Pacific Horizon Investment Trust PLC

Annual Report & Accounts 1999

BAILLIE GIFFORD

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AI TC The Company is a member of The Association of Investment Trust Companies.

The objective of the Company is to invest in the stockmarkets of the Asia-Pacific region (excluding Japan) in order to achieve capital growth.

We are prepared to move freely between the markets of the region as opportunities for growth vary. Our portfolio consists entirely of quoted securities.

As an investment trust company we offer long term professional investment management for individuals and institutions, freedom from capital gains tax on profits realised within the portfolio, the use of gearing to maximise opportunities for capital growth, low costs and simple dealing arrangements.

Pacific Horizon is managed by Baillie Gifford & Co. The management contract can be terminated at twelve months' notice.

The Baillie Gifford Investment Trust Share Plan has been established for the investment trusts managed by Baillie Gifford & Co. The plan enables current shareholders and others to invest in Pacific Horizon by making occasional payments (minimum £250), or regular payments (minimum £30 per month), or by reinvesting dividends.

An Individual Savings Account (ISA) has been introduced to replace PEPs as the new tax-free vehicle for personal investment.

The Baillie Gifford Investment Trust ISA offers a choice of a Maxi or Mini ISA in the stocks and shares component of an ISA, allowing current shareholders and others to invest up to a maximum of £5,000 per annum (£7,000 in 1999/2000) for a Maxi ISA and £3,000 per annum for a Mini ISA.

Unlike PEPs, ISAs are not subject to the restrictive stipulation that qualifying funds must have 50% of their assets within the European Union. Investors may choose to invest in up to any two of the six trusts currently managed by Baillie Gifford.

It is only possible to subscribe to one Maxi ISA or one stocks and shares component Mini ISA during one tax year. If you already subscribe to an ISA on a continuing basis (i.e. the arrangement is carried forward from one tax year to the next), please note this restriction.

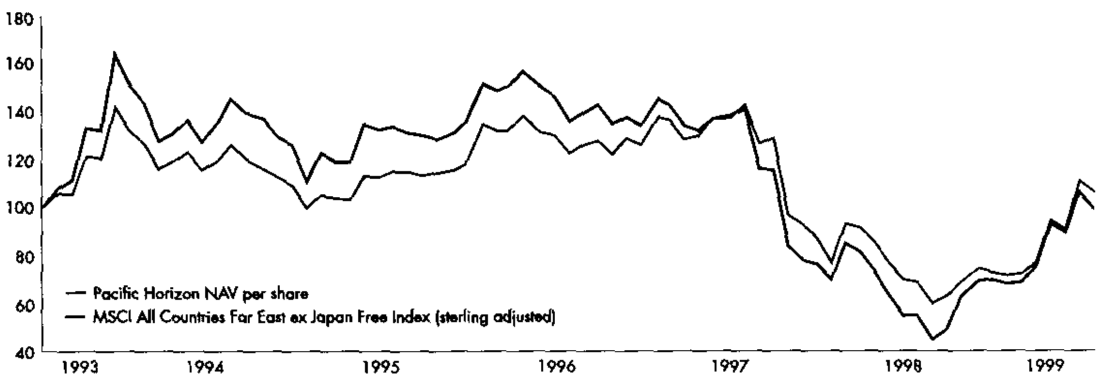
Since 6 April 1999 investors cannot make further subscriptions to a PEP but they can continue to hold their PEP outside an ISA and benefit from the same tax concessions that apply to ISAs.

Details of the Share Plan and ISA may be obtained by completing the reply paid card or by contacting:

Baillie Gifford Savings Management Limited
1 Rutland Court
Edinburgh EH3 8EY
Telephone: 0800 917 2112
Email: trustenquiries@bailliegifford.co.uk
Website: www.bailliegifford.co.uk

Baillie Gifford Savings Management Limited is regulated by IMRO.

PERFORMANCE



Directors

Michael Hamilton, the Chairman, is aged 73. He is a former senior partner of Taylor Joynson Garrett, solicitors, and former chairman of Clerical, Medical and General Life Assurance Society. He was appointed a Director of the Company in 1992 and Chairman in 1993.

Peter Griffiths, aged 66, was investment manager to the Pilkington Pension Funds and is a director of Hambros Smaller Asian Companies Trust PLC and INVESCO Enterprise Trust plc. He was appointed a Director of the Company in 1989.

Graham McCallum CBE, aged 73, was formerly an executive director of John Swire & Sons Ltd in London, and is a director of The Baillie Gifford Japan Trust PLC. He was appointed a Director of the Company in 1992.

Douglas McDougall, aged 55, is a former senior partner of Baillie Gifford & Co. He is chairman of the Investment Management Regulatory Organisation and a former chairman of the Association of Investment Trust Companies. He is chairman of Foreign & Colonial Eurotrust PLC and a director of The Scottish Investment Trust PLC, Law Debenture Corporation plc and other companies. He was appointed a Director of the Company in 1992.

Managers and Secretaries

The firm of Baillie Gifford & Co was formed in 1927 out of the legal firm Baillie & Gifford, WS, which had been involved in investment management since 1908. It is an independent investment management firm based in Edinburgh, with 19 partners and a staff of around 250.

Baillie Gifford & Co manages 5 other listed investment trust companies and a broad range of open ended investment companies (OEICs) and unit trusts. The firm also manages investment portfolios for pension funds, charities and other institutional clients. Included in these are international funds managed on behalf of Japanese and American clients. Funds under the management of Baillie Gifford & Co are over £17 billion.

