Pacific Assets Trust plc

Annual Report 2003

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COMPANIES HOUSE 15/08/03

Contents

Company Summary

The Company

The Company is an investment trust and its shares are listed on the London Stock Exchange. It is a member of the Association of Investment Trust Companies.

Total assets less current liabilities at 31 January 2003 were £65.9m and the market capitalisation was £47.1m.

Investment Mandate

Objective

To achieve capital growth through investment in selected companies in the Asian Pacific region, excluding Japan, Australasia and the Indian sub-continent.

The Company aims to generate superior returns through active asset allocation and focused stock selection. The Company will have a growth bias, and will be prepared to be opportunistic. It may be geared to the extent of 25 per cent of shareholders' funds.

The Company exists in a competitive environment, and aims to be the leader in its investment group. Reflecting this, it should consistently be within the top third of that group measured by net asset value total return.

The Company is committed to building a long term investment record and will assess itself by reference to its peers on a rolling three year basis.

Management

The Board has appointed ISIS Asset Management plc as investment manager. The notice period is one year. With effect from 30 September 2003 it will be six months. Further details of the management contract are provided in the Report of the Directors on page 15.

Capital Structure

The Company has Ordinary Shares in issue. Details of the capital structure is given on page 27.

How to Invest

ISIS Asset Management operates a number of investment plans, including zero charge plans which facilitate investment in the shares of the Company. Details are contained on page 36.

You may also invest through your usual stockbroker.

PEP/ISA Status

The Company's shares are eligible for ISAs and PEP transfers and can continue to be held in existing PEPs.

Website

The Company's internet website address is: www.pacific-assets.co.uk

Telephone

ISIS Asset Management Investment Services on 0845 600 6166

A Member of the Association
of Investment Trust Companies

Financial Highlights

- Net Asset Value per share fell by 28.3 per cent.
- Benchmark index fell by 25.6 per cent.
- Dividend increased by 11.1 per cent to 0.50p per share.

One year Net Asset Value Peer Group performance

Three year performance v MSCI Index

Performance Summary

	31 January 2003	31 January 2002	% change
Capital			
Net asset value per share	**46.35p**	64.68p	–28.3
MSCI All Country Far East Free ex Japan Index	**107.60**	144.65	–25.6
Share Price			
Share price (mid market)	**38.50p**	53.50p	–28.0
Discount (difference between share price and net asset value)	**16.9%**	17.3%	
***Gearing*†**			
Actual gearing	**17.4%**	24.5%	
Revenue and Dividends			
Earnings per share	**0.63p**	0.54p	+16.7
Dividends per share	**0.50p**	0.45p	+11.1
Total expense ratio as percentage of average shareholders' funds	**2.06%**	1.63%	

Year's Highs/Lows

	High	**Low**
Net asset value per share	**70.55p**	**42.42p**
Share price	**61.75p**	**34.00p**
Discount	**5.9%**	**22.7%**

†Actual Gearing: (Total Assets – Cash (including derivatives exposure) and Fixed Interest) ÷ Shareholders' Funds

Chairman's Statement

Ranald
Noel-Paton
Chairman

Performance

We are experiencing certainly the worst global bear market since 1974 and, probably, the worst since 1929. Our benchmark MSCI All Country Far East Free ex Japan Index fell by 20.0 per cent in the year to 31 January 2001, 9.1 per cent in the year to 31 January 2002, and 25.6 per cent in the year just ended. Your Company's net asset value per share fell by 28.3 per cent last year.

Investment Mandate

The Board reviewed the Company's investment mandate during the year. The new mandate is shown in full on page one of this report; much of it refines the existing mandate, the most significant change being to the way in which the Board will assess performance. Recognising the competitive nature of the environment in which the Company operates, it is in future going to assess the Company's performance primarily by reference to its peer group. This change is reflected in the Financial Highlights on page two.

Gearing

The Company was geared throughout the period, but the active management of gearing levels to which I referred in my Statement last year limited the adverse effect on our performance to 1.6 per cent. The Board has, in conjunction with the Managers, carefully considered our gearing strategy and, in spite of its negative contribution in each of the last three years, we have concluded that this would be the wrong time to change our long term commitment to a geared portfolio.

That said, the upper limit of borrowing 25 per cent of shareholders' funds will remain in place (it was 17 per cent at the year end), and active management of our gearing policy will be given renewed emphasis in the year ahead.

Income

Earnings per share were 16.7 per cent higher than those of the previous year, principally because of a reduction in the interest costs charged to the revenue account.

The Board has proposed a dividend of 0.50 pence, representing an increase of 11.1 per cent.

Shareholder Value

Your Company's share price fell by 28.0 per cent during the year, almost exactly matching the fall in net asset value. The discount at which the shares traded narrowed slightly from 17.3 to 16.9 per cent.

The Company bought back 980,000 shares for cancellation during the year. These were purchased at a discount of 20 per cent, enhancing net asset value. The Board will seek to renew the Company's authority to buy back shares at the Annual General Meeting.

Annual General Meeting

The Company's Annual General Meeting will take place at 12 noon on 28 April 2003 at 80 George Street, Edinburgh. The Annual General Meeting is your meeting. You will have the opportunity to meet and to question the Directors and the Managers, and I do urge shareholders to join us for the occasion.

Board

During the year Michael Miles due to his appointment as Chairman of Schroders plc decided to stand down as a Director of the Company. He has been a source of wise counsel and I would like to thank him warmly for his support, and for his commitment and dedication to your Company.

Outlook

The immediate future continues to look uncertain, with a continuing war in Iraq, increased tensions in the Middle East and the 'war on terror'.

These geopolitical threats have combined with a sluggish global economy to undermine Asian-Pacific stockmarkets, which have not reflected an economic recovery which achieved regional growth of more than 5 per cent in 2002.

On a positive note, this has left a number of Asian stockmarkets at levels which look on fundamentals to offer value, in particular relative to the rest of the world. Over the short term the difficulty is to have confidence in a consistent market recovery at a time when doubt and uncertainty remains investors' dominant emotion.

Nevertheless, the bear market has created opportunities. It is those that your Company, aided by its gearing, will seek to take advantage of in 2003 as we demonstrate continued confidence in the economic future of the Asian-Pacific region.

Ranald Noel-Paton
Chairman
28 March 2003

Investment Manager and Investment Process

James Anderson
Fund Manager

Mike Hanbury-Williams
Fund Manager

Martin Cassels
Company Secretary

ISIS Asset Management Investment Manager
ISIS Asset Management is a global investment management business and its shares are listed on the London Stock Exchange.

With some £59 billion of assets under management as at 31 January 2003, ISIS Asset Management is committed to providing its clients with superior investment returns and outstanding service.

Its commitment to the investment trust sector is underlined by the fact that today it provides services to nineteen investment companies.

Investment Process
The objective of Pacific Assets Trust is to provide shareholders with long-term capital growth through investment in selected companies in the Asian-Pacific region, excluding Japan, Australasia and the Indian sub-continent.

Stock selection is based on in-house fundamental research comprising three elements – financial analysis, company visits and valuation analysis. The over-riding aim is the identification of financially strong companies with prospects for above average growth on a three to five year view.

