SC091052

Pacific Assets Trust plc

Annual Report and Accounts

2008

Contents

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION This document refers to certain matters on which voting action is required If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 immediately

If you have sold or otherwise transferred all of your shares in the Company, you should immediately send this document to the purchaser or transferee or to the stockbroker, bank manager, solicitor, accountant or other person through whom the sale or transfer was effected for transmission to the purchaser or transferee

Company Summary

The Company

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

Total assets less current liabilities as at 31 January 2008 were £152 1 million and the market capitalisation was £136 7 million

Objective

To achieve long term capital growth through investment in selected companies in the Asia Pacific region and the Indian sub continent, but excluding Japan and Australasia

Investment Policy

The Company's investment policy is contained within the Report of the Directors on pages 13 and 14

Performance Assessment

The Company exists in a competitive environment and aims to be a leader in its peer 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 F&C Investment Business Limited, a wholly owned subsidiary of F&C Asset Management plc, as investment manager The notice period is six months Further details of the management contract are provided in note 3 to the Accounts

Capital Structure

The Company's capital structure is composed solely of Ordinary Shares Details are given in note 12 to the Accounts

How to Invest

The investment manager operates a number of investment plans which facilitate investment in the shares of the Company Details are contained on page 42

You may also invest through your usual stockbroker

ISA Status

The Company's shares are eligible for ISAs and can continue to be held in former PEPs

Website

The Company's internet address is www pacific assets co uk

Financial Highlights

- Net asset value per share increased by 23.6 per cent
- Share price increased by 23.5 per cent
- Final dividend of 1 12p per share.

One Year Net Asset Value Total Return Peer Group Performance

Three Year Net Asset Value Total Return Peer Group Performance

Performance Summary

	31 January 2008	31 January 2007	% change
Capital Return			
Net asset value per share	**128.52p**	104 01p	+23 6
MSCI All Country Far East ex Japan Index	**245.76p**	213 62	+15 0
Share Price			
Share price (mid market)	**115.50p**	93 50p	+23 5
Discount (difference between share price and net asset value per share)	**10.1%**	10 1%	
Total Return*			
Net asset value			+24 7
MSCI All Country Far East ex Japan Index			+18 1
Share price			+24 7
Gearing†			
Actual gearing	**5.9%**	7 7%	
Revenue and Dividends			
Revenue return per share	**1.24p**	1 29p	–3 9
Dividends per share	**1.12p**	1 12p	–
Total Expense Ratio (as percentage of average shareholders' funds)	**1.5%**	1 4%	

Year's Highs/Lows	**2008 High**	**2008 Low**
Net asset value per share	**173.38p**	**99.32p**
Share price	**160.00p**	**91 50p**
Discount‡	**5 0%**	**14.2%**

All total returns are based on net dividends re invested

† Gearing Borrowings Shareholders Funds

‡ Discount high Narrowest discount in period

Discount low Widest discount in period

Sources F&C Investment Business AIC and Datastream

Chairman's Statement

David Nichol Chairman

Despite a more volatile period for stockmarkets in the Asia Pacific region, it is pleasing to be able to report a fifth consecutive year of growth The Company's net asset value per share was 128 52 pence as at 31 January 2008, representing an increase of 23 6 per cent for the year It is also pleasing to report improved performance relative to the peer group

The net asset value total return for the year was 24 7 per cent ranking the Company third in its peer group of eight companies For comparison purposes, the total return from the MSCI All Country Far East ex Japan Index was 18 1 per cent

For the three years to 31 January 2008, the Company's net asset value total return was 88 8 per cent, also ranking it third in the peer group Over this period, the total return from the MSCI All Country Far East ex Japan Index was 78 8 per cent

For much of the year, stockmarkets in the region benefited from positive economic indicators, strong investor sentiment and an abundance of local liquidity In August, markets fell sharply in response to concerns over the US sub prime debt market, but recovered quickly and by the end of October had risen to levels which, with a backdrop of slowing global economic growth, were vulnerable to a correction

This followed in the final quarter of the financial year with a fall of nearly 20 per cent in the MSCI All Country Far East ex Japan Index Slowing global growth, tightening credit markets and declining risk appetite led to the sell off in equity markets Furthermore, within the Asia Pacific region, investors became concerned about the implications of monetary tightening in China following a year of significant GDP growth which had caused inflationary pressures to build up in the economy

The Company's portfolio has continued to favour investments which benefit from domestic reflation There has been less emphasis on companies which are reliant on exports This strategy yielded positive returns over the year

Rising infrastructure expenditure across Asia and the Middle East has encouraged the Manager to invest in the industrials sector This approach worked well throughout the year until the final quarter when indiscriminate profit taking diminished total annual returns Given strong earnings visibility from large and growing order books the Company retains a positive bias towards these investment opportunities

The Manager's positive stance to soft commodities over the year assisted returns for the Company This supported overweight positions in many of the ASEAN countries, such as Malaysia, Indonesia and the Philippines which are beneficiaries of price appreciation in commodities such as palm oil, sugar, rice, rubber, and coconuts

The Indian weighting was selectively added to over the year as a broader economic base supported the sustainability of corporate earnings growth

Shareholder Value

The Company's share price increased by 23 5 per cent during the year to 115 5 pence per share The share price discount to net asset value was 10 1 per cent at 31 January 2008

During the year the Company bought back 500,000 shares for cancellation, equivalent to 0 4 per cent of the shares in issue at the previous year end The shares were bought back at a discount of 11 7 per cent to the net asset value per share, providing a modest enhancement to the net asset value of 0 1 pence per share

The Board believes it is important to have a share buy back facility in place and will therefore seek to renew the authority at the forthcoming Annual General Meeting

Earnings and Dividends

The Company's revenue earnings per share for the year were 1 24 pence, which compares to 1 29 pence for the previous year The Board recommends a final dividend of 1 12 pence per share which is the same as last year This will be paid on 20 June 2008 to shareholders on the register on 23 May 2008

Gearing

As a consequence of his cautious view of markets towards the end of the year, the Manager reduced the level of the Company's borrowings Gearing, net of cash, as at 31 January 2008 was 5 9 per cent, which compares to 7 7 per cent at the end of the previous year and 11 2 per cent at the interim stage

The Company's borrowings comprise two flexible US dollar denominated facilities which are described in note 11 to the accounts

VAT on Management Fees

As the Company invests outside the EU it is able to reclaim all of the VAT incurred on expenses paid It is therefore not expecting to benefit from the recent rulings in favour of investment trusts, whereby investment management fees are now exempt from VAT The Board has, however, taken the necessary steps to ensure that the Company's position is protected and will keep this matter under close review

Annual General Meeting

The Annual General Meeting will be held at 12 noon on Monday 9 June 2008 at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY This is a good opportunity for shareholders to meet the Directors and Manager of the Company and I would encourage you to attend The formal business of the Meeting will be followed by a presentation from the Manager

Invitations are included with the Annual Report and shareholders are requested to reply to the Company Secretary if they are able to attend

If you are unable to attend the Meeting I would encourage you to complete and submit your proxy or voting form, which is included with the Annual Report This will ensure that your votes are represented at the Meeting

Outlook

It is likely that there will be continuing volatility in the region's stockmarkets in the months ahead as investors remain concerned over the implications of the credit crisis and the prospects for the US economy However, over the longer term the Board believes the Company is well placed to benefit from continuing expansion within the Asia Pacific region

David Nichol
Chairman
8 April 2008

Investment Manager and Investment Process

Peter Dalgliesh
Lead Fund Manager

Gordon Hay Smith
Company Secretary

Investment Manager

Pacific Assets Trust plc is managed by F&C Investment Business Limited, a wholly owned subsidiary of F&C Asset Management plc ('F&C') F&C is a leading asset manager in both the UK and Europe with £103 6 billion under management as at 31 December 2007 The shares of F&C are traded on the London Stock Exchange

F&C provides investment management and other services to a range of investment trust clients

Investment Process

The objective of Pacific Assets Trust plc is to provide shareholders with capital growth through investment in selected companies in the Asia Pacific region and the Indian sub continent, but excluding Japan and Australasia

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

Manager's Review

The correction in the US housing market and subsequent attempts by major financial institutions to quantify, unwind and write off leveraged debt instruments following the collapse in the sub prime market led to a volatile year for Asia's equity markets, and yet the MSCI All Country Far East ex Japan Index still rose 15 0 per cent in sterling terms Moderating demand for Asian exports by OECD countries led Korea and Taiwan to underperform the region, whereas those more domestically focussed countries, such as members of ASEAN, continued to ride the wave of internal consumer momentum Two of the best performing markets for the year were China and India supported by broadening economic activity and favourable liquidity conditions

China's GDP growth surpassed even the most bullish forecasts, reaching 11 2 per cent in the final quarter of 2007 driven by a healthy blend of fixed asset investment, export growth and domestic consumption Holdings in infrastructure names such as Pacific Basin and China Coal Energy contributed meaningfully to the Company's out performance over the period

Concerns grew over the year as headline inflation increased, reaching 7 1 per cent by the end of January, but this was primarily due to rising prices of basic food items such as eggs, pork and, latterly, vegetables With continued productivity gains being achieved in the manufacturing and service sectors, core inflation remained suppressed, presenting a conundrum to the Central Bank – how to retain control over core inflation without negatively impacting the export sector? It was feared that by using *conventional monetary policy and raising interest* rates, the rate of Renminbi appreciation would have accelerated, compressing exporters' margins and potentially leading to a reduction in employment Instead the People's Bank of China chose to tighten the reserve requirement ratios for banks, hiking requirements by 5 5 percentage points from 9 0 per cent to 14 5 per cent in 2007, in an attempt to control the pace of loan growth and thereby inflation High valuations, a contracting loan growth outlook, and uncertainty over asset quality led to the Company's holding in Bank of Communications being sold

Another challenge for the Chinese authorities was the control of liquidity With an average monthly trade surplus generating over US$20 billion of excess funds, a domestic deposit base of approximately US$5 trillion earning negative real returns, and a currency that was widely regarded as undervalued, surplus liquidity was prevalent in the system Inevitably, the domestic equity and property markets attracted some of this and experienced

Geographical Analysis as at 31 January 2008
% of total assets less current liabilities (excluding loans)

rapid appreciation The pace proved unsustainable with a correction at the end of the year confirming this However, local investors' appetite and pragmatic need for greater diversification into assets other than bank deposits is an on going trend synonymous with China's economic evolution Hang Lung Properties gave the Company core exposure to this area supplemented with participation in new issues such as Sino Ocean and Shui On Land

The re rating of the Indian market was a reflection of the economy's move up the sustainable growth path as indicated by expanding GDP per capita Evidence that the Reserve Bank of India had inflation under control by the end of March 2007, and that interest rates had peaked, led to a sustained rally in the stockmarket despite it trading at a marked premium to the region Trend GDP growth was exceeded, underpinned by structural changes in domestic demand as well as government fiscal expenditure programmes Of particular significance

Manager's Review (continued)

was the increase in the current five year public infrastructure plan to US$475 billion, through to 2011 Bharat Heavy Electrical Limited ('BHEL'), a heavy equipment manufacturer, provided access to this theme and performed well over the year BHEL's outstanding order book has grown to in excess of three years offering solid earnings visibility at a time when many companies have almost none

