ScotGems plc
Managed by
Stewart Investors

ScotGems plc
Annual Report and Accounts
For the period ended 31 December 2017

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About ScotGems

ScotGems plc ("the Company") is an investment trust, investing in small cap companies globally. The Company's objective is to provide long-term capital growth by investing in a diversified portfolio of small cap companies listed on global stock markets across a range of sectors.

Small cap companies are defined as those with a market capitalisation of less than USD 2.5 billion at the time of investment.

The Company may only invest in smaller unlisted companies where it is reasonably expected that such companies will be listed within 12 months from the time of investment.

The portfolio will typically range between 20 and 30 holdings in normal market circumstances.

The Board of ScotGems plc believes that a positive long-term investment opportunity exists through identifying promising small cap companies across the world, controlled and run by responsible stewards and effective management.

Investment Manager

The Company's Investment Manager is Stewart Investors ("the Investment Manager"). Stewart Investors, is a trading name used by First State Investments International Limited in circumstances where investment management services are being provided by the Stewart Investors business unit.

Stewart Investors manages portfolios on behalf of clients in Asia Pacific, Emerging Market, Frontier, Latin American, Worldwide and Sustainable equity investment strategies.

Primarily based in Edinburgh, with offices in London, Singapore and Sydney, Stewart Investors has a distinct culture and investment philosophy which is unchanged in more than two decades, since the launch of the first investment strategy in 1988.

Financial Information

	At 31 December 2017
Net assets	£51.3m
Net asset value ("NAV") per Ordinary share	95.77p
Share price	93.00p
Share price discount to NAV	2.9%

Chairman's Statement

I am pleased to present the Company's first Annual Report. The Company's shares listed on the London Stock Exchange on 26 June 2017 after an initial fundraising of £50.3 million. Since launch the Company has issued a further 3,212,750 shares resulting in proceeds of £3.2 million under the Placing Programme.

The Company's investment objective is to provide Shareholders with long term capital growth. The Company seeks to achieve this by investing in a diversified portfolio of Small Cap Companies (those with a market capitalisation of less than USD 2.5 billion at the time of investment) listed on global stock markets across a range of sectors. The Company's portfolio is expected to be concentrated and the number of investments will typically range between 20 and 30 holdings. Investments will not be selected by reference to any benchmark, nor will the portfolio be managed by reference to any index or peer group performance.

The Company has appointed Stewart Investors (a trading name used by First State Investments International Limited) to manage the investment portfolio. Stewart Investors are long-term and low turnover investors who like to buy and hold shares in real businesses on their clients' behalf. Their investment style is inherently conservative and focuses on the potential downside as well as the upside for any investment. Capital preservation is deemed as important as capital growth.

In their Investment Manager's Report, Stewart Investors describe why both patience and good corporate governance are important when investing in smaller companies. This is a key aspect of portfolio management as we strive to protect and grow shareholders' capital. Details of the portfolio, which at present has a bias towards smaller companies in the Asia Pacific and Global Emerging Market universes, can be found on pages 6 and 7 of this Report. The Investment Manager has not rushed to invest the capital raised in the listing and the subsequent placing programme, preferring to select the stocks we wish to own for the longer term at prices which they believe to represent good value. I am happy to note that 36.7% of the portfolio was invested by 31 December 2017. As a consequence of our cautious purchasing policy, however, the Company has a high cash level which has been split between Pounds Sterling, Singapore Dollars, and United States Dollars. The strength of the Pound had an adverse impact on performance during the period.

During a very short initial period from launch to 31 December 2017 our net asset value ("NAV") fell by 4.2% to 95.77p per share while our share price fell by 7.0% to 93.00p, representing a discount to NAV of 2.9% at the period end. As the Company has been established as a long-term venture it is unlikely that the Board will buy back shares in the short term.

The Company does not have a policy of seeking to achieve any specified level of income or dividend. It is not envisaged that dividends will be paid in the early years of the Company's life. However, over the longer term, if the income received from the Company's investments materially exceeds the Company's annual expenses the Company expects to distribute some or all of this as dividends.

Our Investment Manager is cautious of deploying cash at today's high valuations, preferring to wait to invest when valuations become more attractive. However, the Investment Manager is optimistic about prospects for our holdings over the longer term and will use our cash reserves to add to them if prices weaken.

Our Annual General Meeting ("AGM") will be held on 24 April 2018 at the offices of First State Investments, Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB. At the AGM we are seeking authority to issue new shares to the extent of up to 20% of the Company's present issued share capital to enhance the size of the Company if opportunities arise. The Directors will issue shares only when they believe it is advantageous to the Company's shareholders to do so. At the AGM there will also be a brief presentation by our Investment Manager. I look forward to seeing shareholders there.

William Salomon

ScotGems Investment Management Team

Stewart Investors' investment team includes investment professionals located in Edinburgh, London, Singapore and Sydney. The investment team, which manages close to $30bn in assets, is united by a shared investment philosophy that focuses on responsible stewardship. The investment approach represents a balance between the collegiate (with research shared across the entire Stewart Investors' investment team) and the individual (each fund has a lead manager who is ultimately responsible for the style and construction of the portfolio). Everyone in the team is considered an analyst and responsible for fundamental bottom up research. Ashish Swarup is the Company's lead manager and is responsible for the selection of Small Cap Companies for the Company's portfolio in accordance with the Company's investment policy. Tom Allen is the co-manager. Ashish and Tom also work together on Asia Pacific (ex-Japan) and Global Emerging Markets funds.

Ashish Swarup

Lead Manager

Ashish joined the team in 2014 and has over a decade's experience in managing equity investments. He also brings real life knowledge and experience of working in the technology industry, particularly in the area of supply chain management, much of which can be applied in his analysis of companies. Prior to joining Stewart Investors, he was Portfolio Manager (Global Emerging Markets) at Fidelity Management & Research and Fidelity Investments. Ashish has a Degree in Electronics and Communication Engineering from the Indian Institute of Technology, a Post Graduate Diploma in Management from the Indian Institute of Management, and holds a MBA from INSEAD in France.

Tom Allen

Co-Manager

Tom joined the team in June 2012 and has five years of experience. Tom is responsible for providing research support for the portfolio managers, covering primarily the Asia Pacific ex-Japan region and all industry sectors. He holds a BA (Hons) in History from University College London.

Investment Manager's Report

Why good corporate governance and patience is important.

The long term investment opportunity for ScotGems is significant. We believe that we can identify promising smaller companies near the start of their journey to become larger and prosperous businesses.

These companies will typically be controlled and run by responsible stewards and effective management teams who have evidenced a track record of sustainable cash flow growth, balance sheet conservatism, and a respect for all stakeholders. We aim to align ourselves with capable business people who share our attitude towards risk.

Our process for identifying promising smaller companies relies on our willingness to back owners and management teams to grow their businesses over the long term. On their journey these businesses, and the economies to which they are exposed, will inevitably experience difficult periods. During such times of stress, many corporates will adopt sharp and dishonest practices which threaten the interests of other stakeholders including minority investors. The history of emerging markets is littered with such examples. To minimise the risk to our clients' capital we believe it is paramount that the reputation and integrity of the businesses owners, which we choose to back is beyond question. We will end up overlooking some impressive operators on corporate governance grounds but we believe this is necessary in order to protect client capital.

ScotGems owns shares in a company called Philippine Seven, which operates a chain of convenience retail stores in the Philippines under the 7-Eleven brand. There are a number of almost identical businesses across South East Asia owing to the attractiveness of the business model which is highly scalable, cash generative, and favourable to the first mover. The quality of Philippine Seven's franchise is obvious but it is not the primary reason for our investment. We have invested because we trust the Company's owners and management team to work effectively to build a successful and sustainable business without taking governance shortcuts along the way.

One of the first things we do when assessing a company is to consider its history as far back as records allow. We do this to discover whether the owners built their business by honest means or not. We avoid business people who have compromised themselves in any way. This laborious process to discover honesty is necessary because the markets in which we invest experience regular and volatile political changes, which consistently expose those whose businesses were born through, or relied on, political patronage, to retrospective scrutiny.

Philippine Seven was founded in the early 1980s by former civil servant Vincente Paterno and his brother-in-law Jose Pardo. The fact that Vincente Paterno had been a state bureaucrat during the time of klepocrat Ferdinand Marcos was on the surface alarming and warranted scrutiny. On this occasion we were happy to learn that despite ties to the Marcos regime, Vincente Paterno had a reputation for being a principled government employee. He was the only technocrat to join the anti-dictatorship movement, having resigned from office in 1982 in response to the assassination of opposition leader Ninoy Aquino. Furthermore, there is no evidence of political favour in the awarding of the franchise concession nor the means which the business was funded. Indeed the founders showed no clear signs of political links and worked hard to support local communities.

Understanding the origins of Philippine Seven helps us as stewards of our clients' capital. If we believe the founding family is honest and aware of the interests of its stakeholders then the chances of them abusing their status and becoming a political target reduces significantly. The fact that the Group has kept a low profile and remained apolitical over thirty years is especially important in the current circumstances with the Philippines experiencing political change.