The Company operates with a concentrated portfolio of holdings and aims to maintain a broadly fully invested position.

The Company employs gearing to enhance shareholder returns as it is believed that the overall return to be gained will exceed the cost of borrowing.

Manager's Review

Another difficult year comes to an end for global stockmarkets. Asian stockmarkets were not spared and have, in general, followed the weakening trend. This correlation remains frustrating as Asian real economic growth for 2002 was strong at 5.2 per cent, nearly three times the level of global growth.

The pause in the rate of global recovery was compounded by negative earnings stories, especially from corporate America. This damaged prospects throughout Asia, generally seen as a major exporter to the world. Asian intra regional trade, however, continues to build quickly, helping to offset any impending export slowdown. Some of this trade is destined for the US, Japan and Europe but a good proportion is consumed within Asia. Moreover, domestic consumption picked up nicely in most countries as fiscal policies, loose monetary policy and financial deregulation helped to boost spending.

It remains frustrating but factual that, despite the relative strength of Asian economies and better valuation levels, Asia has only performed well in a relative sense (against world stockmarkets) over the period. In sterling terms the benchmark index fell by 25.6 per cent.

Geographical Analysis
% of Total assets less current liabilities
(excluding short term loans)

Contribution to relative performance (%)

Manager's Review

continued

Sector Analysis
% of Total assets less current liabilities
(excluding short term loans)

Stock Selection

Stock selection provided a positive start to the year with a strong performance by China Steel in Taiwan as the domestic stocks outperformed technology. This was also the case in Singapore, with strong returns from both Keppel Corp and Singapore International Airlines.

Sadly the next two months saw a significant reversal of this trend due to poor returns from China Steel, Asustek Computer and Hon Hai Precision in Taiwan and poor domestic performance from companies such as Kookmin Bank and Pohang Iron & Steel in Korea.

In August and September the Taiwanese companies managed a strong rebound, but Korea remained weak. Korean Air and Hyundai Motor further hindered performance as rising oil prices and slowing export demand resulted in selling. The most significant impact to stock selection was caused by Thailand, however; despite the markets relatively strong performance it was the smaller mid cap stocks that outperformed, even though the Fund's large cap companies performed well.

Since the year end the weightings in China have been raised at the expense of Indonesia.
A meaningful holding has been taken in two transportation companies, Anhuis Expressway and China Shipping.

Performance of Asian Pacific stockmarkets (%)

Outlook

Asia in 2003 will improve on last year's economic growth performance and will again have some of the fastest growing economies in the world. Barring a large external shock to the world the region is set to benefit from a broad base of positives, including a stronger than expected US investment led economic recovery, especially in the more risk averse sections of the economy. Asia's exporting companies remain highly sensitive to that demand and should benefit accordingly.

Its continuing extraordinary strength and transition to an open economy means that China is likely to sustain economic growth of up to 8 per cent over the next few years. Exports, foreign direct investment and public sector investment will be the main drivers of this. With other Asian economies feeding into China's export machine, the result will be positive for the entire region.

James Anderson
Fund Manager
ISIS Asset Management
28 March 2003

Investment Portfolio

Company	Valuation £'000	% of Total assets less current liabilities	Country of incorporation
Samsung Electronics One of the largest producers and exporters of electronic products in Korea. The principal businesses are semi-conductors, consumer electronics, telecommunications and computers.	3,879	5.9	South Korea
Chinatrust Commercial Bank A financial services group providing consumer banking, credit cards and corporate banking services.	3,524	5.3	Taiwan
Sun Hung Kai Properties Develops properties for sale and investment, and also provides hotel management, insurance and financial services, invests in infrastructure and participates in information technology and telecommunications.	3,463	5.3	Hong Kong
China Steel Manufactures and markets a variety of steel products. The main products are hot rolled coils and sheets, cold rolled coils and sheets, wire rods, steel plates, and steel bars.	3,367	5.1	Taiwan
Kookmin Bank The leading retail bank in South Korea. The bank was privatised in 1994 as part of the government's plans to improve the efficiency of the banking system.	2,885	4.4	South Korea
Hong Kong & China Gas Produces, distributes, and markets gas and gas appliances to residential and industrial customers through its Towngas brand name. The company's subsidiaries develop gas projects in China and develop and manage commercial properties.	2,727	4.1	Hong Kong
Cheung Kong Develops and invests in real estate. The company also provides real estate agency and management services, operates hotels, and invests in securities. It also holds a significant stake in the conglomerate Hutchison Whampoa.	2,452	3.7	Hong Kong
Cathay Pacific Airways Operates scheduled airline services. It is the defacto flag carrier for Hong Kong. The company also provides related services, including airline catering, aircraft handling, and engineering.	2,399	3.7	Hong Kong
Hutchison Whampoa A leading conglomerate in Hong Kong with interests in ports, telecommunications, property, retailing and finance.	2,298	3.5	Hong Kong
Bank of East Asia A financial services company that provides general banking and related financial services.	2,238	3.4	Hong Kong
Ten largest investments	**29,232**	**44.4**	

Company	Nature of business	Valuation £'000	% of Total assets less current liabilities	Country of incorporation
Mediatek	Electronics	2,031	3.1	Taiwan
Hon Hai Precision	Electronics	2,021	3.1	Taiwan
Taiwan Semiconductor Manufacturing	Electronics	1,973	3.0	Taiwan
Yanzhou Coal Mining	Coal producer	1,799	2.7	China
Shinsegae	Retailer	1,722	2.6	South Korea
China Mobile (Hong Kong)	Telecommunications	1,697	2.6	Hong Kong
Bangkok Bank Public Company	Banking	1,690	2.5	Thailand
Henderson Land Development	Property developer	1,670	2.5	Hong Kong
Hang Seng Bank	Banking	1,642	2.5	Hong Kong
Varitronix International	LCD displays	1,578	2.4	Hong Kong
Twenty largest investments		**47,055**	**71.4**	
Hyundai Motor	Automobiles	1,548	2.3	South Korea
SK Telecom	Telecommunications	1,511	2.3	South Korea
Li & Fung	Distributor	1,500	2.3	Hong Kong
Siam Cement	Cement producer	1,437	2.2	Thailand
Pohang Iron & Steel	Steel	1,428	2.2	South Korea
DBS Group Holdings	Banking	1,323	2.0	Singapore
LG Chem	Chemicals	1,201	1.8	South Korea
PTT Exploration	Energy	1,175	1.8	Thailand
Advance Information	Telecommunications	1,144	1.7	Thailand
United Micro Electronics	Electronics	1,086	1.7	Taiwan
Thirty largest investments		**60,408**	**91.7**	
Quanta Computer	Electronics	1,064	1.6	Taiwan
Telekomunikasi Indonesia	Telecommunications	1,048	1.6	Indonesia
Asustek Computer	Electronics	998	1.5	Taiwan
Dah Sing Financial	Financial	872	1.3	Hong Kong
China Petroleum	Energy	839	1.3	China
Beijing Datang Power	Utility	769	1.2	China
Resorts World	Leisure	758	1.1	Malaysia
Hanjaya Mandala Sampoerna	Tobacco	731	1.1	Indonesia
Korean Air	Airline	723	1.1	South Korea
Maxis Communications	Telecommunications	539	0.8	Malaysia
Forty largest investments		**68,749**	**104.3**	
Other investments (3)		**1,119**	**1.7**	
Total portfolio investments		**69,868**	**106.0**	
Net current liabilities		**(3,981)**	**(6.0)**	
Total assets less current liabilities		**65,887**	**100.0**	

Board of Directors

Ranald Noel-Paton
Chairman
(age 64) was Group Managing Director of John Menzies from 1986 to 1997 and Deputy Chairman until retirement in 1998. He is Chairman of Murray Global Return Trust. Former directorships include General Accident, The Royal Bank of Scotland, Macallan Glenlivet and Caledonian Far East Airways. He worked in Hong Kong from 1980 to 1986. He is Chairman of the Company's Nomination and Remuneration Committees.