On the back of robust demand growth out of China and India, and limited new supply, commodity prices rallied throughout the year Oil was the most obvious commodity to appreciate but cement, coal and steel followed likewise China Coal Energy represented the Company's core exposure to rising coal demand in China while the reduction in export VAT rebates for Chinese steel producers reduced competition for Korean long steel manufacturers, supporting the Company's position in Hyundai Steel

The steady appreciation in soft commodity prices towards the latter half of the year was of considerable benefit to the ASEAN countries and is a trend which appears set to persist for the foreseeable future Declining global acreage with urbanisation, farmers choosing to reallocate to other crops, weather interrupted harvests, and new incremental sources of demand are driving this rally in soft commodity prices including corn, wheat, soybean, and palm oil Malaysian palm oil producers are the most efficient in the world on a yield per hectare basis with IOI Corporation at the top The company with the largest planted acreage is the newly formed Sime Darby, whose opportunity for cost reduction and yield improvement is immense Both of these companies are held by the Company and delivered meaningful out performance over the year

The emergence of the credit crisis in the middle of the summer caused a retraction in risk appetite and a collapse in emerging market indices The MSCI All Country Far East ex Japan Index fell almost 15 per cent within a month from mid July as profits were taken and risk was reduced Stable macroeconomic data out of the US as well as coordinated western central bank action pacified investors' concerns and the markets soon recovered to go onto new highs by the end of October

For Hong Kong ('HK'), the market experienced two very separate waves of investor enthusiasm The first came from the announcement of the 'through train' by the mainland, seeking a mechanism to ease some of the upward pressure on the domestic A share market by channelling some of the excess liquidity into HK listed companies The prospect of even 1 per cent of the estimated US$5 trillion of Chinese savings being re routed to the HK market caused a frenzy of buying in shares, as well as physical property The H share index rallied over 85 per cent from mid August to the end of October,

Sector Analysis as at 31 January 2008
% of total assets less current liabilities (excluding loans)

Contribution to relative performance (%)*
Year to 31 January 2008

Performance of Asia Pacific stockmarkets (sterling) (%)
Year to 31 January 2008

property prices appreciated, and the negative equity that many HK households had suffered since the 1997/98 Asian crisis was removed The second stimulus emerged with the realisation that the US Federal Reserve would need to cut rates to support the US economy and, with the HK Dollar pegged to the US Dollar, this implied falling mortgage rates supporting further activity in the HK property market Property developer Sun Hung Kai performed well for the Company, but significant share price appreciation led to profit taking as the valuation became extended

Just over a year after the 2006 military coup in Thailand a general election was held at which the people overwhelmingly voted in the People Power Party ('PPP'), which is effectively just a new name for the same party that was ousted back in September 2006 With a new mandate the PPP is expected to adopt similar policies as were in place under the former Thai Rak Thai party which were widely perceived to be market friendly Having come through an extended period of uncertainty the expectation is that the lifting of foreign capital restrictions imposed under the interim government should trigger a resumption of investment activity, consumption, and fiscal expenditure Coupled with reforms to the property sector and taxation policies, the PPP is expected to move swiftly to demonstrate to the electorate its political effectiveness in enhancing the economy Kasikornbank was added to the portfolio to capture some of the anticipated improvement in loan growth, further supplemented by a projected increase in fee income as it focuses on improving its cross selling ratio

Outlook

Investor sentiment has been negatively impacted by the on going uncertainty in global credit markets, and although western central banks appear resolved to prevent a systemic financial crisis by injecting timely liquidity, a final resolution still appears some way off For Asia, the prospect of further US monetary easing, expanding structural domestic demand, increased fiscal policy flexibility and relatively undemanding valuations makes the asset class increasingly attractive for the medium term investor

Peter Dalgliesh
Fund Manager
F&C Investment Business Limited
8 April 2008

Investment Portfolio

Company	31 January 2008 Valuation £'000	31 January 2007 Valuation £'000	% of Total assets less current liabilities	Country of incorporation
Sime Darby Berhad Sime Darby Berhad is an investment holding company. The group's principal activities include plantations, property development, heavy equipment and motor vehicle distribution and energy and utilities	7,734	3,310	5.1	Malaysia
China Mobile China Mobile, through its subsidiaries, provides cellular telecommunications and related services in the People's Republic of China and Hong Kong	5,925	–	3.9	China
IOI Corporation IOI Corporation cultivates and processes palm oil and rubber. The company, through its subsidiaries, operates in property development and investment, provides landscape services, manufactures industrial and medical gases, and provides building, engineering and construction services	5,695	3,356	3.7	Malaysia
Keppel Corporation Keppel Corporation's core businesses are offshore and marine, infrastructure, property investment and development, telecommunications and transportation, energy and engineering	5,462	4,440	3.6	Singapore
China Shipping Development China Shipping Development operates crude oil and refined oil shipment, coal shipment, and dry bulk shipment along the People's Republic of China coast as well as internationally	5,281	4,849	3.5	China
Hang Lung Properties Hang Lung Properties, through its subsidiaries, invests in, develops and manages properties in Hong Kong and China	5,152	3,002	3.4	Hong Kong
Astra International Astra International assembles and distributes automobiles, motorcycles, and their related spare parts. Through its subsidiaries, the company also operates in mining, development of plantations, financial services and information technology	5,061	3,008	3.3	Indonesia
GS Engineering & Construction Corporation GS Engineering & Construction Corporation contracts civil engineering and architectural works, residential and commercial building construction and plant installations. The company also builds educational, leisure, distribution and environmental facilities	4,557	2,909	3.0	South Korea
Chi Mei Optoelectronics Corporation Chi Mei Optoelectronics Corporation develops, manufactures and markets thin film transistor liquid crystal display (TFT LCD) panels and colour filters. The company sells its products worldwide	4,555	–	3.0	Taiwan
Hon Hai Precision Hon Hai Precision manufactures and markets personal computers ('PCs'), connectors and cable assemblies used in desktop and laptop PCs and PC servers	4,417	3,414	2.9	Taiwan
Ten largest investments	**53,839**		**35.4**	

Company

	Nature of business	Market Valuation £'000	% of Total assets less current liabilities	Country of incorporation
Hyundai Steel	Steel	4,194	2 8	South Korea
Midas	Railcar Manufacturer	4,133	2 7	Singapore
Sun Hung Kai Properties	Property	4,054	2 7	Hong Kong
Cnooc	Oil and Gas Provider	3,859	2 5	Hong Kong
China Water Affairs	Water Supply	3,853	2 5	Hong Kong
Great Eagle	Property	3,801	2 5	Hong Kong
Shinhan Financial	Financial	3,770	2 5	South Korea
LG Corp	Conglomerate	3,740	2 5	South Korea
Shin Zu Shing	Component Manufacturer	3,710	2 4	Taiwan
China Travel International	Leisure	3,572	2 3	China
Twenty largest investments		**92,525**	**60 8**	
China Coal Energy	Mining	3,453	2 3	Hong Kong
Banco De Oro	Banking	3,422	2 2	Philippines
Wistron	PC Manufacturer	3,167	2 1	Taiwan
Shanghai Industrial	Conglomerate	3,157	2 1	China
Ayala Corporation	General Industries	3,069	2 0	Philippines
IGB Corporation	Property	2,913	1 9	Malaysia
Bharat Heavy Electrical	Power Equipment Manufacturer	2,894	1 9	India
United Overseas Bank	Banking	2,823	1 9	Singapore
Shin Kong Financial	Financial	2,789	1 8	Taiwan
Korea Investment Holdings	Financial	2,688	1 8	South Korea
Thirty largest investments		**122,900**	**80 8**	
Haitian International	General Industries	2,591	1 7	China
Kasikornbank	Banking	2,571	1 7	Thailand
Sobha Developers	Property	2,560	1 7	India
KT&G	Tobacco Production	2,495	1 7	South Korea
Bharti Airtel	Telecommunications	2,488	1 6	India
Pacific Basin Shipping	Marine Transportation	2,331	1 5	Hong Kong
Bank Mandiri	Banking	2,318	1 5	Indonesia
China Medical Technology	Health Care Equipment	2,284	1 5	China
Chinatrust Financial	Financial	2,112	1 4	Taiwan
Neo China Land	Property	1,940	1 3	Hong Kong
Forty largest investments		**146,590**	**96 4**	
Daewoo Shipbuilding	Shipbuilding	1,915	1 3	South Korea
Kiatnakin Bank	Banking	1,847	1 2	Thailand
Hong Leong Financial	Financial	1,768	1 2	Malaysia
China Energy	Fuel Service Provider	1,593	1 0	China
Doosan Heavy Industrial	Industrial Engineering	1,536	1 0	South Korea
China Shineway Pharmaceutical	Pharmaceuticals	1,351	0 9	Hong Kong
Tianjin Capital Environmental	Water Supply and Treatment	1,212	0 8	China
Kinsus Interconnect	Substrate Manufacturer	1,210	0 8	Taiwan
Synear Food	Food Producer	1,089	0 7	Singapore
RH Energy	Oil and Gas Provider	458	0 3	China
Fifty largest investments		**160,569**	**105 6**	
China Railway Logistics	Telecommunications	321	0 2	Hong Kong
Anglo Chinese Investment Company	Financial	208	0 1	Hong Kong
Total portfolio		**161,098**	**105 9**	
Net current liabilities		**(8,993)**	**(5 9)**	
Total assets less current liabilities		**152,105**	**100 0**	

Board of Directors

David Nichol*†‡
Chairman
(age 62) was appointed as a Director in 1985 and Chairman in 2004 He is a partner of Rossie House Investment Management, an investment management firm which specialises in investment trust portfolios for private clients

Richard Horlick*†‡
(age 49) was appointed as a Director in 2005 He is Chief Executive of Spencer House Capital Management LLP and was, from 2002 until 2005, a director of Schroders plc, where he was Head of Investments and a member of the General Management Committee Between 2001 and 2002 he was Chairman, Chief Executive Officer and President of Fidelity Management Trust Company, where he was responsible for institutional business in the US Between 1994 and 2001 he was President, Institutional Business, of Fidelity International, where he was responsible for investments and the development of institutional assets

Stuart Leckie, OBE*†‡
(age 62) was appointed as a Director in 2001 He was Chairman of Watson Wyatt, Asia Pacific until 1995 then Chairman of Fidelity Investments, Asia Pacific until 1998 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 has served on various committees in Hong Kong's Securities and Futures Commission and was a director of Exchange Fund Investment Limited

Terence Mahony‡
(age 65) was appointed as a Director in 2004 He is Managing Director of TFM Management Limited, a firm of investment consultants based in Hong Kong He has over 35 years' investment experience, the last 25 of which have been gained in Asia He is also a non executive director of Advance Developing Markets Trust plc, Indochina Capital Vietnam Holdings Limited, IMS (Investment Manager Selection) Ltd and Citic Capital Investment Management

Nigel Rich, CBE*†‡
Senior Independent Director and Chairman of the Audit Committee
(age 62) was appointed as a Director in 1997 and was previously Managing Director of Jardine Matheson in Hong Kong He is Chairman of Segro plc and Deputy Chairman of Xchanging UK Ltd He was, until December 2005, Chairman of Exel PLC His other non executive directorships include KGR Absolute Return PCC Limited and Matheson & Co He is also Co chairman of the Philippine British Business Council and Deputy Chairman of Asia House

* Member of the Audit Committee
† Member of the Engagement and Remuneration Committee
‡ Member of the Nomination Committee

Report of the Directors

The Directors submit the Annual Report and Accounts of the Company for the year ended 31 January 2008