Applying this same philosophy and focus on reputation we concluded that the people behind the 7-Eleven franchises in Malaysia and Thailand are not of investible quality, despite their business operations being just as impressive in terms of financial metrics.

The 7-Eleven franchises in Malaysia and Thailand are similar to each other in the sense they enjoy dominant market share and benefit from relaxed tobacco advertising laws. Both companies are owned by successful business groups who are known for their close political associations. Even though the convenience retail industry rarely suffers from political interference, we still worry that those with close political ties can occasionally become targets when regimes change. This is the primary reason we are not invested in the 7-Eleven franchises in Malaysia and Thailand.

Our assessment of a company's reputation is ongoing. There is no such thing as a perfect company but we try to find businesses with a patient long term shareholder, a competent management team, and a credible independent board of directors.

In the case of Philippine Seven its founding families needed capital to grow in the 1990s, and invited President Chain Stores, owner of the 7-Eleven franchise in Taiwan, to become the company's majority shareholder. President Chain Stores has not sold a share since, and we see their presence, as one of the most honest and competent retailers in Asia, as being extremely positive. We also admire the major shareholder's understanding of the need for local managers, hence their continued partnership with the founding Paterno family. Second generation Jose Victor Paterno is CEO and is credited with rolling out the Company's successful franchisee model. Finally, we take comfort from the presence of reputable independent directors.

ScotGems will only invest in companies whose owners and managers exhibit similar characteristics to Philippine Seven in terms of honest beginnings and a visible commitment to all stakeholders. Six months after the fund's launch we have invested in seventeen such companies.

We see an opportunity cost to deploying cash today, so have been investing gradually. If we over-pay now we risk not only losing money but we forgo the option of investing the same cash when valuations become more attractive. The long term driver of returns for this strategy will not be short-term wins but rather our ability to deploy capital and remain invested during tougher times. With valuations of companies today especially high it is even more important that we remain patient.

Stewart Investors

Portfolio at 31 December 2017

Company	Country	MSCI Sector	Shareholders' Funds %	Valuation £'000
Unilever Nigeria Local subsidiary of multi-national consumer goods company Unilever.	Nigeria	Household Products	4.7%	2,381
Delfi Indonesia's leading chocolate confectionary brand in terms of market share.	Singapore	Packaged Foods	3.5%	1,806
Philippine Seven 7-Eleven convenience franchise in the Philippines.	Philippines	Retail	3.4%	1,763
Batu Kawan Family holding company whose primary asset is a plantation company.	Malaysia	Household Products	3.0%	1,551
Vinda International Paper products and personal care products in China and Asia Pacific.	Hong Kong	Household Products	2.6%	1,343
RCL Foods Commodity foods business that is developing a portfolio of branded products.	South Africa	Packaged Foods	2.3%	1,180
Bank OCBC Local subsidiary of Singaporean bank OCBC.	Indonesia	Banks	2.1%	1,089
Haw Par Family conglomerate whose assets include the Tiger Balm brand and Singaporean bank UOB.	Singapore	Household Products	2.1%	1,048
Grupo Herdez Processed foods in Mexico and the US.	Mexico	Packaged Foods	2.0%	1,035
Standard Foods Nutritional foods in Taiwan and China.	Taiwan	Packaged Foods	1.9%	984
Top 10 Equity Investments			**27.6%**	**14,180**

Company	Country	MSCI Sector	Shareholders' Funds %	Valuation £'000
Leeno Industrial Manufacturers testing equipment for the semiconductor industry.	South Korea	Electronics Components	1.8%	935
Youngone Holdings Garment manufacturer with facilities across Asia.	South Korea	Apparel and Footware	1.7%	884
Voltronic Power Manufacturers and sells uninteruptable power supplies.	Taiwan	Electronics Components	1.3%	642
Dis-Chem Pharmacies Chain of retail pharmacies in South Africa.	South Africa	Retail	1.2%	632
GlaxoSmithKline Nigeria Consumer goods focused local subsidiary of global pharmaceutical company.	Nigeria	Household Products	1.1%	537
GR Sarantis Cosmetics and homecare products in Eastern Europe.	Greece	Household Products	1.0%	534
Pacific Smiles Group Chain of dental practices in Australia.	Australia	Healthcare	1.0%	492
Greatview Aseptic Packaging Packaging for dairy products and non-carbonated soft drink products.	Hong Kong	Containers and packaging	0.0%	3
Total Equity Investments			**36.7%**	**18,839**
US Treasury Bill 15/03/2018			13.6%	6,945
Total Fixed Interest Investments			**13.6%**	**6,945**
Total Investments			**50.3%**	**25,784**
Cash			50.6%	25,932
Net current liablities			(0.9%)	(448)
Total Shareholders Funds			**100.0%**	**51,268**

Strategic Report for the Period to 31 December 2017

Introduction

The report which follows is designed to provide shareholders with information about:

- the environment within which the Company operates;
- the Board's strategy for achieving its stated objectives;
- principal risks and risk management; and
- shareholders' returns measured against key performance indicators.

Principal Activity and Status

The Company is incorporated in England and Wales (registered number 10755475). It is an investment company as defined by Section 833 of the Companies Act 2006. It carries on the business of an investment trust and has been approved as such by HM Revenue & Customs.

Investment Policy

The Company seeks to achieve its investment objective by investing in a diversified portfolio of Small Cap Companies listed on global stock markets across a range of sectors. Small Cap Companies are defined as those with a market capitalisation of less than USD 2.5 billion at the time of investment. The Company may only invest in small unlisted companies where it is reasonably expected that such companies will be listed within 12 months from the time of investment. The aggregate value of all investments in unlisted companies (based on the original book cost of each investment) shall be limited to 15 per cent. of the net assets of the Company at the time of investment. The Company's portfolio is expected to be concentrated as the number of investments in the portfolio will typically range between 20 and 30 holdings in normal market circumstances. It is intended that a diversified portfolio will be maintained at all times, and the single largest investment will not exceed 15 per cent. of the net assets of the Company at the time of investment.

The Company has not set any maximum or minimum exposures for any geographical regions or sectors and will achieve an appropriate spread of risk by investing in a diversified portfolio of equity and equity related securities issued by Small Cap Companies including, for example (but without limitation), ordinary, preference, non-voting and convertible securities and warrants. However, the Company's exposure to warrants will not exceed 5 per cent. of the Company's net assets at the time of investment and the Company will not hold warrants if their exercise would breach any other limits set out in this investment policy. The Company will not participate in any stocklending or short selling of securities.

Other than warrants, derivatives may only be used for the purpose of efficient portfolio management and with the prior approval of the Board. Cash can be held for working capital purposes and while awaiting investment. It can be invested in cash deposits, gilts and money market securities, fixed interest securities and money market funds.

The Company may borrow money for investment purposes if the Board considers it appropriate. Borrowings are limited to a maximum of 20 per cent. of the Company's net assets at the time of drawdown.

Any material change to the Company's investment policy will require the approval of shareholders at a general meeting. In the event of a breach of the Company's investment policy, the Board will announce through a Regulatory Information Service the actions which will be taken to rectify the breach.

Performance

The investment portfolio at 31 December 2017 can be found on pages 6 and 7.

The Board assesses its performance in meeting the Company's objectives against the following Key Performance Indicators:

- share price and net asset value per share over the long term;
- the range of the discount or premium to net asset value at which the Company's shares trade. At the end of the period under review the discount to NAV was 2.9%; and

- ongoing charges percentage, calculated using the methodology recommended by the Association of Investment Companies. This percentage was capped by the Investment Manager at 1.5% of the period end NAV at 31 December 2017.

Business Model and Strategy for Achieving Objectives

The Company is an externally managed investment trust and its shares are premium listed on the Official List and traded on the main market of the London Stock Exchange.

As an externally managed investment trust all of the Company's day to day management and administrative functions are outsourced to service providers. As a result, the Company has no Executive Directors, employees or internal operations.

The Board has retained responsibility for risk management and has appointed Stewart Investors to manage its investment portfolio. Company secretarial and administrative services are outsourced to PATAC Limited.

A review of the Company's returns during the financial period, the position of the Company at the period end and the outlook for the coming year are contained within the Chairman's Statement and Investment Manager's Report on pages 2 to 5.

Investment Manager

The Company has appointed First State Investments (UK) Limited as its Alternative Investment Fund Manager ("AIFM") in accordance with the AIFM Directive and has entered into the AIFM Agreement with the AIFM.

Pursuant to the terms of the AIFM Agreement and for the purposes of the AIFM Directive, the AIFM will, *inter alia*, manage the investments and other assets of the Company with the sole responsibility for the portfolio management and risk management of the assets of the Company in each case in accordance with the Company's investment policy. Under the terms of the Investment Management Agreement, the AIFM has delegated to Stewart Investors the management of the Company's portfolio.