David Nichol
(age 57) is a partner of Rossie House Investment Management, an investment management firm which specialises in investment trust portfolios for private clients. He is also a director of Murray Extra Return Investment Trust plc.

Stuart Leckie, OBE
(age 57) was Chairman of Watson Wyatt, Asia-Pacific until 1995 then Chairman of Fidelity Investments, Asia-Pacific until 1997. He is now Senior Adviser for Greater China of Hewitt Associates. He has been President of the Actuarial Society of Hong Kong (1981 and 1999) and was Chairman of the International Actuarial Association's China Committee. He serves on various committees in Hong Kong's Securities and Futures Commission and was a Director of Exchange Fund Investment Limited.

Nigel Rich, CBE
(age 57) was previously Managing Director of Jardine Matheson in Hong Kong. He is Chairman of Exel and Hamptons Group. His non-executive directorships include CP Ships, Granada and Matheson & Co. He is Co-Chairman of the Philippine British Business Council. He is Chairman of the Company's Audit Committee.

Mr H M P Miles retired from the Board of Directors with affect from 31 January 2003.

Report of the Directors

Results and Dividends

The Directors submit the Eighteenth Annual Report and Accounts of the Company for the year ended 31 January 2003.

	£'000
Revenue available for dividends	**777**
Final dividend for the year of 0.50p per share on the Ordinary Shares, payable on 9 May 2003 to shareholders on the register at close of business on 11 April 2003	**(612)**
Transferred to revenue reserve	**165**

Principal Activity and Status

The Company is registered as a Public Limited Company in terms of the Companies Act 1985. It is an Investment Company as defined in Section 266 of the Companies Act 1985 and qualifies as an Investment Trust within the meaning of the Income and Corporation Taxes Act 1988. Inland Revenue approval for such treatment has been given up to 31 January 2002. In the opinion of the Directors the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval.

Directors

Mr S H Leckie and Mr D B Nichol retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

The Directors who held office during the year and their interests in the Ordinary Shares of the Company were:

		31 January 2003	31 January 2002	
		Ordinary 12.50p Shares	Ordinary 12.50p Shares	Series II* Warrants
F R Noel-Paton	Beneficial	**59,200**	59,200	9,440
S H Leckie	Beneficial	**Nil**	Nil	Nil
H M P Miles	Beneficial	**Nil**	Nil	Nil
D B Nichol	Beneficial and family	**200,000**	200,000	740,000
	Trustee	**110,700**	110,700	21,040
N M S Rich	Beneficial	**25,000**	25,000	Nil

*All Series II Warrants were cancelled on 26 June 2002

Mr H M P Miles retired as Director, with effect from 31 January 2003.

There have been no changes in the above holdings between 31 January 2003 and 28 March 2003.

No Director had any material interest in any contract to which the Company is a party.

No Director has a contract of service with the Company.

Report of the Directors

continued

Substantial Interests in Share Capital

At 28 March 2003 the following holdings representing more than 3 per cent of the Company's issued share capital had been reported:

	Percentage Held
Lazard Frères Asset Management	**16.8**
Friends Provident Group*	**13.2**
ISIS Asset Management Retail Products	**8.3**
Merseyside Pension Fund	**5.5**

*Includes discretionary retail products.

No other interest in 3 per cent or more of the ordinary share capital of the Company has been reported in terms of Section 199 of the Companies Act 1985.

Corporate Governance

The Company complies with the Combined Code on Corporate Governance ('the Code') apart from the items covered in the following paragraph.

The Board considers that it is not appropriate to nominate a senior independent Director as recommended by the Code. It also considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by the Code, because the Articles of Association require that all Directors retire by rotation at Annual General Meetings.

Throughout the year a number of committees have been in operation. The committees are the Audit Committee, Remuneration Committee and the Nomination Committee.

The Audit Committee, chaired by Nigel Rich, operates within clearly defined terms of reference and comprises the full Board. The Audit Committee provides a forum through which the Company's external auditors may report to the Board of Directors and meets twice yearly.

The Remuneration Committee comprises the full Board, all of whom are independent of the Investment Manager. It is responsible for reviewing the terms of the Investment Manager's contract and sets the Directors' remuneration using external comparisons and advice.

The Nomination Committee comprises the full Board and will be convened for the purpose of considering the appointment of additional Directors as and when considered appropriate.

A management agreement between the Company and its Manager, ISIS Asset Management plc, sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters are reserved for the approval of the Board of Directors. The Investment Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

After making enquiries and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal Control

The Board is responsible for the Company's system of internal control 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 guidance provided by the Turnbull Committee. The process is based principally on the Manager's existing risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Manager 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 residual risk rating is then applied. The test matrix is regularly updated and the Board is provided with reports highlighting all material changes to the risk ratings and confirming the action, which has been, or is being, taken. A formal annual review of these procedures is carried out by the Audit Committee and includes consideration of FRAG 21 and similar reports issued by the Manager and other service providers. The review meeting is attended by the Manager's compliance and internal audit officer and by Ernst & Young LLP. A second meeting in the year receives updates on any material changes in the risk environment and the action taken.

Such review procedures have been in place throughout the financial year and up to the date of approval of the Annual Report and the Board is satisfied with the effectiveness of internal controls. By their nature these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to its benchmark index and to comparable investment trusts at each board meeting. The Board also reviews the Company's activities since the last board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to such policy and guidelines.

The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Manager, including the internal audit function and the work carried out by the Company's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communications with shareholders. The Board and Manager meet with institutional shareholders throughout the year and the Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company. At the Annual General Meeting, the Manager makes a presentation to shareholders covering the investment performance and strategy of the Company.

Management

ISIS Asset Management plc provides management and secretarial services to the Company. These services can be terminated by either party at any time by giving one year's notice. With effect from 30 September 2003 the notice period will be six months. ISIS Asset Management plc receives a quarterly fee, payable in advance, calculated on the basis of one-quarter of one per cent of the value of the total assets less current liabilities of the Company.

Report of the Directors

continued

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment and for the Directors to determine their fees will be submitted at the Annual General Meeting.

Details of auditors' remuneration are provided in note 4 to the accounts.

Purchase of Own Shares

During the year a total of 980,000 shares (nominal value of £122,500, being 0.79% of the issued share capital at 31 January 2002) were bought back at substantial discounts, thereby enhancing net asset value per share, and cancelled by the Company. The total consideration for these shares was £394,000.

