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# Pacific Assets Trust plc

Annual Report 2004



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# 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 2004 were £83.9m and the market capitalisation was £75.9m.

## **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 six months. Further details of the management contract are provided in the Report of the Directors on page 13.

## **Capital Structure**

The Company has Ordinary Shares in issue. Details of the capital structure are 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](http://www.pacific-assets.co.uk)

## **Telephone**

ISIS Asset Management Investment Services on  
0845 600 6166

# Financial Highlights

- Net Asset Value per share rose by 47.9 per cent.
- Share price rose by 61.0 per cent.
- MSCI All Country Far East Free (ex Japan) Index rose by 33.8 per cent.
- Dividend increased by 20.0 per cent to 0.60p per share.

## **One year Net Asset Value Total Return Peer Group performance**

## **One year performance v MSCI Index**

# Performance Summary

	<b>31 January 2004</b>	31 January 2003	% change
<b>Capital</b>			
Net asset value per share	<b>68.54p</b>	46.35p	+47.9
MSCI All Country Far East Free (ex Japan) Index	<b>143.92</b>	107.60	+33.8
<b>Share Price</b>			
Share price (mid market)	<b>62.00p</b>	38.50p	+61.0
<b>Discount</b> (difference between share price and net asset value)	<b>9.5%</b>	16.9%	
<b>Gearing†</b>			
Actual gearing	<b>17.7%</b>	17.4%	
<b>Revenue and Dividends</b>			
Earnings per share	<b>0.80p</b>	0.63p	+27.0
Dividends per share	<b>0.60p</b>	0.50p	+20.0
<b>Total expense ratio</b> as percentage of average shareholders' funds	<b>1.80%</b>	2.06%	

## Year's Highs/Lows

	<b>High</b>	<b>Low</b>
Net asset value per share	<b>70.31p</b>	<b>42.11p</b>
Share price	<b>63.25p</b>	<b>34.25p</b>
Discount	<b>5.4%</b>	<b>19.3%</b>

†Actual Gearing: Equity Investments ÷ Shareholders' Funds

# Chairman's Statement

Ranald  
Noel-Paton  
Chairman

## Performance

After three years of falling markets I am pleased to be able to report a recovery in the fortunes of both the markets of the Asian-Pacific region and of Pacific Assets Trust. The MSCI All Country Far East Free (ex Japan) Index rose by 34 per cent over the year to 31 January 2004, with all the relevant individual country indices showing positive returns for the period. The Company's net asset value per share increased by 48 per cent during the year – the greater part of that rise taking place in the middle of the year, with a period of relative stability towards its end.

As I reported in my Statement last year, the Board of Pacific Assets Trust has decided to move towards assessing performance primarily by reference to the Company's peer group of eight investment trusts with comparable investment aims and parameters. The graph included in the Financial Highlights on page 2 reflects performance over the year to 31 January 2004, as we build to the selected rolling three-year performance period.

## Gearing

The Company was geared throughout the year, although the effective gearing level was reduced to less than 5 per cent of shareholders' funds in May before being increased as market sentiment improved. Gearing stood at 18 per cent of shareholders' funds at 31 January 2004, and has since been reduced to 2 per cent.

The Company's remaining US\$15 million fixed rate loan matures in July 2004, and it is likely that the Company will thereafter rely on a revolving credit facility for its borrowing. The improved flexibility that this provides will facilitate the continued active management of our gearing policy.

## Income

Earnings per share were 27 per cent higher than last year, at 0.80 pence, due to a combination of increased investment income and a reduction in interest and administrative expenses.

This leads the Board to propose a dividend of 0.60 pence per share, an increase of 20 per cent.

## Shareholder Value

The rise in net asset value, combined with a significant tightening of the discount to net asset value at which your Company's shares trade from 16.9 to 9.5 per cent, resulted in a 61 per cent increase in the share price over the year.

The Company did not utilise its buy back powers during the year to 31 January 2004, but your Board continues to regard this facility as an important tool in the management of the Company's discount. A resolution to renew the Company's authority to buy back shares will be proposed at the forthcoming Annual General Meeting.

## Annual General Meeting

The Board wishes to encourage as many shareholders as possible to attend the Annual General Meeting, as this is your opportunity to meet the Directors and Managers of your Company. This year, to give southern-based shareholders greater

access, the Meeting will be held at 12 noon on 6 May 2004 at the offices of ISIS Asset Management at 100 Wood Street, London, rather than in Edinburgh as for previous years.

### **Board**

I am due to retire by rotation at the Annual General Meeting and, having turned 65 during the year, I have decided not to offer myself for re-election. I succeeded Ian Grant on his untimely death in 1998, and have been your Chairman during a volatile period in the Company's history. I am pleased to be able to hand the Chairmanship over to David Nichol at a point where an upturn in the Company's fortunes is in evidence. I wish him well.

Terence Mahony joined the Board on 1 February 2004, and brings to it great investment experience. Terence is based in Asia, where he has worked for more than 20 years in the investment industry.

### **Investment Manager**

I informed you of James Anderson's decision to leave ISIS Asset Management in my Interim Statement. He had been lead manager of your Company since 1990, and his departure in September was a sad moment. I would like to repeat my thanks for his great contribution over the years and for the dedication that he showed.

His successor, Michael Hanbury-Williams, has made a good start, building upon the work that he started in 2002 when he began to assist in the management of the portfolio.

### **Outlook**

Despite the encouraging results of this year, recent market volatility reminds us of the need for caution. The global economic enthusiasm that emanated from early success in the 'war on terror' and the eradication of SARS, has been mitigated by continued rumblings of violence in Iraq and the re-emergence of cases of SARS and outbreaks of Bird Flu in Asia.