Results and Dividends

The results for the year are set out in the attached accounts

The Board recommends a final dividend for the year of 1 12p per share payable on 20 June 2008 to shareholders on the register at close of business on 23 May 2008

Principal Activity and Status

The Company is registered as a public limited company in terms of the Companies Act 1985 and is an investment company as defined by Section 266 of that Act Its shares are quoted on the London Stock Exchange

The Company has been approved by HM Revenue & Customs as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 January 2007 As a result, it is not liable to corporation tax on capital gains In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain approval as an investment trust

The Company is required to comply with company law, the rules of the UK Listing Authority, UK Financial Reporting Standards, and its Articles of Association

The Company is a member of the Association of Investment Companies ('AIC')

Capital Structure

The Company's capital structure is composed solely of Ordinary Shares

Business Review

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, gearing, corporate governance and risk management Biographical details of the Directors, all of whom are non executive, can be found on page 12

Objective

The Company's investment objective is to achieve long term capital growth through investment in selected companies in the Asia Pacific region and the Indian sub continent, but excluding Japan and Australasia

Investment Policy

The Company invests in companies which the Manager believes will be able to generate long term growth for shareholders It aims to enhance returns through active asset allocation and diligent stock selection The Manager applies a number of criteria when selecting investments These include a fundamental appraisal of the companies and an assessment of their value Visits are made to existing and potential investee companies as an essential part of this process

The Company principally invests in listed equities although its policy enables it to invest in other securities, including preference shares, debt instruments, convertible securities and warrants In addition, the Company may invest in open and closed end investment funds and companies

The Company is able to invest in unlisted securities and there is currently one such investment in the portfolio In future, unlisted investments will be limited to those which are expected to be listed on a stock exchange or which cease to be listed and the Manager considers appropriate to continue to hold

Risk is diversified by investing in different countries, sectors and stocks within the Asia Pacific region There are no defined limits on countries or sectors but no single investment may exceed 15 per cent of the Company's total assets at the time of investment However, the Board has set a current limit for single investments of 7 5 per cent of total assets at the time of investment This limit is reviewed from time to time by the Board and may be revised as appropriate

No more than 10 per cent of the Company's total assets may be invested in other listed closed ended investment companies unless such investment companies themselves have published investment policies to invest no more than 15 per cent of their total assets in other closed ended investment companies, in which case the limit is 15 per cent

Report of the Directors (continued)

The Company uses gearing to enhance returns over the long term and its policy is that borrowings, net of cash, will not exceed 35 per cent of shareholders' funds at the time of borrowing However, the Board has set a current limit on gearing, net of cash, of 20 per cent of shareholders' funds at the time of borrowing This limit is reviewed from time to time by the Board and may be revised as appropriate

The use of derivatives is permitted with prior Board approval and within agreed limits

Investment of Assets

At each Board meeting, the Board receives a presentation from the Manager which includes a review of investment performance, recent portfolio activity and market outlooks It also considers compliance with the investment policy and other investment restrictions during the reporting period An analysis of the portfolio as at 31 January 2008 is contained in note 9 to the accounts and in the Manager's Review on pages 7 to 9, and the full portfolio listing is provided on pages 10 and 11 The Company's gearing level, net of cash, as at 31 January 2008 was 5 9 per cent

Strategy

As part of its strategy, the Board has contractually delegated the management of the investment portfolio and other services to F&C Investment Business Limited ('FCIB')

The Company's performance in meeting its objective is measured against key performance indicators as set out below A review of the Company's returns during the financial year, the position of the Company at the year end, and the outlook for the coming year is contained in the Chairman's Statement on pages 4 and 5 and in the Manager's Review on pages 7 to 9, both of which form part of this Business Review

Principal Risks and Risk Management

The Company's assets consist principally of listed securities and its main risks are therefore market related The Company is also exposed to currency risk in respect of the markets in which it invests More detailed explanations of these risks and the way which they are managed are contained in notes 17 to 22 to the accounts

Other risks faced by the Company include the following

- External – events such as terrorism, protectionism, inflation or deflation, economic recessions and movements in interest rates could affect share prices in particular markets
- Investment and strategic – incorrect strategy, country and sector allocation, stock selection, and the use of gearing could all lead to poor returns for shareholders
- Regulatory – breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report Breach of Section 842 of the Income and Corporation Taxes Act 1988 could lead to the Company being subject to tax on capital gains
- Operational – failure of the Manager's accounting systems or disruption to the Manager's business, or that of third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence
- Financial – inadequate controls by the Manager or third party service providers could lead to misappropriation of assets Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations Breaching loan covenants could lead to a loss of shareholders' confidence and financial loss for shareholders

The Board seeks to mitigate and manage these risks through continual review, policy setting and enforcement of contractual obligations It also regularly monitors the investment environment and the management of the Company's investment portfolio, and applies the principles detailed in the internal control guidance issued by the Financial Reporting Council Details of the Company's internal controls are described in more detail on pages 18 and 19

Shareholder Value

The Board and Manager recognise the importance of both marketing and share buy backs in enhancing shareholder value In terms of marketing, the Manager offers a range of private investor savings schemes, details of which can be found on page 42 In addition, meetings are held regularly with current and prospective shareholders and stockbroking analysts covering the investment trust sector Share buy backs help reduce the volatility of the discount and enhance the net asset value per share for continuing shareholders Communication of up to date portfolio information is made through the Company's website

Key Performance Indicators

The Board uses a number of performance measures to assess the Company's success in meeting its objectives The key performance indicators are as follows

- Net asset value total return against the peer group
- Discount of share price to net asset value
- Total expenses as a ratio of shareholders' funds

A historical record of these indicators is contained in the Financial Highlights and Performance Summary on pages 2 and 3 and in the Ten Year Record on page 41

Directors

The Directors who held office at the end of the year and their interests in the shares of the Company were

		Number of Ordinary Shares held as at 31 January 2008	Number of Ordinary Shares held as at 31 January 2007
D B Nichol	Beneficial	**200,000**	200,000
	Trustee	**100,000**	100,000
R M A Horlick	–	**Nil**	Nil
S H Leckie	–	**Nil**	Nil
T F Mahony	–	**Nil**	Nil
N M S Rich	Beneficial	**25,000**	25,000

Since the end of the year Mr D B Nichol has disposed of his beneficial holding of 200,000 Ordinary Shares

There have been no other changes in the interests of the Directors in the shares of the Company between 31 January 2008 and 8 April 2008

As explained in more detail under Corporate Governance on pages 16 to 18, the Board has agreed that Directors who have served on the Board for more than nine years will retire annually Accordingly, Mr D B Nichol and Mr N M S Rich will retire at the Annual General Meeting and, being eligible, offer themselves for re election In addition Mr T F Mahony, as a non independent Director, also retires annually and, being eligible, offers himself for re election

The Board confirms that, following formal performance evaluations, the performance of each of the Directors seeking re election continues to be effective and demonstrates commitment to the role The Board therefore believes that it is in the interests of shareholders that these Directors are re elected

No Director has a contract of service with the Company or any material interest in any contract to which the Company is a party

As any further increase in Directors' remuneration could result in the current maximum permitted under the Articles of Association being exceeded, a resolution (pursuant to Article 90 of the Articles of Association) to increase the maximum aggregate sum to which the Directors are entitled as remuneration to £200,000 (currently £125,000) will be proposed at the Annual General Meeting This amendment is proposed to allow for anticipated increases in total Directors' remuneration over a number of years There is no current intention to increase the fees paid to the Directors

Substantial Interests in Share Capital

As at 8 April 2008 the following holdings, each representing 3 per cent or more of the Company's issued share capital had been reported

	Number of Ordinary Shares Held	Percentage Held
Lazard Asset Management	14,191,600	12 0
Friends Provident Group*	13,098,108	11 1
Sarasin Investment Management	11,491,500	9 7
Legal & General Group	5,419,832	4 6

*Includes discretionary retail products

Report of the Directors (continued)

Management and Management Fees

FCIB provides management and secretarial services to the Company A summary of the management agreement between the Company and FCIB in respect of those services is provided in note 3 to the accounts

Since the end of the year, the Board has reviewed the appropriateness of the Manager's appointment In carrying out its review the Board considered the past investment performance of the Company and the capability and resources of the Manager to deliver satisfactory investment performance It also considered the length of the notice period of the investment management agreement and the fees payable to the Manager, together with the standard of other services provided which include company secretarial, accounting and marketing

Following this review the Directors are satisfied with the Manager's ability to deliver satisfactory investment performance and the quality of other services provided It is therefore their opinion that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole

Corporate Governance

Arrangements in respect of corporate governance appropriate to an investment trust have been made by the Board Except as disclosed below, the Company complied throughout the year with the relevant provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006 (the 'Combined Code') and the recommendations of the AIC's Code of Corporate Governance issued in May 2007 (the 'AIC Code') Since all Directors are non executive, and in accordance with the AIC Code and the preamble to the Combined Code, the provisions of the Combined Code on the role of the chief executive and, except so far as they apply to non executive Directors, on Directors' remuneration are not relevant to the Company and are not reported on further

In view of its non executive nature and the requirement of the Articles of Association that all Directors are subject to retirement by rotation, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by provision A 7 2 of the Combined Code and principle 3 of the AIC Code However, the Board has agreed that each Director will retire and, if appropriate, seek re election at the completion of each three years of service and annually after serving on the Board for more than nine years Mr T F Mahony, as a non independent Director, is subject to annual re election

The Board consists solely of non executive Directors Mr D B Nichol is Chairman and Mr N M S Rich is the Senior Independent Director All the Directors, except for Mr T F Mahony, are considered by the Board to be independent of the Company's Manager Mr T F Mahony is a non executive director of IMS (Investment Manager Selection) Ltd, an advisor to the Manager, and is therefore considered to be non independent New Directors receive an induction from the Manager on joining the Board and all Directors are made aware of appropriate training courses

Mr D B Nichol and Mr N M S Rich have served on the Board for more than nine years and, as recommended by the Combined Code and the AIC Code, will seek re election annually The Board subscribes to the view expressed within the AIC Code that long serving Directors should not be prevented from forming part of an independent majority It does not consider that a Director's tenure necessarily reduces his ability to act independently and, following formal performance evaluations, believes that each of those Directors is independent in character and judgement and that there are no relationships or circumstances which are likely to affect their judgement The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed

The Company has no executive Directors or employees A management agreement between the Company and FCIB sets out the matters over which the Manager has authority and the limits beyond which Board approval must be sought All other matters, including strategy, investment and dividend policies, gearing and corporate governance procedures, are reserved for the approval of the Board of Directors The Board currently meets at least four times a year and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights All shareholdings are voted at all meetings worldwide where practicable in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance

Throughout the year a number of committees have been in operation, namely the Audit Committee, the Engagement and Remuneration Committee and the Nomination Committee

The Audit Committee, chaired by Mr N M S Rich, operates within clearly defined written terms of reference which are available upon request and comprises all of the Directors except for Mr T F Mahony The duties of the Audit Committee in discharging its responsibilities include reviewing the Annual and Interim Accounts, the system of internal controls employed by the Manager, and the terms of appointment of the auditors together with their remuneration It is also the forum through which the auditors report to the Board of Directors and meets at least twice yearly During the year the Committee conducted a review of the audit function and it was decided to put this out to tender As a result of this process the Audit Committee recommended to the Board the appointment of KPMG Audit Plc as the Company's auditors The objectivity of the auditors is reviewed by the Audit Committee which also reviews the terms under which the external auditors are appointed to perform non audit services The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors, with particular regard to non audit fees Non audit fees paid to the Company's previous auditors, Ernst & Young LLP, amounted to £4,000 for the year ended 31 January 2008 (2007 £4,000) and related to the provision of taxation services KPMG Audit Plc did not receive any non audit fees during the year