Special Resolution 7 will be proposed at the Annual General Meeting to renew the Company's authorisation to make market purchases of its own shares. The maximum aggregate number of shares which may be purchased pursuant to the authority shall be 18,356,512 or 14.99% of the issued ordinary share capital of the Company as at the date of the Annual General Meeting, whichever is the lower. The minimum price which may be paid for a share shall be 12.5p. The maximum price for a share (exclusive of expenses) shall be an amount equal to 105% of the average of the middle market quotations for the Company's shares for the five business days immediately preceding the date of purchase.

This authority, if conferred, will only be exercised if to do so would result in an increase in net asset value per share for the remaining shareholders and if it would be in the best interests of shareholders generally.

Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms.

The Company did not have any trade creditors at the year end.

By Order of the Board,

M A Cassels
Secretary

80 George Street
Edinburgh EH2 3BU
28 March 2003

Directors' Remuneration Report

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985 and in compliance with the Directors' Remuneration Report Regulations 2002, which applies for the first time to this financial year. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 32 and 33.

Directors' Fees

The Board consists solely of independent non-executive Directors and considers at least annually the level of the Board's fees, in accordance with the Combined Code on Corporate Governance. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review.

The Board concluded following the review of the level of directors' fees for the forthcoming year that the amounts should remain unchanged.

The Remuneration Committee is F R Noel-Paton, S H Leckie, D B Nichol and N M S Rich. As the Company has no Executive Directors, the Committee meets, at least annually, to determine the remuneration and terms of appointment of the Investment Manager.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant investment trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to properly oversee the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 31 January 2004 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £75,000 in aggregate per annum and the approval of shareholders in a general meeting would be required to change this limit. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' Service Contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

Director	Date of Appointment	Due date for Re-election
F R Noel-Paton	31 July 1986	AGM 2004
S H Leckie	13 March 2001	AGM 2003
D B Nichol	4 January 1985	AGM 2003
N M S Rich	1 January 1997	AGM 2005
H M P Miles	19 November 1997	N/A

The terms of Directors' appointments now provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are thereafter obliged to retire by rotation, and to offer themselves for re-election by shareholders at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment.

Directors' Remuneration Report

continued

Company Performance

The Board are responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the Report of the Directors on page 15. The graph below compares, for the 5 financial years ending 31 January 2003, the total return (assuming all dividends are reinvested) to ordinary shareholders in each period compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the MSCI Index is calculated. This index was chosen for comparison purposes, as it represents a comparable broad equity market index, of which the Company is a constituent. An explanation of the performance of the Company is given in the Chairman's statement and Manager's review.

Five year performance v MSCI Index

Directors' Emoluments for the Year (audited)

The directors who served in the year received the following emoluments in the form of fees:

	Fees 2003 £	Fees 2002 £
F R Noel-Paton (Chairman)	**15,000**	12,000
N M S Rich (Chairman of the Audit Committee)	**13,000**	11,000
S H Leckie	**12,000**	10,000
D B Nichol	**12,000**	10,000
H M P Miles	**12,000**	10,000
Total	**64,000**	53,000

On behalf of the Board,

Ranald Noel-Paton

Ranald Noel-Paton
Chairman
28 March 2003

Statement of Total Return

(Incorporating the Revenue Account*) For the year ended 31 January 2003

	Notes	**Revenue 2003 £'000**	**Capital 2003 £'000**	**Total 2003 £'000**	Revenue 2002 £'000	Capital 2002 £'000	Total 2002 £'000
Losses and gains on investments	9	**–**	**(26,396)**	**(26,396)**	–	(12,445)	(12,445)
Gains and losses on derivative arrangements	14, 21	**–**	**1,893**	**1,893**	–	(2,222)	(2,222)
Exchange differences	14	**–**	**2,989**	**2,989**	–	(845)	(845)
Lapse of warrants		**–**	**2,675**	**2,675**	–	–	–
Income	2	**2,030**	**–**	**2,030**	2,119	–	2,119
Investment management fee	3	**(230)**	**(691)**	**(921)**	(243)	(729)	(972)
Other expenses	4	**(483)**	**–**	**(483)**	(472)	–	(472)
Net return before finance costs and taxation		**1,317**	**(19,530)**	**(18,213)**	1,404	(16,241)	(14,837)
Interest payable	5	**(284)**	**(852)**	**(1,136)**	(423)	(1,262)	(1,685)
Return on ordinary activities before tax		**1,033**	**(20,382)**	**(19,349)**	981	(17,503)	(16,522)
Tax on ordinary activities	6	**(256)**	**209**	**(47)**	(312)	234	(78)
Return attributable to equity shareholders	15	**777**	**(20,173)**	**(19,396)**	669	(17,269)	(16,600)
Dividends in respect of equity shares	7	**(612)**	**–**	**(612)**	(555)	–	(555)
Transfer to/(from) reserves	14	**165**	**(20,173)**	**(20,008)**	114	(17,269)	(17,155)
Return per Ordinary 12.50p Share	8	**0.63**	**(16.39)**	**(15.76)**	0.54	(13.94)	(13.40)

** The revenue column of this statement is the profit and loss account of the Company.*

The accompanying notes are an integral part of this statement.

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

No operations were acquired or discontinued in the year.

Balance Sheet

As at 31 January 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Investments	9	**69,868**	99,392
Current assets			
Debtors	10	**713**	1,074
Cash at bank and on deposit		**6,945**	3,592
		7,658	4,666
Creditors (amounts falling due within one year)	11	**(11,639)**	(10,068)
Net current liabilities		**(3,981)**	(5,402)
Total assets (less current liabilities)		**65,887**	93,990
Creditors (amounts falling due after more than one year)	12	**(9,126)**	(14,152)
Net assets		**56,761**	79,838
Capital and reserves			
Called-up share capital	13	**15,307**	15,430
Share premium account	14	**4**	4
Capital redemption reserve	14	**947**	824
Warrant reserve	14	**–**	2,675
Special reserve	14	**19,709**	20,103
Merger reserve	14	**–**	46,609
Other reserves –			
Capital reserve – realised	14	**25,788**	(21,821)
Capital reserve – unrealised	14	**(6,161)**	15,012
Revenue reserve	14	**1,167**	1,002
Equity shareholders' funds	15	**56,761**	79,838
Net asset value per Ordinary Share	15	**46.35**	64.68

The financial statements on pages 19 to 31 were approved by the Board of Directors on 28 March 2003 and were signed on its behalf by:

F.R. Noel-Paton

F R Noel-Paton (Chairman)

The accompanying notes are an integral part of this statement.