Under the terms of the AIFM Agreement, the AIFM is entitled to receive a fee of one per cent. per annum of the Company's NAV calculated and payable quarterly in arrears. The AIFM Agreement is terminable by either party giving 90 days' written notice to the other party subject to an initial term of two years. The AIFM Agreement may also be terminated on the resignation or the removal of the Investment Manager under the Investment Management Agreement. However, the AIFM Agreement is not able to be terminated until another AIFM has been appointed subject to a maximum notice period of six months.

The Board, having conducted its review, considers that the AIFM and the Investment Manager's continued appointments are in the best interests of shareholders.

Employees of Stewart Investors, including the portfolio managers, are heavily invested in ScotGems both as individuals (1,772,629 shares) and through The Stewart Investors Employee Benefit Trust (5,000,000 shares).

Dividend Policy

The Company does not have any policy to achieve any specified level of dividend. It is not envisaged that dividends will be paid in the early years of the Company. However, over the longer term, if the income received from the Company's investments materially exceeds the Company's annual expenses, the Company expects to pay dividends.

Competitive and Regulatory Environment

The Company is an investment trust quoted on the London Stock Exchange and is a member of the Association of Investment Companies ("AIC").

The Company operates so as to comply with Section 1158 of the Corporation Tax Act 2010, which allows it to be exempted from capital gains tax on investment gains.

Strategic Report for the Period to 31 December 2017 (continued)

In addition to publishing annual and interim accounts the Company announces net asset values per Ordinary share daily and provides more detailed statistical information on a monthly basis to the AIC in order to enable investors and brokers to compare its performance and other relevant information with those of its peer group, the AIC Global Smaller Companies Sector.

The Company also publishes quarterly reports on subjects of investment interest to shareholders together with portfolio information and performance statistics.

Principal Risks and Risk Management

The Board believes that the principal risks to shareholders, which it seeks to mitigate through continual review of its investments and through shareholder communication, are events or developments which can affect the general level of share prices, including, for instance, inflation or deflation, economic recessions and movements in interest rates and currencies.

Other risks faced by the Company include breach of regulatory rules which could lead to suspension of the Company's Stock Exchange listing, financial penalties, or a qualified audit report. Breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains. Details of the Company's financial risks are contained in the Notes to the Accounts on pages 15 to 25.

In the mitigation and management of these risks, the Board regularly monitors the investment environment and the management of the Company's investment portfolio, and applies the principles detailed in the guidance provided by the Financial Reporting Council. The Company's internal controls are described in more detail on pages 36 and 37.

By Order of the Board

PATAC Limited
Secretary
21 Walker Street
Edinburgh EH3 7HX

1 March 2018

Income Statement

	Notes	Revenue return £'000	Capital return £'000	Total £'000
		Period ended 31 December 2017		
Investment income	2	149	–	149
Losses on investments held at fair value through profit or loss	6	–	(780)	(780)
Foreign exchange losses	6	–	(708)	(708)
Total income/(loss)		149	(1,488)	(1,339)
Expenses	3	(397)	–	(397)
Loss before taxation		(248)	(1,488)	(1,736)
Taxation	4,5	(16)	–	(16)
Loss for the period		(264)	(1,488)	(1,752)
Loss per share		(0.49p)	(2.81p)	(3.30p)

The Total column of this statement represents the Income Statement of the Company. The Revenue return and Capital return columns are supplementary to this and are prepared under guidance issued by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations.

Loss per share is calculated on 53,028,944 shares, being the weighted average number in issue during the period.

There is no other comprehensive income and therefore the loss for the period is equal to the total comprehensive income.

The Notes to the Accounts on pages 15 to 25, including the accounting policies on pages 15 and 16, form part of these accounts.

Statement of Financial Position

	Notes	31 December 2017 £'000
Non-current assets		
Investments held at fair value through profit or loss	6	25,784
Current assets		
Receivables	7	23
Cash and cash equivalents		25,932
		25,955
Current liabilities		
Payables	8	(471)
Net current assets		25,484
Net assets		51,268
Capital and reserves		
Ordinary share capital	9	535
Share premium		52,485
Capital reserve		(1,488)
Revenue reserve		(264)
Total equity		51,268
Shares in issue at period end	9	53,533,770
Net asset value per Ordinary share		95.77p

The financial statements were approved and authorised for issue by the Board of Directors and signed on its behalf on 1 March 2018 by:

William Salomon
Chairman

The Notes to the Accounts on pages 15 to 25, including the accounting policies on pages 15 and 16, form part of these accounts.

Statement of Changes in Equity

For the period ended 31 December 2017	Ordinary share capital £'000	Share premium £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at launch	–	–	–	–	–
Loss for the period	–	–	(1,488)	(264)	(1,752)
Issue of Ordinary shares	535	53,007	–	–	53,542
Share issue costs	–	(522)	–	–	(522)
Balance at 31 December 2017	535	52,485	(1,488)	(264)	51,268

Share premium. The share premium represents the difference between the nominal value of new Ordinary shares issued and the consideration the Company receives for these shares.

Capital reserve. Gains and losses on the realisation of investments, realised exchange differences of a capital nature and returns of capital are accounted for in this Reserve. Increases and decreases in the valuation of investments held at the period end, and unrealised exchange differences of a capital nature are also accounted for in this Reserve.

Revenue reserve. Any surplus/deficit arising from the revenue profit/loss for the period is taken to/from this Reserve.

The Notes to the Accounts on pages 15 to 25, including the accounting policies on pages 15 and 16, form part of these accounts.

Cash Flow Statement

	Note	Period ended 31 December 2017 £'000
Net cash outflow from operations before dividends, interest, purchases and sales	10	(90)
Dividends received from investments		93
Purchases of investments		(33,459)
Sales of investments		7,013
Cash outflow from operations		(26,443)
Taxation		(12)
Net cash outflow from operating activities		(26,455)
Financing activities		
Issue of Ordinary shares		53,542
Cost of share issues		(447)
Net cash inflow from financing activities		53,095
Increase in cash and cash equivalents		26,640
Cash and cash equivalents at the start of the period		–
Effect of currency losses		(708)
Cash and cash equivalents at the end of the period*		25,932

*Cash and cash equivalents represents cash at bank.

The Notes to the Accounts on pages 15 to 25, including the accounting policies on pages 15 and 16, form part of these accounts.

Notes to the Accounts

1. Accounting Policies

a) Basis of accounting

ScotGems plc is a public company limited by shares, is incorporated and domiciled in England and Wales and carries on business as an investment trust. The Company's shares were admitted to the Official List of the UK Listing Authority with a premium listing on 26 June 2017. On the same day, trading of the Ordinary Shares commenced on the London Stock Exchange. The accounts cover the period from launch to 31 December 2017. Details of the Company's status and registered office can be found on pages 8 and 48 respectively.

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice (Accounting Standards "UK GAAP") including Financial Reporting Standard (FRS) 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("the SORP") issued by the Association of Investment Companies in November 2014 and updated in January 2017. All of the Company's operations are of a continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments held at fair value through profit or loss.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There are no critical accounting estimates or judgements.

b) Investments

The Company has elected to adopt Sections 11 and 12 of FRS 102 in respect of investments and other financial instruments. The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth.

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 price or last traded price. Gains and losses arising from changes in fair value are included as a capital item in the Income Statement and are ultimately recognised in the Capital Reserve. Gains and losses arising on realisation of investments are shown in the Capital Reserve.

c) Income

Dividends receivable on listed equity shares are recognised on the ex-dividend date as a revenue return.

Dividends receivable on equity shares where no ex-dividend date is quoted are recognised when the Company's right to receive payment is established.

Overseas dividends are included gross of withholding tax.

Special dividends are classified as either revenue or capital depending on their nature.

Scrip dividends are recognised in the capital account.

Income arising from US Treasury Bills is recognised in the revenue column of the Income Statement using the effective interest method.

d) Expenses

All expenses include, where applicable, value added tax ("VAT"). Expenses are charged through the revenue account except when expenses are charged to capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated.

The investment management fee has been charged in full to the revenue column of the Income Statement.

1. Accounting Policies (continued)

e) Other financial instruments
Other debtors and creditors do not carry any interest, are short term in nature and initially recognised at fair value and then held at amortised cost, with debtors reduced by appropriate allowances for estimated irrecoverable amounts.

Cash at bank and in hand may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

f) Taxation
The charge for taxation is based on the net loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

g) Foreign currency
The results and financial position of the Company are expressed in pounds sterling. This is the functional and reporting currency of the Company as most investors in the Company are based in the United Kingdom.

Transactions denominated in foreign currencies are recorded in the functional currency at actual exchange rates as at the date of the transaction. Investments, monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end.

h) Capital reserve
The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature;
- increases and decreases in the valuation of investments held at the period end; and
- unrealised exchange differences of a capital nature.

i) Business Segment
The Directors are of the opinion that the Company is engaged in the single business of investing in equity shares, fixed interest securities and other investments.