The Engagement and Remuneration Committee, chaired by Mr D B Nichol, comprises the full Board except for Mr T F Mahony and reviews the appropriateness of the Manager's continuing appointment together with the terms and conditions thereof on a regular basis

The Nomination Committee, chaired by Mr D B Nichol, comprises the full Board and is convened for the purpose of reviewing the re election of Directors as they fall due and considering the appointment of additional Directors as and when considered appropriate In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board

During the year the performance of the Board, committees and individual Directors was evaluated through a formal assessment process led by the Chairman This involved the completion of questionnaires tailored to suit the nature of the Company, and follow up discussions between the Chairman and each of the Directors The performance of the Chairman was evaluated by the other Directors under the leadership of the Senior Independent Director

The following table sets out the number of Board and committee meetings held during the year ended 31 January 2008 and the number of meetings attended by each Director

Report of the Directors (continued)

	Board of Directors		Audit Committee		Engagement and Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
D B Nichol	4	4	2	2	1	1	1	1
R M A Horlick	4	2	2	1	1	–	1	–
S H Leckie	4	4	2	2	1	1	1	1
T F Mahony	4	4	n/a	n/a	n/a	n/a	1	1
N M S Rich	4	4	2	2	1	1	1	1

Mr T F Mahony is not a member of the Audit Committee or the Engagement and Remuneration Committee, but was in attendance at all meetings held during the year

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 The Company maintains appropriate Directors' and Officers' liability insurance

Going Concern

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 internal control guidance issued by the Financial Reporting Council in October 2005 The process relies 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 by the Manager The test matrix is regularly updated and the Board is provided with regular reports by the Manager 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 internal control reports issued by the Manager and other service providers The review meeting is attended by the Manager's compliance and internal audit officer 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 the internal controls These procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss At each Board meeting the Board monitors the investment performance of the Company in comparison to its stated objective, its peer group of eight comparable investment trusts, and a broad equity market index 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 the 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 its internal audit function and the review of its AAF 01/06 Report by a firm of external auditors, provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained An internal audit function specific to the Company is therefore considered unnecessary

Relations with Shareholders

The Company places great importance on communication with shareholders and welcomes their views The Manager holds meetings with the Company's largest shareholders and reports back to the Board on these meetings The Chairman and other Directors are available to meet shareholders if required 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 the Manager of the Company The notice for the forthcoming Annual General Meeting, to be held on 9 June 2008, is set out on pages 43 to 49 The Annual Report and Notice of Annual General Meeting are sent to shareholders at least 20 working days before the meeting

Directors' Authority to Allot Shares

The Directors are seeking authority to allot shares at the forthcoming Annual General Meeting Resolution 9 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £1,479,354, being 10 per cent of the total issued shares as at 8 April 2008 Resolution 10 will, if passed, authorise the Directors to allot new shares up to an aggregate nominal amount of £739,677, being 5 per cent of the total issued shares as at 8 April 2008, for cash without first offering such shares to existing shareholders pro rata to their existing holdings These authorities will continue in effect until the conclusion of the Annual General Meeting to be held in 2009 The Directors will only allot new shares pursuant to these authorities if they believe it is advantageous to the Company's shareholders to do so and in no circumstances that would result in a dilution of the net asset value per share The Directors have no present intention of exercising these authorities

Directors' Authority to Buy Back Shares

During the year the Company purchased for cancellation 500,000 Ordinary Shares with an aggregate nominal value of £62,500 for a total consideration of £489,000, representing 0 4 per cent of the Ordinary Shares in issue at the previous year end

The current authority of the Company to make market purchases of up to 14 99 per cent of the issued Ordinary Shares expires at the end of the Annual General Meeting and Resolution 11 as set out in the notice of the Annual General Meeting seeks renewal of such authority The renewed authority to make market purchases will be in respect of a maximum of 14 99 per cent of the issued Ordinary Shares of the Company as at the date of the passing of the resolution (approximately 17 7 million Ordinary Shares) The price paid for shares will not be less than the nominal value of 12 5p per share (exclusive of expenses) nor more than 105 per cent of the average of the middle market values of those shares for the five business days immediately preceding the date the shares are purchased (exclusive of expenses) This authority, if conferred, will only be exercised if, in the opinion of the Directors, a purchase will result in an increase in the net asset value per share for the remaining shareholders and be in the interests of the shareholders generally Any shares purchased under this authority will be cancelled

Adoption of New Articles of Association and Subsequent Amendments to the Articles of Association in Respect of Directors' Conflicts of Interest

The Articles of Association of the Company were last updated in 2002 and since then company law in the United Kingdom has undergone major reform through the coming into force of parts of the Companies Act 2006 (the '2006 Act') Accordingly, the Board considers it prudent to replace the Company's existing Articles of Association with new Articles which take account of these developments (the 'New Articles'), as set out in Resolutions 12 and 13 in the Notice of Annual General Meeting

The 2006 Act is being brought into force in stages, beginning in January 2007 with full implementation scheduled by October 2009 At this year's Annual General Meeting the Company proposes to adopt provisions which reflect changes in the law brought about by the 2006 Act in respect of, among other

Report of the Directors (continued)

things, electronic communications, notice periods for meetings, proxy voting and Directors' conflicts of interest Over the course of the next year the Company intends to conduct a further review of the New Articles in order to identify any additional amendments that might be necessary following the full implementation of the 2006 Act in October 2009 It is the Board's intention that any further amendments will be put to shareholders at the Annual General Meeting in 2009

A summary of the material changes brought about by the proposed adoption of the New Articles is set out in the Appendix to the Notice of Annual General Meeting on pages 50 and 51 There are other changes which are considered to be of a minor, technical or clarifying nature and have therefore not been noted in the Appendix

A copy of the New Articles will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting and on the date of the Annual General Meeting at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY from 11 45 am until the conclusion of the meeting

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Report confirm that, so far as each of him is aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

During the year a competitive audit tendering exercise was undertaken resulting in the Board's appointment of KPMG Audit Plc as auditors during the year This appointment is required to be put to shareholders Resolution 8 contained in the Notice of Annual General Meeting therefore proposes the appointment of KPMG Audit Plc as the Company's auditors

Individual Savings Accounts

The Company's shares are qualifying investments as defined by HM Revenue & Customs' regulations for Individual Savings Accounts (including former Personal Equity Plans) It is the current intention of the Directors that the Company will continue to conduct its affairs so as to satisfy this requirement

Creditor Payment Policy

The Company follows the Manager's payment policy which 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

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, overdrafts, bank debt and debtors and creditors that arise directly from its operations, such as sales and purchases awaiting settlement and accrued income The financial risk management and policies arising from its financial instruments are disclosed in notes 17 to 22 to the accounts

Recommendation

The Directors consider that the passing of the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of those resolutions, as the Directors intend to do in respect of their own beneficial holdings

By order of the Board
G R Hay Smith
Secretary
80 George Street
Edinburgh EH2 3BU
8 April 2008

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985 An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting

The law requires the Company's auditors to audit certain of the disclosures provided in this report Where disclosures have been audited, they are indicated as such The auditors' opinion is included in their report on pages 24 and 25

The Board consists solely of non executive Directors and considers annually the level of Directors' 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 comprises Mr D B Nichol, Mr R M A Horlick, Mr S H Leckie and Mr N M S Rich As the Company has no executive Directors, the Committee meets annually to determine the remuneration and terms of appointment of the 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 ending 31 January 2009 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 £125,000 in aggregate per annum and, as explained in the Report of the Directors on page 15, a resolution (pursuant to Article 90 of the Articles of Association) will be proposed at the Annual General Meeting to increase this limit to £200,000 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 do have letters of appointment

The terms of Directors' appointments 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 Any Director who has served on the Board for more than nine years will offer himself for re election annually In addition, Mr T F Mahony, as a non independent Director of the Company, is subject to annual re-election There is no notice period and no provision for compensation upon early termination of appointment

Director	Date of Appointment	Due date for Re election
D B Nichol	4 January 1985	AGM 2008
R M A Horlick	1 December 2005	AGM 2009
S H Leckie	13 March 2001	AGM 2009
T F Mahony	1 February 2004	AGM 2008
N M S Rich	1 January 1997	AGM 2008

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 Manager through the investment management agreement, as referred to in the Report of the Directors on page 16 The following graph compares, for the five financial years ended 31 January 2008, the total return (assuming all dividends are reinvested) to ordinary shareholders in each period compared to the total return from the MSCI All Country Far East ex Japan Index This index was chosen for comparison purposes as it

Directors' Remuneration Report (continued)

represents a comparable broad equity market index An explanation of the performance of the Company is given in the Chairman's Statement and the Manager's Review As explained in the Company Summary on page 1 the Board's formal assessment of the performance of the Company is by reference to its peers on a rolling three year basis

Five Year Performance v MSCI All Country Far East ex Japan Index

Directors' Emoluments for the Year (audited)

The Directors who served during the year received the following emoluments in the form of fees

	2008 £	2007 £
D B Nichol	**20,000**	19,667
R M A Horlick	**15,000**	14,667
S H Leckie	**15,000**	14,667
T F Mahony	**15,000**	14,667
N M S Rich (Chairman of the Audit Committee)	**17,000**	16,667
Total	**82,000**	80,335

On behalf of the Board
D B Nichol
Chairman
8 April 2008

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report (including a Business Review), Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

We confirm that to the best of our knowledge

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

On behalf of the Board
D B Nichol
Chairman
8 April 2008

Independent Auditors' Report

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

We have audited the financial statements of Pacific Assets Trust plc for the year ended 31 January 2008 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 23 These financial statements have been prepared under 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 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 (United Kingdom Generally Accepted Accounting Practice) 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 and International Standards on Auditing (UK and Ireland)

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 whether the information given in the Report of the Directors (including Business Review) is consistent with the financial statements The information given in the Report of the Directors (including Business Review) includes that specific information presented in the Manager's Review, Chairman's Statement, Investment Portfolio, Financial Highlights, Performance Summary and Ten Year Record that is cross referenced from the Business Review

In addition we report to you if, in our opinion, 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 regarding Directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 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 International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 January 2008 and of its net return for the year then ended,
- 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, and
- the information given in the Report of the Directors is consistent with the financial statements

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
10 April 2008

Income Statement

for the year ended 31 January

	Notes	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Gains on investments	9	–	**30,025**	**30,025**	–	13,727	13,727
Exchange differences	13	–	**153**	**153**	–	236	236
Income	2	**3,306**	–	**3,306**	3,193	–	3,193
Investment management fee	3	**(389)**	**(1,166)**	**(1,555)**	(275)	(826)	(1,101)
Other expenses	4	**(569)**	–	**(569)**	(565)	–	(565)
Net return before finance costs and taxation		**2,348**	**29,012**	**31,360**	2,353	13,137	15,490
Interest payable	5	**(243)**	**(730)**	**(973)**	(135)	(405)	(540)
Return on ordinary activities before tax		**2,105**	**28,282**	**30,387**	2,218	12,732	14,950
Tax on ordinary activities	6	**(642)**	**559**	**(83)**	(659)	556	(103)
Return attributable to equity shareholders		**1,463**	**28,841**	**30,304**	1,559	13,288	14,847
Return per Ordinary Share (p)	8	**1 24**	**24.35**	**25.59**	1 29	10 97	12 26