This is not to undermine the successes of the Asian-Pacific markets, but to recognise that the year to 31 January 2005 is likely to prove challenging, with business growth rather than re-rating driving uplifts in share prices. More than ever it appears that China will become the most significant factor in global economic development. Its neighbours should also feel the benefit of this refocusing of attention through the associated increases in demand for their resources.

Pacific Assets Trust, with its northern Asian bias, is therefore well positioned to build on its recent performance.

Finally, I would like to say that I have found it a pleasure and a privilege to serve the Company and to work with my fellow Directors over the years.

### **Ronald Noel-Paton**

Chairman

24 March 2004

# Investment Manager and Investment Process

## **Mike Hanbury-Williams**

Fund Manager

## **Investment Manager**

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

With some £64 billion of assets under management as at 31 January 2004, 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.

## **Mark Williams**

Fund Manager

## **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*.

## **Martin Cassels**

Company Secretary

# Manager's Review

After a number of difficult years it is refreshing that Asia's true potential is becoming recognised. Despite an upsetting start to the year, with the SARS epidemic threatening seriously to disrupt economic growth in the region, the Asian equity markets performed well. Once SARS was brought under control Asian economic growth not only recovered but accelerated.

American consumers continued to spend, encouraged by low inflation, low interest rates and tax incentives. US corporates cut costs and raised productivity, which in turn led to better cash flow and profitability. However, instead of using these profits for new capital expenditure, as they would have done in the past, US companies chose to reduce debt first. This led to concerns over the sustainability of US economic growth and fears of a *jobless recovery which would ultimately hold back consumption*. Despite these concerns US economic growth continued to exceed forecasts and provide a necessary platform for Asian economic growth.

It was China, however, that grabbed the headlines. Despite SARS the economy actually accelerated this year with GDP growth up 9.1 per cent from 8 per cent the previous year. This dramatic rise caused a substantial increase in demand for raw materials, forcing up global prices from iron ore and coal to steel and petrochemicals. The Chinese government was forced to raise interest rates and tighten bank reserves due to overheating in the property sector. Foreign direct investment poured in from both Asia and the west, and intra regional trade rebounded. China also played its part in the political arena, playing a pivotal role in diplomatic relations between the US and North Korea over nuclear arms, as well as establishing new policies for closer economic ties with Hong Kong. It was these actions that triggered the long awaited recovery in the Hong Kong Property market.

The rest of the region also benefited from accelerating economic growth driven on by a global easing in monetary policy. This was most evident in Indonesia where falling inflation and a strengthening currency allowed interest rates to tumble and the equity market to flourish, up 93.2 per cent over the year. However, plentiful liquidity was not without its problems as the bursting of the credit card bubble in South Korea proved. In all, though, this was a good year for the region as superior earnings growth and attractive valuations were recognised by a 33.8 per cent increase in the MSCI All Country Far East Free (ex Japan) Index.

# Manager's Review

continued

## **Stock Selection**

The stock selection process has seen a number of significant changes over the past year. With the closure of the Hong Kong office in September 2002, the new team in London proposed a more focused approach, dramatically reducing the number of holdings in the trust. Stock selection added 4.9% to outperformance against the MSCI All Country Far East Free (ex Japan) Index.

Early in the year the Trust built up exposure to companies that would benefit from the long term structural changes in China. One such company, China Shipping, a company that transports fuel and bulk commodities, is the main carrier of oil into the country as China looks to build up its strategic oil reserves. At the same time the Trust built up a significant exposure to the Hong Kong property market. This held back performance during the SARS outbreak but since then has performed well, as both sales volumes and residential property prices picked up.

On concerns that credit card spending was running out of control in Korea, shares in domestic companies, such as Shinsegae, and Kookmin Bank were sold. The proceeds were reinvested in value stories such as KEPCO, the electric power utility, and Korea Tobacco and Ginseng. In Taiwan the financial sector performed well on the back of restructuring within the banking sector. However, it was specialist technology companies such as Largan, which

makes lenses for digital still cameras, that showed the better returns.

The strongest two months of the year came back to back in July and August, with China, Hong Kong, Korea and Taiwan leading the way. The Fund was well positioned to benefit from the rally in the Hong Kong property market with significant holdings in major real estate companies such as Sun Hung Kai. The high beta technology companies in Korea and Taiwan also added value.

September, October and November were volatile months due to concerns of overheating in China and poor corporate governance in Korea. However stock selection remained positive throughout as value stocks such as Telekomunikasi Indonesia performed well.

The year end rally into an earlier than normal Chinese New Year saw the Chinese companies do well but it was the Thai market that really shone; up 25.8% in the month of December. The financial sector led the way with strong returns coming from Kasikorn Bank.

**Outlook**

The coming year should see Asian economic growth continue to accelerate as the export growth of last year leads to rising domestic consumption. Now that US companies have reduced their debt levels capital expenditure should rise. Whilst we do not expect massive investment in new capacity in America, the pursuit of greater productivity will be beneficial to Asian countries in the form of outsourcing.

China will remain the main focus of growth; attracting the lion's share of foreign direct investment. We are excited by a new leadership which has already started on the road to agricultural reform. Restructuring of China's domestic economy will expand the engine of growth from the coastal regions to the interior, bringing with it the potential buying power of 800 million new consumers.

The addition of domestic economic growth to the existing strength in the export side will be a boost to the whole region. We would expect input prices to rise, putting pressure on margins, but earnings growth to remain strong as volume picks up.

