Company has no service contracts with its Directors and has not entered into any other contract in which a Director has an interest.

Meetings

The Board meets at least quarterly and has a formal schedule of matters specifically reserved to it for decision including investment policy and agreement of the terms of appointment of the Investment Manager. The number of meetings of the Board and Audit Committee held during the year and the attendance of the individual directors at those meetings is shown in the table below. Board papers are distributed prior to all meetings in a form and quality appropriate to enable the Board to discharge its duties. Directors can in addition raise any matters at meetings and there is a procedure in place for Directors to take independent professional advice, if necessary, at the Company's expense. The Company purchases and maintains Directors' and Officers' Liability Insurance. The Directors confirm that the Company Secretary is responsible for ensuring that the Board's procedures are followed and for compliance with applicable rules and regulations including the 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.

	Board	**Audit Committee**
Number of Meetings	5	2
James Ferguson	5	2
Alexandra Mackesy	5	2
Sir Hamish Macleod	5	2
Janet Morgan	4	2
Stanley Rowan*	1	1

* Retired as Director on 31st October 2008

Directors' Report – continued

Independence of Directors

The Board considers its four non-executive Directors to be independent of the Investment Manager. James Ferguson was a Director of the Investment Manager until 2000 but has not been a Director of or employed by the Investment Manager or any member of its group since then and is therefore considered by the Board to be independent because of the period of time since he was connected with the Investment Manager. The Board deems the Chairman to be independent taking into consideration his son's employment with the Investment Manager. Sir Hamish Macleod and Dr Janet Morgan have both served on the Board for more than nine years. The Board considers that each of these directors is independent of the Investment Manager in mind, character and judgement and free from any business or other relationship with the Investment Manager which could interfere with or compromise the exercise of his or her independent judgment.

Performance Appraisals

Performance appraisals of the Chairman and Directors were carried out during the accounting period and the Chairman's appraisal was led by Sir Hamish Macleod. The Board concluded that the Chairman and each director contributed effectively and demonstrated commitment to their role. The Board also concluded that the performance of the Board as a whole and its committees was effective.

Terms of Appointment and Re-election of Directors

At the Annual General Meeting (AGM) to be held on 26th January 2010, Sir Hamish Macleod and Dr Janet Morgan, having served on the Board for more than nine years, offer themselves for re-election. Both such re-elections are recommended by the Board. The Articles of Association provide that each Director is subject to election at the first AGM after their appointment and must retire by rotation every three years. Their re-election is subject to shareholder approval, based upon the recommendations of the full Board, and biographical details of all Directors are set out on page 5 of this Annual Report to enable shareholders to take an informed decision on their election. From these details, it will be seen that the Board has a breadth of investment, commercial and professional experience with an international, and more specifically, Far East perspective. The Directors are experienced in their role as Directors and any new Director will, upon appointment, receive a briefing on the investment operations and administrative functions of the Company and their role/responsibility as a Director as appropriate.

Nominations Committee

The Board as a whole fulfils the functions of a nominations committee. A nominations committee consisting of the whole Board was established in 2004 to consider the appointment of a new chairman and an additional non-executive director. As there were no appointments to the Board in the accounting period the nominations committee did not meet.

Internal Controls

The Directors are ultimately responsible for the internal controls of the Company which aim to ensure that proper accounting records are maintained, the assets are safeguarded and the financial information used within the business and for publication is reliable. The Directors are required to review the effectiveness of the Company's system of internal control. The Code states that the review should cover all material controls, including financial, operational and compliance controls and risk management systems. Operational and reporting systems are in place to identify, evaluate

Directors' Report – continued

and monitor the operational risks potentially faced by the Company and to ensure that effective internal controls have been maintained throughout the period under review and up to the date of approval of this Annual Report. The Board confirms that, in accordance with the guidance "Internal Control: Guidance for Directors on the Combined Code", there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. A full review of all internal controls is undertaken annually and the Board confirms that it has reviewed the effectiveness of the system of internal control. These controls include:

- reports at regular Board Meetings of all security and revenue transactions effected on the Company's behalf. These transactions can only be entered into following appropriate authorisation procedures determined by the Board and the Investment Manager;

- Custody of the Company's assets has been delegated to JP Morgan Chase. The records maintained by JP Morgan Chase permit the Company's holdings to be readily identified. The Investment Manager carries out regular reconciliations with the custodian's records of the Company's cash and holdings;

- The Investment Manager's compliance and risk department monitors compliance by individuals and the Investment Manager's operations with the rules of the Financial Services Authority and provides regular reports to the Board;

- A risk matrix is prepared which identifies the significant risks faced by the Company and the Investment Manager's controls in place to manage these risks effectively.