Cash Flow Statement

For the year ended 31 January 2003

	Notes	2003 £'000	2002 £'000
Operating activities			
Investment income received		**1,704**	2,013
Deposit interest received		**89**	130
Other income		**2**	6
Investment management fees paid		**(937)**	(984)
Other cash payments		**(491)**	(400)
Net cash inflow from operating activities	17	**367**	765
Servicing of finance			
Interest paid on bank loans		**(1,169)**	(1,797)
Net cash outflow from servicing of finance		**(1,169)**	(1,797)
Capital expenditure and financial investment			
Purchase of futures		**(1,609)**	(75,353)
Disposal of futures		**3,196**	73,371
Net cash inflow from foreign currency contracts		**–**	112
Purchase of investments		**(33,223)**	(57,266)
Disposal of investments		**36,975**	65,857
Net cash inflow from investing activities		**5,339**	6,721
Equity dividends paid		**(555)**	(519)
Net cash inflow before financing		**3,982**	5,170
Financing			
US$12.5 million loan drawn down 11 June 2001		**–**	9,106
US$20 million loan repaid on 11 June 2001		**–**	(14,570)
Share buybacks		**(394)**	(244)
Net cash outflow from financing		**(394)**	(5,708)
Increase/(decrease) in cash	16	**3,588**	(538)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year		**3,588**	(538)
Loans drawn down		**–**	(9,106)
Loans repaid		**–**	14,570
Change in net debt resulting from cash flows		**3,588**	4,926
Currency gains/(losses)		**2,989**	(845)
Movement in net debt		**6,577**	4,081
Net debt at 1 February 2002		**(19,405)**	(23,486)
Net debt at 31 January 2003	16	**(12,828)**	(19,405)

The accompanying notes are an integral part of this statement.

Notes to the Accounts

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

(a) Basis of accounting

The accounts are prepared under the historical cost convention modified to include the revaluation of fixed asset investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial statements of investment trust companies'.

(b) Valuation of investments

Quoted investments are valued at middle market prices. A discount to the market price is applied as appropriate to reflect any restriction on sale. Unquoted investments are valued by the Directors on the basis of all information available to them at the time of valuation. Futures and forward currency contracts are marked to market on a daily basis.

(c) Income

Dividends are recognised as income on the date that the related investments are marked ex-dividend. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established.

Income from fixed interest securities, other investment income and deposit interest are included on an accruals basis.

Where the Company has elected to receive its dividends in the form of additional shares rather than cash the amount of the cash dividend is recognised as income.

(d) Expenses and interest

All expenses and interest are accounted for on an accruals basis. Expenses and interest are charged through the revenue account except where incurred in connection with the maintenance or enhancement of the value of the Company's assets and taking account of the expected long-term returns when they are split as follows:

- Interest payable on loans has been allocated 25 per cent to revenue and 75 per cent to capital;
- Management fees payable have been allocated 25 per cent to revenue and 75 per cent to capital.

(e) Taxation

The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue as set out in note 6 to the accounts. The standard rate of corporation tax is applied to taxable net revenue. Any adjustment resulting from relief for overseas tax is dealt with in capital.

(f) Deferred taxation

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, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods. Deferred tax is measured without discounting and based on enacted tax rates.

(g) Foreign currencies

Overseas assets and liabilities are translated at the rate ruling at the balance sheet date. Profits or losses on retranslation of investments at the year end are included within unrealised appreciation/depreciation of investments and are taken to capital reserves.

(h) Capital reserves

Capital reserve – realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with note d) on the previous page
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature
- other receipts and payments of a capital nature.

Capital reserve – unrealised

The following is accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end.

(i) Rates of exchange

	31 Jan 2003	31 Jan 2002
Hong Kong Dollar	**12.82**	11.02
Indonesian Rupiah	**14,580**	14,578
Korean Won	**1,913**	1,858
Malaysian Ringgit	**6.258**	5.37
Singapore Dollar	**2.86**	2.60
New Taiwan Dollar	**57.04**	49.42
Thailand Baht	**70.30**	62.25
US Dollar	**1.64**	1.41

2. Income

	2003 £'000	2002 £'000
Dividend income from investments		
Listed overseas	**1,939**	1,983
	1,939	1,983
Other income		
Deposit interest	**89**	130
Other income	**2**	6
	91	136
Total income	**2,030**	2,119

Notes to the Accounts

continued

3. Investment management fee

	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
Investment management fee	**230**	**691**	**921**	243	729	972

The Company's investment manager is ISIS Asset Management plc. The contract between the Company and ISIS Asset Management plc may be terminated at any date by either party giving one year's notice of termination. With effect from 30 September 2003 the notice period will be six months.

ISIS Asset Management plc receives a quarterly fee, payable in advance, equal to one-quarter of one per cent of the value of the total assets less current liabilities excluding loans of the Company.

4. Other expenses

	2003 £'000	2002 £'000
Directors' fees	**64**	53
Auditors' remuneration for:		
– audit	**9**	9
– other services to the Company	**7**	6
Other expenses including bank and custody costs and AITC contribution	**403**	404
	483	472

5. Interest payable

	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
Interest payable on bank loans and overdrafts	**284**	**852**	**1,136**	423	1,262	1,685

6a). Tax on ordinary activities

	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
UK corporation tax	**256**	**(256)**	**–**	*312*	(312)	–
Overseas taxation	**–**	**47**	**47**	–	78	78
	256	**(209)**	**47**	312	(234)	78

As at 31 January 2003 the Company had unutilised management expenses for taxation purposes of £15,273,000 (2002: £14,582,000). It is not anticipated that these will have value in the foreseeable future.

Overseas tax arose as a result of unrelieved withholding tax on foreign dividends.

6b). Factors affecting tax charge for period

The revenue account tax charge for the period is lower/(higher) than the standard rate of corporation tax in the UK for an investment company (30 per cent). The differences are explained below:

	2003 £'000	2002 £'000
Return on ordinary activities before tax	**1,033**	981
Corporation tax at standard rate of 30%	**310**	294
Effects of:		
Tax effect of overseas expenses assessed on receipt basis	**(54)**	–
Tax effect of overseas income assessed on receipt basis	**–**	18
Current period tax charge (note 6a)	**256**	312

7. Dividends

	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
Dividends on equity shares: – ordinary – final proposed 0.50p per share (2002: 0.45p)	**612**	**–**	**612**	555	–	555

8. Return per Ordinary Share

	2003 Revenue p	2003 Capital p	2003 Total p	2002 Revenue p	2002 Capital p	2002 Total p
Basic	**0.63**	**(16.39)**	**(15.76)**	0.54	(13.94)	(13.40)

Basic revenue return per Ordinary Share is based on the net revenue on ordinary activities after taxation of £777,000 (2002: £669,000), and on 123,051,756 (2002: 123,900,030) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

Basic capital return per Ordinary Share is based on net capital losses for the financial year of £20,173,000 (2002: losses of £17,269,000), and on 123,051,756 (2002: 123,900,030) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

There was no dilution of return per Ordinary Share at 31 January 2003 resulting from the potential exercise of the warrants in issue at that date (2002: same). No Series II Warrants were exercised on 31 May 2002 as the share price was lower than the exercise price of 130p.

All Series II warrants were cancelled on 26 June 2002.