**Mike Hanbury-Williams**

Fund Manager  
ISIS Asset Management  
24 March 2004

# Investment Portfolio

<b>Company</b>	Valuation £'000	% of Total assets less current liabilities	Country of incorporation
<p><b>Samsung Electronics</b> One of the largest producers and exporters of electronic products in Korea. The principal businesses are semi-conductors, consumer electronics, telecommunications and computers.</p>	6,245	7.4	South Korea
<p><b>Chinatrust Commercial Bank</b> A financial services group providing consumer banking, credit cards and corporate banking services.</p>	4,599	5.5	Taiwan
<p><b>Sino Land Company</b> Sino Land Company Limited, through its subsidiaries, develops and invests in properties, trades and invests in securities, and provides financing services. The company also operates hotels and provides building management services</p>	4,152	4.9	Hong Kong
<p><b>Henderson Land Development</b> Henderson Land Development Company Limited, through its subsidiaries, develops, invests in and manages properties. The company also provides project management, construction and finance services. In addition, Henderson Land Development operates department stores, hotels and infrastructure business.</p>	3,849	4.6	Hong Kong
<p><b>Taiwan Semiconductor Manufacturing</b> Taiwan Semiconductor Manufacturing Company (TSMC) manufactures and markets integrated circuits (ICs). The company provides the following services: wafer manufacturing, wafer probing, assembly and testing, mask production and design services. TSMC's ICs are used in the computer, communication, consumer electronics, automotive and industrial equipment industries.</p>	3,520	4.2	Taiwan
<p><b>Hang Seng Bank</b> Hang Seng Bank Limited and its subsidiaries provide banking and related financial services.</p>	3,346	4.0	Hong Kong
<p><b>SK Telecom</b> SK Telecom Co Ltd, an affiliate of SK Group, offers telecommunications services and products in South Korea. The company provides mobile phone services under the brand names Speed 011 and Speed 012. In addition, SK Telecom and its subsidiaries offer other wireless services including data, paging and internet services.</p>	2,990	3.6	South Korea
<p><b>Hyundai Motor Company</b> Hyundai Motor Company Ltd manufactures, sells and exports passenger cars, trucks and commercial vehicles. The company also sells various auto parts and operates auto repair service centres throughout South Korea. Hyundai Motor provides financial services through its subsidiaries.</p>	2,794	3.3	South Korea
<p><b>Hutchison Whampoa</b> A leading conglomerate in Hong Kong with interests in ports, telecommunications, property, retailing and finance.</p>	2,749	3.3	Hong Kong
<p><b>Dah Sing Financial</b> A financial services company that provides general banking and related financial services.</p>	2,678	3.2	Hong Kong
<b>Ten largest investments</b>	<b>36,922</b>	<b>44.0</b>	

<b>Company</b>	<b>Nature of business</b>	<b>Valuation £'000</b>	<b>% of Total assets less current liabilities</b>	<b>Country of incorporation</b>
Cathay Pacific Airways	Airline	2,669	3.2	Hong Kong
Daelim Industrial	Construction	2,444	2.9	South Korea
China Resources Power	Utilities	2,436	2.9	China
Kasikornbank	Banking	2,350	2.8	Thailand
Citic Pacific	Industrials	2,332	2.8	Hong Kong
Telekomunikasi Indonesia	Telecommunications	2,237	2.7	Indonesia
Hon Hai Precision	Electronics	2,235	2.7	Taiwan
LG Chem	Chemicals	2,196	2.6	South Korea
Asia Optical	Optical lens manufacture	2,139	2.5	Taiwan
Cheung Kong	Property developer	2,081	2.5	Hong Kong
<b>Twenty largest investments</b>		<b>60,041</b>	<b>71.6</b>	
Sun Hung Kai Properties	Property developer	2,071	2.5	Hong Kong
IOI	Oleochemicals	1,978	2.4	Malaysia
Taiwan Cellular	Telecommunications	1,975	2.3	Taiwan
LG Corp	Industrials	1,933	2.3	South Korea
PCCW	Telecommunications	1,915	2.3	Hong Kong
Hyundai Department Store	Retail	1,902	2.3	South Korea
Public Bank (Alien)	Banking	1,851	2.2	Malaysia
DBS Group Holdings	Banking	1,848	2.2	Singapore
Powerchip Semiconductor	IT	1,842	2.2	Taiwan
China Shipping	Shipping	1,798	2.1	China
<b>Thirty largest investments</b>		<b>79,154</b>	<b>94.4</b>	
Resorts World	Leisure	1,769	2.1	Malaysia
Lite-On Technology	IT	1,724	2.0	Taiwan
Singapore Press Holdings	Media	1,708	2.0	Singapore
Posco	Steel	1,682	2.0	South Korea
Siam City Cement	Cement producer	1,582	1.9	Thailand
Anhui Expressway	Utilities	1,559	1.9	China
China Travel International	Travel agency	1,540	1.8	China
You Eal Electronics	Electronics	1,431	1.7	South Korea
Li & Fung	Distributor	1,394	1.7	Hong Kong
Gamuda	Construction	1,357	1.6	Malaysia
<b>Forty largest investments</b>		<b>94,900</b>	<b>113.1</b>	
<b>Other investments (5)</b>		<b>3,904</b>	<b>4.6</b>	
<b>Total portfolio investments</b>		<b>98,804</b>	<b>117.7</b>	
<b>Net current liabilities</b>		<b>(14,865)</b>	<b>(17.7)</b>	
<b>Total assets less current liabilities</b>		<b>83,939</b>	<b>100.0</b>	

# Board of Directors

## **Ronald Noel-Paton Chairman<sup>1</sup>**

(age 65) 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 Engagement and Remuneration Committees.