These systems are designed to manage rather than eliminate risk and can, however, only provide reasonable and not absolute assurance against material misstatement or loss.

Audit Committee and Auditors

An Audit Committee has been established consisting of all the Directors, with three constituting a quorum. James Ferguson was appointed Chairman of the Audit Committee Meetings held on 15th October 2008 and 24th March 2009. The Board considers that it is appropriate for all directors to be members of the Committee due to the size and composition of the Board. The Audit Committee has clearly defined written terms of reference which are available on the Company's website. The main functions of the Audit Committee are as follows:

- to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and to review significant financial reporting judgements contained in them;

- to consider the appointment of the external auditor, the audit fee, and any questions of the external auditor's resignation or dismissal;

- to review the half-year and annual financial statements before submission to the Board;

- to monitor and review the effectiveness of the Company's statements on corporate governance and internal control systems (including financial and operational and compliance controls and risk management) prior to endorsement by the Board;

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. The auditors did not provide any non-audit services in the year.
  In the event that any such services were to be provided the Audit Committee would first consider any potential impairment on the auditor's independence.

Directors' Report – continued

The Audit Committee meets the Auditors at least once a year to review these and other matters. A resolution to re-appoint Chiene + Tait, Chartered Accountants and Registered Auditors as Auditors of the Company will be proposed at the Annual General Meeting. The Board does not consider that an internal audit function is necessary as the Investment Manager's internal control systems and the internal audit function carried out by the Commonwealth Bank of Australia, as the ultimate parent company of the Investment Manager, provide the Board with sufficient assurance that a sound system of internal control is maintained.

Disclosure of Information to Auditors

The Directors confirm that as far as they are aware, as at the date of this Report, there is no relevant audit information of which the Company's auditors are unaware and that each director has taken all the steps they might reasonably be expected to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Share Buy Backs

The Company's buy back authority was last renewed at the AGM on 23rd January 2009 in respect of 4,532,047 Ordinary Shares of 25p each. No shares were bought back during the period under review.

Annual General Meeting

The Notice convening the Annual General Meeting to be held on 26th January 2010 is given on pages 45 to 48. The resolutions to be proposed include a resolution to approve the Directors' Remuneration Report, which is set out on pages 27 and 28.

Resolutions 7 and 8 to be proposed at the Annual General Meeting as ordinary and special resolutions respectively will, if approved, authorise the Directors to allot a limited number of 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 7 is in respect of £636,646 in nominal value of relevant securities, comprising the whole unissued ordinary share capital of the Company on 15th October 2009; this figure represents approximately 8.4% of the issued ordinary share capital on that date. The power to disapply preemption rights being sought under Resolution 8 is in respect of £377,670 of equity securities comprising 5% of the ordinary shares of the Company in issue on 15th October 2009. The authority under Resolutions 7 and 8 will expire at the conclusion of the next Annual General Meeting of the Company after the passing of the resolutions or on the expiry of 15 months from the passing of the resolutions, whichever is the earlier. 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.

Resolution 9 to be proposed at the Annual General Meeting as a special resolution gives authority to the Company to purchase its own shares, subject to the provisions of the Companies Act 2006, as permitted by the Company's Articles of Association. This resolution specifies the maximum such number of shares which may be acquired (being 4,532,047 shares, just under 15% of the Company's issued share capital at 15th October 2009) and the maximum (105% of the 5 day average middle market price) and minimum (the nominal value) prices at which shares may be bought. The Directors will only exercise the authority granted pursuant to this resolution through the market for cash at prices below the prevailing net asset value of the ordinary shares (as last

Directors' Report – continued

calculated) in circumstances where such purchases will enhance net asset value. The proposed authority, if granted, will expire at the earlier of the next Annual General Meeting or 25th April 2011. There are no options outstanding over the Company's share capital.

Notice period for general meetings

Resolution 10 is being proposed to reflect the proposed implementation of the EU Shareholder Rights Directive (2007/36/EC) (the "Directive") in the UK by the implementation of The Companies (Shareholders' Rights) Regulations 2009.

The provisions of the 2006 Act relating to meetings have been amended as a result of the implementation of the Directive. The minimum notice period for listed company general meetings has been increased to 21 clear days, but companies have an ability to reduce this period back to 14 clear days (other than for annual general meetings), provided that the company offers facilities for shareholders to vote by electronic means and that there is an annual resolution of shareholders approving the reduction in the minimum period for notice of general meetings (other than annual general meetings) from 21 clear days to 14 clear days. The Board is therefore proposing Resolution 10 as a special resolution to ensure that the minimum required period for notice of general meetings of the Company (other than annual general meetings) is 14 clear days. The approval will be effective until the Company's next annual general meeting when it is intended that a similar resolution will be proposed.