Notes to the Accounts

continued

9. Investments

	2003 £'000	2002 £'000
Equity investments listed on recognised investment exchanges	**69,763**	99,270
Unlisted equity investments	**105**	122
	69,868	99,392

	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	83,812	741	84,553
Opening unrealised appreciation/(depreciation)	*15,458*	*(619)*	*14,839*
Opening valuation	99,270	122	99,392
Movements in the year:			
Purchases at cost	32,968	–	32,968
Sales – proceeds	*(36,096)*	–	*(36,096)*
– realised losses and gains on sales	(1,693)	–	(1,693)
Decrease in unrealised appreciation	(24,686)	(17)	(24,703)
Closing valuation	69,763	105	69,868
Closing book cost	78,991	741	79,732
Closing unrealised depreciation	(9,228)	(636)	(9,864)
	69,763	105	69,868

	2003 £'000	2002 £'000
Realised losses and gains on sales	**(1,693)**	(5,683)
Decrease in unrealised appreciation	**(24,703)**	(6,762)
Losses and gains on investments	**(26,396)**	(12,445)

10. Debtors

	2003 £'000	2002 £'000
Amounts due from brokers	**–**	879
Unrealised gain on futures (note 21)	**479**	173
Prepayments and accrued income	**196**	8
Other debtors	**38**	14
	713	1,074

11. Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Amount due to brokers	–	255
Proposed dividend	**612**	555
Loan interest	**202**	235
Other creditors	**178**	178
Revolving credit facility	**7,605**	8,845
US$5 million loan maturing 20 March 2003	**3,042**	–
	11,639	10,068

Seven-year US$5 million loan drawn down on 20 March 1996 at a fixed interest rate of 7.11 per cent.

12. Creditors: amounts falling due after more than one year

	2003 £'000	2002 £'000
Long-term US$5 million loan maturing 20 March 2003	–	3,538
Long-term US$15 million loan maturing 10 July 2004	**9,126**	10,614
	9,126	14,152

Five-year US$15 million loan drawn down on 6 July 1999 at a fixed interest rate of 7.07 per cent.

13. Called-up share capital

	£'000
Authorised:	
176,000,000 Ordinary Shares of 12.50p each (2002: same)	**22,000**
Allotted, called-up and fully paid:	
123,438,386 Ordinary Shares of 12.50p each at 31 January 2002	**15,430**
Cancellation of 980,000 Ordinary Shares bought back by the Company	**(123)**
122,458,386 Ordinary Shares of 12.50p each at 31 January 2003	**15,307**

At 31 January 2002 there were 24,874,725 Series II Warrants in issue, each entitling the holder to subscribe for one Ordinary Share at a subscription price of 130p on 31 May 2002. No Warrants were exercised on that date and all Series II Warrants were cancelled on 26 June 2002.

During the year the Company bought back 980,000 (2002: 500,000) of its own shares for cancellation at an aggregate cost of £394,000 (2002: £244,000) representing 0.79 per cent of the issued share capital at 31 January 2002.

Notes to the Accounts

continued

14. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Warrant reserve* £'000	Special reserve £'000	Merger reserve† £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 31 January 2002	4	824	2,675	20,103	46,609	(21,821)	15,012	1,002
Transfer of reserves	–	–	(2,675)	–	(46,609)	49,284	–	–
Exchange differences	–	–	–	–	–	(235)	3,224	–
Net loss on realisation of investments	–	–	–	–	–	(1,693)	–	–
Net gain on futures	–	–	–	–	–	1,587	306	–
Share buybacks	–	123	–	(394)	–	–	–	–
Decrease in unrealised appreciation	–	–	–	–	–	–	(24,703)	–
Management fees	–	–	–	–	–	(691)	–	–
Interest	–	–	–	–	–	(852)	–	–
Tax	–	–	–	–	–	209	–	–
Retained net revenue for the year	–	–	–	–	–	–	–	165
At 31 January 2003	**4**	**947**	**–**	**19,709**	**–**	**25,788**	**(6,161)**	**1,167**

*The warrant reserve was transferred to the capital reserve realised on cancellation of the Series II Warrants on 26 June 2002.

†The balance on the Merger reserve was transferred to the Capital reserve realised during the year, the liquidation of N M Smaller Australian Companies Trust plc having been completed.

15. Net asset value per share

The net asset value per share and the net asset value attributable to the Ordinary Shares at the year end are calculated in accordance with their entitlements set out in the Articles of Association as follows:

	Attributable net asset value per share		Attributable net asset value	
	2003 p	2002 p	**2003 £'000**	2002 £'000
Ordinary Shares	**46.35**	64.68	**56,761**	79,838

The movements during the year of the assets attributable to the Ordinary Shares were as follows:

	2003 £'000	2002 £'000
Total attributable net assets at beginning of year	**79,838**	97,237
Total recognised gains and losses for the year	**(19,396)**	(16,600)
Lapse of warrants	**(2,675)**	—
Share buybacks made during the year	**(394)**	(244)
Dividends appropriated in the year	**(612)**	(555)
Total attributable net assets at end of year	**56,761**	79,838

Basic net asset value per Ordinary Share is calculated on net assets of £56,761,000 (2002: 79,838,000), divided by 122,458,386 (2002: 123,438,386) Ordinary Shares, being the number of Ordinary Shares in issue at the year end.

As at 31 January 2003 there were no (2002: 24,874,725) Series II Warrants in issue.

16. Analysis of changes in net debt

	At 31 January 2002 £'000	Cash flow £'000	Currency movements £'000	**At 31 January 2003 £'000**
Cash at bank and on deposit	3,592	3,588	(235)	**6,945**
Long/short-term US$5 million loan maturing 20 March 2003	(3,538)	–	496	**(3,042)**
Long-term US$15 million loan maturing 10 July 2004	(10,614)	–	1,488	**(9,126)**
Revolving credit facility	(8,845)	–	1,240	**(7,605)**
	(19,405)	3,588	2,989	**(12,828)**

17. Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

	2003 £'000	2002 £'000
Net revenue before finance costs and taxation	**1,317**	1,404
Investment management fee charged to capital	**(691)**	(729)
(Increase)/decrease in prepayments and accrued income	**(188)**	65
(Increase)/decrease in other debtors	**(24)**	52
Increase in other creditors	**–**	8
Tax recovered	**–**	43
Tax on investment income	**(47)**	(78)
Net cash inflow from operating activities	**367**	765

18. Financial instruments

The Company's financial instruments comprise equity investments, cash at bank and on deposit, futures contracts and borrowings. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company makes use of borrowings, detailed in notes 11 and 12 and the Chairman's Statement, to achieve improved performance in rising markets. The downside risk of borrowings may be reduced by raising the level of cash balances held.

Fixed asset investments held (see note 9) are valued at middle market prices which equate to their fair values. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 20. The fair value of the loans is not materially different from the carrying value in the Balance Sheet. Short term debtors and creditors are excluded from disclosure as allowed by FRS 13, other than for currency disclosures (see note 21).

19. Market price risk

The management of market price risk is part of the fund management process and is typical of equity investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Further information on the investment portfolio is set out on pages 10 and 11. Derivatives may be used from time to time to hedge specific market risk or gain exposure to a specific market. In the year to 31 January 2003 the Company entered into Korean and Taiwan index futures contracts to hedge investments already made in those countries. These contracts were specifically entered into to restrict the Company's effective gearing level to the 25 per cent of shareholders' funds that the Board has said it should not, for the moment, exceed. The gain on these contracts was largely offset by the decrease in the value of the underlying portfolio investments.

20. Interest rate risk and liquidity risk

Floating rate

When the Company retains cash balances the majority of the cash is held in deposit accounts. The average interest rate on cash deposits, which are primarily US dollar based, held at 31 January 2003 was 2.64 per cent (31 January 2002: 3.61 per cent). The benchmark rate which determines the interest payments received on cash balances is the bank base rate.