2. Income

	2017 £'000
Overseas dividends	110
Income from fixed interest securities	39
Total income	149

3. Expenses

	2017 £'000
Investment Management fee[1]	142
Directors' fees (see Directors Report on page 27)	78
Auditor's remuneration for:	
Audit of the Company's financial statements[2]	28
Secretarial and administration fee	50
Other expenses	99
Total expenses	397

[1] The Company's investment manager – Stewart Investors received a management fee equal to 1% of the net asset value of the Company less any reduction owing to the cap on expenses set at 1.5% of net assets. In the period to 31 December 2017 the management fee was £265,000 but was reduced to £142,000 owing to the cap. At 31 December 2017 £142,000 was payable to the investment manager. The investment management fee is allocated wholly to revenue as explained further in note 1(d) on page 15.

[2] Ernst & Young LLP also provided an independent reasonable assurance report on the financial position and prospects procedures of the Company at a cost of £19,200. These formed part of the launch costs of the Company.

4. Taxation

	2017 £'000
Withholding tax suffered	16

A deferred tax asset of £56,000 in respect of unutilised expenses at 31 December 2017 has not been recognised as it is uncertain that there will be taxable profits from which the future reversal of the deferred tax asset could be deducted.

Notes to the Accounts (continued)

5. Factors affecting Tax Charge for period

The tax charge for the period differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2017 £'000
Loss before tax	(1,736)
Corporation tax at standard rate of 19.25 per cent.	(334)
Effects of:	
Capital losses not subject to taxation	286
Investment income not subject to taxation	(21)
Excess of expenses over chargeable income	69
Withholding tax suffered	16
Total tax charge (note 4)	16

6. Investments

Investments listed on a recognised investment exchange	2017 £'000
Opening book cost	–
Opening unrealised appreciation	–
Opening valuation	–
Movements in the period:	
Purchases at cost	33,539
Effective yield adjustment	39
Sales proceeds	(7,014)
Sales – realised losses on sales	(235)
Unrealised loss on the fair value of investments during the period	(545)
Total movement during the period	25,784
Closing book cost	26,329
Closing unrealised depreciation	(545)
Closing valuation	25,784

6. Investments (continued)

	2017 £'000
Represented by:	
Equities	18,839
US Treasury Bills	6,945
	25,784

Realised losses on sales	(235)
Unrealised loss on the fair value of investments during the period	(545)
Realised losses on foreign exchange	(422)
Unrealised losses on foreign exchange	(286)
Losses on investments	(1,488)

Transaction costs
During the period the Company incurred transaction costs of £50,000 on the purchase of investments.

7. Receivables

	2017 £'000
Accrued income	13
Prepayments and other receivables	9
Due from brokers	1
	23

8 Payables

	2017 £'000
Other payables	316
Due to brokers	80
Due in respect of costs at launch	75
	471

The Company's Investment Manager – Stewart Investors agreed to pay any launch costs which were in excess of an amount equal to 1% of the gross proceeds of the Initial Issues.

Notes to the Accounts (continued)

9. Called-up Share Capital

	Number	2017 £'000
Allotted, called-up and fully paid Ordinary shares of 1p each:		
Shares issued during the period	53,533,770	535
Balance at 31 December 2017	53,533,770	535

10. Cash Flow Statement

	2017 £'000
Reconciliation of loss before taxation to net cash outflow before dividends, interest, purchases and sales	
Net loss on activities before finance costs and taxation	(1,736)
Net losses on investments	780
Currency losses	708
Investment income	(149)
Increase in other payables	316
Increase in prepayments and other receivables	(9)
Net cash outflow from operations before dividends, interest, purchases and sales	(90)

11. Risk Management, Financial Assets and Liabilities

The Company invests mainly in global small cap companies and US Treasury Bills. Other financial instruments comprise cash balances and short-term debtors and creditors. The Investment Manager follows the investment policy outlined on page 8 and in addition the Board conducts quarterly reviews with the Investment Manager. The Investment Manager's Risk and 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 risk (comprising interest rate, currency and other price risks) and credit risk. As the Company's assets are mainly in readily realisable securities, other than in exceptional circumstances there is no significant liquidity risk. The Board, in conjunction with the Investment Manager, regularly reviews and agrees policies for managing each of these risks. The Investment Manager's policies for managing these risks are available on the website and summarised below.

Market Risk
The fair value of, or future cash flows from, a financial instrument held by the Company will fluctuate because of changes in market prices.

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

The interest rate risk profile of the Company at 31 December is shown below.

	2017 £'000
Interest Rate Risk Profile	
Cash	25,932
	25,932

Interest Rate Sensitivity
Considering effects on cash balances, an increase of 50 basis points in interest rates would have increased net assets and total return for the period by £65,000. A decrease of 50 basis points would have had an equal but opposite effect. The calculations are based on the cash balances at the balance sheet date and are not representative of the period as a whole.

Notes to the Accounts (continued)

11. Risk Management, Financial Assets and Liabilities (continued)

Foreign Currency Risk

The majority of the Company's assets, liabilities and income were denominated in currencies other than sterling (the currency in which the Company reports its results) as at 31 December 2017. The Statement of Financial Position therefore can be significantly affected by movements in foreign exchange rates. It is not the Company's policy to hedge this risk on a continuing basis but the Company reserves the right to undertake foreign exchange hedging of its portfolio. The revenue account is subject to currency fluctuation arising on dividends paid in foreign currencies. The Company does not hedge this currency risk.

	Overseas Investments £'000	Net monetary assets £'000	Total currency exposure £'000
Foreign Currency Risk Exposure by Currency of Denomination			
Singapore dollar	2,854	14,396	17,250
US dollar	6,945	20	6,965
Nigerian naira	2,918	–	2,918
Korean won	1,819	10	1,829
South African rand	1,812	–	1,812
Philippine peso	1,763	–	1,763
Taiwanese dollar	1,626	(40)	1,586
Malaysian ringgit	1,551	–	1,551
Hong Kong dollar	1,346	–	1,346
Indonesian rupiah	1,089	–	1,089
Mexican peso	1,035	–	1,035
Euro	534	–	534
Australian dollar	492	–	492
	25,784	14,386	40,170
Sterling	–	11,098	11,098
Total currency	25,784	25,484	51,268

11. Risk Management, Financial Assets and Liabilities (continued)

Currency Risk Sensitivity
At 31 December 2017, if sterling had strengthened by 5 per cent in relation to all currencies, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown below. A 5 per cent weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts.

	2017 £'000
Singapore dollar	862
US dollar	348
Nigerian naira	146
Korean won	91
South African rand	91
Philippine peso	88
Taiwanese dollar	79
Malaysian ringgit	78
Hong Kong dollar	67
Indonesian rupiah	54
Mexican peso	52
Euro	27
Australian dollar	25
	2,008

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

Other Price Risk Sensitivity
If market values at the Balance Sheet date had been 10 per cent higher or lower with all other variables remaining constant, the return attributable to ordinary shareholders for the period ended 31 December 2017 would have increased/(decreased) by £2,578,400 and equity reserves would have increased/(decreased) by the same amount.

Liquidity Risk
This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company has the power to take out borrowings, which could give it access to additional funding when required.

Notes to the Accounts (continued)

11. Risk Management, Financial Assets and Liabilities (continued)

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

	3 months or less £'000	2017 3 to 12 months £'000	More than 12 months £'000
Other creditors and accruals	391	–	–
Amount due to brokers	80	–	–
	471	–	–

Credit Risk

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

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

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

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

In summary, compared to the amounts in the Statement of Financial Position, the maximum exposure to credit risk at 31 December 2017 was as follows:

	2017 Balance sheet £'000	2017 Maximum exposure £'000
Current assets		
Cash at bank	25,932	25,932
Receivables	14	14
	25,946	25,946

Capital Management

The Company's capital is represented by its capital and reserves as presented in the Statement of Financial Position on page 12. The capital of the Company is managed in accordance with its investment policy, in pursuit of its business model and strategy for achieving objectives, both of which are detailed in the Strategic Report on pages 8 to 10.

11. Risk Management, Financial Assets and Liabilities (continued)

Financial Instruments Measured at Fair Value

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
As at 31 December 2017				
Listed equities	18,839	–	–	18,839
US Treasury Bills	6,945	–	–	6,945
Total financial instruments	25,784	–	–	25,784

The table above provides an analysis of financial assets and financial liabilities based on the fair value hierarchy described below. Short term balances are excluded from the table as their carrying value at the reporting date approximates to their fair value.

Fair Value Hierarchy
The fair value hierarchy used to analyse the fair values of financial assets and liabilities is described below.

The levels are determined by the lowest (that is, the least reliable or lease independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

Level 1 – investments with prices quoted in an active market;

Level 2 – investments whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data.

12. Related Party Transactions

Related party transactions with the Directors, for the period ended 31 December 2017 are disclosed in the Directors' Report on page 27. At the period end an amount of £16,500 was outstanding to the Directors. The AIFM, the Investment Manager and the Company have entered into the Investment Management Agreement. Pursuant to the terms of the Investment Management Agreement, the AIFM has delegated to Stewart Investors the management of the Company's portfolio subject to its and the Directors' overall supervision. Details of transactions during the period and the balance outstanding at the period end are disclosed in note 3.