Relations with Shareholders

The Board recognises the value of the views of shareholders. The Investment Manager has a policy of meeting major shareholders and reports to the Board following such meetings. Any shareholder wishing to communicate with a member of the Board may do so by writing to them at the Company's registered office as detailed on page 18. All who attend at the AGM have an opportunity to question the Board and the Investment Manager. Proxy voting figures for each resolution are available to shareholders after the AGM. Separate items of business are proposed as separate resolutions. The Annual Report is sent to shareholders at least 20 working days before the AGM.

Exercise of Voting Powers

The Investment Manager decides whether and how to vote on behalf of the Company in accordance with the Investment Manager's judgement of what is best for the Company and its shareholders in each individual case.

On behalf of the Board

First State Investment Management (UK) Limited
Secretary
15th October 2009

Directors' Remuneration Report

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires your Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 43 and 44.

Remuneration Committee

The Company has four non-executive Directors. The Board as a whole fulfils the function of a Remuneration Committee as it considers specific appointments to such a committee are not appropriate due to the size and composition of the Board.

The Board carried out a review of the level of Directors' fees during the year. It resolved to increase the level of the Chairman's fee to £21,000 per annum and Directors' fees to £15,000 each per annum, such increases to take effect from 1st July 2009.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are similar in size and have similar objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Company properly and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 31st August 2010 and subsequent years.

The fees for the non-executive Directors are set within maximum limits determined from time to time by the Company in General Meeting. The Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' Service Contracts

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

Directors' Remuneration Report – continued

Your Company's Performance

The graph below compares the total return (assuming all dividends are reinvested) to ordinary shareholders for the last five financial years compared to the total shareholder return on the MSCI AC Asia (ex Japan) Index. This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.

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

Directors' Emoluments for the year (audited)

The following emoluments in the form of fees were received by the Directors who served in the year:

	Fees 2009 (£)	Fees 2008 (£)
James Ferguson (Chairman)	**18,913**	17,670
Alexandra Mackesy	**13,747**	12,670
Sir Hamish Macleod	**13,747**	12,670
Dr Janet Morgan	**13,747**	12,670
Stanley Rowan*	**2,247**	12,670

* Retired as Director on 31st October 2008

Sums paid to Third Parties (audited)

No sums were paid to third parties.

Approval

The Directors' Remuneration report on pages 27 to 28 was approved by the Board of Directors on 15th October 2009 and signed on its behalf by

James Ferguson, Chairman
15th October 2009

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year.

Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that suitable accounting policies, applied consistently and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the accounts and that applicable accounting standards have been followed.

The financial statements are published on the Company's website www.scottishoriental.com which is maintained by the Company's Investment Manager, First State Investment Management (UK) Limited. The maintenance and integrity of the corporate and financial information relating to the Company is the responsibility of the Investment Manager. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with applicable United Kingdom accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' Report includes a fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

By order of the Board

James Ferguson
Chairman
15th October 2009

Income Statement

For the year ended 31st August 2009

		2009			2008		
	Note	**Revenue £000**	**Capital £000**	**Total* £000**	Revenue £000	Capital £000	Total* £000
Gains/(losses) on investments		**—**	**18,754**	**18,754**	—	(10,366)	(10,366)
Income from investments	1	**3,726**	**—**	**3,726**	3,480	—	3,480
Other income	1	**18**	**—**	**18**	163	—	163
Investment management fee	2	**(591)**	**—**	**(591)**	(512)	—	(512)
Currency (losses)/gains	12	**–**	**(160)**	**(160)**	—	111	111
Other administrative expenses	3	**(306)**	**—**	**(306)**	(310)	—	(310)
Net return before finance costs and taxation		**2,847**	**18,594**	**21,441**	2,821	(10,255)	(7,434)
Finance costs of borrowing	4	**(1)**	**—**	**(1)**	—	—	—
Return on ordinary activities before taxation		**2,846**	**18,594**	**21,440**	2,821	(10,255)	(7,434)
Tax on ordinary activities	5	**(539)**	**(29)**	**(568)**	(813)	—	(813)
Return attributable to equity shareholders		**2,307**	**18,565**	**20,872**	2,008	(10,255)	(8,247)
Net return per ordinary share	7	**7.63p**	**61.45p**	**69.08p**	6.64p	(33.94)p	(27.30)p

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

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

The Board is proposing a dividend of 6.00p per share for the year ended 31st August 2009 (2008: 5.00p per share) which, if approved, will be payable on 29th January 2010.