The firm of Baillie Gifford & Co is regulated by IMRO.

Michael Hamilton
Chairman

Performance

During the Company's year there were large rises in stockmarkets throughout the Asia-Pacific region and most of the region's currencies strengthened against sterling. The net asset value per share rose by 54.7%, compared with a rise of 82.6% in the MSCI All Countries Far East ex Japan Free Index in sterling terms. The beginning of the Company's year came close to the inflexion point in markets; during the previous year our defensive stance had served us well and for the two years to 31 July 1999 our net asset value per share fell by 25.5% compared to a decline of 29.7% in the index. Over the course of last year the portfolio was moved to a more fully invested position.

All of last year's under performance occurred in the first half of the Company's year and performance in the second half was slightly better than that of the underlying markets. The Managers' Report on pages 10 to 14 contains a more detailed explanation together with the performance of the principal markets in which the Company is invested and the Managers' comments on them.

Mainly as a result of the non-recurrence of large special dividends paid by some of our investments in the previous year and a lower weighting in high yielding shares in Hong Kong, the Company's net revenue for the year under review fell by 74% compared with the previous year and earnings per share were 0.29p compared with 1.12p. The Board is recommending a dividend of 0.20p, down from 0.90p for the previous year.

Outlook

The percentage moves in Far Eastern markets over the Company's year have been large, but these have to be seen in the context of the falls seen the previous year. For the MSCI All Countries Far East ex Japan Free Index in sterling terms, the rise of 82.6% followed a fall of 61.5% and this therefore left it at the end of July 1999 still 29.7% below the level at which it stood at the end of July 1997. As these figures show, there is still a lot of lost ground to be made up in these markets, but with economies in a number of countries, most notably Korea, recovering more rapidly than had been generally expected only a few months ago, and with significant progress being made in correcting the macroeconomic imbalances that contributed to the crisis of the last few years, some of the conditions for a sustained recovery are in place. If company managers and bankers have learned from the mistakes of the recent past and the restructuring moves now underway continue even as external pressure is reduced by the improving economic background, then the stage is set for a sustainable improvement in the profitability of companies and increased returns to shareholders. While the future is, of course, uncertain, we believe that there is enough evidence of this for cautious optimism. This is reflected in our use of short term tactical borrowing in order to enable the Managers to make new investments without having first to sell holdings that they believe are undervalued.

AITC Publicity Campaign

The AITC (the Association of Investment Trust Companies), of which the Company is a member, is undertaking a publicity campaign to promote the case for investing in investment trusts. The Board has agreed that the Company should contribute to the cost on the basis of a formula recommended by the AITC.

Share Plan, PEPs and ISAs

The Company participates in the Baillie Gifford Investment Trust Share Plan. Further details are on page 2 of this report together with details about the ISA that replaced the PEP Scheme, which is no longer open to new investors as a result of legislative changes.

Michael Hamilton

Michael Hamilton
13 September 1999

CAPITAL

At 31 July	Total assets§ £'000	Bank loans £'000	Equity shareholders' funds £'000	Net asset value per ordinary share p	Diluted net asset value per ordinary share* p
1990†	17,680	–	17,680	43.26	43.26
1991	14,518	–	14,518	35.52	35.52
1992	10,736	–	10,736	26.26	26.26
1993	17,073	–	17,073	41.75	41.75
1994	20,300	–	20,300	49.65	49.65
1995	19,565	–	19,565	47.84	47.84
1996	40,266	–	40,266	51.07	51.07
1997	46,886	–	46,886	59.47	59.47¶
1998	22,591	–	22,591	28.65	28.65
1999	**38,124**	**3,170**	**34,954**	**44.33**	**44.33**

REVENUE

Period to 31 July	Gross revenue £'000	Available for ordinary shareholders £'000	Earnings per ordinary share net ‡ p	Dividend per ordinary share net p
1990†	424	316	0.77	–
1991	361	29	0.07	0.729
1992	271	97	0.24	0.140
1993	341	38	0.09	–
1994	437	107	0.26	0.110
1995	524	202	0.49	0.350
1996	817	349	0.67	0.300
1997	1,098	398	0.51	0.350
1998	1,629	888	1.12	0.900
1999	**738**	**228**	**0.29**	**0.200**

Notes: § Total assets comprise net assets before deduction of bank loans.

* The diluted net asset value per ordinary share figures have been calculated in accordance with FRS 14 'Earnings per share'. The calculation determines the potential number of dilutive shares which would be issued on the exercise of warrants by reference to the share price (fair value) at the year end. The exercise of the outstanding warrants would not have resulted in a dilution of the net asset value per ordinary share in any of the years under review.

¶ The diluted net asset value at 31 July 1997 has been restated with the adoption of FRS 14. The previously reported diluted net asset value of 58.89p was calculated on the assumption that the warrants in issue were fully exercised at the year end at 56p each resulting in shares being issued at a price less than the prevailing net asset value.

† Figures as restated in the 1991 Annual Report and Accounts owing to a change in accounting policy.

‡ The calculation of earnings per share is based on the net revenue from ordinary activities after taxation and the weighted average number of ordinary shares (see note 8, page 29). There was no dilution of earnings per share in any of the years 1990 to 1999.