Alternative Investment Fund Managers Directive ("AIFMD")

In accordance with the AIFMD, information in relation to the Company's leverage and the remuneration of the Company's AIFM, First State Investments (UK) Limited ("First State"), is required to be made available to investors. In accordance with the Directive, the AIFM's remuneration policy and remuneration disclosures in respect of the period ended 31 December 2017 are available from First State on request.

The Company's maximum and actual leverage levels at 31 December 2017 are shown below:

	Gross Method	Commitment Method
Maximum limit	200%	200%
Actual	78%	101%

The process for calculating exposure under each method is largely the same, except that, where certain conditions are met, the Commitment method allows instruments to be netted off to reflect 'netting' or 'hedging' arrangements and the Company's leverage exposure would then be reduced.

There have been no changes to the Company's investor disclosure document in the period to 31 December 2017.

The investor disclosure document and all additional periodic disclosures required in accordance with the requirements of the FCA Rules implementing the AIFMD in the UK are made available on the Company's website (www.firststateinvestments.com).

Directors' Report

The Directors have pleasure in presenting their Annual Report together with the Accounts of the Company for the period to 31 December 2017.

Board of Directors

William Salomon
Shares held: 250,000 Fees during period: £19,576

He is the Senior Partner of Hansa Capital Partners, Deputy Chairman of Ocean Wilsons Holdings Limited and its listed subsidiary Wilsons Sons Limited and a Director of Hansa Trust PLC. William has worked within the fund investment business for many years and was responsible for developing Finsbury Asset Management and the Finsbury range of funds based on the concept of early recognition of key investment trends, such as life sciences and technology.

James Findlay
Shares held: 500,000 Fees during period: £14,356

He is a founding partner and co-Chief Investment Officer of Findlay Park Partners LLP. He began his City career with Hoare Govett in 1978 and was a fund manager and Director of Foreign and Colonial Management Limited from 1983 to 1997. He is currently a non-executive Director of Troy Asset Management Limited.

James Maclaurin
Shares held: 30,000 Fees during period: £16,507

He has a background in the telecoms and technology sectors and is currently the CEO of a telecom startup in the UK. Prior to this James was the founding CEO of edotco, the spinout of Axiata's infrastructure in five Asian markets and from April 2011 to April 2014 he was Group CFO of its parent, Axiata, one of Asia's largest telecommunications groups. During the previous decade James was CFO for Vodafone in Central Europe and Africa, Group CFO of Celtel the pan-African mobile operator prior to its sale to Airtel and CFO of UbiNetics, the Cambridge UK based software developer successfully sold to Cambridge Silicon Radio (CSR plc) and Aeroflex. He is currently an independent non-executive director for Dialog Axiata PLC.

James is a member of the Institute of Chartered Accountants of Scotland.

Angus Tulloch
Shares held: 1,010,096* Fees during period: £13,051

He is a former Joint Managing Partner of Stewart Investors. Joining Stewart Ivory in 1988, he established that firm's Asia Pacific (ex Japan) desk, founding and managing various regional investment mandates over the following 28 years; these included Asia Pacific, Global Emerging Markets and Asian Small Cap strategies. Prior to joining Stewart Ivory, Angus was employed by Cazenove for eight years, three of which were spent based in their Hong Kong office.

*In addition, 2,000,000 shares are held by the Tam O'Shanter Trust of which Angus Tulloch is the Chairman.

Anne West
Shares held: 250,000 Fees during period: £14,356

She has a background in investment management and retired from Cazenove Capital Management at the end of 2012 and was most recently a Fund Director in the Private Client department of Cazenove Capital Management. She joined Cazenove in 1989 and assumed responsibility for Asian and Japanese portfolios, later becoming Head of the Emerging Markets team and then the Global Equity team. She was Chief Investment Officer from 2001 to 2008. Previously, she held positions at Standard Chartered Bank and Hambro Pacific, based in Hong Kong. She is a non-executive Director of Hg Capital Trust plc and The Scottish Oriental Smaller Companies Trust plc.

Directors' Report (continued)

Activities

A review of the Company's activities during the period can be found in the Strategic Report on pages 8 to 10 and in the Chairman's Statement and Investment Manager's Report.

Responsibility Statement

The Directors are responsible for preparing financial statements for each financial period. The Directors are also required to prepare a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance statement in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 net return 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on the Company's website, www.scotgems.com. The Directors are responsible for the maintenance and integrity of the Company's website and financial information included within the website. The work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement under The Disclosure Guidance and Transparency Rules

Each of the Directors, whose names and functions are listed in this Directors' Report, confirms that, to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102, and applicable law), give a true and fair view of the assets, liabilities, financial position and net loss of the Company; and
- the Strategic Report includes a fair review 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 it faces.

In addition, each of the Directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, position, business model and strategy.

Going Concern

The Directors believe, in the light of the controls and review processes reported in the Report of the Audit Committee on pages 36 and 37 and bearing in mind the nature of the Company's business and assets, which are considered to be readily realisable if required, that the Company has adequate resources to continue operating for at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Viability Statement

The Board considered its obligation to assess the viability of the Company over a period longer than the twelve months from the date of approval of the financial statements required by the 'going concern' basis of accounting.

The Board considers the Company, with no fixed life, to be a long term investment vehicle but, for the purposes of this viability statement, has decided that a period of five years is an appropriate period over which to report. The Board considers that this period reflects a balance between looking out over a long term horizon and the inherent uncertainties of looking out further than five years.

When deciding on this period the Directors considered the Company's portfolio of global smaller companies, the holding period of which will typically be five to ten years.

The Directors have also carried out a robust assessment of the principal risks as noted in the Strategic Report on page 10 and discussed in note 11 to the financial statements that are facing the Company over the period of the review, including those that would threaten its business model, future performance, solvency or liquidity.

Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of their assessment.

Capital Structure

At 31 December 2017 there were 53,533,770 Ordinary shares of £0.01 each in issue.

At launch the Company issued 50,321,020 Ordinary shares for proceeds of £50,321,020. Between launch and the period end, the Company issued a further 3,212,750 Ordinary shares for proceeds of £3,220,747. These shares were issued at a premium to net asset value and added £42,000 to net assets after costs.

Revenue profits of the Company (including accumulated revenue reserves) and realised capital profits are available for distribution by way of dividends to the holders of the Ordinary shares (excluding any Ordinary shares held in Treasury, which have no entitlement to dividends).

Voting rights and deadlines for exercising voting rights can be found in the Notes for the Annual General Meeting ("AGM") which can be found on pages 45 to 47.

Results

The results for the period are set out in the Income Statement on page 11. The Company does not propose to pay a dividend in respect of the period ended 31 December 2017.

Substantial Interests

The Company has been informed of the following notifiable interests in the voting rights of the Company as at 31 December 2017:

	Number of Shares held	% of total voting rights
Rathbone Investment Management	5,061,650	9.5%
Royal Bank of Canada*	5,000,000	9.3%
Charles Stanley Group	4,439,000	8.3%
LGT Vestra	3,392,188	6.3%

* Royal Bank of Canada act as trustee to the Stewart Investors Employee Benefit Trust. The Trust has been in place since 2005 and is designed to align employees with Stewart Investors' clients and focus employees on absolute returns over an appropriately long-time horizon.

Directors’ Report (continued)

On 7 February 2018, the Company was notified that LGT Vestra held 2,861,010 shares, representing 5.34% of voting rights.

Financial Instruments

Information on the Company’s financial instruments can be found in the Notes to the Accounts on pages 21 to 25.

Principal Risks and Risk Management

Information on the principal risks to shareholders and management of these risks can be found in the Strategic Report on pages 8 to 10 and in note 11 to the Accounts on pages 21 to 25.

Directors’ Indemnity

The Company’s Articles of Association entitle any Director or Officer of the Company to be indemnified out of the assets of the Company against any loss or liability incurred by her or him in the execution of her or his duties in relation to the Company’s affairs to the extent permitted by law.

Carbon Emissions

As the Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company, the Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors’ Reports) Regulations 2013.

Auditors

Ernst & Young LLP have indicated their willingness to continue in office as Auditors and a resolution proposing their re-appointment will be proposed at the AGM.

Statement of Disclosure of Information to Auditors

As far as the Directors are aware, there is no relevant audit information of which the Auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make herself or himself aware of any relevant audit information and to establish that the Auditors are aware of that information.

Criminal Finance Act 2017

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

Capital Entitlement

On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to ordinary shareholders in proportion to their shareholdings.

Resolutions to be proposed at the AGM

Resolutions 1 to 10 are self explanatory.