The notes on pages 35 to 42 together with the accounting policies on page 34 form part of these accounts.
All revenue and capital items derive from continuing operations.

Balance Sheet

as at 31st August 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
EQUITY INVESTMENTS	8				
China			**11,409**		9,439
Hong Kong			**10,033**		9,222
India			**4,314**		2,772
Indonesia			**5,756**		6,298
Malaysia			**7,861**		9,712
Philippines			**6,696**		7,104
Singapore			**20,000**		15,717
South Korea			**12,106**		7,848
Sri Lanka			**4,438**		3,330
Taiwan			**9,042**		10,327
Thailand			**12,867**		8,933
Vietnam			**532**		872
			105,054		91,574
CURRENT ASSETS					
Debtors	9	**1,588**		611	
Cash and deposits		**8,222**		2,865	
		9,810		3,476	
CURRENT LIABILITIES (due within one year)					
Creditors	10	**(1,002)**		(429)	
		(1,002)		(429)	
Net Current Assets			**8,808**		3,047
Total Assets less Current Liabilities			**113,862**		94,621
PROVISION FOR LIABILITIES AND CHARGES					
Deferred tax	5		**–**		(120)
Equity Shareholders' Funds			**113,862**		94,501
Represented by					
CAPITAL AND RESERVES					
Ordinary share capital	11		**7,554**		7,554
Share premium account	12		**21,337**		21,337
Warrant Reserve exercised	12		**1,319**		1,319
Capital Reserves	12		**78,736**		60,171
Revenue Reserve	12		**4,916**		4,120
			113,862		94,501
Net asset value per share	13		**376.85p**		312.78p

These accounts were approved by the Board on 15th October 2009 and signed on its behalf by

James Ferguson, *Director* JG Ferguson

H. Macleod
Hamish Macleod, *Director*

The accounting policies on page ~~34~~ and the notes on pages 35 to 42 form part of these accounts.

Cash Flow Statement

for the year ended 31st August 2009

	2009		2008	
	£000	£000	£000	£000
OPERATING ACTIVITIES:				
Dividends received from investments		**3,828**		3,418
Interest received		**19**		165
		3,847		3,583
Investment management fee	**(588)**		(520)	
Secretarial fee	**(50)**		(49)	
Directors' fees	**(68)**		(78)	
Other expenses paid	**(63)**		(169)	
		(769)		(816)
Net cash inflow from operating activities		**3,078**		2,767
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest paid on borrowings		**(1)**		—
TAXATION				
Total tax paid		**(802)**		(856)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT:				
Purchases of investments	**(31,548)**		(39,224)	
Sales of investments	**36,330**		34,580	
Indian Capital Gains Tax	**(29)**		—	
Currency (losses)/gains	**(160)**		111	
Net cash inflow/(outflow) from capital expenditure and financial investment		**4,593**		(4,533)
EQUITY DIVIDEND PAID		**(1,511)**		(1,390)
Increase/(decrease) in cash		**5,357**		(4,012)

The notes to the Cash Flow Statement are contained in note 14.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st August 2009

	Share Capital £000	Share Premium Account £000	Warrant Reserve Exercised £000	Capital Reserve £000	Revenue Reserve £000	Total £000
Balance at 31st August 2008	7,554	21,337	1,319	60,171	4,120	94,501
Realised gain on investments	—	—	—	**6,546**	—	**6,546**
Currency loss	—	—	—	**(160)**	—	**(160)**
Unrealised appreciation on investments in the year	—	—	—	**12,208**	—	**12,208**
Indian Capital Gains Tax	—	—	—	**(29)**	—	**(29)**
Income retained in the year	—	—	—	—	**2,307**	**2,307**
Dividend paid in the year	—	—	—	—	**(1,511)**	**(1,511)**
Balance at 31st August 2009	**7,554**	**21,337**	**1,319**	**78,736**	**4,916**	**113,862**

for the year ended 31st August 2008

	Share Capital £000	Share Premium Account £000	Warrant Reserve Exercised £000	Capital Reserve £000	Revenue Reserve £000	Total £000
Balance at 31st August 2007	7,554	21,337	1,319	70,426	3,502	104,138
Realised gain on investments	—	—	—	14,233	—	14,233
Currency gain	—	—	—	111	—	111
Unrealised depreciation on investments in the year	—	—	—	(24,599)	—	(24,599)
Income retained in the year	—	—	—	—	2,008	2,008
Dividend paid in the year	—	—	—	—	(1,390)	(1,390)
Balance at 31st August 2008	7,554	21,337	1,319	60,171	4,120	94,501

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 2006 and the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (issued in January 2009 and adopted early) except for certain illiquid stocks which have been valued at the last traded price, as has been the Company's practice. The Directors consider the last traded price for such stocks to be the best estimate of fair value.