## **Stuart Leckie, OBE**

(age 58) was Chairman of Watson Wyatt, Asia-Pacific until 1995 then Chairman of Fidelity Investments, Asia-Pacific until 1997. 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.

## **Terence Mahony<sup>2</sup>**

(age 61) is Managing Director of TFM Management Limited, a firm of investment consultants based in Hong Kong. He has over 30 years' investment experience, the last 20 of which have been gained in Asia. He is also a director of Advance Developing Markets Trust plc, IMS (Investment Manager Selection) Ltd and the Atlantis China Fund.

## **David Nichol**

(age 58) 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.

## **Nigel Rich, CBE**

(age 58) 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 and Matheson & Co. He is Co-Chairman of the Philippine British Business Council. He is Chairman of the Company's Audit Committee.

<sup>1</sup>Mr F R Noel-Paton has decided not to offer himself for re-election at the forthcoming Annual General Meeting. Mr D B Nichol will be Chairman with effect from the close of that Meeting.

<sup>2</sup>Mr T F Mahony joined the Board of Directors with effect from 1 February 2004.

# Report of the Directors

## Results and Dividends

The Directors submit the Nineteenth Annual Report and Accounts of the Company for the year ended 31 January 2004.

	£'000
Revenue available for dividends	<b>983</b>
Final dividend for the year of 0.60p per share on the Ordinary Shares, payable on 7 May 2004 to shareholders on the register at close of business on 13 April 2004	<b>(735)</b>
Transferred to revenue reserve	<b>248</b>

## 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 2003. 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 F R Noel-Paton retires by rotation and has decided not to offer himself for re-election at the Annual General Meeting. Mr T F Mahony was appointed to the Board on 1 February 2004 and offers himself for 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 2004 Ordinary 12.50p Shares	31 January 2003 Ordinary 12.50p Shares
F R Noel-Paton	Beneficial	<b>59,200</b>	59,200
S H Leckie	–	<b>Nil</b>	Nil
T F Mahony	–	<b>Nil</b>	Nil
D B Nichol	Beneficial and family	<b>200,000</b>	200,000
	Trustee	<b>110,700</b>	110,700
N M S Rich	Beneficial	<b>25,000</b>	25,000

Mr T F Mahony joined the Board of Directors with effect from 1 February 2004.

There have been no changes in the above holdings between 31 January 2004 and 24 March 2004.

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 24 March 2004 the following holdings representing more than 3 per cent of the Company's issued share capital had been reported:

	Percentage Held
Friends Provident Group*	<b>12.9</b>
Lazard Frères Asset Management	<b>12.0</b>
ISIS Asset Management Retail Products	<b>8.4</b>
Sarasin Investment Management	<b>6.4</b>
Legal & General Group	<b>3.7</b>
Merseyside Pension Fund	<b>3.3</b>
Rio Tinto Pension Fund	<b>3.1</b>

\*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 issued in 1998 ('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, Engagement and 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 Engagement and 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.

The Board has considered the provisions of the new Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ('the new Code') which is effective for reporting years beginning on or after 1 November 2003. It is the Board's intention to apply the provisions of the new Code, as appropriate, during the year ended 31 January 2005 to enable it to make a disclosure statement in relation to the new Code in the Company's 2005 Annual Report.

### **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 the MSCI All Country Far East Free (ex Japan) Index and to peer group 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 six months' notice. In the event of termination on less than the agreed notice period, compensation is payable in lieu of the unexpired notice period. 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 excluding loans of the Company.

# Report of the Directors

continued

The Engagement and Remuneration Committee has reviewed the appropriateness of the Managers' appointment. In carrying out its review the Committee considered the past investment performance of the Company and the capability and resources of the Managers to deliver satisfactory investment performance. It also considered the length of the notice period of the investment management contract and the fees payable to the Managers, together with the standard of other services provided which include company secretarial, accounting and marketing.

Following this review, it is the Directors' opinion that the continuing appointment of the Managers on the terms agreed is in the interests of shareholders as a whole.

## **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**

Special Resolution 6 will be proposed at the Annual General Meeting to renew the Company's authorisation to make market purchases of its own ordinary shares. The maximum aggregate number of ordinary 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 an ordinary share shall be 12.5p. The maximum price for an ordinary 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.

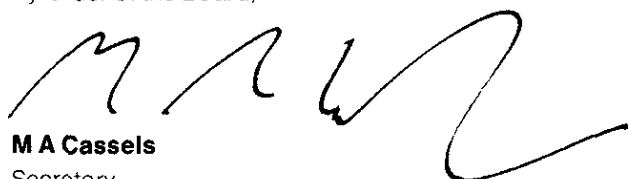
This authority, if conferred, will only be exercised if to do so would result in an increase in net asset value per ordinary share for the remaining shareholders and if it would be in the best interests of shareholders generally.

## **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  
24 March 2004

# 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. 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.

## Remuneration Committee

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 Engagement and Remuneration Committee is F R Noel-Paton (until the conclusion of the AGM on 6 May 2004), S H Leckie, T F Mahony (with effect from his appointment to the Board on 1 February 2004), 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 2005 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.

The Board proposes reviewing the level of directors' fees during the forthcoming year.