Authority to Allot Shares

During the period the Company shares issued at a small premium to net asset value in response to demand. Resolution 11 is to authorise the Directors to issue new shares up to an aggregate nominal amount of £107,000, being 20 per cent. of the total issued shares at 1 March 2018. Resolution 12 is to enable the Directors to issue such new shares and to reissue shares from Treasury (see Treasury Shares below) up to an aggregate nominal amount of £107,000, being 20 per cent. of the total issued shares at 1 March 2018, for cash without first offering such shares to existing shareholders *pro rata* to their existing shareholdings. The Directors issue new shares or reissue shares from Treasury only when they believe it is advantageous to the Company’s shareholders to do so. In no circumstances would such issue of new shares or reissue of shares from Treasury result in a dilution of net asset value per share.

Authority to Buy Back Shares

The Company’s current authority to make market purchases of up to 14.99 per cent. of the issued Ordinary shares expires at the end of the Annual General Meeting. Resolution 13 is to renew the authority for a further period until the Company’s Annual General Meeting in 2019. The price paid for shares on exercise of the authority will not be less than the nominal value of £0.01 per share or more than the higher of (a) 5 per cent. above the average of the middle market quotations of those shares for the five business days before the shares are purchased and (b) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange. The authority, which may be used to buy back shares either for cancellation or to be held in Treasury, will be used to purchase shares only if, in the opinion of the Directors, a purchase would be in the best interests of the shareholders as a whole and would result in an increase in the net asset value per share for the remaining shareholders. There are no outstanding options or warrants to subscribe for equity shares in the capital of the Company.

Treasury Shares

Under UK company law investment trusts are able to acquire their own shares to hold in Treasury for reissue. The Directors consider that this facility gives the Company more flexibility in managing its share capital.

Resolutions 12 and 13 would provide the Directors with the authority they need to manage Treasury shares. Treasury shares will be reissued only at a premium to the net asset value of the shares at the time of sale.

Notice Period for General Meetings

The Company's Articles of Association enable the Company to call General Meetings (other than an Annual General Meeting) on 14 clear days' notice. In order for this to be effective, the shareholders must also approve annually the calling of meetings other than Annual General Meetings on 14 days' notice. Resolution 14 will be proposed at the Annual General Meeting to seek such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company meets the requirements for electronic voting under the Companies Act 2006, offering facilities for all shareholders to vote by electronic means. The Directors believe it is in the best interests of the shareholders for the shorter notice period to be available to the Company, although it is intended that this flexibility will be used only for early renewals of the Board's authority to issue new shares or reissue shares from Treasury and only where merited in the interests of shareholders as a whole.

Recommendation

The Board considers that the resolutions to be proposed at the AGM are in the best interests of the shareholders as a whole and recommends that they vote in favour of such resolutions, as the Directors intend to do in respect of their own beneficial holdings.

By Order of the Board

PATAC Limited
Secretary
21 Walker Street
Edinburgh EH3 7HX

1 March 2018

Directors' Remuneration Report

Statement by the Chairman

This Report has been prepared in accordance with the requirements of the Companies Act 2006. Ordinary resolutions for the approval of this Report and the Remuneration Policy will be put to shareholders at the forthcoming Annual General Meeting. The Remuneration Policy must be put forward for shareholder approval at a maximum interval of three years. In the event of any proposed material variation to the policy, shareholder approval will be sought for the proposed new policy prior to its implementation.

All the Directors are non-executive and the Company has no employees.

Remuneration Committee

The Remuneration Committee, chaired by William Salomon and comprising Mr Salomon, James Findlay and James Maclaurin, reviews the Directors' fees, and the remuneration paid to the Investment Manager (together with the terms and conditions of appointment of the Investment Manager) on an annual basis. The terms of reference of the Remuneration Committee clearly define the Committee's responsibilities. These terms are reviewed annually and are available for inspection on the Company's website.

Directors' Remuneration Policy

The Directors (other than any Director who for the time being holds an executive office of employment with the Company or a subsidiary of the Company) shall be paid out of the funds of the Company by way of remuneration for their services as Directors. The aggregate of such fees shall not exceed £200,000 per annum (or such larger sum as the Company may, by ordinary resolution, determine) as the Directors may decide to be divided among them in such proportion and manner as they may agree or, failing agreement, equally. Any fee payable to the Directors under the Articles shall be distinct from any remuneration or other amounts payable to a Director under other provisions of the Articles and shall accrue from day to day.

Service contracts

The Directors do not have service contracts with the Company. The Directors have appointment letters and, following initial election by shareholders, are subject to re-election by shareholders at a maximum interval of three years.

Fees

The Directors' fees are determined within the limits set out in the Company's Articles of Association and the Directors are not eligible for bonuses, pension benefits, share benefits, share options, long-term incentive schemes or other benefits. The Directors' fees will be paid at fixed annual rates and do not have any variable elements. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company.

The Directors shall be entitled to fees at such rates as determined by the Board.

The Directors shall also be entitled to be reimbursed for all expenses incurred in performance of their duties. These expenses are unlikely to be of a significant amount.

Fees are payable from the date of appointment as a Director of the Company and cease on date of termination of appointment. The Directors are not entitled to compensation for loss of office.

The Board will not pay any incentive fees to any person to encourage them to become a Director of the Company. The Board may, however, pay fees to external agencies to assist the Board in the search and selection of Directors, no such fees have been paid in the period.

Annual Report on Remuneration

As detailed in the Company's Prospectus the fees payable to the Directors pursuant to their letters of appointment in respect of the first financial year are £30,000 per annum to the Chairman, £25,000 per annum to the Chairman of the Audit Committee and £22,000 per annum to the other Directors except Angus Tulloch who will receive £20,000 per annum. The fees will be reviewed annually and may be increased in line with usual market rates. The Company will also pay insurance premiums in respect of directors' and officers' insurance taken out on behalf of the Directors.

Directors' Interests (Audited)
The Directors at the end of the period and their interests in the shares of the Company at 31 December 2017 were as follows:

Director	Interest	2017
William Salomon (Chairman)	Beneficial	250,000
James Findlay	Beneficial	500,000
James Maclaurin	Beneficial	30,000
Angus Tulloch	Beneficial	1,010,096*
Anne West	Beneficial	250,000

* In addition 2,000,000 shares are held by the Tam O'Shanter Trust, of which Angus Tulloch is the Chairman.

There were no changes to the above holdings between 31 December 2017 and 1 March 2018.

Directors' Remuneration for the period (Audited)

Director	Period ended 31 December 2017 Fees
William Salomon (Chairman)	£19,576
James Findlay	£14,356
James Maclaurin	£16,507
Angus Tulloch	£13,051
Anne West	£14,356
Total	£77,846

The rates of Directors' fees for the period ended 31 December 2017 were set out in the Prospectus dated 5 June 2017.

Relative Importance of Directors' Fees

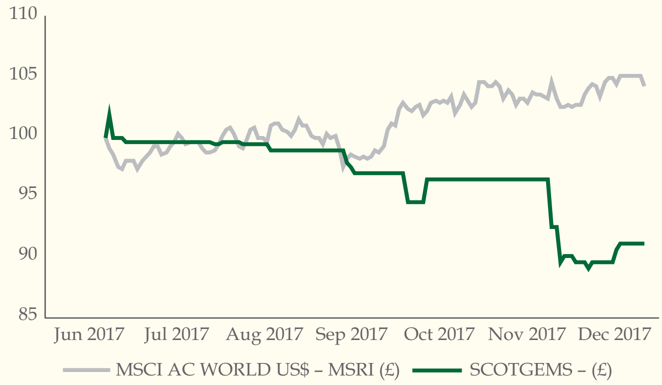
	2017 £'000
Directors' fees	78
Expenses	397

Directors' fees and salaries as a percentage of:

	2017 %
Expenses	20

Further details of the Company's expenses can be found in note 3 on page 17.

Company Performance
The following chart shows the performance of the Company's share price by comparison to the MSCI AC World Index, on a total return basis. The Board deems the MSCI AC World Index to be the most appropriate comparator for this report.



Source: Thomson Reuters Datastream

On behalf of the Board

William Salomon
Chairman

1 March 2018

Corporate Governance

Introduction

The Board of the Company has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company as an investment company. A copy of the AIC Code can be viewed on the AIC's website www.theaic.co.uk/aic-code-of-corporate-governance-0.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide more relevant information to Shareholders than solely reporting against the UK Corporate Governance Code.

The Financial Reporting Council ("FRC"), the UK's independent regulator for corporate reporting and governance responsible for the UK Corporate Governance Code, has endorsed the AIC Code and the AIC Guide. The terms of the FRC's endorsement mean that AIC members who report against the AIC Code and the AIC Guide meet fully their obligations under the UK Corporate Governance Code and the related disclosure requirements contained in the Listing Rules.

Compliance

The Company has complied throughout the period, and continues to comply, with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as disclosed below.

The Board does not consider it appropriate for a Senior Independent Director to be appointed as recommended by provision A.4.1 of the UK Code, as it operates as a unitary Board.

The Board does not consider it appropriate for Directors to be appointed for a specific term as recommended by principle 4 of the AIC Code and provision B.2.3 of the UK Code.