The early adoption of the SORP had no effect on the financial statements of the Company, other than the requirement to separately disclose capital reserves that relate to the revaluation of investments held at the reporting date. These are disclosed in Note 12. This new requirement replaces the previous requirement to disclose the value of the Capital Reserve that was unrealised. Also, the requirement to present tax reconciliations based on the total column of the Income Statement rather than the revenue column as was previously recommended. The reconciliation is disclosed in Note 5.

The accounts have also been prepared on the assumption that approval as an investment trust will continue to be granted.

The financial statements, and the net asset value per share figures, have been prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP').

The functional and reporting currency of the Company is pounds sterling as most investors in the Company are based in the United Kingdom.

(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 appointed 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) In accordance with FRS 19, deferred taxation is provided using the liability method on all timing differences, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

Due to the Company's status as an investment trust, and the intention to continue to meet the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation of investments.

(e) Investment management and secretarial fees have been charged in full to the Income Account.

(f) Equities include ordinary shares and warrants.

(g) Valuation of Investments
Listed investments have been designated upon initial recognition as fair value through profit or loss. Investments are recognised and de-recognised at trade date where a purchase or sale is under a contract whose terms require delivery within the time frame established by the market concerned, and are initially measured at cost. Subsequent to initial recognition, investments are valued at fair value which for listed investments is deemed to be bid market or last traded prices. Gains and losses arising from changes in fair value are included as a capital item in the Income Statement and are ultimately recognised in the Capital Reserve. In accordance with the guidance given in the AIC SORP issued in January 2009 the Capital Reserve is not separated into realised and unrealised.

(h) Gains and losses arising on realisation of investments are shown in the Capital Reserve.

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

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

(k) Interest costs incurred on long-term borrowings are charged to income on a time apportioned basis over the life of the liability. Breakage costs are charged to capital.

Notes on the Accounts

1. Income

Income from investments relates to dividends from overseas listed companies.
Other income relates to bank deposit interest and £11,000 interest on repayment of VAT.

2. Investment Management Fee	2009 £000	2008 £000
Investment Management Fee	**591**	512

The basis of calculation of the Investment Management Fee is given on page 20.

In 2007 the European Court of Justice ruled that investment management fees should be exempt from VAT. Since then, HMRC has accepted the Manager's repayment claims for 2001 to 2007. During the period the Company received a reimbursement of £60,000 being recognised in the current period together with interest thereon of £11,000. An additional claim has been made to HMRC for 1995 to 1996, the amount and probability of economic benefit is uncertain therefore no asset has been recognised.

3. Other Administrative Expenses

	2009 £000	2008 £000
Auditors' remuneration	**10**	10
Directors' fees	**62**	71
Secretarial fees	**50**	49
Bank, custodial and other expenses	**124**	180
	246	310

Since 1st July 2009 Directors' fees have been as follows:

Chairman of the Board	£21,000 per annum
Each other Director	£15,000 per annum

Prior to 1st July 2009 Directors' fees were as follows:

Chairman of the Board	£18,500 per annum
Each other Director	£13,500 per annum

4. Finance Costs of Borrowing

	2009 £000	2008 £000
Bank overdraft interest	**1**	—

Notes on the Accounts – continued

5. Taxation	**2009**			2008		
(a) Analysis of charge in period	**Income £000**	**Capital £000**	**Total £000**	Income £000	Capital £000	Total £000
Current tax:						
Corporation tax	**612**	**–**	**612**	806	—	806
Double tax relief	**(145)**	**–**	**(145)**	(188)	—	(188)
Overseas tax	**192**	**29**	**221**	188	—	188
	659	**29**	**688**	806	—	806
Deferred tax:						
Origination and reversal of timing differences	**(120)**	**–**	**(120)**	7	—	7
	539	**29**	**568**	813	—	813

(b) Factors affecting the tax charge for the period

The tax assessed for the period is different from that calculated when corporation tax is applied to the total return. The differences are explained below:

	2009 £000	2008 £000
Net gains/(losses) on investments during the period	**18,754**	(10,366)
Other (losses)/gains	**(160)**	111
Net investment income before tax	**2,846**	2,821
Total return for the period before taxation	**21,440**	(7,434)
Total return for the period before taxation multiplied by the effective rate of corporation tax of 28% (2008: 28%)	**6,003**	(2,081)
Effect of:		
Capital returns not subject to corporation tax	**(5,207)**	2,871
Prior year adjustment	**–**	1
Non-taxable income	**(276)**	—
Overseas tax	**77**	(1)
Income taxable in different periods	**91**	(16)
Adjustment due to tax rate change	**–**	32
Current tax charge for the period	**688**	806

Under changes enacted in the Finance Act 2009, dividends and other distributions received from foreign companies from 1st July 2009, are largely exempt from corporation tax.