The total column of this statement represents the profit and loss account of the Company A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses are recognised in the Income Statement

All revenue and capital items in the Income Statement derive from continuing operations

No operations were acquired or discontinued in the year

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 January

	Notes	2008 £'000	2007 £'000
Opening shareholders' funds		**123,616**	113,049
Return for the year		**30,304**	14,847
Dividends paid	7	**(1,326)**	(1,282)
Share buy backs	12	**(489)**	(2,998)
Closing shareholders' funds		**152,105**	123,616

The accompanying notes are an integral part of the above statements

Balance Sheet

as at 31 January	Notes	£'000	2008 £'000	£'000	2007 £'000
Fixed assets					
Investments	9		**161,098**		133,126
Current assets					
Debtors	10	**3,627**		1,271	
Cash at bank and on deposit		**-**		536	
		3,627		1,807	
Creditors (amounts falling due within one year)	11	**(12,620)**		(11,317)	
Net current liabilities			**(8,993)**		(9,510)
Net assets			**152,105**		123,616
Capital and reserves					
Called up share capital	12		**14,794**		14,856
Share premium account	13		**4**		4
Capital redemption reserve	13		**1,460**		1,398
Special reserve	13		**16,222**		16,711
Other reserves					
Capital reserve – realised	13		**116,550**		60,589
Capital reserve – unrealised	13		**(476)**		26,644
Revenue reserve	13		**3,551**		3,414
Equity shareholders' funds	14		**152,105**		123,616
Net asset value per Ordinary Share (p)	14		**128 52**		104 01

The accounts on pages 26 to 39 were approved and authorised for issue by the Board of Directors on 8 April 2008 and signed on its behalf by

D B Nichol, Chairman

The accompanying notes are an integral part of this statement

Cash Flow Statement

for the year ended 31 January	Notes	£'000	2008 £'000	£'000	2007 £'000
Operating activities					
Investment income received		**3,234**		2,930	
Deposit interest received		**24**		140	
Investment management fee paid		**(1,668)**		(1,114)	
Other cash payments		**(524)**		(568)	
Net cash inflow from operating activities	15		**1,066**		1,388
Servicing of finance					
Interest paid on bank loans and overdrafts		**(994)**		(528)	
Net cash outflow from servicing of finance			**(994)**		(528)
Capital expenditure and financial investment					
Purchase of investments		**(88,739)**		(92,044)	
Disposal of investments		**89,940**		81,746	
Net cash inflow/(outflow) from investing activities			**1,201**		(10,298)
Equity dividends paid			**(1,326)**		(1,282)
Net cash outflow before financing			**(53)**		(10,720)
Financing					
Loans drawn down		**10,033**		5,432	
Loans repaid		**(10,162)**		(4,020)	
Own shares acquired		**(489)**		(2,998)	
Net cash outflow from financing			**(618)**		(1,586)
Decrease in cash	16		**(671)**		(12,306)
Reconciliation of net cash flow to movement in net (debt)/funds					
Decrease in cash in the year		**(671)**		(12,306)	
Loans drawn down		**(10,033)**		(5,432)	
Loans repaid		**10,162**		4,020	
Change in net debt resulting from cash flows			**(542)**		(13,718)
Currency gains			**153**		236
Movement in net debt			**(389)**		(13,482)
Net (debt)/funds at 1 February			**(9,682)**		3,800
Net debt at 31 January	16		**(10,071)**		(9,682)

The accompanying notes are an integral part of this statement

Notes to the Accounts

1 Accounting policies

(a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice ('UK GAAP') and in accordance with guidelines set out in the Statement of Recommended Practice ('SORP'), revised December 2005, for investment trust companies issued by the Association of Investment Companies ('AIC')

Presentation of the Income Statement

In order to reflect better the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement The net revenue return is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 842 of the Income and Corporation Taxes Act 1988

(b) Valuation of investments

Investments are classified as fair value through profit or loss and are recognised and de recognised at trade date where a purchase or sale is under a contract whose terms require delivery within the time frame established by the market concerned Financial assets designated as fair value through profit or loss on initial recognition are measured initially and at subsequent reporting dates at fair value For listed securities this is either bid price or last traded price, depending on the convention of the exchange on which the investment is listed The unlisted investment is fair valued by the Directors on the basis of International Private Equity and Venture Capital Valuation Guidelines and all the information available to them at the time of valuation The valuation is based on the net asset value of the investment as stated in the management accounts at 31 December 2007, adjusted for an appropriate marketability discount Changes in fair value are included in the Income Statement as a capital item

(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 recognised on the due date

Income from fixed interest securities is recognised on a time apportionment basis so as to reflect the effective interest rate

Deposit interest is recognised 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 stock 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 to the Income Statement as a revenue item 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, and
- Management fees payable have been allocated 25 per cent to revenue and 75 per cent to capital

Transaction costs incurred on the purchase and sale of investments are taken to the Income Statement as a capital item

(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 allocated to capital reserves

Notes to the Accounts (continued)

(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 accounts 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

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates at the date of the transaction Overseas assets and liabilities are translated at the rate ruling at the balance sheet date Profits or losses on the 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 The functional currency of the Company, being its statutory reporting currency, is sterling

(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,
- increases and decreases in the valuation of listed investments held at year end which are readily convertible to cash in full, without adverse terms,
- 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 are accounted for in this reserve

- increases and decreases in the valuation of unlisted investments held at the year end,
- unrealised exchange differences of a capital nature

Rates of exchange at 31 January	**2008**	2007
Hong Kong Dollar	**15 50**	15 29
Indian Rupee	**78 28**	86 42
Indonesian Rupiah	**18,382**	17,812
Korean Won	**1,876**	1,843
Malaysian Ringgit	**6.43**	6 85
Philippino Peso	**80 62**	95 72
Singaporean Dollar	**2.82**	3 01
New Taiwanese Dollar	**63 94**	64 45
Thai Baht	**65 63**	68 00
US Dollar	**1 99**	1 96

2 Income

	2008 £'000	2007 £'000
Dividend income from investments†		
Listed overseas	**3,282**	3,053
	3,282	3,053
Other income‡		
Deposit interest	**24**	140
	24	140
Total income	**3,306**	3,193

† All investments have been designated as fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss

‡ Other income on financial assets not designated as fair value through profit or loss

3 Investment management fee

	2008			2007		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**389**	**1,166**	**1,555**	275	826	1,101

Throughout the year the Company's investment manager was F&C Investment Business Limited ('FCIB') FCIB receives a quarterly fee, payable in advance, equal to one quarter of one per cent of the value of the net assets of the Company

The contract between the Company and FCIB may be terminated at any time by either party giving six months' notice of termination The investment management agreement may be terminated earlier provided that a payment in lieu of notice, equivalent to the amount the investment manager would otherwise have received during the notice period, is made

4 Other expenses

	2008 £'000	2007 £'000
Directors' fees	**82**	80
Auditors' remuneration for		
– audit	**16**	16
– other services supplied relating to taxation	**4**	4
Other expenses including custody costs, bank charges, registration, marketing and AIC contribution	**467**	465
	569	565

Notes to the Accounts (continued)

5 Interest payable

	Revenue £'000	Capital £'000	2008 Total £'000	Revenue £'000	Capital £'000	2007 Total £'000
Interest payable on bank loans and overdrafts not designated as fair value through profit or loss	**243**	**730**	**973**	135	405	540

6(a) Tax on ordinary activities

	Revenue £'000	Capital £'000	2008 Total £'000	Revenue £'000	Capital £'000	2007 Total £'000
UK corporation tax	**642**	**(642)**	**–**	659	(659)	–
Overseas taxation	**–**	**83**	**83**	–	103	103
	642	**(559)**	**83**	659	(556)	103

As at 31 January 2008 the Company had unutilised management expenses for taxation purposes of £11,556,000 (2007 £11,800,000) It is not anticipated that these will have value in the foreseeable future The Company also had Eligible Unrelieved Foreign Tax 'A' of £482,000 (2007 £399,000) which can be utilised against corporation tax in future periods Overseas tax arose as a result of unrelieved withholding tax on foreign dividends

6(b) Factors affecting tax charge

The revenue account tax charge for the year is different to the standard rate of corporation tax in the UK for an investment company (30 per cent) The differences are explained below

	2008 £'000	2007 £'000
Return on ordinary activities before tax	**2,105**	2,218
Corporation tax at standard rate of 30 per cent	**631**	665
Effects of		
Tax effect of overseas income assessed on receipt basis	**11**	(6)
Current year tax charge (note 6a)	**642**	659

The above reconciliation has been presented on a revenue basis as the Company is an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 and therefore not liable to corporation tax on capital gains

7 Dividends

	2008 £'000	2007 £'000
Amounts recognised as distributions to equity shareholders during the year		
– final dividend for the year ended 31 January 2007 of 1 12p per share	**1,326**	–
– final dividend for the year ended 31 January 2006 of 1 05p per share	**–**	1,282
Proposed distributions to equity shareholders at the year end on which the requirements of S842 ICTA 1988 are considered		
– final dividend for the year ended 31 January 2008 of 1 12p per share	**1,326**	–
– final dividend for the year ended 31 January 2007 of 1 12p per share	**–**	1,326

8 Return per Ordinary Share

	2008 Revenue	2008 Capital	2008 Total	2007 Revenue	2007 Capital	2007 Total
Basic	**1 24p**	**24 35p**	**25 59p**	1 29p	10 97p	12 26p

Basic revenue return per Ordinary Share is based on the net revenue return on ordinary activities after taxation of £1,463,000 (2007 £1,559,000), and on 118,423,728 (2007 121,118,139) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year

Basic capital return per Ordinary Share is based on the net capital return for the financial year of £28,841,000 (2007 £13,288,000), and on 118,423,728 (2007 121,118,139) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year

9 Investments

All investments are designated as fair value through profit or loss on initial recognition, therefore all gains and losses arise on investments designated as fair value through profit or loss

For listed investments, the fair value gains recognised in these financial statements are considered to be readily convertible to cash in full at the balance sheet date and therefore these fair values are treated as realised

For unlisted investments the fair value gains recognised in these financial statements are not considered to be readily convertible to cash in full at the balance sheet date and therefore these fair values are treated as unrealised

	2008 £'000	2007 £'000
Equity investments listed on recognised investment exchanges	**160,890**	132,928
Unlisted investment	**208**	198
	161,098	133,126

	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	105,965	741	106,706
Opening fair value adjustment	26,963	(543)	26,420
Opening valuation	132,928	198	133,126
Movements in the year			
Purchases at cost	90,205	–	90,205
Sales – proceeds	(92,258)	–	(92,258)
– realised gains on sales	30,388	–	30,388
(Decrease)/increase in fair value adjustment	(373)	10	(363)
Closing valuation	**160,890**	**208**	**161,098**
Closing book cost	134,300	741	135,041
Closing fair value adjustment	26,590	(533)	26,057
	160,890	**208**	**161,098**

Notes to the Accounts (continued)

9 Investments (continued)

	2008 £'000	2007 £'000
Realised gains on sales	**30,388**	14,000
Of which previously recognised as fair value adjustment	**(14,174)**	(15,550)
Realised gains/(losses) for the year	**16,214**	(1,550)
Movement in fair value	**13,811**	15,277
Gains on investments	**30,025**	13,727