The Board is an entirely non-executive Board and the Directors are involved in discussions to determine their own remuneration taking various factors into consideration. William Salomon, the Chairman, also chairs the Remuneration and Management Engagement Committee. The Board considers that it is appropriate for Mr Salomon to be Chairman of the Committee as he is considered to be independent and has no conflicts of interests.

Directors

Angus Tulloch and Anne West are not considered independent. Angus Tulloch is a former Joint Managing Partner at Stewart Investors and Anne West is a director of The Scottish Oriental Smaller Companies Trust plc, which is also managed by First State Investment Management (UK) Limited.

All other non-executive Directors are considered to be independent in character and judgement and, in the opinion of the Board, there are no relationships or conflicts of interest which are likely to affect the judgement of any Director.

Directors' fees are determined within the limits set out in the Company's Articles of Association. The approval of shareholders in a General Meeting is required to change this limit.

Director	Date of Appointment	Due date for Election
William Salomon (Chairman)	5 May 2017	AGM 2018
James Findlay	5 May 2017	AGM 2018
James Maclaurin	5 May 2017	AGM 2018
Angus Tulloch	5 May 2017	AGM 2018
Anne West	5 May 2017	AGM 2018

Any new Directors appointed during the period must stand for election at the first Annual General Meeting following their appointment.

Individual Directors may, after having obtained the consent of any other Director, seek independent professional advice at the Company's expense on any matter that concerns the furtherance of their duties. Details of the Directors' authority in relation to the issue and buying back by the Company of its shares can be found in the Directors' Report. Similarly, details of those persons with significant holdings in the Company are set out in the Directors' Report.

Conflicts of Interest

The Companies Act 2006 requires that a Director of the Company must avoid a situation in which he or she has, or might have, an interest that conflicts, or may conflict, with the interests of the Company. Each Director submits a list of potential conflicts prior to each meeting. The other Directors consider these and recommend whether or not each potential conflict should be authorised. No situation arose during the period whereby an interest of a Director conflicted with the interests of the Company.

Meetings

During the period there were four formal Board meetings, each of which was attended by all of the Directors. There were two Audit Committee meetings, a Remuneration Committee meeting and a Nomination Committee meeting held during the period. All of these meetings were attended by all of the respective committee members.

Voting Policy

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

Communication with Shareholders

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

Nomination Committee

The Nomination Committee, chaired by William Salomon and comprising Mr Salomon, James Findlay, James Maclaurin, Angus Tulloch and Anne West, considers the appointment of new Directors. The Board believes in the benefits of having a diverse range of skills and backgrounds, and the need to have a balance of experience, independence, diversity, including gender, and knowledge on its Board of Directors. All appointments will continue to be based on merit and therefore the Board is unwilling to commit to numerical diversity targets. The Nomination Committee meets at least annually.

New Directors appointed to the Board are given induction meetings with the Investment Manager and Company Secretary, and are provided with all relevant information regarding the Company and their duties as a Director. Thereafter, regular briefings are provided on changes in regulatory requirements that could affect the Company and the Directors. Professional advisers report from time to time and Directors will, if necessary, attend seminars covering relevant issues and developments.

Performance Evaluation

During the period the performance of the Board, the Audit Committee, the Nomination Committee, the Remuneration Committee and individual Directors was evaluated through a discussion based assessment process led by the Chairman. The performance of the Chairman was evaluated by the other Directors. The Board concluded that the Chairman and each Director contributed effectively and demonstrated commitment to her or his role. The Board also concluded that the performance of the Board as a whole and its committees was effective.

By Order of the Board

PATAC Limited
Secretary
21 Walker Street
Edinburgh EH3 7HX

1 March 2018

Report of the Audit Committee

Audit Committee

The Audit Committee, chaired by James Maclaurin and comprising Mr Maclaurin, James Findlay and William Salomon, meets at least twice yearly to coincide with the annual and interim reporting cycle. The principal role of the Audit Committee is to review the annual and interim financial statements, the Accounting Policies applied therein and to ensure compliance with financial and regulatory reporting requirements. The Audit Committee discusses and agrees the scope of the audit plan for the year ahead and the Auditor's Report on their findings at the conclusion of the audit. The terms of reference of the Audit Committee clearly define the Committee's responsibilities. These terms are reviewed annually and are available for inspection on the Company's website.

The Audit Committee also reviews the system of internal controls, the terms of appointment of the Auditors (including their remuneration), the objectivity of the Auditors and the terms under which they are appointed to perform non-audit services. The Audit Committee also received a report from the Auditors identifying to its satisfaction how their independence and objectivity is maintained when providing these non-audit services. Fees for these services amounted to £19,200 for the period ended 31 December 2017 and were incurred in relation to an independent reasonable assurance report on the financial position and prospects procedures of the Company prior to launch. The Board considers that the provision of such services at this level is cost effective and does not impair the independence of Ernst & Young LLP ("EY").

The Audit Committee assessed the effectiveness of the audit, the quality of the team and advice received from them through reviewing interaction with the Auditors, reports received from them and discussion with management. The Audit Committee is satisfied with the effectiveness of the work provided by EY and that EY are objective and independent.

At the request of the Board, the Audit Committee considered whether the 2017 Annual Report and Accounts were fair, balanced and understandable and whether they provided the necessary information for shareholders to assess the Company's performance, business model and strategy. The Audit Committee is satisfied that, taken as a whole, the Annual Report and Accounts are fair, balanced and understandable. The Audit Committee reached this conclusion based on a detailed review of the financial statements and subsequent discussion on whether the accounts are fair, balanced and understandable by all members of the Committee.

Audit Tender

Ernst & Young LLP was selected as the Company's auditor at the time of the Company's launch following a competitive process and review of the Auditor's credentials. The appointment of the external auditor will be reviewed annually by the Audit Committee and the Board and is subject to approval by Shareholders. In accordance with the FRC guidance, the audit will be put out to tender within ten years of the initial appointment of Ernst & Young LLP.

Internal Controls

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the internal control guidance issued by the Financial Reporting Council. The process relies principally on a risk-based system of internal control whereby a test matrix is created that identifies the key functions carried out by the Company and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A formal annual review of these procedures is carried out by the Board and includes consideration of internal control reports issued by the Investment Manager and other service providers.

Such review procedures have been in place throughout the financial period and up to the date of approval of the Annual Report and Accounts, and the Board is satisfied with their effectiveness. These procedures are designed to manage, rather than eliminate, risk and, by their nature, can provide only reasonable, not absolute, assurance against material misstatement or loss. At each Board meeting the Board reviews the Company's activities since the previous Board Meeting to ensure that the Investment Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, the Board approves changes to the guidelines.

First State Investments (UK) Limited acts as the Company's AIFM for the purposes of the AIFM Directive and PATAC Limited provides company secretarial and administrative services to the Company.

The Company does not have an internal audit function as the Audit Committee believes that owing to the Company's straightforward structure it does not warrant such a function. This is reviewed by the Committee annually.

Significant Accounting Matters

The significant issue considered by the Audit Committee during the period in relation to the financial statements of the Company was the existence and valuation of investments. The AIFM regularly reconciles the portfolio holdings to confirmations from the Company's Custodian and carries out testing of the prices obtained from the independent pricing source. Based on confirmation from the AIFM that these procedures have operated correctly at 31 December 2017 and based on conversations with and written reporting from the Depositary, the Committee is satisfied that there is no material misstatement in the context of the Annual Report and Accounts as a whole.

James Maclaurin
Director

1 March 2018

Independent Auditor's Report to the Members of ScotGems plc

Opinion

We have audited the financial statements of ScotGems plc for the period ended 31 December 2017 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes of Equity, the Cash Flow Statement and the related notes 1 to 12, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2017 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 10 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 29 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 29 in the annual report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 29 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or apply appropriate accounting treatment • Incorrect valuation and existence of the investment portfolio
Materiality	• Overall materiality of £512,680 which represents 1% of net assets of the Company

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate revenue recognition though failure to recognise proper income entitlement's or apply appropriate accounting treatment: The investment income receivable by the Company during the period directly affects the Company's ability to make a dividend payment to shareholders. The income receivable for the period to 31 December 2017 was £149k, with the majority of the income being dividend payments from listed investments as well as amortised income from US Treasury Bills. There is a risk of incomplete or inaccurate recognition of income through the failure to recognise proper income entitlements or apply appropriate accounting treatment in particular relating to the categorisation of special dividends and journal entries applied to the income account.	**We have performed the following procedures:** We agreed a sample of dividend receipts to the corresponding announcement made by the investee company, recalculated the dividend amount received and agreed cash received to bank statements. We selected a sample of investments held and agreed the company dividend announcements from an independent source to the income recorded by the Company. For all dividends accrued at the period end, we reviewed the investee company announcements to assess whether the dividend obligation arose prior to 31 December 2017. We agreed the dividend rate to corresponding announcements made by the investee company, recalculated the dividend amount receivable and agreed cash received to post year end bank statements, where possible.	**The results of our procedures are:** We noted no issues in agreeing the sample of dividend receipts to an independent source, recalculating these amounts and agreeing them to the bank statements. We noted no issues in agreeing the sample of investee company announcements to the income entitlements recorded by the Company. We noted no issues in recalculating the accrued dividends, agreeing, where possible, to post year end bank statements, and confirming that the income obligation arose prior to 31 December 2017. We noted that income from US Treasury Bills was not amortised through revenue, this was amended as part of the period end audit. Based on the work performed we identified no special dividend receipts.