LIST OF INVESTMENTS AS AT 31 JULY 1999

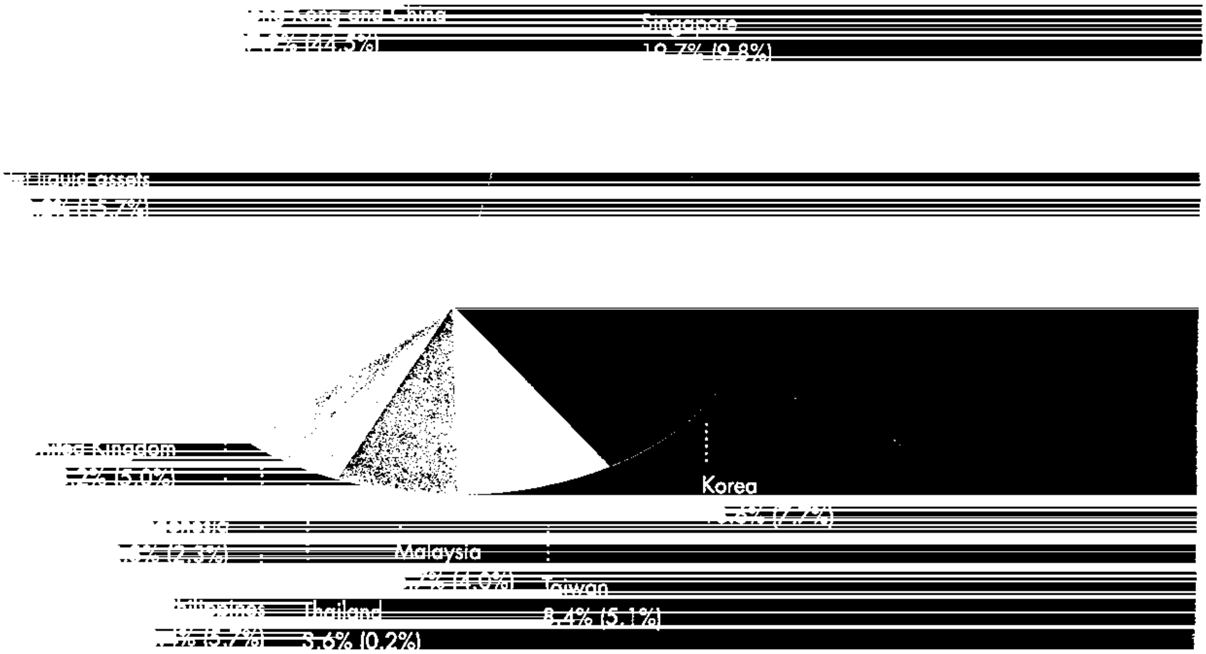
	Business	£'000	%
HONG KONG AND CHINA			
ABC Communications	Paging	561	
Cable & Wireless HKT	Telecommunications	488	
Cheung Kong	Property developer	1,271	
China.com	Internet services company	896	
City Telecom	International telecommunication services	329	
Guangdong Kelon	White goods manufacturer in China	560	
Henderson Land Development	Property developer	464	
HKCB Bank	Banking	587	
† Hon Kwok Land	Commercial property investment	577	
HSBC Holdings	Banking	524	
Legend	Computer manufacturer and distributor	348	
Liu Chong Hing Bank	Banking	725	
Ng Fung Hong	Hong Kong and Chinese food distributor	379	
Shui On Construction and Materials	Construction company	689	
SmarTone Telecommunications	Mobile telecommunications	771	
Sun Hung Kai Properties	Property developer	1,476	
		10,645	27.9
SINGAPORE			
Datacraft Asia	Systems integrator	882	
Natsteel Electronics	Electronics manufacturer	1,302	
§OCBC	Banking	184	
Pacific Internet	Internet service provider	110	
Robinson & Company	Retail	782	
§Singapore Airlines	Airline	651	
Singapore Press	Newspaper publisher	2,123	
Venture Manufacturing	Electronics manufacturer	832	
Wing Tai	Property developer	657	
		7,523	19.7
KOREA			
Comtec Systems	Networking equipment integrator	410	
Dae Duck Electronics	Printed circuit board manufacturer	28	
Dongwon Securities	Securities brokerage	394	
Kookmin Bank	Banking	513	
Korea Electric Power	Electric utility	417	
Pohang Iron & Steel	Steel manufacturer	728	
Sam Hwa Electric	Electrical capacitors	814	
Samsung Corp.	Construction and retailing	951	
Samsung Electronics	Semiconductors and electrical goods	1,636	
Tae Young	Construction and broadcasting	853	
Youngone	Sportswear subcontractor	345	
		7,089	18.6
TAIWAN			
Accton Technology	Networking equipment manufacturer	360	
Cathay Life Insurance	Insurance	330	
China Development Ind. Bank	Banking	327	
Compal Electronics	Notebook PC producer	532	
Hon Hai Precision Industries	Electrical connectors	255	
Lee Chi Enterprises	Bicycle parts manufacturer	253	
Taiwan Secom	Security company	281	
Taiwan Semiconductor	Integrated circuit manufacturer	307	
Test Rite	Trading agent and retailer	327	
United Micro Electronics	Integrated circuit manufacturer	222	
		3,194	8.4

