

# Board of Directors



**David Nichol\*\***

**Chairman**

(age 63) 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.



**Terence Mahony\*\***

(age 66) 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 and Citic Capital Investment Management.



**Richard Horlick\*\***

(age 50) was appointed as a Director in 2005. He is also a non-executive director of Tau Capital plc. He 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.



**Nigel Rich, CBE\*\***

**Senior Independent Director and Chairman of the Audit Committee**

(age 63) 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 Xchanging plc. His other non-executive directorships include Bank of the Philippine Islands (Europe) plc, KGR Absolute Return PCC Limited and Matheson & Co. He is also Co-chairman of the Philippine British Business Council.



**Stuart Leckie, OBE\*\***

(age 63) was appointed as a Director in 2001. He is an advisory council member of the CFA Institute for Financial Market Integrity in Hong Kong. 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.

\* 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 Pacific Assets Trust plc (the 'Company') for the year ended 31 January 2009.

## 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 1.29p per share payable on 19 June 2009 to shareholders on the register at close of business on 22 May 2009.

## Principal Activity and Status

The Company is registered as a public limited company and is an investment company within the terms of Section 833 of the Companies Act 2006. Its shares are quoted on the main market of 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 2008. 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

As at 31 January 2009 there were 118,348,386 Ordinary Shares of 12.50p each in issue. All Ordinary Shares rank equally for dividends and distributions and carry one vote each. Details of the capital structure can be found in note 12 to the accounts. The revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the Ordinary Shares. Upon a winding-up, after meeting the liabilities of the Company, the

surplus assets would be distributed to shareholders pro rata to their holdings 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 F&C Investment Business Limited (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 invests principally 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-ended 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, or is required, 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

# Report of the Directors (continued)

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.

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 2009 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 had a net cash balance of 4.9 per cent as at 31 January 2009.

## **Strategy**

As part of its strategy, the Board has contractually delegated the management of the investment portfolio and other services to the Manager.

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 beyond the control of the Board and the Manager, such as political change, natural disasters, 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 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. The Board 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 43. In addition, meetings are held regularly between the Manager and 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 42.

#### **Directors**

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

		<b>Number of Ordinary Shares held as at 31 January 2009</b>	Number of Ordinary Shares held as at 31 January 2008
D B Nichol	Beneficial	<b>40,000</b>	200,000
	Trustee	<b>100,000</b>	100,000
R M A Horlick	–	<b>Nil</b>	Nil
S H Leckie	–	<b>Nil</b>	Nil
T F Mahony	–	<b>Nil</b>	Nil
N M S Rich	Beneficial	<b>25,000</b>	25,000

There have been no changes in the interests of the Directors in the shares of the Company between 31 January 2009 and 26 March 2009.

Mr R M A Horlick and Mr S H Leckie retire from the Board by rotation and, being eligible, offer themselves for re-election. As explained in more detail under the heading 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.

The Board confirms that, following formal performance evaluations, the performance of each of the Directors seeking re-election at the Annual General Meeting 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.

# Report of the Directors (continued)

No Director has a contract of service with the Company or any material interest in any contract to which the Company is a party. Each of the Directors has a letter of appointment with the Company.

## Substantial Interests in Share Capital

As at 26 March 2009 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
Sarasin & Partners LLP	16,878,000	14.3
Lazard Asset Management LLC	13,567,700	11.5
Friends Provident Group*	13,098,108	11.1
Legal & General Group plc	4,709,449	4.0

\*Includes discretionary retail products.

## Management and Management Fees

The Manager provides management and secretarial services to the Company. A summary of the management agreement between the Company and the Manager 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 under 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 (the 'Combined Code') and the recommendations of the AIC's Code of Corporate Governance (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 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 Articles of Association require all Directors to retire every three years and the Board has agreed that each Director will retire annually after the completion of nine years of service.

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 are considered by the Board to be independent of the Company's Manager. 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 the Manager 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, corporate governance procedures and risk management, 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. Each of these committees operates within clearly defined written terms of reference which are available upon request.

The Audit Committee is chaired by Mr N M S Rich and comprises the whole Board. 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. 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 Audit 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 auditors, KPMG Audit Plc, amounted to £4,000 for the year ended 31 January 2009 (2008: £4,000) and related to the provision of taxation services.

The Engagement and Remuneration Committee, chaired by Mr D B Nichol, comprises the full Board 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.