The Company does have floating rate liabilities that are denominated in US dollars. The benchmark rate which determines the interest payments made on the revolving credit facility is based on the rate set by the US Federal Reserve.

On 11 June 2001, the Company entered into a $20 million revolving credit facility, of which $12.5 million has been drawn down.

Fixed rate

The Company does not hold any fixed interest investments.

The Company does have fixed interest liabilities that are denominated in US dollars. These are detailed in note 12.

At 31 January 2003:

	2003				2002			
	$'000	**£'000**	**Average interest rate**	**Average period until maturity**	$'000	£'000	Average interest rate	Average period until maturity
US dollar loans	**20,000**	**12,168**	**7.08**	**1.11 years**	20,000	14,152	7.08%	2.11 years

Liquidity risk

In respect of liquidity risk, the Company's assets comprise mainly realisable securities. Short-term flexibility is achieved where necessary through the use of overdraft facilities. As at 31 January 2003, the Company had an undrawn overdraft facility available of £2,000,000 (2002: same).

21. Foreign currency risk

The Company invests in overseas securities and holds foreign currency cash balances which gives rise to currency risks. It is not the Company's policy to hedge this risk on a continuing basis but it may do so from time to time.

Foreign currency exposure at 31 January 2003:

	2003 Investments £'000	**2003 Cash £'000**	**2003 Loans £'000**	2002 Investments £'000	2002 Cash £'000	2002 Loans £'000
US Dollar	**–**	**925**	**(19,773)**	571	3,418	(22,997)
Hong Kong Dollar	**23,431**	**–**	**–**	31,293	(5)	–
Indonesian Rupiah	**1,779**	**61**	**–**	3,366	–	–
Korean Won	**14,897**	**1,747**	**–**	18,491	–	–
Malaysian Ringgit	**1,822**	**17**	**–**	1,585	4	–
Singapore Dollar	**1,323**	**5**	**–**	11,934	–	–
New Taiwan Dollar	**16,065**	**64**	**–**	28,420	–	–
Thailand Baht	**5,446**	**3**	**–**	3,732	–	–
Chinese Yuan	**5,105**	**–**	**–**	–	–	–
Total	**69,868**	**2,822**	**(19,773)**	99,392	3,417	(22,997)

In addition the following currency amounts are included in net current (liabilities)/assets: in US dollars, loan interest payable of £202,000 (2002: £235,000) and in Korean Won £196,000 (2002: nil) dividends receivable and brokers receivable of nil (2002: £622,000), in Taiwan dollars brokers payable of nil (2002: £255,000) and brokers receivable of nil (2002: £257,000).

As noted above, the Company hedged market risk by way of Korean and Taiwan index future contracts. As at 31 January 2003 the Korean index future contract not yet realised was as follows:

	2003		2002	
	Hedged amount $'000	**Unrealised gain £'000**	Hedged amount £'000	Unrealised gain £'000
Selling 17.5 billion Korean won for US dollars	**–**	**–**	13,560	173
Short open position in 150 Korean Index futures contracts (KOSPI 200)	**2,918**	**479**	–	–
	2,918	**479**	13,560	173

Directors' Responsibility Statement and Independent Auditors' Report

Directors' Responsibility Statement

The Directors are required by law to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss for that period.

They are also responsible for ensuring that adequate accounting records are maintained and that the assets of the Company are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts have been prepared on a going concern basis, appropriate accounting policies have been used and consistently applied and reasonable and prudent judgements and estimates have been made in the preparation of the accounts. Applicable UK accounting standards have been followed.

Independent Auditors' Report to the members of Pacific Assets Trust plc

We have audited the Company's financial statements for the year ended 31 January 2003 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with s235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters that we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Service Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises Company Summary, Financial Highlights, Performance Summary, Chairman's Statement, Investment Manager and Investment Process, Manager's Review, Investment Portfolio, Board of Directors, Report of the Directors, Directors' Remuneration Report, Balance Sheet, Cash Flow Statement, Notes to the Accounts, Ten Year Record, Shareholder Information, Investment Services to Shareholders, Notice of Annual General Meeting, Proxy and Corporate Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company as at 31 January 2003 and of its net revenue for the year then ended; and
- The financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Edinburgh
28 March 2003

Ten Year Record

31 Jan	*Shareholders'* funds £'000	Lower of fully diluted and basic net asset *value per* Ordinary Share*	Share price*	Discount/ (premium)	*Series II* Warrant price	Dividends *per* Ordinary share*
1994	135,019	149.84p	141.5p	5.6%	N/A	0.3p
1995	95,579	106.48p	97.75p	8.2%	N/A	0.325p
1996	135,187	143.81p	144.25p	(0.3%)	46.5p	0.35p
1997	176,153	134.59p	123.75p	8.1%	29.0p	0.40p
1998	67,643	52.02p	47.5p	8.7%	6.75p	0.40p
1999	70,593	54.29p	40.75p	24.9%	2.25p	0.40p
2000	130,647	101.18p	83.50p	17.5%	6.75p	0.40p
2001	97,237	78.46p	64.75p	17.5%	1.50p	0.42p
2002	79,838	64.68p	53.50p	17.3%	0.60p	0.45p
2003	**56,761**	**46.35p**	**38.50p**	**16.9%**	**N/A**	**0.50p**

**Figures restated to reflect the 4 for 1 share subdivision on 30 June 1995.*

Financial Calendar

28 April 2003	Annual General Meeting
9 May 2003	Final dividend on Ordinary Shares paid
September 2003	Announcement of interim results for the six months ending 31 July 2003
September 2003	Posting of interim report for the six months ending 31 July 2003
February 2004	Announcement of annual results for the year ending 31 January 2004
March 2004	Posting of annual review and report for the year ending 31 January 2004

Shareholder Information

% of Ordinary Shares held at 31 January 2003

Annual General Meeting
The Annual General Meeting of Pacific Assets Trust plc will be held at 80 George Street, Edinburgh on Monday, 28 April 2003 at 12 noon.

Dividends
The ordinary dividend is normally paid annually following approval at the Annual General Meeting. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a Mandate form for the purpose. Mandates may be obtained from Lloyds TSB Registrars Scotland on request.

Capital Gains Tax
To assist those who acquired their holding at the original issue on 22 January 1985 the apportioned Capital Gains Tax cost per share adjusted for the 4 for 1 sub division on 30 June 1995 is 23.22p.

The tax treatment of securities acquired under the Open Offer in February 1990 depends on the nature of the holding(s) upon which the entitlement was based. For use in such calculations the first day dealing value adjusted for the 4 for 1 subdivision on 30 June 1995 was 60.625p.

To assist shareholders in apportioning book cost to their Series II Warrants the opening prices were:

Ordinary Shares	*130.25p*
Warrants	48.5p

Share Prices
The Company's Ordinary Shares are listed on the London Stock Exchange under 'Investment Companies'. The price is given daily in the *Financial Times, The Times, The Daily Telegraph, The Scotsman, The Herald* and other newspapers.

Daily Net Asset Value
The daily net asset value of the Company's shares can be obtained by contacting ISIS Investment Management Investment Services on 0845 600 6166.