Name	Business		Market value £'000	%
MALAYSIA				
Gamuda	Civil engineering		313	
Malayan Banking	Banking		340	
RHB Capital	Banking		287	
Rothmans (Malaysia)	Tobacco company		765	
Star Publication	Newspaper publisher		300	
Telekom Malaysia	Telecommunications		262	
Tenaga Nasional	Electric utility		273	
			2,540	6.7
OTHER COUNTRIES				
THAILAND				
Bangkok Insurance	Insurance		52	
Golden Land	Property developer		813	
§‡Siam Commercial Bank	Banking		494	
			1,359	3.6
PHILIPPINES				
‡ RFM Corporation	Food manufacturer		308	
SPI Technologies	Data conversion services		600	
			908	2.4
INDONESIA				
Telekomunikasi Indonesia	Telecommunications		270	
Unilever Indonesia	Consumer products		606	
			876	2.3
UNITED KINGDOM				
Aberdeen New Dawn	Investment trust		87	
Edinburgh Dragon Trust	Investment trust		538	
Fidelity Asian Values	Investment trust		503	
Fleming Asian	Investment trust		625	
Fleming Chinese	Investment trust		279	
INVESCO Asia Trust	Investment trust		578	
Pacific Assets Trust	Investment trust		525	
			3,135	8.2
Value of equity stocks		35,309		
Convertible loan stocks having an element of equity		577		
Warrants having an element of equity		977		
TOTAL EQUITY INVESTMENTS		36,863		
Preference stocks		406		
TOTAL INVESTMENTS			37,269	97.8
NET LIQUID ASSETS			855	2.2
TOTAL ASSETS AT MARKET VALUE (before deduction of bank loan)			38,124	100.0

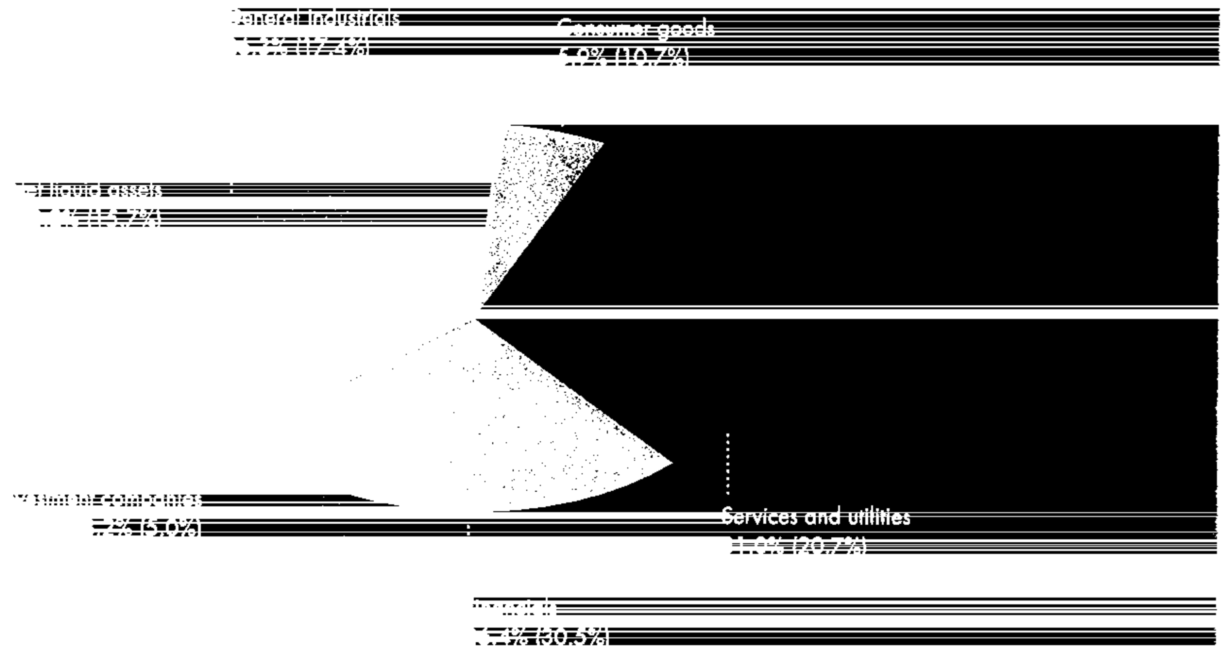
† denotes holding in convertible loan stock
‡ denotes holding partly or wholly in preference stock
§ denotes holding partly or wholly in warrants

DISTRIBUTION OF PORTFOLIO

Geographical
1999 (1998)



Sector
1999 (1998)