(c) Provision for deferred tax

Income taxable in different periods	**–**	120
Provision at start of period	**120**	113
Deferred tax charge in period	**(120)**	7
Provision at end of period	**–**	120

The deferred tax provision has been released in full as a consequence of the UK legislative change to the taxation of foreign dividends paid on or after 1st July 2009.

Notes on the Accounts – continued

6. Dividends	2009 £000	2008 £000
Dividends paid in the period:		
Dividend of 5.00p per share (2008 - 4.60p)		
paid 28th January 2009	**1,511**	1,390

The proposed dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.
We note below the proposed dividend in respect of the financial year, which is the basis upon which the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered.

Income available for distribution	**2,307**	2,008
Proposed dividend for the year ended 31st August 2009 - 6.00p (2008 - 5.00p) payable 29th January 2010	**(1,813)**	(1,511)
Retained Income for section 842 ICTA 1988 purposes	**494**	497

		2009			2008	
	Income	**Capital**	**Total**	Income	Capital	Total
7. Return per Ordinary Share	**p**	**p**	**p**	p	p	p
Net Return per ordinary share	**7.63**	**61.45**	**69.08**	6.64	(33.94)	(27.30)

	2009	2008
Revenue return	**2,307,000**	2,008,000
Capital return	**18,565,000**	(10,255,000)
Weighted average ordinary shares in issue	**30,213,650**	30,213,650

There are no dilutive or potentially dilutive shares in issue.

Notes on the Accounts – continued

8. Equity Investments

	Equities £000
Cost at 31st August 2008	89,898
Unrealised appreciation	1,676
Valuation at 31st August 2008	91,574
Purchases at cost*	32,081
Sales — proceeds*	(37,355)
Sales — realised gains on sales	6,546
Unrealised appreciation on investments in the year	12,208
Valuation at 31st August 2009	105,054
Cost at 31st August 2009	91,170
Closing unrealised appreciation	13,884

All investments are listed on recognised stock exchanges.
*These figures include the following charges.

	Transaction Costs		
	Purchases £000	Sales £000	Total £000
Stamp duty	11	55	66
Brokerage	76	91	167
Other fees	6	9	15
	93	155	248

9. Debtors

	2009 £000	2008 £000
Sales awaiting settlement	**1,062**	36
Accrued income	**413**	517
Overseas tax recoverable	**112**	56
VAT recoverable	**1**	2
	1,588	611

10. Creditors (amounts falling due within one year)

	2009 £000	2008 £000
Purchases awaiting settlement	**532**	—
Corporation tax	**222**	309
Other creditors	**248**	120
	1,002	429

Notes on the Accounts – continued

11. Share Capital

The authorised capital is £8,190,058 (2008: same) represented by 32,760,234 ordinary shares of 25p each (2008: same). The allotted capital is £7,553,412 (2008: £7,553,412) represented by 30,213,650 ordinary shares of 25p each (2008: 30,213,650).

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This will include:

- the level of equity shares in issue;
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital as detailed above. It is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on page 3.

12. Reserves	Share Premium Account £ooo	Warrant Reserve Exercised £ooo	Capital Reserve £ooo	Revenue Reserve £ooo
Balance at 31st August 2008	21,337	1,319	60,171	4,120
Realised gain on investments	—	—	6,546	—
Indian Capital Gains Tax	—	—	(29)	—
Currency loss	—	—	(160)	—
Unrealised appreciation on investments in the year	—	—	12,208	—
Income retained in the year	—	—	—	2,307
Dividend paid in year	—	—	—	(1,511)
Balance at 31st August 2009	21,337	1,319	78,736	4,916

The capital reserve includes investment holding gains amounting to £13,884,000 (2008: £1,676,000), as disclosed in note 8.

13. Net Asset Value per Ordinary Share

Net assets per share are based on total net assets of £113,861,517 (2008: £94,501,029) divided by 30,213,650 (2008: 30,213,650) ordinary shares of 25p each in issue.