## 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	Retiring AGM 2004
S H Leckie	13 March 2001	AGM 2006
T F Mahony	1 February 2004	AGM 2004
D B Nichol	4 January 1985	AGM 2006
N M S Rich	1 January 1997	AGM 2005

The terms of Directors' appointments now provide that Directors should retire and be subject to 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 is 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 2004, 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 All Country Far East Free (ex Japan) Index is calculated. This index was chosen for comparison purposes, as it represents a comparable broad equity market index. 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 2004 £	Fees 2003 £
F R Noel-Paton (Chairman)	15,000	15,000
N M S Rich (Chairman of the Audit Committee)	13,000	13,000
S H Leckie	12,000	12,000
D B Nichol	12,000	12,000
H M P Miles	—	12,000
Total	52,000	64,000

On behalf of the Board,



**Ranald Noel-Paton**

Chairman

24 March 2004

# Statement of Total Return

(Incorporating the Revenue Account\*) For the year ended 31 January 2004

	Notes	Revenue 2004 £'000	Capital 2004 £'000	Total 2004 £'000	Revenue 2003 £'000	Capital 2003 £'000	Total 2003 £'000
Gains and losses on investments	9	–	27,948	27,948	–	(26,396)	(26,396)
Losses and gains on derivative arrangements	14, 21	–	(1,233)	(1,233)	–	1,893	1,893
Exchange differences	14	–	1,069	1,069	–	2,989	2,989
Lapse of warrants		–	–	–	–	2,675	2,675
Income	2	2,246	–	2,246	2,030	–	2,030
Investment management fee	3	(200)	(600)	(800)	(230)	(691)	(921)
Other expenses	4	(465)	–	(465)	(483)	–	(483)
<b>Net return before finance costs and taxation</b>		<b>1,581</b>	<b>27,184</b>	<b>28,765</b>	1,317	(19,530)	(18,213)
Interest payable	5	(197)	(590)	(787)	(284)	(852)	(1,136)
<b>Return on ordinary activities before tax</b>		<b>1,384</b>	<b>26,594</b>	<b>27,978</b>	1,033	(20,382)	(19,349)
Tax on ordinary activities	6	(401)	336	(65)	(256)	209	(47)
<b>Return attributable to equity shareholders</b>	15	<b>983</b>	<b>26,930</b>	<b>27,913</b>	777	(20,173)	(19,396)
Dividends in respect of equity shares	7	(735)	–	(735)	(612)	–	(612)
Transfer to/(from) reserves	14	248	26,930	27,178	165	(20,173)	(20,008)
<b>Return per Ordinary 12.50p Share (p)</b>	8	<b>0.80</b>	<b>21.99</b>	<b>22.79</b>	0.63	(16.39)	(15.76)

\* 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 2004

	Notes	2004 £'000	2003 £'000
<b>Fixed assets</b>			
Investments	9	<b>98,804</b>	69,868
<b>Current assets</b>			
Debtors	10	<b>453</b>	713
Cash at bank and on deposit		<b>2,114</b>	6,945
		<b>2,567</b>	7,658
<b>Creditors</b> (amounts falling due within one year)	11	<b>(17,432)</b>	(11,639)
<b>Net current liabilities</b>		<b>(14,865)</b>	(3,981)
<b>Total assets</b> (less current liabilities)		<b>83,939</b>	65,887
<b>Creditors</b> (amounts falling due after more than one year)	12	–	(9,126)
<b>Net assets</b>		<b>83,939</b>	56,761
<b>Capital and reserves</b>			
Called-up share capital	13	<b>15,307</b>	15,307
Share premium account	14	<b>4</b>	4
Capital redemption reserve	14	<b>947</b>	947
Special reserve	14	<b>19,709</b>	19,709
Other reserves –			
Capital reserve – realised	14	<b>29,230</b>	25,788
Capital reserve – unrealised	14	<b>17,327</b>	(6,161)
Revenue reserve	14	<b>1,415</b>	1,167
<b>Equity shareholders' funds</b>	15	<b>83,939</b>	56,761
<b>Net asset value per Ordinary Share (p)</b>	15	<b>68.54</b>	46.35

The financial statements on pages 19 to 31 were approved by the Board of Directors on 24 March 2004 and were signed on its behalf by:



**F R Noel-Paton (Chairman)**

*The accompanying notes are an integral part of this statement.*

# Cash Flow Statement

For the year ended 31 January 2004

	Notes	2004 £'000	2003 £'000
<b>Operating activities</b>			
Investment income received		2,084	1,704
Deposit interest received		48	89
Other income		–	2
Investment management fees paid		(1,024)	(937)
Other cash payments		(479)	(491)
Net cash inflow from operating activities	17	<u>629</u>	<u>367</u>
<b>Servicing of finance</b>			
Interest paid on bank loans and overdrafts		(884)	(1,169)
Net cash outflow from servicing of finance		<u>(884)</u>	<u>(1,169)</u>
<b>Capital expenditure and financial investment</b>			
Purchase of futures		(2,044)	(1,609)
Disposal of futures		1,290	3,196
Purchase of investments		(60,617)	(33,223)
Disposal of investments		59,629	36,975
Net cash (outflow)/inflow from investing activities		<u>(1,742)</u>	<u>5,339</u>
<b>Equity dividends paid</b>			
Net cash (outflow)/inflow before financing		<u>(2,609)</u>	<u>3,982</u>
<b>Financing</b>			
Loans drawn down		2,870	–
Loans repaid		(4,709)	–
Share buybacks		–	(394)
Net cash outflow from financing		<u>(1,839)</u>	<u>(394)</u>
<b>(Decrease)/increase in cash</b>	16	<u>(4,448)</u>	<u>3,588</u>
<b>Reconciliation of net cash flow to movement in net debt</b>			
(Decrease)/increase in cash in the year		(4,448)	3,588
Loans drawn down		(2,870)	–
Loans repaid		4,709	–
Change in net debt resulting from cash flows		<u>(2,609)</u>	<u>3,588</u>
Currency gains		1,069	2,989
Movement in net debt		<u>(1,540)</u>	<u>6,577</u>
Net debt at 1 February 2003		<u>(12,828)</u>	<u>(19,405)</u>
Net debt at 31 January 2004	16	<u>(14,368)</u>	<u>(12,828)</u>

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' published in January 2003.