Classification	Hong Kong and China %	Singapore %	Korea %	Taiwan %	Malaysia %	Other countries %	1999 Total %	1998 Total %
EQUITIES (including convertible and preference stocks)								
GENERAL INDUSTRIALS	1.8	7.9	13.1	2.7	0.8	–	26.3	17.4
Construction and building materials	1.8	–	4.7	–	–	–	6.5	0.7
Forestry and paper	–	–	–	–	–	–	–	1.4
Steel and other metals	–	–	1.9	–	–	–	1.9	–
Electronic and electrical equipment	–	7.9	6.5	2.0	–	–	16.4	15.3
Engineering and machinery	–	–	–	0.7	0.8	–	1.5	–
CONSUMER GOODS	1.5	–	–	–	2.0	2.4	5.9	10.7
Household goods and textiles	1.5	–	–	–	–	–	1.5	1.4
Food producers and processors	–	–	–	–	–	0.8	0.8	1.2
Health	–	–	–	–	–	–	–	3.2
Personal care and household products	–	–	–	–	–	1.6	1.6	0.9
Tobacco	–	–	–	–	2.0	–	2.0	4.0
SERVICES AND UTILITIES	9.9	9.6	3.1	3.9	2.2	2.3	31.0	20.7
Distributors	1.0	–	–	–	–	–	1.0	–
Retailers	–	2.0	0.9	0.9	–	–	3.8	4.0
Media	–	5.6	–	–	0.8	–	6.4	2.2
Support services	–	–	–	0.7	–	–	0.7	–
Information technology hardware	0.9	–	1.1	2.3	–	–	4.3	–
Software and computer services	2.4	0.3	–	–	–	1.6	4.3	1.8
Transport	–	1.7	–	–	–	–	1.7	–
Telecommunication services	5.6	–	–	–	0.7	0.7	7.0	8.4
Electricity	–	–	1.1	–	0.7	–	1.8	4.3
FINANCIALS	14.7	2.2	2.4	1.8	1.7	3.6	26.4	30.5
Banks	4.8	0.5	1.4	0.9	1.7	1.3	10.6	6.6
Insurance	–	–	–	0.9	–	0.2	1.1	0.2
Speciality and other finance	–	–	1.0	–	–	–	1.0	–
Real estate	9.9	1.7	–	–	–	2.1	13.7	23.7
INVESTMENT COMPANIES	–	–	–	–	–	8.2	8.2	5.0
Investment trusts	–	–	–	–	–	8.2	8.2	5.0
TOTAL EQUITIES (including convertible and preference stocks)	27.9	19.7	18.6	8.4	6.7	16.5	97.8	
Total equities – 1998 (including convertible and preference stocks)	44.5	9.8	7.7	5.1	4.0	13.2		84.3
NET LIQUID ASSETS	–	0.6	–	0.5	–	1.1	2.2	15.7
TOTAL ASSETS (before deduction of bank loan)	27.9	20.3	18.6	8.9	6.7	17.6	100.0	
Total assets – 1998	44.5	9.8	7.7	6.6	4.0	27.4		100.0
BANK LOAN†	–	–	–	–	–	(8.3)	(8.3)	–
EQUITY SHAREHOLDERS' FUNDS	27.9	20.3	18.6	8.9	6.7	9.3	91.7	
Equity shareholders' funds – 1998	44.5	9.8	7.7	6.6	4.0	27.4		100.0
Number of equity investments (including convertible and preference stocks)	16	9	11	10	7	14	67	45

†Bank loan comprises US dollars and Japanese yen drawings.

	% of total assets†		Indices % change
	31 July 1999	31 July 1998	in sterling terms
Hong Kong	24.1	40.7	+67.5
China	3.8	3.8	+56.6
Singapore	19.7	9.8	+113.4
Korea	18.6	7.7	+191.6
Taiwan	8.4	5.1	+4.4
Malaysia	6.7	4.0	+110.2
Thailand	3.6	0.2	+89.9
Philippines	2.4	5.7	+60.9
Indonesia	2.3	2.3	+141.1
Other*	8.2	5.0	–
Net liquid assets	2.2	15.7	–
PACIFIC HORIZON INVESTMENT TRUST (NAV)			+54.7
MSCI All Countries Far East ex Japan Free Index			+82.6

*Closed end funds investing in more than one country in the Asia-Pacific region (excluding Japan).
†Total assets comprise net assets before deduction of bank loans.

The twelve months from the end of July 1998 to the end of July 1999 turned out to be a very good one for share prices and currencies across the region with the exception of Taiwan. But it began badly with share prices, and to a lesser extent currencies, continuing the tumble that had seen MSCI All Countries Far East ex Japan Free Index lose 61.5% of its value in sterling terms over the previous twelve month period. In August 1998 the default by Russia on its debts caused speculators who had invested in the Russian debt market with borrowed money to sell other assets in order to repay lenders who had become unwilling to extend further credit to them. The forced unwinding of large speculative positions moved asset prices in unexpected directions and with a lack of investors or speculators willing or able to buy where others needed to sell or sell where others needed to buy, trading in some major asset classes more or less dried up. It therefore became impossible for very large speculative positions to be closed out and the knock-on effect on the balance sheets of banks, who were exposed not just as lenders but also in many cases as counterparties to the speculators in their trades, threatened a general contraction in credit with serious consequences for the global economy. It was against this background that the intervention by the Hong Kong government in the stockmarket referred to below took place. At the time it appeared to most outside observers, ourselves included, to be an act of folly on the government's part and an opportunity on our part to sell at artificially high prices and so avoid a loss when prices inevitably corrected in line with moves in markets elsewhere.

The turning point was reached in late September when a large American investment fund of the type referred to as 'hedge funds' called Long Term Capital Management reached the brink of collapse with debts so large and positions in certain then illiquid markets of such massive size that the US authorities viewed its collapse as too damaging to the American financial system to be allowed to happen. A bailout was hastily arranged by the US Federal Reserve Board and American interest rates were cut three times in succession, including an emergency rate cut between regular meetings, in order to offset the damaging effects of the crisis on the US banking system and corporate debt markets. Fortunately the US authorities were successful but it was not until July 1999 that they felt it was safe partially to reverse the interest rate cuts made in the autumn of 1998.