# Report of the Directors (continued)

The following table sets out the number of Board and committee meetings held during the year ended 31 January 2009 and the number of meetings attended by each Director.

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.

	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	4	2	2	1	1	1	1
S H Leckie	4	4	2	2	1	1	1	1
T F Mahony	4	4	2	2	1	1	1	1
N M S Rich	4	4	2	2	1	1	1	1

Mr T F Mahony became a member of the Audit Committee and the Engagement and Remuneration Committee during the year.

## 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. 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 11 June 2009, is set out on pages 44 to 46. 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 26 March 2009. Resolution 10 will, if passed, authorise the Directors to allot new shares for cash on a non pre-emptive basis (a) in connection with a rights issue; or (b) (otherwise than in connection with a rights issue) up to an aggregate nominal amount of £739,677, being 5 per cent of the total issued shares as at 26 March 2009. These authorities will continue in effect until the conclusion of the Annual General Meeting to be held in 2010 or, if earlier, 31 July 2010. 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**

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 until the earlier of (i) the conclusion of the Annual General Meeting in 2010 or, (ii) 31 July 2010. 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 the higher of (a) 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); and (b) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange. 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.

### **Notice Period for General Meetings**

At last year's Annual General Meeting, new articles of association were adopted which include a provision allowing general meetings of the Company to be called on the minimum notice period provided for in the Companies Act 2006. For meetings other than annual general meetings this is currently a period of 14 clear days.

The provisions in the Companies Act 2006 relating to meetings are due to be amended with effect from 3 August 2009 as a result of the implementation of

# Report of the Directors (continued)

the EU Shareholder Rights Directive (2007/36/EC) (the 'Directive') in the UK.

The government has still to finalise the detail of the amendments that are to be made and is not expected to publish the final draft of the amendments until late Spring 2009. One of the amendments to be made will, in accordance with the Directive, be to increase the minimum notice period for listed company general meetings to 21 clear days, but with an ability for companies to reduce this period back to 14 clear days (other than for annual general meetings), provided that two conditions are met:

- (i) that the Company offers facilities for shareholders to vote by electronic means. It is not yet clear what this will require and the details will be set out in the final regulations when published; and
- (ii) that there is an annual resolution of shareholders approving the reduction in the minimum period for notice of general meetings (other than annual general meetings) from 21 clear days to 14 clear days.

Although the final form of the regulations are unlikely to be known before the annual general meeting, the Board believes that it should ensure that the minimum period for notice of general meetings of the Company (other than annual general meetings) remains at 14 clear days after August 2009. The Board is therefore proposing Resolution 12 as a special resolution to approve 14 clear days as the minimum period of notice for all general meetings of the Company other than annual general meetings. The notice period for annual general meetings will remain 21 clear days.

## **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 them 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**

KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

## **Directors' Indemnities**

As at the date of this report, indemnities are in force between the Company and each of its Directors under which the Company has agreed to indemnify each Director, to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out his role as a Director of the Company. The Directors are also indemnified against the costs of defending any criminal or civil proceedings or any claim by the Company or a regulator as they are incurred provided that where the defence is unsuccessful the Director must repay those defence costs to the Company. The indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006.

A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

## **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 Board considers that all of the resolutions to be considered at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole. The Board will be voting in favour of them and unanimously recommends that all shareholders do so as well.

By order of the Board  
G R Hay Smith  
Secretary  
80 George Street  
Edinburgh EH2 3BU  
26 March 2009

# 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 25 and 26.

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, Mr T F Mahony 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 2010 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 £200,000 in aggregate per annum. 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 Directors are appointed on the basis that they 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 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. 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 2009
R M A Horlick	1 December 2005	AGM 2009
S H Leckie	13 March 2001	AGM 2009
T F Mahony	1 February 2004	AGM 2011
N M S Rich	1 January 1997	AGM 2009

## 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 pursuant to 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 2009, 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

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.



#### Directors' Emoluments for the Year (audited)

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

	2009 £	2008 £
D B Nichol	<b>20,000</b>	20,000
R M A Horlick	<b>15,000</b>	15,000
S H Leckie	<b>15,000</b>	15,000
T F Mahony	<b>15,000</b>	15,000
N M S Rich (Chairman of the Audit Committee)	<b>17,000</b>	17,000
<b>Total</b>	<b>82,000</b>	82,000

On behalf of the Board

D B Nichol

Chairman

26 March 2009

# Statement of Directors' Responsibilities

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 the 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.

The Directors confirm that to the best of their 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

26 March 2009