Notes on the Accounts – continued

14. Cash Flow Statement	2009 £000	2008 £000
(a) Reconciliation of total income to net cash inflow from operating activities		
Income	**3,744**	3,643
Administration expenses	**(898)**	(823)
Decrease in debtors	**1**	24
Decrease/(increase) in dividends accounted for but not yet received	**103**	(60)
Increase/(decrease) in creditors	**128**	(17)
Net cash inflow from operating activities	**3,078**	2,767

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

	At the Start of the Year £000	Cash Flows £000	At the End of the Year £000
Cash	2,865	5,357	8,222

15. Risk Management, Financial Assets and Liabilities

The Company invests mainly in smaller Asian quoted companies. Other financial instruments comprise cash balances, short-term debtors and creditors. The Investment Manager follows the Investment process outlined on page 3 with quarterly reviews of the portfolio by the Investment Management team. The Investment Manager's Risk & Compliance department monitors the Company's investment and borrowing powers to ensure that risks are controlled and minimised. Additionally, its Compliance and Risk Committee reviews risk management processes monthly.

The main risks that the Company faces from its financial instruments are market prices (comprising interest rate, currency and share price risks) and credit risk. As the Company's assets are mainly in readily realisable securities, other than in exceptional circumstances there is no significant liquidity risk. The Board, in conjunction with the Investment Manager, regularly reviews and agrees policies for managing each of these risks. The Investment Manager's policies for managing these risks are detailed below.

Market Risk

The fair value of or future cash flows from a financial instrument held by the Company will fluctuate because of changes in market prices. These valuations are deemed to represent the fair value of the investments.

Notes on the Accounts – continued

Interest Rate Risk

As the Company does not invest in either fixed or floating rate securities at present interest rate risk exposure is restricted to interest receivable on bank deposits or interest payable on bank overdraft positions which will be affected by fluctuations in interest rates.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions.

Foreign Currency Risk

All the Company's investment portfolio was invested in overseas securities as at 31st August 2009. The Balance Sheet therefore can be significantly affected by movements in foreign exchange rates. It is not the Company's policy to hedge this risk on a continuing basis but the Company reserves the right to undertake foreign exchange hedging of its portfolio. The revenue account is subject to currency fluctuation arising on dividends paid in foreign currencies. The Company does not hedge this currency risk.

Foreign Currency risk exposure by currency of denomination

	31 August 2009			31 August 2008		
	Overseas Investments £000	**Net monetary assets £000**	**Total currency exposure £000**	Overseas Investments £000	Net monetary assets £000	Total currency exposure £000
Singapore dollars	18,923	5,119	24,042	13,547	1,760	15,307
Hong Kong dollars	21,144	562	21,706	19,257	279	19,535
Thai baht	12,867	87	12,954	8,933	62	8,995
Korean won	12,106	(61)	12,045	7,848	–	7,848
Taiwanese dollars	9,042	555	9,597	10,327	479	10,806
Malaysian ringgits	7,861	8	7,869	9,712	22	9,734
Philippine pesos	6,696	—	6,696	7,104	–	7,104
Indonesian rupiahs	5,755	(4)	5,751	6,298	–	6,298
Indian rupees	4,314	134	4,448	2,771	–	2,772
Sri Lankan rupees	4,438	—	4,438	3,331	15	3,346
US dollars	532	2,017	2,549	2,446	130	2,576
Australian dollars	1,376	691	2,067	–	–	–
Sterling	—	(300)	(300)	–	180	180
Total	**105,054**	**8,808**	**113,862**	91,574	2,927	94,501

Other Price Risk

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

Notes on the Accounts – continued

Other price risk sensitivity

If market values at the Balance Sheet date had been 10% higher or lower with all other variables remaining constant, the return attributable to Ordinary shareholders for the year ending 31 August 2009 would have increased/(decreased) by £11,386,000 (2008 increased/(decreased) by £9,450,000) and equity reserves would have increased/(decreased) by the same amount.

Credit Risk

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

Investment transactions are carried out with a large number of approved brokers, whose credit-standing is reviewed periodically by the Investment Manager.

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

In summary, compared to the amounts in the balance sheet, the maximum exposure to credit risk at 31st August 2009 was as follows:

	2009		2008	
	Balance sheet	**Maximum exposure**	Balance sheet	Maximum exposure
Current assets	**£000**	**£000**	£000	£000
Receivables	1,588	1,588	611	611
Cash at bank	8,222	8,222	2,865	2,865
	9,810	**9,810**	3,476	3,476

Report of the Independent Auditors

Independent Auditors' Report to the members of The Scottish Oriental Smaller Companies Trust PLC

We have audited the financial statements of The Scottish Oriental Smaller Companies Trust PLC for the year ended 31st August 2009 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st August 2009 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Report of the Independent Auditors – continued

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 21, in relation to going concern; and
- the part of the Directors' Statement on Corporate Governance relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Kenneth McDowell (Senior Statutory Auditor)
For and on behalf of CHIENE + TAIT
Chartered Accountants & Statutory Auditors
61 Dublin Street
Edinburgh
EH3 6NL

15th October 2009

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of The Scottish Oriental Smaller Companies Trust PLC will be held at 23 St Andrew Square, Edinburgh on 26th January 2010 at 12.30 pm for the purpose of transacting the following business:

ORDINARY BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions.