During the year the Company incurred transaction costs on purchases of £311,149 (2007 £397,313) and transaction costs on sales of £389,616 (2007 £404,235)

10 Debtors

	2008 £'000	2007 £'000
Amounts due from brokers	**3,068**	750
Accrued income	**265**	300
Prepayment of FCIB management fee	**286**	173
Other debtors	**8**	48
	3,627	1,271

11 Creditors, amounts falling due within one year

	2008 £'000	2007 £'000
Amounts due to brokers	**2,416**	950
Bank overdraft	**11**	-
Loan interest	**20**	41
Other creditors	**113**	108
Revolving credit facility	**10,060**	10,218
	12,620	11,317

The Company has two unsecured revolving credit facilities amounting in aggregate to US$50 million A sterling equivalent of £10,060,000 was drawn down as at 31 January 2008 (2007 £10,218,000)

Under the bank covenants relating to the facilities the Company is to ensure that at all times

- total borrowings of the Company do not exceed 35 per cent of the Adjusted Net Asset Value, and
- the Adjusted Net Asset Value exceeds £40 million

Further information regarding the facilities is contained in note 19

12 Called up share capital

	2008 £'000	2007 £'000
Authorised		
176,000,000 Ordinary Shares of 12 50p each (2007 176,000,000)	**22,000**	22,000
Allotted, called up and fully paid		
118,348,386 Ordinary Shares of 12 50p each (2007 118,848,386)	**14,794**	14,856

During the year the Company purchased for cancellation 500,000 (2007 3,610,000) Ordinary Shares of 12 50p each for a total consideration of £489,000 representing £62,500 nominal value and 0 4 per cent of the Ordinary Shares in issue at the previous year end

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Report of the Directors on pages 13 and 14

The Company does not have any externally imposed capital requirements

13 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 2007	4	1,398	16,711	60,589	26,644	3,414
Transfer between reserves*	–	–	–	27,187	(27,187)	–
Net gain on realisation of investments	–	–	–	30,388	–	–
(Decrease)/increase in fair value adjustment on investments	–	–	–	(373)	10	–
Exchange differences	–	–	–	96	57	–
Investment management fee charged to capital	–	–	–	(1,166)	–	–
Interest charged to capital	–	–	–	(730)	–	–
Share buy backs	–	62	(489)	–	–	–
Tax	–	–	–	559	–	–
Dividends paid	–	–	–	–	–	(1,326)
Retained net revenue return for the year	–	–	–	–	–	1,463
At 31 January 2008	**4**	**1,460**	**16,222**	**116,550**	**(476)**	**3,551**

*With effect from 1 February 2007, changes in fair value of investments which are readily convertible to cash, without adverse terms, at the balance sheet date are included in realised, rather than unrealised, capital reserves The balances on both reserves at 1 February 2007 have been amended by a reserve transfer to reflect this change The transfer also includes the unrealised exchange gain on the US dollar revolving credit facility as at 31 January 2007

14 Net asset value per Ordinary Share

The net asset value per Ordinary Share and the net asset value attributable to the Ordinary Shares at the year end are calculated as follows

	Attributable value per share		Attributable net asset value	
	2008 pence	2007 pence	**2008 £'000**	2007 £'000
Ordinary Shares	**128.52**	104 01	**152,105**	123,616

The net asset value per Ordinary Share is calculated on net assets of £152,105,000 (2007 £123,616,000), divided by 118,348,386 (2007 118,848,386) Ordinary Shares, being the number of Ordinary Shares in issue at the year end

Notes to the Accounts (continued)

15 Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

	2008 **£'000**	2007 £'000
Net return before finance costs and taxation	**31,360**	15,490
Gains on investments	**(30,025)**	(13,727)
Exchange differences	**(153)**	(236)
Decrease/(increase) in accrued income	**35**	(20)
Increase in prepayments and other debtors	**(73)**	(14)
Increase/(decrease) in other creditors	**5**	(2)
Irrecoverable withholding tax on investment income	**(83)**	(103)
Net cash inflow from operating activities	**1,066**	1,388

16 Analysis of changes in net debt

	At 31 January 2007 £'000	Cash flow £'000	Currency movements £'000	**At** **31 January** **2008** **£'000**
Cash at bank and on deposit	536	(671)	124	**(11)**
Revolving credit facility	(10,218)	129	29	**(10,060)**
	(9,682)	(542)	153	**(10,071)**

17 Financial instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank loans, overdrafts, debtors and creditors that arise directly from its operations As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective The Company makes use of borrowings, as detailed in note 11 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

Listed fixed asset investments held (see note 9) are valued at fair value For listed securities this is either bid price or the last traded price depending on the convention of the exchange on which the investment is listed Unlisted investments are valued by the Directors on the basis of all the information available to them at the time of valuation The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 27 The fair value of the loans is not materially different from the carrying value in the Balance Sheet

The main risks that the Company faces arising from its financial instruments are

(i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements,

(ii) interest rate risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates,

(iii) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales and income will fluctuate because of movements in currency rates,

(iv) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, and

(v) liquidity risk, being the risk that the Company may not be able to liquidate quickly its investments

17 Financial instruments (continued)

The Company held the following categories of financial instruments as at 31 January 2008

	2008 £'000	2007 £'000
Financial instruments		
Investment portfolio	**161,098**	133,126
Cash at bank and on deposit	**-**	536
Amounts due from brokers	**3,068**	750
Accrued income	**265**	300
Prepayments	**286**	173
Other debtors	**8**	48
Financial liabilities		
Revolving credit facility	**10,060**	10,218
Bank overdraft	**11**	-
Amounts due to brokers	**2,416**	950
Loan interest	**20**	41
Other creditors	**113**	108

18 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 There were no open positions as at 31 January 2008

If the investment portfolio valuation fell by 10 per cent at 31 January 2008, the impact on the profit or loss and the net asset value would have been negative £16 1 million (2007 negative £13 3 million) If the investment portfolio valuation rose by 10 per cent at 31 January 2008, the impact on the profit or loss and the net asset value would have been positive £16 1 million (2007 positive £13 3 million) The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole

19 Interest rate risk

Floating rate

When the Company retains cash balances the majority of the cash is held in deposit accounts No cash was held on deposit at year end (31 January 2007 nil) The benchmark rate which determines the interest payments received on cash balances is the bank base rate for the relevant currency for each deposit

The Company has 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 March 2005, the Company entered into a $20 million revolving credit facility with ING Bank N V , of which $20 million was drawn down at 31 January 2008 (2007 $20 million), renewed at a rate of interest of 4 72 per cent

On 11 June 2007, the Company entered into a $30 million revolving credit facility with The Royal Bank of Scotland plc, of which $nil was drawn down at 31 January 2008 (2007 $nil)

Fixed rate

The Company does not hold any fixed interest investments and accordingly no sensitivity analysis has been presented

Notes to the Accounts (continued)

20 Foreign currency risk

The Company invests in overseas securities and holds foreign currency cash balances which give 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

	2008 Investments £'000	**2008 Cash £'000**	**2008 Loans £'000**	2007 Investments £'000	2007 Cash £'000	2007 Loans £'000
US Dollar	**-**	**42**	**(10,060)**	–	(644)	(10,218)
Hong Kong Dollar	**56,396**	**1**	**-**	40,461	–	–
Indian Rupee	**7,942**	**-**	**-**	2,106	–	–
Indonesian Rupiah	**7,379**	**-**	**-**	7,090	1,038	–
Korean Won	**24,895**	**(33)**	**-**	24,756	(34)	–
Malaysian Ringgit	**18,110**	**-**	**-**	9,012	–	–
Philippino Peso	**6,491**	**-**	**-**	4,849	–	–
Singaporean Dollar	**13,507**	**-**	**-**	19,491	–	–
New Taiwanese Dollar	**21,960**	**2**	**-**	21,614	164	–
Thai Baht	**4,418**	**-**	**-**	3,747	–	–
Total	**161,098**	**12**	**(10,060)**	133,126	524	(10,218)

In addition, the following currency amounts are included in net current liabilities in US dollars, loan interest payable of £20,000 (2007 £41,000), in Korean Won, dividends receivable of £261,000 (2007 £260,000), in Hong Kong dollars, dividends receivable of £4,000 (2007 £12,000), in Philippino Pesos, dividends receivable of £nil (2007 £21,000), and in Singaporean dollars, dividends receivable of £nil (2007 £7,000)

At 31 January 2008 the Company had £23,000 of sterling cash overdrafts (2007 bank balance of £12,000)

If the value of sterling had weakened against each of the currencies in the portfolio by 5 per cent, the impact on the profit or loss and the net asset value would have been positive £7 6 million (2007 positive £6 2 million) If the value of sterling had strengthened against each of the currencies in the portfolio by 5 per cent, the impact on the profit or loss and the net asset value would have been negative £7 6 million (2007 negative £6 2 million) The calculations are based on the portfolio valuation and cash and loan balances as at the respective balance sheet dates and are not representative of the year as a whole

21 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company The investment manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis The carrying amounts of financial assets best represents the maximum credit risk exposure at the balance sheet date

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following

	2008	2007
	£'000	£'000
Cash and cash equivalents	**-**	536
Balances due from brokers	**3,068**	750
Interest, dividends and other receivables	**559**	521
	3,627	1,807

Credit risk on unlisted investments is considered to be part of market price risk as disclosed in note 18

Credit risk arising on transactions with brokers relates to transactions awaiting settlement Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used The Board monitors the quality of service provided by the brokers used to further mitigate this risk

All the assets of the Company which are traded on a recognised exchange are held by JPMorgan Chase Bank ('JPM'), the Company's custodian Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited The Board monitors the Company's risk by reviewing the custodian's internal control reports as described in the Report of the Directors on pages 18 and 19

Substantially all of the cash held by the Company is held by JPM Bankruptcy or insolvency of JPM may cause the Company's rights with respect to the cash held by JPM to be delayed or limited The Board monitors the Company's risk by reviewing regularly JPM's internal control reports as previously described Should the credit quality or the financial position of JPM deteriorate significantly the investment manager will move the cash holdings to another bank

There were no significant concentrations of credit risk to counterparties at 31 January 2008 or 31 January 2007 No individual investment exceeded 5 1 per cent of the total assets less current liabilities attributable to the Company's shareholders at 31 January 2008 (2007 5 0 per cent)

22 Liquidity risk

The Company's financial instruments include an investment in an unlisted equity investment which is not traded in an organised public market and which generally may be illiquid As a result, the Company may not be able to liquidate this investment at an amount close to its fair value

The Company's listed securities are considered to be readily realisable

The Company's liquidity risk is managed on an ongoing basis by the investment manager in accordance with policies and procedures in place as described in the Report of the Directors on pages 18 and 19 The Company's overall liquidity risks are monitored on a quarterly basis by the Board

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses Short term flexibility is achieved, where necessary, through the use of overdraft facilities At 31 January 2008, the Company had an overdraft facility available of £2,000,000 (2007 £2,000,000)

23 Related parties

Information in respect of transactions with related parties is included within the Report of the Directors under the heading Management and Management Fees and is disclosed in notes 3 and 10

Shareholder Information

Annual General Meeting

The Annual General Meeting of Pacific Assets Trust plc will be held at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY on Monday 9 June 2008 at 12 noon

Dividends

The 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 the Company's Registrars, Equiniti Limited, on request