The effect of these moves on Asian markets was dramatic. As markets started to function again the speculative positions that could not previously be unwound were reversed. One of these was the so-called 'yen-carry trade' which involved borrowing in yen at very low interest rates in order to finance investments with higher expected returns in other currencies. Implicit in the reasoning behind the yen-carry trade was the belief that the yen would not appreciate against other currencies such as the US dollar. If undertaken in sufficient size such a trade appears to be self-fulfilling as the borrowed yen are immediately sold for dollars or other currencies in which the other side of the trade is denominated and this selling tends to depress the value of the yen expressed in the currency for which it is exchanged. Conversely when the position is unwound the borrowing has to be repaid in yen and so yen are purchased in exchange for the currency in which the other side of the trade was settled, which pushes up the value of the yen. The impact of the closing out of yen-carry trades was therefore a dramatic rise in the value of the yen against most other currencies. The greatest beneficiary of this was Korea, as explained below.

The yen-carry trade is but one example of a trade involving taking a 'short' position. In this case the short position consists of an obligation to repay a loan in yen without an offsetting position in yen denominated assets, but a short position can be taken in any currency, in a market index, through the futures markets, or in an individual security, through borrowing the stock and selling it – which creates an obligation to return a stock that you don't own. The seemingly intractable problems of Asian economies had encouraged the taking of very large speculative short positions in the region's currencies, market indices and individual stocks, which were naturally greatest in those in the worst condition. The unwinding of those positions involved buying those assets where speculators were short in order to close out the positions, which tended to push up the prices of Asian assets overall but with a bias to those in countries with the biggest problems and companies closest to bankruptcy. Our portfolio was ill-positioned to benefit from such a rebound owing to the relatively high proportion in liquid assets and bonds at the start of the period and the concentration within the portfolio on companies in a sound financial condition and countries with the best balanced economies and strongest financial systems.

Sun Hung Kai Properties' Grand Century Place in Mongkok

ABC's Quicksilver™ pager provides real-time financial information

This upheaval in financial markets has had largely benign effects in the countries of the Asia-Pacific region. The most significant of these is that the reversal of positions removed the downward pressure on currencies. This allowed countries across the region to lower their interest rates and therefore permitted the adoption of contra-cyclical monetary and fiscal policies which had been previously precluded by the need to stabilise their currencies. This would have happened anyway at some point but it was brought forward by these events in international currency markets and the inevitable economic upswing has almost certainly occurred earlier than it would otherwise have done. The impact on stockmarkets has been dramatic. Asian countries have always had high savings rates and there was thus a large amount of domestic savings that could switch from high yielding bank accounts to equity investments as interest rates came down. We were surprised how quickly investors who had lost almost all the money they had previously invested in the stockmarket returned to the market as interest rates came down. It has been mainly domestic investors who have pushed markets higher after the initial moves caused by the unwinding of short positions.

We believe that the sustainability of the rally in stockmarkets from this point depends crucially on the extent to which policy makers, company managers, bankers and others have learned from their past errors and the amount of reform and restructuring that continues to take place as external pressures abate. The picture is mixed, but overall there are grounds for cautious optimism.

Hong Kong and China

While the contraction in the economy of 5.1% in calendar year 1998 was by no means the worst performance in a regional context, Hong Kong has lagged behind most of its Asian neighbours in recovering, and its contraction in the first quarter of 1999 of 3.4% compared to the corresponding period in 1998 compares unfavourably with growth of 1.2% in Singapore let alone Korea which grew at 4.6%. There are a number of reasons for this but the most important are slowing growth in China and high real interest rates as relative price adjustment takes place through deflation rather than devaluation. The government intervened in the stockmarket in August 1998, buying HK$118bn (nearly £10bn) worth of shares in what turned out to be a successful effort to beat off speculators who had been profiting from falls in share prices triggered by their short sales of Hong Kong dollar.

Chinese economic statistics are generally treated with some scepticism, but whether or not the economy of the mainland actually grew by 7.8% in 1998 and by 7.1% in the second quarter of 1999 compared to the same period in 1998, there seems little doubt that activity has slowed as stimulus provided by increased infrastructure spending wears off. The focus of policy has apparently shifted towards a greater reliance on monetary stimulation and this has renewed concerns about the devaluation of the Chinese currency.

We reduced our weighting in Hong Kong by selling into the government intervention mentioned above. While we have confidence in the long term attractions of Hong Kong companies and would expect at some point to have a larger weighting in this market there have been a greater number of attractive alternatives elsewhere during the last year than in previous years.

Singapore

On the technical definition of a recession as two consecutive quarters of economic contraction Singapore experienced a recession in 1998 but for the year as a whole the economy grew by 1.5% and as noted above growth resumed in the first quarter of 1999. Growth in the second quarter accelerated to over 6% as the knock-on effects of recovery elsewhere combined with strength in demand for electronic products made in Singapore. Despite being one of the least affected by the regional crisis Singapore is, along with Korea, in the forefront of those making structural changes to improve the efficiency of its banking system and make companies more responsive to outside shareholders. These factors have helped to make Singapore a more attractive equity market and this is reflected in our increased weighting.

Korea

Korea has experienced a dramatic reversal of fortune and while the economy contracted by 5.8% in 1998 it is on course to make back all of that lost ground in 1999. The strengthening of the yen at the end of 1998 greatly assisted Korean exporters whose competitors are mainly Japanese and the reduction in interest rates seen across the region had the greatest impact on Korean companies because in aggregate they were the most heavily indebted. While we had a reasonable weighting in Korea at the end of September when the sharp rebound started we were invested in companies with sound finances and so did not benefit to the same extent as the overall market from the improvement in the external environment. The government of DJ Kim has continued to force through reforms despite the upturn in the economy and while there have been setbacks as well we continue to find Korea one of the most attractive areas for investment. One of the main risks would be a renewed weakening of the yen.