### (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. Exchange gains and losses of a revenue nature are taken to the revenue account.

## (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

	<b>31 Jan 2004</b>	31 Jan 2003
Hong Kong Dollar	<b>14.15</b>	12.82
Indonesian Rupiah	<b>15,397</b>	14,580
Korean Won	<b>2,136</b>	1,913
Malaysian Ringgit	<b>6.93</b>	6.258
Singapore Dollar	<b>3.09</b>	2.86
New Taiwan Dollar	<b>60.71</b>	57.04
Thailand Baht	<b>71.43</b>	70.30
US Dollar	<b>1.82</b>	1.64

## 2. Income

	<b>2004 £'000</b>	2003 £'000
<b>Dividend income from investments</b>		
Listed overseas	<b>2,198</b>	1,939
	<b>2,198</b>	1,939
<b>Other income</b>		
Deposit interest	<b>48</b>	89
Other income	–	2
	<b>48</b>	91
<b>Total income</b>	<b>2,246</b>	2,030

# Notes to the Accounts

continued

## 3. Investment management fee

	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Investment management fee	<b>200</b>	<b>600</b>	<b>800</b>	230	691	921

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 six months' notice of termination.

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

	2004 £'000	2003 £'000
Directors' fees	<b>52</b>	64
Auditors' remuneration for:		
– audit	<b>10</b>	9
– other services to the Company	<b>4</b>	7
Other expenses including bank and custody costs and AITC contribution	<b>399</b>	403
	<b>465</b>	483

## 5. Interest payable

	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Interest payable on bank loans and overdrafts	<b>197</b>	<b>590</b>	<b>787</b>	284	852	1,136

## 6a). Tax on ordinary activities

	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
UK corporation tax	<b>401</b>	<b>(401)</b>	–	256	(256)	–
Overseas taxation	–	<b>65</b>	<b>65</b>	–	47	47
	<b>401</b>	<b>(336)</b>	<b>65</b>	256	(209)	47

As at 31 January 2004 the Company had unutilised management expenses for taxation purposes of £15,066,000 (2003: £15,273,000). It is not anticipated that these will have value in the foreseeable future. It also had Eligible Unrelieved Foreign Tax 'A' of £110,000 (2003: nil) which can be utilised against corporation tax in future periods.

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 than the standard rate of corporation tax in the UK for an investment company (30 per cent). The differences are explained below:

	2004 £'000	2003 £'000
Return on ordinary activities before tax	<b>1,384</b>	1,033
Corporation tax at standard rate of 30%	<b>415</b>	310
<b>Effects of:</b>		
Tax effect of overseas expenses assessed on receipt basis	–	(54)
Tax effect of overseas income assessed on receipt basis	<b>(14)</b>	–
Current period tax charge (note 6a)	<b>401</b>	256

## 7. Dividends

	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Dividends on equity shares:						
– ordinary – final proposed 0.60p per share (2003: 0.50p)	<b>735</b>	–	<b>735</b>	612	–	612

## 8. Return per Ordinary Share

	2004 Revenue p	2004 Capital p	2004 Total p	2003 Revenue p	2003 Capital p	2003 Total p
Basic	<b>0.80</b>	<b>21.99</b>	<b>22.79</b>	0.63	(16.39)	(15.76)

Basic revenue return per Ordinary Share is based on the net revenue on ordinary activities after taxation of £983,000 (2003: £777,000), and on 122,458,386 (2003: 123,051,756) 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 gains for the financial year of £26,930,000 (2003: losses of £20,173,000), and on 122,458,386 (2003: 123,051,756) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

# Notes to the Accounts

continued

## 9. Investments

	2004 £'000	2003 £'000
Equity investments listed on recognised investment exchanges	<b>98,709</b>	69,763
Unlisted equity investments	<b>95</b>	105
	<b>98,804</b>	69,868

	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	78,991	741	79,732
Opening unrealised depreciation	(9,228)	(636)	(9,864)
Opening valuation	69,763	105	69,868
Movements in the year:			
Purchases at cost	60,617	–	60,617
Sales – proceeds	(59,625)	–	(59,625)
– realised gains and losses on sales	5,429	–	5,429
Increase in unrealised appreciation/(depreciation)	22,525	(10)	22,515
Closing valuation	98,709	95	98,804
Closing book cost	85,412	741	86,153
Closing unrealised appreciation/(depreciation)	13,297	(646)	12,651
	98,709	95	98,804

	2004 £'000	2003 £'000
Realised gains and losses on sales	<b>5,429</b>	(1,693)
Increase/(decrease) in unrealised appreciation	<b>22,515</b>	(24,703)
Liquidation payment received	<b>4</b>	–
Losses and gains on investments	<b>27,948</b>	(26,396)

Of the realised gains and losses on sales during the year, a net loss of £5,690,000 (2003: gain of £2,670,000) was included in unrealised appreciation at the previous year-end.