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* and other newspapers

Change of Address

Communications with shareholders are mailed to the address held on the share register In the event of a change of address or other amendment this should be notified to the Company's Registrars, Equiniti Limited, under the signature of the registered holder

Capital Gains Tax

To assist those shareholders who acquired their holding at the time of 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 50p

Daily Net Asset Value

The daily net asset value of the Company's shares can be obtained by contacting F&C Asset Management Investor Services on 0845 600 6166

Profile of the Company's Ownership

% of Ordinary Shares held as at 31 January 2008

Financial Calendar 2007/08

May 2008	Publication of Interim Management Statement
9 June 2008	Annual General Meeting
20 June 2008	Final dividend on Ordinary Shares paid
September 2008	Announcement of interim results
	Posting of Interim Report
November 2008	Publication of Interim Management Statement
March 2009	Announcement of annual results
	Posting of Annual Report

Ten Year Record

31 January	Shareholders' funds £ 000	Lower of fully diluted and basic net asset value per Ordinary Share	Ordinary Share price	Discount	Series II Warrant price	Dividends per Ordinary Share	Total expense ratio
1998	67,643	52 02p	47 50p	8 7%	6 75p	0 40p	1 9%
1999	70,593	54 29p	40 75p	24 9%	2 25p	0 40p	2 0%
2000	130,647	101 18p	83 50p	17 5%	6 75p	0 40p	1 7%
2001	97,237	78 46p	64 75p	17 5%	1 50p	0 42p	1 8%
2002	79,838	64 68p	53 50p	17 3%	0 60p	0 45p	1 6%
2003	56,761	46 35p	38 50p	16 9%	N/A	0 50p	2 1%
2004	83,939	68 54p	62 00p	9 5%	N/A	0 60p	1 8%
2005	87,402	71 37p	64 00p	10 3%	N/A	1 02p	1 6%
2006	113,049	92 32p	86 00p	6 8%	N/A	1 05p	1 5%
2007	123,616	104 01p	93 50p	10 1%	N/A	1 12p	1 4%
2008	**152,105**	**128.52p**	**115 50p**	**10 1%**	**N/A**	**1 12p**	**1 5%**

How to Invest

As well as investing in Pacific Assets Trust plc directly through a stockbroker, you can enjoy some additional benefits by investing through one of the savings plans run by F&C

You can enjoy the convenience of making regular savings by Direct Debit, take advantage of our tax efficient ISA wrapper, receive a simple statement every six months and let us automatically reinvest your dividends for you

- **F&C Private Investor Plan**
  A flexible, low cost way to invest with a lump sum from £500 or regular savings from £50 a month

- **F&C Investment Trust ISA**
  Invest up to £7,200 tax efficiently each year with a lump sum from £500 or regular savings from £50 a month You can also transfer any existing ISAs (including former PEPs)

- **F&C Child Trust Fund ('CTF')**
  F&C is a leading provider of children's investment plans and is currently the only provider to offer an investment trust based CTF Suitable for children born after 1 September 2002

- **F&C Children's Investment Plan**
  Suitable for older children ineligible for a CTF, or if you need access to the funds before the child is 18 This flexible plan can easily be written under trust to help reduce inheritance tax liability Investments can be made from a £250 lump sum or £25 a month

Potential investors are reminded that the value of investments and the income from them may go down as well as up and you may not receive back the full amount originally invested Tax rates and reliefs depend on the circumstances of the original investor

Low Charges

All the plans are low cost and flexible When you buy or sell shares in these plans the dealing fee is only 0 2% Government stamp duty of 0 5% also applies on purchases There are no initial or exit charges The only annual management fee is on the ISA, which is £60+VAT (no matter how many ISAs you take out annually with F&C, or how many ISAs you transfer)

The F&C Child Trust Fund has no initial charges, dealing charges or annual management fee

How to Invest

For more information on any of these products, please contact F&C's Investor Services Team

Call us on **0800 136 420**

email at **info@fandc com**

invest online at **www fandc.com**

Existing plan holders' enquiry line
0845 600 3030

Or write to
F&C
Freepost RLRY LYSR KYBU
Clandeboyne Business Park
West Circular Road
Bangor BT19 1AR

Calls may be recorded

The above has been approved by F&C Management Limited which is Authorised and regulated by the Financial Services Authority (FSA) Stock market 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 twenty third Annual General Meeting of Pacific Assets Trust Public Limited Company will be held at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY, on Monday 9 June 2008 at 12 noon for the following purposes

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

1 That the Report of the Directors and Accounts for the financial year ended 31 January 2008 together with the Report of the Auditors thereon be received

2 That a final dividend for the financial year ended 31 January 2008 of 1 12p per Ordinary Share be declared

3 That Mr D B Nichol, who retires annually, be re elected as a Director

4 That Mr N M S Rich, who retires annually, be re elected as a Director

5 That Mr T F Mahony, who retires annually, be re elected as a Director

6 That the Directors' Remuneration Report for the financial year ended 31 January 2008 be approved

7 That the fees paid to, and the benefits in kind received by, the Directors for their services in the office of director shall not, for the purposes of Article 90 of the Company's Articles of Association, exceed in aggregate £200,000 per annum

8 That KPMG Audit Plc be appointed as Auditors, to hold office from the conclusion of the Annual General Meeting 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

9 That the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (as amended) (the 'Act') to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £1,479,354 in substitution for any existing authority under Section 80 of the Act but without prejudice to any exercise of any such authority prior to the date of the passing of this resolution, such authority to expire on the date of the next Annual General Meeting of the Company to be held after the passing of this resolution but so that such authority shall allow the Company to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired

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

10 That, subject to the passing of Resolution number 9 set out in the notice of Annual General Meeting of the Company convened for 9 June 2008 ('Resolution 9'), the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 (as amended) (the 'Act') to allot equity securities (within the meaning of Section 94(2) to Section 94(3A) of the Act) wholly for cash pursuant to the authority under Section 80 of the Act conferred on the Directors by Resolution 9 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to

(a) the allotment of equity securities in connection with an offer of such securities by way of rights or open offer to the holders of equity securities in the Company ('Shares') where the equity securities respectively attributable to the interest of all such holders are proportionate (as nearly as may be practicable) to the respective number of Shares held (or deemed or notionally held) by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements or to deal with any legal or practical problems arising under the laws of any territory or the requirements of any regulatory or governmental body or authority or stock exchange in any territory, and

Notice of Annual General Meeting (continued)

(b) the allotment (other than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £739,677 (being 5 per cent of the equity share capital of the Company in issue on 8 April 2008),

and shall expire at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 94(3A) of the Act as if in the first paragraph of this resolution the words 'pursuant to the authority under Section 80 of the Act conferred on the Directors by Resolution 9' were omitted

11 That, in substitution for any existing authority under Section 166 of the Companies Act 1985 (as amended) (the 'Act') but without prejudice to the exercise of any such authority prior to the passing of this resolution, the Company be and is hereby generally and unconditionally authorised, pursuant to and for the purposes of Section 166 of the Act, to make one or more 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 aggregate number of Shares hereby authorised to be purchased shall be 14 99 per cent of the number of Shares in issue immediately prior to the passing of this resolution,

(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 on which the relevant Share is contracted to be purchased, and

(d) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire on the earlier of 9 December 2009 and the conclusion of the Annual General Meeting of the Company to be held in 2009 save that the Company may, prior to such expiry, enter into contracts or arrangements to purchase Shares under such authority which will or may be completed or executed wholly or partly after the expiration of such authority and may make purchases of Shares pursuant to any such contracts or arrangements as if the authority conferred hereby had not expired

12 That the draft regulations produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to the entire exclusion of, the existing articles of association of the Company

13 That, subject to the passing of Resolution number 12 set out in the notice of Annual General Meeting of the Company convened for 9 June 2008 being passed and with effect from 12 01 am on 1 October 2008 (or such later date as section 175 of the Companies Act 2006 shall be brought into force), Article 99 of the Company's articles of association adopted pursuant to such resolution 12 be deleted in its entirety and replaced by the following new Article 99

"Paragraphs (A) to (H) of this Article are subject to the provisions of the Statutes and to the provisions of paragraphs (J) to (P)

(A) No director or proposed or intending director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any contract in which any director is in any way interested be liable to be avoided, nor shall any director who is so interested be liable to account to the Company or the members for any remuneration, profit or other benefit realised by the contract by reason of the director holding that office or of the fiduciary relationship thereby established

(B) A director may hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of director for such period (subject to the provisions of the Statutes) and upon such other terms as the Board may decide, and may be paid such extra remuneration for so doing (whether by way of salary, commission, participation in profits or otherwise) as the Board or any committee authorised by the Board may decide, and either in addition to or in lieu of any remuneration provided for by or pursuant to any other Article

(C) A director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or in which the Company may be interested or as regards which it has any power of appointment, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in the other company The Board may also cause any voting power conferred by the shares in any other company held or owned by the Company or any power of appointment to be exercised in such manner in all respects as it thinks fit, including the exercise of the voting power or power of appointment in favour of the appointment of the directors or any of them as directors or officers of the other company, or in favour of the payment of remuneration to the directors or officers of the other company

(D) A director may act by himself or his firm in a professional capacity (otherwise than as Auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director

(E) A director shall not vote on or be counted in the quorum in relation to any resolution of the Board concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, as the holder of any office or place of profit with the Company or any other company in which the Company is interested but, where proposals are under consideration concerning the appointment, or the settlement or variation of the terms or the termination of the appointment, of two or more directors to offices or places of profit with the Company or any other company in which the Company is interested, a separate resolution may be put in relation to each director and in that case each of the directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution unless it concerns his own appointment or the settlement or variation of the terms or the termination of his own appointment or the appointment of another director to an office or place of profit with a company in which the Company is interested and the director seeking to vote or be counted in the quorum owns one per cent or more of it

(F) Save as otherwise provided by these Articles, a director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board in respect of any actual or proposed transaction or arrangement with the Company in which he has an interest which (taken together with any interest of any person connected with him) is to his knowledge an interest of which he is aware, or ought reasonably to be aware, does conflict, or can reasonably be regarded as likely to give rise to a conflict, with the interests of the Company and, if he shall do so, his vote shall not be counted, but this prohibition shall not apply to any resolution where that material interest arises only from one or more of the following matters

(i) the giving to him of any guarantee, indemnity or security in respect of

Notice of Annual General Meeting (continued)

money lent or obligations undertaken by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings,

(ii) the giving to a third party of any guarantee, indemnity or security in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security,

(iii) where the Company or any of its subsidiary undertakings is offering securities in which offer the director is or may be entitled to participate as a holder of securities or in the underwriting or sub underwriting of which the director is to participate,

(iv) any contract in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company,

(v) any contract concerning any other company (not being a company in which the director owns one per cent or more) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever,

(vi) any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors and employees of the Company or of any of its subsidiary undertakings and does not provide in respect of any director as such any privilege or advantage not accorded to the employees to which the fund or scheme relates,

(vii) any contract for the benefit of the employees of the Company or of any of its subsidiary undertakings under which he benefits in a similar manner to the employees and which does not accord to any director as such any privilege or advantage not accorded to the employees to whom the contract relates, and

(viii) any contract for the purchase or maintenance of insurance against any liability for, or for the benefit of, any director or directors or for, or for the benefit of, persons who include directors