1. To receive the reports of the Directors and Auditors and to adopt the Report and Accounts for the financial year ended 31st August 2009.

2. To approve the dividend of 6p per ordinary share of 25p each in the capital of the Company.

3. To re-elect Sir Hamish Macleod as a Director.

4. To re-elect Dr Janet Morgan as a Director.

5. To re-appoint Chiene + Tait, Chartered Accountants and Registered Auditors, as Auditors and to authorise the Directors to fix their remuneration.

6. To approve the Directors' Remuneration Report within the Report and Accounts for the financial year ended 31st August 2009.

7. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ("Securities") provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £636,646, such authority to expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

To consider and, if thought fit, pass the following resolutions as special resolutions of the Company:

8. That, subject to the passing of resolution number 7 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered, pursuant to Section 570 of the Companies Act 2006 (the "Act"), to allot equity securities (as defined in Section 560 of the Act), including the grant of rights to subscribe for, or to convert securities into ordinary shares held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority given by resolution number 7 above as if Section 561(1) of the Act did not apply to any such allotment of equity securities, provided that this power:

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

Notice of Annual General Meeting – continued

(b) shall be limited to the allotment of equity securities up to an aggregate nominal value £377,670 being approximately 5% of the nominal value of the issued share capital of the Company, as at 15th October 2009.

9. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of 25 pence each in the capital of the Company ("ordinary shares") (either for retention as treasury shares for future reissue, resale, transfer or cancellation), provided that:

(a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 4,532,047 ordinary shares;

(b) the minimum price (excluding expenses) which may be paid for each ordinary share is 25 pence;

(c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:

(i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and

(ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and

(d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's next annual general meeting or on 25th April 2011 whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

SPECIAL BUSINESS

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

10. That the Company be and is hereby generally and unconditionally authorised to hold general meetings (other than annual general meetings) on 14 clear days' notice, such authority to expire at the conclusion of the next annual general meeting of the Company.

Dated: 6th November 2009

By Order of the Board

Registered Office:
23 St Andrew Square
Edinburgh EH2 1BB

First State Investment Management (UK) Limited
Secretary

Notice of Annual General Meeting – continued

Notes

(1) To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at close of business on 22nd January 2010 ("the specified time"). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, the specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours (excluding non working days) before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

(2) If you wish to attend the meeting in person, shareholders should present their attendance card, attached to their Form of Proxy, to the registration desk on the day of the meeting. Alternatively, please ensure you pre-register in accordance with the instructions on your Form of Proxy. Failure to do so may result in you being prohibited from voting on resolutions during the meeting. These forms must be submitted no later than 12.30 pm on 22nd January 2010. Attendance for non shareholders will be at the discretion of the Company.

(3) Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2010, is available from www.scottishoriental.com.

(4) Holders of Ordinary Shares who are entitled to attend and vote at the meeting convened by the foregoing notice may appoint one or more proxies (who need not be a member or members) to attend, speak and vote in their place. If appointing more than one proxy, each proxy must be appointed to exercise rights attaching to different shares held by the holder. The instruments appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be delivered to the offices of the Company's Registrars, Computershare Investor Services PLC, PO Box 1075, Bristol, BS99 3FA or www.eproxyappointment.com; (i) in the case of a meeting or adjourned meeting, 48 hours (excluding non-working days) before the time for holding the meeting or adjourned meeting; or (ii) in the case of a poll taken 48 hours after it was demanded, 24 hours before the time appointed for the taking of the poll. Return of a completed form of proxy will not preclude a member from attending and voting personally at the meeting.

(5) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

(6) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID number 3RA50) no later 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

(7) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(8) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(9) The letters of appointment of the directors are available for inspection at 23 St Andrew Square Edinburgh EH2 1BB fifteen minutes before and during the meeting on 26th January 2010.

(10) As at close of business on 15th October 2009, the Company's issued share capital comprised 30,213,650 ordinary shares of 25p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 15th October 2009 is 30,213,650.

(11) Any person holding 3% of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

(12) Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:

(13) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

(14) the answer has already been given on a website in the form of an answer to a question; or

(15) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

(16) The members of the Company may require the company (without payment) to publish, on its website, a statement (which is also to be passed to the auditors) setting out any matter relating to the audit of the company's accounts, including the auditors report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at 23 St Andrew Square, Edinburgh EH2 1BB.