Taiwan

The Taiwanese economy has managed to grow at a good pace throughout the Asian crisis and in 1998 it grew at a rate of 4.8%. There have been some concerns during the year that the central bank was at times operating too tight a monetary policy but this is not the reason for the relatively poor showing of the equity market. This can be attributed to renewed tensions between Taiwan and Mainland China. These tensions are likely to persist ahead of presidential elections in March 2000 but such episodes can offer attractive opportunities in Taiwanese equities for long term investors.

Malaysia

Malaysia introduced capital controls in September 1998 and when taken in conjunction with the sometimes bizarre utterances of the country's Prime Minister concerning the causes of his country's problems there was every reason to fear the worst. In fact Malaysia seems to have made good use of the breathing space provided by its isolation to pursue a fairly orthodox set of policies to address the weaknesses of its financial system and the capital controls were modified in February 1999. We had only one holding in Malaysia at the time capital controls were imposed and we have raised our weighting in that market during the year. We have applied a discount to the value of our Malaysian holdings in line with the discount used by MSCI, which at the end of July 1999 was 15%.

Thailand

Thailand has made some progress at last in reforming its bankruptcy laws and we increased our position in the Thai market during the year in what we view as attractive special situations. However, the economy contracted by 9.4% in 1998 and it is far from clear that Thailand is undergoing a sustainable recovery.

Philippines

The economy contracted by 0.5% in 1998 and should grow in 1999 but less rapidly than most other countries in the region. We have only a small stake in the Philippines.

Indonesia

After a decline in sterling terms of 87% in the year to July 1998 some sort of bounce in the Indonesian market appeared likely in the year to July 1999 but 141% looks overdone even though this only takes the Indonesian market back to 31% of its value two years ago in sterling terms. With 70% of all loans non-performing, endemic corruption and political instability Indonesia is an extremely risky place to invest and prudence dictates only a small exposure.

TWENTY LARGEST EQUITY HOLDINGS

Name	Business	Market value £'000	% of total assets
Singapore Press	Newspaper publisher	2,123	5.6
Samsung Electronics	Semiconductors and electrical goods	1,636	4.3
Sun Hung Kai Properties	Property developer	1,476	3.9
Natsteel Electronics	Electronics manufacturer	1,302	3.4
Cheung Kong	Property developer	1,271	3.3
Samsung Corp.	Construction and retailing	951	2.5
China.com	Internet services company	896	2.4
Datacraft Asia	Systems integrator	882	2.3
Tae Young	Construction and broadcasting	853	2.3
Venture Manufacturing	Electronics manufacturer	832	2.2
Sam Hwa Electric	Electrical capacitors	814	2.1
Golden Land	Property developer	813	2.1
Robinson & Company	Retail	782	2.1
SmarTone Telecommunications	Mobile telecommunications	771	2.0
Rothmans (Malaysia)	Tobacco company	765	2.0
Pohang Iron & Steel	Steel manufacturer	728	1.9
Liu Chong Hing Bank	Banking	725	1.9
Shui On Construction and Materials	Construction company	689	1.8
Wing Tai	Property developer	657	1.7
Singapore Airlines	Airline	651	1.7
		19,617	51.5

A review of the Company's ten largest investments as at 31 July 1999 is given below and on the following two pages.

Singapore Press Holdings

SPH has an effective monopoly over newspaper publishing in Singapore, which allows the company to generate high returns on capital and strong cash flow. The company is benefiting from a strong rebound in advertising growth as the economy recovers. It also has investments in Singapore's no.2 provider of mobile telecommunications and Singapore's only cable television company. These businesses are becoming increasingly valuable as penetration rates rise and as high speed access to the Internet, via cable, becomes increasingly likely.

Country	Singapore
Valuation	£2,123,000
% of total assets	5.6

Samsung Electronics

Samsung Electronics operates globally competitive businesses in semiconductor DRAMs, CDMA telecommunications equipment and consumer electronics. It has leading edge semiconductor technology which will be a distinct advantage as the cycle starts to turn. Its CDMA systems and handsets hold half of the domestic market, and it has begun to receive significant export orders. As Samsung's involvement with Samsung Motors is now in the past, we hope that the company will be encouraged by its foreign shareholders and directors to focus on shareholder value.

Country	Korea
Valuation	£1,636,000
% of total assets	4.3

Sun Hung Kai Properties

Sun Hung Kai Properties is Hong Kong's largest property developer and landlord. Now that property prices and interest rates have fallen considerably, demand for residential property is clearly recovering. SHKP's strong balance sheet, and its ability to raise low cost funding, places it in a good position to acquire a cheap landbank, thus ensuring healthy margins in the future.

Country	Hong Kong
Valuation	£1,476,000
% of total assets	3.9

Natsteel Electronics

Natsteel Electronics is the world's fifth largest electronics contract manufacturer. Original equipment manufacturers, faced with increasing competition and shorter product life cycles, are increasingly outsourcing production in order to focus on areas of core competence. The rapid growth within the contract manufacturing industry is particularly beneficial to companies, like Natsteel Electronics, which have global manufacturing capability.