(G) A company shall be deemed to be one in which a director owns one per cent or more if and so long as (but only if and so long as) he, taken together with any person connected with him, is to his knowledge (either directly or indirectly) the holder of or beneficially interested in one per cent or more of any class of the equity share capital of that company or of the voting rights available to members of that company For the purpose of this paragraph of this Article there shall be disregarded any shares held by the director or any such person as bare or custodian trustee and in which he has no beneficial interest, any shares comprised in a trust in which his, or any such person's, interest is in reversion or remainder if and so long as some other person is entitled to receive the income of the trust and any shares comprised in an authorised unit trust scheme in which he, or any such person, is interested only as a unit holder

(H) Where a company in which a director owns one per cent or more is interested in a contract, he also shall be deemed to be interested in that contract

(I) If any question shall arise at any meeting of the Board as to whether the interest of a director gives rise to a conflict, or could reasonably be regarded as likely to give rise to a conflict, with the interests of the company or as to the entitlement of any director to vote or be counted in the quorum and the question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, the question shall be decided by a resolution of the Board (for which purpose the director in question shall not be counted in the quorum and provided that the resolution was agreed to without the director in question voting or would have been agreed if their votes had not been counted) and the resolution shall be conclusive except in a case where the nature or extent of the interest of the director (so far as it is known to him) has not been fairly disclosed to the Board

(J) A director who is in any way, whether directly or indirectly, interested in a actual or proposed transaction or arrangement with the Company shall declare the nature and extent of his interest at the meeting of the Board at which the question of entering into the contract is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested For the purposes of this Article, a general notice to the Board by a director to the effect that (a) he is a member of a specified company or firm and is to be regarded as interested in any contract which may after the date of the notice be made with that company or firm or (b) he is to be regarded as interested in any contract which may after the date of the notice be made with a specified person who is connected with him, shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract, provided that no such notice shall be effective unless either it is given at a meeting of the Board or the director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given

(K) References in this Article to a contract include references to any proposed contract and to any transaction or arrangement whether or not constituting a contract

(L) In respect of any situation in which a director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company, the Board may authorise the matter, on such terms as they may determine, provided that

(i) the director has declared the full nature and extent of the situation to the Board, and

(ii) it is proposed (either by the director in question or another) that the Board authorise the matter and upon the resolution to do so the requirement for the quorum is met without counting the director in question and the resolution was agreed to without such director voting or would have been agreed to if that conflicted director's vote had not been counted

(M) Any terms determined by the Board under paragraph (L) of this Article may be imposed at the time of authorisation or may be imposed subsequently and may include (without limitation)

(i) the exclusion of the interested director in question from all information and discussion by the Company of the situation in question, and

(ii) (without prejudice to the general obligations of confidentiality) the application to the interested director of a strict duty of confidentiality to the Company for any confidential information of the Company in relation to the situation in question

(N) An interested director under this Article 99 must act in accordance with any terms determined by the Board pursuant to paragraphs (L) or (M) of this Article

(O) Any authorisation given by the Board under paragraph (L) of this Article may provide that, where the interested director obtains (other than through his position as a director of the Company) information that is

Notice of Annual General Meeting (continued)

confidential to a third party, he will not be obliged to disclose it to the Company or to use it in relation to the Company's affairs in circumstances where to do so would amount to a breach of that confidence

(P) Subject to the provisions of the Statutes, the Company may by ordinary resolution suspend or relax the provisions of this Article to any extent or ratify any contract not properly authorised by reason of a contravention of this Article provided that nothing in this Article shall permit the Company to cease to comply with the Listing Rules of the UKLA "

By order of the Board
G R Hay Smith
Secretary
80 George Street
Edinburgh EH2 3BU
8 April 2008

Notes

1 The final dividend if declared, will be paid on 20 June 2008 to shareholders on the Register of Members at close of business on 23 May 2008

2 A member entitled to attend and vote at this meeting may appoint one or more persons as his/her proxy to attend, speak and vote on his/her behalf at the meeting A proxy need not be a member of the Company If multiple proxies are appointed they must not be appointed in respect of the same shares To be effective the duly executed enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof should be lodged at address shown on the proxy form not later than 48 hours before the time of the meeting The appointment of a proxy will not prevent a member from attending the meeting and voting in person if he/she so wishes A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he/she is the holder

3 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf

4 In order for a proxy appointment or instruction made by means of CREST to be valid the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear s specifications and must contain the information required for such instructions, as described in the CREST Manual The message, in order to be valid must be transmitted so as to be received by the Company's agent (ID 7RA01) by the latest time for receipt of proxy appointments specified in Note 2 above For this purpose the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means

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

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

6 As at 8 April 2008 (being the last business day prior to the publication of this notice) the Company's issued share capital amounted to 118 348,386 ordinary shares carrying one vote each Therefore the total voting rights in the Company as at 8 April 2008 were 118 348 386 votes

7 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 7 June 2008 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 7 June 2008 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

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

The statements of the rights of members in relation to the appointment of proxies in Notes 2 and 3 above do not apply to a Nominated Person The rights described in those Notes can only be exercised by registered members of the Company

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

10 In order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the meeting so that (i) if a corporate Shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that corporate Shareholder present at the meeting then, on a poll, those corporate representatives will give voting directions to the Chairman of the meeting and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions, and (ii) if more than one corporate representative for the same corporate Shareholder attends the meeting but the corporate Shareholder has not appointed the Chairman of the meeting as its corporate representative a designated corporate representative will be nominated from those corporate representatives in attendance on behalf of the corporate Shareholder who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative Corporate Shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives *www icsa org uk* for further details of this procedure The guidance includes a sample form of representation letter if the Chairman is being appointed as described in sub paragraph (i) of this Note

11 The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays Sundays and public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting and on the date of the Annual General Meeting at Exchange House, Primrose Street, London EC2A 2NY from 11 45 am until the conclusion of the meeting

(a) a copy of the Articles of Association of the Company as proposed to be adopted with effect from the passing of Resolution 12

(b) the Directors' letters of appointment

Appendix to the Notice of Annual General Meeting

Summary of the Material Changes to the Articles of Association of the Company

The principal changes arising from the adoption of the New Articles are set out below References to Article numbers are references to a particular Article in the New Articles

Articles that Duplicate Statutory Provisions

Certain provisions in the current Articles which replicate provisions contained in companies legislation are in the main amended to bring them into line with the 2006 Act Certain examples of such provisions, including provisions as to convening general meetings and proxies, are detailed below

Electronic Communications and CREST

The New Articles contain a number of provisions designed to maximise the Company's ability to use electronic systems for communication with *shareholders and for dealing in shares through* CREST

Various provisions are included in the New Articles to allow the Company to communicate with shareholders via electronic means and to give the Directors the discretion to use electronic communications to distribute notices of meetings, annual reports, accounts and summary financial statements The New Articles also reflect the Uncertificated Securities Regulations 2001 and the 2006 Act by permitting members holding uncertificated shares to appoint, instruct, amend and revoke proxy appointments using the CREST system

In addition, the New Articles simplify procedures for transacting the business of the Board by permitting the convening of meetings, serving of notice of resignation, appointment of alternates and execution of Directors' resolutions by electronic means

Form of Resolution

The existing Articles contain provisions referring to "extraordinary" resolutions and "extraordinary" general meetings These concepts have been abolished under the 2006 Act Meetings of shareholders other than annual general meetings are referred to simply as general meetings Any resolution requiring a 75 per cent majority will be a "special" resolution Where for any purpose an ordinary resolution is required a special resolution shall also be effective

Convening of General Meetings and Annual General Meetings

The provisions of the existing Articles dealing with the convening of general meetings and annual general meetings and the length of notice required to convene such meetings are amended in the New Articles to conform to the new provisions of the 2006 Act In particular, general meetings to consider special resolutions can now be convened on 14 clear days' notice whereas previously 21 clear days' notice was required An annual general meeting still requires 21 clear days' notice

Votes of Members

Under the 2006 Act proxies are entitled to vote on a *show of hands whereas under the existing Articles* proxies are only entitled to vote on a poll The time limits for the appointment of proxies have also been altered by the 2006 Act so that weekends and bank holidays do not need to be counted in determining the time limits for lodging of proxies Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share or class of shares held by the shareholder

Corporate Representatives

The 2006 Act permits a corporate shareholder to appoint multiple corporate representatives who can attend, speak, vote and count towards a quorum at any general meeting However, where multiple corporate representatives exercise votes in different ways, the 2006 Act provides that no votes have been exercised The New Articles reflect the provisions in the 2006 Act

Age of Directors on Appointment

The existing Articles require a Director to leave office after reaching the age of 70 years old This has been deleted in the New Articles as it may fall foul of age discrimination legislation

Conflicts of Interest

The New Articles retain the provisions of the existing Articles in relation to Directors' conflicts of interest However, it is intended that with effect from 1 October 2008 these provisions will be amended to reflect new provisions of the 2006 Act in relation to Directors' conflicts of interests which are expected to come into force on that date

The 2006 Act sets out Directors' general duties which largely codify the existing law but with some changes Under the 2006 Act, from 1 October 2008 a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or may conflict, with the Company's interests The requirement is very broad and could apply, for example, if a Director becomes a director of another company or a trustee of another organisation The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, insofar as the articles of association contain a provision to this effect The 2006 Act also allows articles to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and second, in taking the decision, the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at Board meetings and the availability of Board papers to protect a Director being in breach of duty if a conflict of interest or a potential conflict of interest arises

It is proposed that the New Articles will, with effect from 1 October 2008, contain provisions giving the Directors authority to approve situations involving Directors' conflicts of interest and to allow conflicts of interest to be dealt with by the Board The new provisions are contained in Resolution 13 set out in the notice of the Annual General Meeting

Indemnity

The 2006 Act allows companies to indemnify their directors and other officers in civil and criminal proceedings brought by third parties both against the claim itself and against the cost of defending the proceedings (on an 'as incurred' basis) The 2006 Act also provides that a company may indemnify the directors of an associated company, and that a company that is a trustee of an occupational pension scheme can now indemnify a director against any liability incurred in connection with the company's activities as trustee of the scheme The New Articles have been amended to accommodate the new law The Board believes that the power of the Company to indemnify its Directors in the manner described above is fair and reasonable and introduces a more appropriate balance of risk and reward

Corporate Information

Directors
D B Nichol, FCA (Chairman)*
R M A Horlick
S H Leckie, OBE
T F Mahony
N M S Rich, CBE, FCA†

Secretary
G R Hay Smith, CA

Registered Office
80 George Street
Edinburgh EH2 3BU
Tel No 0207 628 8000
Fax No 0131 225 2375

Investment Manager
F&C Investment Business Limited
80 George Street
Edinburgh EH2 3BU

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Registrars' Shareholder Helpline
Tel No 0871 384 2466

Registrars' Broker Helpline
Tel No 0906 559 6025

*Chairman of the Engagement and Remuneration Committee and the Nomination Committee
†Chairman of the Audit Committee and Senior Independent Director

Custodian Bankers
JPMorgan Chase Bank
125 London Wall
London EC2Y 5AJ

Auditors
KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

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

Solicitors
Dickson Minto WS
16 Charlotte Square
Edinburgh EH2 4DF

Registered Office
80 George Street
Edinburgh EH2 3BU
Tel 0207 628 8000
Fax 0131 225 2375

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Registrars' Shareholder Helpline 0871 384 2466*
Registrars' Broker Helpline 0906 559 6025*

*Calls to these numbers are charged at 8p per minute from a BT landline Other telephony providers' costs may vary