## 10. Debtors

	2004 £'000	2003 £'000
Unrealised gain on futures (note 21)	–	479
Accrued income	<b>245</b>	196
Prepayments	<b>160</b>	–
Other debtors	<b>48</b>	38
	<b>453</b>	713

### 11. Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Proposed dividend	735	612
Loan interest	105	202
Other creditors	110	178
Revolving credit facility	8,241	7,605
US\$15 million loan maturing 10 July 2004	8,241	--
US\$5 million loan maturing 20 March 2003	-	3,042
	<u>17,432</u>	<u>11,639</u>

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

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

	2004 £'000	2003 £'000
Long-term US\$15 million loan maturing 10 July 2004	-	9,126
	<u>-</u>	<u>9,126</u>

### 13. Called-up share capital

	£'000
<b>Authorised:</b>	
176,000,000 Ordinary Shares of 12.50p each (2003: same)	<u>22,000</u>
<b>Allotted, called-up and fully paid:</b>	
122,458,386 Ordinary Shares of 12.50p each at 31 January 2004 (2003: same)	<u>15,307</u>

The Company did not utilise its buy back facility during the year to 31 January 2004. During the year to 31 January 2003 the Company bought back 980,000 of its own shares for cancellation, at an aggregate cost of £394,000, 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	Special reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 31 January 2003	4	947	19,709	25,788	(6,161)	1,167
Exchange differences	–	–	–	(383)	1,452	–
Net gain on realisation of investments	–	–	–	5,429	–	–
Net loss on futures	–	–	–	(754)	(479)	–
Liquidation payment received	–	–	–	4	–	–
Increase in unrealised appreciation	–	–	–	–	22,515	–
Management fees	–	–	–	(600)	–	–
Interest	–	–	–	(590)	–	–
Tax	–	–	–	336	–	–
Retained net revenue for the year	–	–	–	–	–	248
<b>At 31 January 2004</b>	<b>4</b>	<b>947</b>	<b>19,709</b>	<b>29,230</b>	<b>17,327</b>	<b>1,415</b>

## 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	
	2004 p	2003 p	2004 £'000	2003 £'000
Ordinary Shares	<b>68.54</b>	46.35	<b>83,939</b>	56,761

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

	2004 £'000	2003 £'000
Total attributable net assets at beginning of year	<b>56,761</b>	79,838
Total recognised gains and losses for the year	<b>27,913</b>	(19,396)
Lapse of warrants	–	(2,675)
Share buybacks made during the year	–	(394)
Dividends appropriated in the year	<b>(735)</b>	(612)
<i>Total attributable net assets at end of year</i>	<b>83,939</b>	56,761

Basic net asset value per Ordinary Share is calculated on net assets of £83,939,000 (2003: 56,761,000), divided by 122,458,386 (2003: same) Ordinary Shares, being the number of Ordinary Shares in issue at the year end.

## 16. Analysis of changes in net debt

	At 31 January 2003 £'000	Cash flow £'000	Currency movements £'000	At 31 January 2004 £'000
Cash at bank and on deposit	6,945	(4,448)	(383)	<b>2,114</b>
Long/short-term US\$5 million loan maturing 20 March 2003	(3,042)	3,195	(153)	–
Long/short-term US\$15 million loan maturing 10 July 2004	(9,126)	–	885	<b>(8,241)</b>
Revolving credit facility	(7,605)	(1,356)	720	<b>(8,241)</b>
	<u>(12,828)</u>	<u>(2,609)</u>	<u>1,069</u>	<b><u>(14,368)</u></b>

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

	2004 £'000	2003 £'000
Net revenue before finance costs and taxation	<b>1,581</b>	1,317
Investment management fee charged to capital	<b>(600)</b>	(691)
Increase in accrued income	<b>(49)</b>	(188)
Increase in prepayments and other debtors	<b>(170)</b>	(24)
Decrease in other creditors	<b>(68)</b>	–
Tax on investment income	<b>(65)</b>	(47)
Net cash inflow from operating activities	<b><u>629</u></b>	<u>367</u>

## 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).

# Notes to the Accounts

continued

## 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 2004 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 last of these was closed on 15 July 2003 and there were no open positions as at 31 January 2004.

## 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 held at 31 January 2004 was 2.42 per cent (31 January 2003: 2.64 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 \$15 million has been drawn down (2003: \$12.5 million) renewable 13 April 2004.

### 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 notes 11 and 12.

At 31 January 2004:

	2004		Average interest rate	Average period until maturity	2003		Average interest rate	Average period until maturity
	\$'000	£'000			\$'000	£'000		
US dollar loans	<b>15,000</b>	<b>8,241</b>	<b>7.07%</b>	<b>0.44 years</b>	20,000	12,168	7.08%	1.11 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 2004, the Company had an undrawn overdraft facility available of £2,000,000 (2003: 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 2004:

	2004 Investments £'000	2004 Cash £'000	2004 Loans £'000	2003 Investments £'000	2003 Cash £'000	2003 Loans £'000
US Dollar	–	557	(16,482)	–	925	(19,773)
Hong Kong Dollar	29,332	–	–	23,431	–	–
Indonesian Rupiah	2,237	–	–	1,779	61	–
Korean Won	24,860	(29)	–	14,897	1,747	–
Malaysian Ringgit	6,955	–	–	1,822	17	–
Singapore Dollar	3,556	–	–	1,323	5	–
New Taiwan Dollar	19,256	776	–	16,065	64	–
Thailand Baht	5,275	–	–	5,446	3	–
Chinese Yuan	7,333	–	–	5,105	–	–
<b>Total</b>	<b>98,804</b>	<b>1,304</b>	<b>(16,482)</b>	<b>69,868</b>	<b>2,822</b>	<b>(19,773)</b>

In addition the following currency amounts are included in net current (liabilities)/assets: in US dollars, loan interest payable of £105,000 (2003: £202,000); in Korean Won £231,000 (2003: £196,000) dividends receivable; in Malaysian Ringgit £14,000 (2003: nil) dividends receivable.