Investment Services to Shareholders

Pacific Assets Trust plc has arranged for a range of products to be made available to investors who wish to invest in it with or without financial advice. These products are offered by ISIS Asset Management plc.

Plans suitable for direct investment
ISIS offers a number of cost-effective plans suitable for direct investment including:

- A tax-efficient Individual Savings Account;
- An Investment Plan, for both lump sums and regular savings; and
- A Pep Transfer Plan, where you can transfer your existing Pep investments without affecting their tax status.

The minimum investment amounts are £1,500 for a lump sum, or £50 a month by Direct Debit.

For more information on any of these plans, please call our Investment Services team on **0845 600 6166** *or visit* **www.zerocharge.co.uk**

Plans available through advisers
ISIS also has a range of 'Select Service' products available through advisers, which offer a free lifetime guarantee on the investor's death.

The plans include:

- A tax-efficient Individual Savings Account;
- An Investment Plan, for both lump sums and regular savings; and
- A Pep Transfer Plan, where you can transfer your existing Pep investments without affecting their tax status.

Please contact your financial adviser for further information on any of these products.

This page has been approved by ISIS Asset Management plc which is a member of the Friends Provident Group and is regulated by the FSA. Stockmarkets and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount originally invested.

Notice of Annual General Meeting

Notice is hereby given that the Eighteenth Annual General Meeting of Pacific Assets Trust Public Limited Company will be held at 80 George Street, Edinburgh EH2 3BU, on 28 April 2003 at 12 noon for the following purposes:

To consider and, if thought fit, pass the following Resolutions:

ORDINARY RESOLUTIONS

1. That the Report and Accounts for the year to 31 January 2003 be received.
2. That a final dividend for the year of 0.50p per Share declared.
3. That Mr Leckie, retiring by rotation, be re-elected as a Director.
4. That Mr Nichol, retiring by rotation, be re-elected as a Director.
5. That the Directors' Remuneration Report for the year to 31 January 2003 be approved.
6. That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

SPECIAL RESOLUTION

7. That, in substitution for any existing power under section 166 of the Companies Act 1985 (the "Act"), but without prejudice to the exercise of any such power prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 166 of the Act, to make market purchases (within the meaning of section 163(3) of the Act) of fully paid Ordinary Shares of 12.5p *each in the capital of the Company ('Shares'), provided that:*
   (a) the maximum number of Shares hereby authorised to be purchased shall be 18,356,512 or 14.99 per cent of the number of Shares in issue at the date of the meeting, whichever is the lower;
   (b) the minimum price which may be paid for a Share shall be 12.5p (exclusive of expenses);
   (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be an amount equal to 105 per cent of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the Shares for the five business days immediately preceding the date of purchase; and
   (d) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2004 save that the Company may, prior to such expiry, enter into a contract or contracts to purchase Shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract or contracts.

By Order of the Board

M A CASSELS
Secretary
80 George Street
Edinburgh EH2 3BU
28 March 2003

Notice of Annual General Meeting

continued

The final dividend if declared will be paid on 9 May 2003 to shareholders on the Register on 11 April 2003.

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his or her behalf. Such a proxy need not be a member of the Company.

A Form of Proxy for use by Ordinary Shareholders is enclosed. In order to have effect, the Form of Proxy must be deposited at the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing BN99 6ZR at least 48 hours before the time of the meeting. Completion and delivery of the Form of Proxy will not prevent a shareholder from attending the meeting and voting in person.

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only *those Ordinary Shareholders entered on the Register of Members of the Company as at 6.00 p.m. on 26* April 2003 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to the entries on the Register of Members after 6.00 p.m. on 26 April 2003 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the articles of association of the Company or other instrument to the contrary.

I/We (name in full) ____
(BLOCK LETTERS PLEASE)

of (address in full) ____
(BLOCK LETTERS PLEASE)

being (a) member(s) of **Pacific Assets Trust plc**, hereby appoint the Chairman of the meeting, or*

____

as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held on 28 April 2003 at 12 noon and at any adjournment thereof.

Please indicate with an 'X' in the appropriate spaces how you wish your vote to be cast. Unless otherwise instructed, the proxy will vote as he thinks fit or abstain (including on any other matter which may properly come before the meeting).

Ordinary Resolutions – Ordinary Shareholders	**For**	**Against**
1. That the Report and Accounts for the year to 31 January 2003 be received.		
2. That a final dividend for the year of 0.50 pence per share be declared.		
3. That Mr Leckie, retiring by rotation, be re-elected as a Director.		
4. That Mr Nichol, retiring by rotation, be re-elected as a Director.		
5. That the Directors' Remuneration Report for the year to 31 January 2003 be approved.		
6. That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.		
Special Resolution – Ordinary Shareholders		
7. Renewal of authority for the Company to make market purchases of its own Ordinary Shares.		

Signature ____

Dated this ____________________ Day of __________ 2003

Notes

You may, if you wish, in the space provided insert the name(s) and address(es) of the person(s) of your choice to attend and vote at the meeting on your behalf, deleting the words "the Chairman of the meeting, or". A proxy need not be a member of the Company, but must attend the meeting to represent you.

In the case of a corporation, the proxy must be either under its common seal or under the hand of a duly authorised officer.

In order to have effect, the proxy must be deposited at the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing BN99 6ZR at least 48 hours before the time of the meeting.

In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the Register will be counted.

Any alterations made in this proxy should be initialled.

Completion and delivery of a proxy shall not prevent a shareholder from attending and voting in person at the Annual General Meeting.

SECOND FOLD

RESPONSE LICENCE No.
SEA 10850

2

Lloyds TSB Registrars
The Causeway
Worthing
BN99 6ZR

FIRST FOLD

THIRD FOLD AND TUCK IN

Corporate Information

Directors
F R Noel-Paton (Chairman)*
S H Leckie, OBE
D B Nichol, FCA
N M S Rich, CBE, FCA†

Secretary
M A Cassels, CA

Registered Office
80 George Street
Edinburgh EH2 3BU
Tel No. 0131 465 1000
Facsimile No. 0131 225 2375

Investment Manager
ISIS Asset Management plc
80 George Street
Edinburgh EH2 3BU

Registrars and Transfer Office
Lloyds TSB Registrars Scotland
PO Box 28448
Finance House, Orchard Brae
Edinburgh EH4 1WQ

Registrar's Shareholder Helpline
Tel No. 0870 601 5366

Registrar's Broker Helpline
Tel No. 0906 559 6025

Bankers
JP Morgan Chase Bank
125 London Wall
London EC2Y 5AJ

Auditors
Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

Brokers
Dresdner Kleinwort Wasserstein
Fengate House, 14-15 Philpot Lane
London
EC3M 8AJ

Brewin Dolphin Securities Limited
7 Drumsheugh Gardens
Edinburgh EH3 7QH

Solicitors
Shepherd+ Wedderburn WS
Saltire Court
20 Castle Terrace
Edinburgh EH1 2ET

For further information contact ISIS Asset Management Services on 0845 600 6166

Chairman of the Nomination and Remuneration Committees

† Chairman of the Audit Committee

Pillans & Wilson Edinburgh. 72152