Independent Auditor's Report to the Members of ScotGems plc (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Special dividends by their nature require the exercise of judgment as to whether the income receivable should be classified as "revenue" or "capital" for S1158 Corporation Tax Act 2010 ("CTA") purposes. The revenue column of the Income Statement is the main driver of the minimum dividend calculation. There is therefore a risk that an incorrect classification could potentially result in an under distribution of income and put the Company's investment trust status at risk. There is also a risk that inappropriate journal entries applied to the income account could result in a manipulation of the Company's revenue to support performance and dividend targets.	We reviewed the income report for all material dividends and checked these against an independent source to determine if any were special dividends. We also reviewed the acquisitions and disposals report for any potential special dividends treated as capital to assess if any should be treated as revenue. We recalculated the amortised income for all the US Treasury Bills.	
Incorrect valuation and existence of the investment portfolio: The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders. Listed investments are all independently held by a custodian and are valued at fair value, which is deemed to be bid value, or last traded price depending on the convention of the stock exchange on which the investment is listed. The valuation of the portfolio at 31 December 2017 was £25.8m consisting of listed equities and a US Treasury Bill.	**We performed the following procedures:** For all listed investments and US Treasury Bills in the portfolio, we compared the market prices and exchange rates applied to an independent source. We agreed the Company's investments to the independent confirmations received from the Company's custodian and depositary as at 31 December 2017.	**The results of our procedures are:** For all listed investments and US Treasury Bills, we noted no material differences in market prices or exchange rates when compared to an independent source. We noted no differences between the custodian and depositary confirmations and the Company's underlying financial records.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £513k, which is 1% of net assets. We believe that net asset value of the Company provides us with materiality aligned to the key measurement of the Company's performance.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £256k. We have set performance materiality at this percentage due to this being the initial auditing period for ScotGems plc.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate testing threshold of £26k for the revenue column of the Income Statement, being 5% of planning materiality.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £26k, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the Members of ScotGems plc (continued)

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 36** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 36** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 34** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are United Kingdom Generally Accepted Accounting Practice, the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and section 1158 of the Corporation Tax Act 2010.

- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to incomplete or inaccurate revenue recognition relating to the allocation of special dividends. Further discussion of our approach is set out in the section on key audit matters above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 4 January 2018 to audit the financial statements for the period ending 31 December 2017 and subsequent financial periods.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

The audit opinion is consistent with the additional report to the audit committee.

Susan Dawe (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Edinburgh

1 March 2018

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of ScotGems plc will be held at the offices of First State Investments (UK) Limited, Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB on 24 April 2018 at 12.00 noon for the following purposes:

To consider and if thought fit pass the following resolutions of which resolutions 1 to 11 will be proposed as ordinary resolutions and resolutions 12 to 14 will be proposed as special resolutions.

1. To receive the Company's Annual Report and Accounts for the period from incorporation on 5 June 2017 to 31 December 2017.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the period from incorporation on 5 June 2017 to 31 December 2017.
4. To elect William Salomon as a Director of the Company.
5. To elect James Findlay as a Director of the Company.
6. To elect James Maclaurin as a Director of the Company.
7. To elect Angus Tulloch as a Director of the Company.
8. To elect Anne West as a Director of the Company.
9. To re-appoint Ernst & Young LLP as auditors to the Company.
10. To authorise the Directors to fix the remuneration of the auditors until the conclusion of the next Annual General Meeting of the Company.
11. That the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (as defined in section 551 of the Companies Act 2006) up to an aggregate nominal amount equal to £107,000 (being 20% of the total issued share capital as at 1 March 2018) and that this authority shall expire (unless previously varied, revoked or renewed by the Company in general meeting) at the conclusion of the Annual General Meeting of the Company to be held in 2019 or, if earlier, on the expiry of 15 months from the passing of this resolution (the "section 551 period") but so that the Directors may, at any time prior to the expiry of the section 551 period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of the section 551 period and the Directors may allot relevant securities in the pursuance of such an offer or agreement as if the authority granted by this resolution had not expired.
12. That, subject to the passing of resolution 11, the Directors be and are hereby empowered, pursuant to section 570 of that Act, to allot and make offers or agreements to allot equity securities (as defined in section 560 of that Act) and/or sell equity securities held as Treasury shares pursuant to section 573 of that Act, in each case for cash pursuant to the authority and for the period of the authority conferred by resolution 11 up to an aggregate nominal amount of £107,000 (being 20% of the total issued share capital as at 1 March 2018) as if section 561(1) of that Act did not apply to such allotment.
13. That the Company be and is hereby generally and unconditionally authorised 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 its Ordinary Shares of 1p each, provided that:
    (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 8,024,712 (representing 14.99 per cent of the Company's issued Ordinary Share capital (excluding shares held in Treasury) at the date of the notice of this meeting);
    (b) the minimum price (exclusive of any expenses) which may be paid for an Ordinary Share is 1p;
    (c) the maximum price (excluding expenses) which may be paid for an Ordinary Share is not more than the higher of (i) 5 per cent above the average of the middle market quotations for the Ordinary Shares for the five business days immediately before the day on which it purchases that share and (ii) the higher of the price of the last independent trade and the highest current independent bid for the Ordinary Shares;

(d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2019 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

14. That a general meeting of the Company other than an Annual General Meeting may be called on not less than 14 days' notice, provided that this authority shall expire at the conclusion of the Company's next Annual General Meeting after the date of the passing of this resolution.

By Order of the Board

PATAC Limited
Secretary
21 Walker Street
Edinburgh EH3 7HX

1 March 2018

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 20 April 2018 ("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, you should present your attendance card, attached to your Form of Proxy, to the registration desk on the day of the meeting. Alternatively, please ensure you preregister in accordance with the instructions on your Form of Proxy. Failure to do so may result in your being prohibited from voting on resolutions during the meeting. These forms must be submitted no later than 12 noon on 20 April 2018. Attendance by non shareholders will be at the discretion of the Company.

3. Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from www.scotgems.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)

Notice of Annual General Meeting (continued)

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, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or www.eproxyappointment.com: (i) in the case of a meeting or adjourned meeting, 48 hours (excluding non-working days) before the time for holding the meeting or adjourned meeting; or (ii) in the case of a poll taken 48 hours after it was demanded, 24 hours before the time appointed for the taking of the poll. Return of a completed Form of Proxy will not preclude a member from attending and voting personally at the meeting. Members may not use any electronic address provided in this notice or in any related documents to communicate with the Company for any purpose other than those expressly stated.

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

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

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

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

9. The letters of appointment of the Directors are available for inspection at 21 Walker Street, Edinburgh EH3 7HX before, during and after the meeting. They will also be available on the date of the meeting at 20 Primrose Street, London EC2A 2EW until the conclusion of the meeting.

10. As at close of business on 1 March 2018, the Company's issued share capital comprised 53,533,770 ordinary shares of 1p each.

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

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

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

    (b) the answer has already been given on the Company's website in the form of an answer to a question; or

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

13. The members of the Company may require the Company (without payment) to publish, on its website, a statement (which is also to be passed to the auditors) setting out any matter relating to the audit of the Company's accounts, including the Auditor's Report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5 per cent of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the sender's full name and address and be sent to the Company's registered address at 20 Primrose Street, London EC2A 2EW.

14. Members meeting the threshold requirements set out in the Companies Act 2006 have the right:

    (a) to require the Company to give notice of any resolution which can properly be, and is to be, moved at the meeting pursuant to Section 338 of the Companies Act 2006, and/or

    (b) to include a matter in the business to be dealt with at the meeting, pursuant to Section 338A of the Companies Act 2006.

15. Any corporation which is a member can appoint one or more corporate representatives. Members can appoint more than one corporate representative only where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s).

16. In the case of joint holders, where more than one of the joint holders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

17. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

Corporate Information

Board of Directors
William Salomon (Chairman)
James Findlay
James Maclaurin
Angus Tulloch
Anne West

Registered Office
Broadgate Tower
20 Primrose Street
London EC2A 2EW

Company Secretary
PATAC Limited
21 Walker Street
Edinburgh EH3 7HX

Telephone: 0131 538 1400

AIFM
First State Investments (UK) Limited
Finsbury Circus House
15 Finsbury Circus
London EC2M 7EB

Investment Manager
Stewart Investors
23 St Andrew Square
Edinburgh EH2 1BB

www.stewartinvestors.com

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

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

Solicitors
Dickson Minto WS
Broadgate Tower
20 Primrose Street
London EC2A 2EW

Shareholder Information
Telephone: 0131 538 6605

Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE

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

Identification Codes
SEDOL: BYT2554
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TIDM: SGEMS

Contact details

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