The Company hedged market risk by way of Korean and Taiwan index future contracts. As at 31 January 2004 there were no index future contracts yet to be realised:

	2004		2003	
	Hedged amount £'000	Unrealised gain £'000	Hedged amount £'000	Unrealised gain £'000
Short open position in 150 Korean Index futures contracts (KOSPI 200)	–	–	2,918	479
	–	–	2,918	479

Realised losses on index futures are disclosed in note 14.

# Statement of Directors' Responsibilities and Independent Auditors' Report

## **Statement of Directors' Responsibilities in relation to the financial statements**

The Directors are required by law to prepare financial statements 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 financial statements 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 financial statements. 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 2004 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 Section 235 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 are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

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 the 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, unaudited part of the Directors' Remuneration Report, Ten Year Record, Shareholder Information, Investment Services to Shareholders, Notice of Annual General Meeting 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 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 2004 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

24 March 2004

# 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
<b>2004</b>	<b>83,939</b>	<b>68.54p</b>	<b>62.00p</b>	<b>9.5%</b>	<b>N/A</b>	<b>0.60p</b>

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

## Financial Calendar

- 6 May 2004** Annual General Meeting
- 7 May 2004** Final dividend on Ordinary Shares paid
- September 2004** Announcement of interim results for the six months ending 31 July 2004
- September 2004** Posting of interim report for the six months ending 31 July 2004
- February 2005** Announcement of annual results for the year ending 31 January 2005
- March 2005** Posting of annual review and report for the year ending 31 January 2005

# Shareholder Information

## **% of Ordinary Shares held at 31 January 2004**

### **Annual General Meeting**

The Annual General Meeting of Pacific Assets Trust plc will be held at the offices of ISIS Asset Management, 100 Wood Street, London EC2V 7AN on Thursday, 6 May 2004 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.
- A Children's Savings Plan offering a flexible and tax-efficient way for parents or other family members to provide for long term needs such as Children's school fees or university education.

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](http://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.

*The above has been approved by ISIS Asset Management plc which is Authorised and regulated by the Financial Services Authority. 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 Nineteenth Annual General Meeting of Pacific Assets Trust Public Limited Company will be held at the offices of ISIS Asset Management, 100 Wood Street, London EC2V 7AN, on 6 May 2004 at 12 noon for the following purposes:**

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

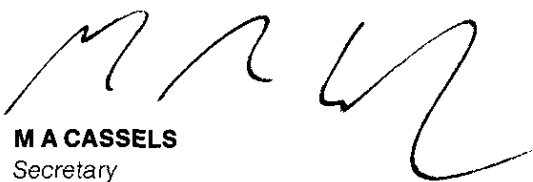
## **ORDINARY RESOLUTIONS**

1. That the Report and Accounts for the year to 31 January 2004 be received.
2. That a final dividend for the year of 0.60p per Ordinary Share be declared.
3. That Mr Mahony, retiring at the first Annual General Meeting following his appointment, be elected as a Director.
4. That the Directors' Remuneration Report for the year to 31 January 2004 be approved.
5. That Ernst & Young LLP be re-appointed as Auditors, to hold office until the conclusion of the next General Meeting at which accounts are laid before the Company, and that the Directors be authorised to determine their remuneration.

## **SPECIAL RESOLUTION**

6. 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 2005 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 CASSELES**

Secretary

80 George Street

Edinburgh EH2 3BU

24 March 2004

# Notice of Annual General Meeting

continued

The final dividend if declared will be paid on 7 May 2004 to shareholders on the Register on 13 April 2004.

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 4 May 2004 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 4 May 2004 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.

To be valid, the Form of Proxy should be lodged, together with any Power of Attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority at the address stated thereon so as to be received not less than 48 hours before the time of the meeting.

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 6 May 2004 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).

<b>Ordinary Resolutions – Ordinary Shareholders</b>	<b>For</b>	<b>Against</b>
1. That the Report and Accounts for the year to 31 January 2004 be received.		
2. That a final dividend for the year of 0.60 pence per ordinary share be declared.		
3. That Mr T F Mahony, retiring at the first Annual General Meeting following his appointment, be elected as a Director.		
4. That the Directors' Remuneration Report for the year to 31 January 2004 be approved.		
5. That Ernst & Young LLP be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.		

**Special Resolution – Ordinary Shareholders**

6. Renewal of authority for the Company to make market purchases of its own Ordinary Shares.		
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Signature \_\_\_\_\_

Dated this \_\_\_\_\_ Day of \_\_\_\_\_ 2004

**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

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Lloyds TSB Registrars  
The Causeway  
Worthing  
BN99 6ZR

FIRST FOLD

THIRD FOLD AND TUCK IN

# Corporate Information

## Directors

F R Noel-Paton\*  
D B Nichol, FCA†  
S H Leckie, OBE  
T F Mahony  
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 Engagement and Remuneration Committees. Retiring 6 May 2004.

†Chairman of the Board, Nomination and Engagement and Remuneration Committees with effect from 6 May 2004.

‡Chairman of the Audit Committee