Country	Singapore
Valuation	£1,302,000
% of total assets	3.4

Cheung Kong

Cheung Kong is one of Hong Kong's largest and best run residential property developers. It is also the major shareholder in Hutchison Whampoa, Hong Kong's leading conglomerate whose primary businesses include ports, telecommunications, property and retail. This leaves Cheung Kong ideally placed to benefit from the expected upturn in the Hong Kong economy.

Country	Hong Kong
Valuation	£1,271,000
% of total assets	3.3

Samsung Corp.

Samsung Corp. is the quasi-parent of the Samsung Group and its "General Trading Company". The company is restructuring to focus on construction, retailing and e-commerce. The labour force was reduced from 10,000 in 1997 to 5,700 in 1998 and gearing cut from 338% to 206%. It has formed a joint venture with Tesco to run its discount store business and is in discussions with AOL and Amazon to develop its e-commerce strategy.

Country	Korea
Valuation	£951,000
% of total assets	2.5

China.com

China.com is an Internet Portal company operating in three Chinese language locations: Mainland China, Hong Kong and Taiwan. In addition to operating its portals it helps companies to design web sites and sells advertising on Internet sites across the wider Asia-Pacific region. Its backers include leading US Internet companies and the Chinese state news agency and the Internet market is expanding rapidly in the areas in which it operates.

Country	China
Valuation	£896,000
% of total assets	2.4

Datacraft Asia

Datacraft Asia is Asia's leading provider of systems integration solutions for data and communication networks. As a result of this position it is a long term beneficiary of ongoing deregulation, new technology development and Internet growth throughout all its core markets.

Country	Singapore
Valuation	£882,000
% of total assets	2.3

Tae Young Corp.

Tae Young is a civil engineer specialising in water treatment and sewerage systems that caters primarily to the central and provincial governments. The bankruptcy of a number of its competitors has led to an increase in the size of the order book and should lead to an improvement in margins. Tae Young also owns 30% of Seoul Broadcasting System, one of the leading players in the broadcasting industry. Although SBS suffered from the downturn in advertising during 1998, the outlook is encouraging given the prospects for a sharp rebound in sales.

Country	Korea
Valuation	£853,000
% of total assets	2.3

Venture Manufacturing

Venture Manufacturing is one of the world's largest electronic contract manufacturers with operations throughout Asia. The outsourcing trend amongst OEMs remains strong as these companies strive for greater operational efficiencies. Venture Manufacturing, which continues to be successful in winning new customers, will be a major beneficiary of this trend.

Country	Singapore
Valuation	£832,000
% of total assets	2.2

The Directors have pleasure in submitting their Annual Report together with the results of the Company for the year to 31 July 1999.

Review of Activities

During the year under review the Company has followed the normal activities of an investment trust company. A review of the main features of the year is contained in the Chairman's Statement and in the Managers' Portfolio Review and the Review of Investments on the preceding pages.

Dividend

The Board recommends a final dividend of 0.20p per ordinary share.

If approved, the recommended final dividend on the ordinary shares will be paid on 29 October 1999 to shareholders on the register at the close of business on 8 October 1999.

After payment of the dividend the accumulated revenue balance is increased by £70,000 to £728,000.

Status

The Company has received approval as an Investment Trust from the Inland Revenue in respect of the year to 31 July 1998 and has subsequently directed its affairs so as to enable it to continue to seek such approval.

The Company is an investment company within the meaning of section 266 of the Companies Act 1985.

Corporate Governance

The Committee on Corporate Governance published its report on the principles of good governance and code of best practice ('the Combined Code') in June 1998.

The Board has considered the principles set out in the Combined Code and believes that the Company's current practice, given the special circumstances of an Investment Trust Company is, in all material respects, consistent with the principles of the Combined Code.

The Principles of Good Governance

The Board

The Board's regular meetings take place every two months. It has a number of matters reserved for its approval, including investment policy, borrowings, treasury matters and dividend policy. The Board also reviews the financial statements, investment transactions, revenue budgets and performance.

The Board currently comprises four Directors, all of whom are non-executive and three of whom are independent of the Company's Managers. Mr DCP McDougall was a senior partner of Baillie Gifford & Co until he retired on 30 April 1999. The executive responsibilities for investment management have been delegated to the Company's Managers and Secretaries, Baillie Gifford & Co, and in the context of a Board comprised entirely of non-executive Directors, there is no chief executive officer. Mr M Hamilton was appointed Chairman in 1993 and is also the senior independent member. The Directors all have appropriate business and financial experience with which to conduct the business of the Board. Information about them can be found on page 3.

Given the non-executive nature of the Board a separate nomination committee has not been established. It is the view of the Board that the appointment of new Directors should be a matter for consideration by the Board as a whole. Upon appointment each Director is provided with a summary of the responsibilities and duties of directors, together with relevant background information on the Company. Consistent with the recommendation of the Code of Best Practice, the Board will arrange appropriate training for new Directors where necessary.

Under the provisions of the Company's Articles, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that one third of the Directors retire by rotation and submit themselves for re-election. In order to ensure compliance with the spirit of this provision, the Board has resolved further that no Director shall serve for a period of greater than three consecutive years without submitting himself for re-election.

There is an agreed procedure for Directors to seek independent professional advice if necessary and at the Company's expense.

Remuneration

Since all Directors are non-executive, the Company is not required to comply with principles B.1 to B.3 of the Combined Code in respect of executive Directors' remuneration. There is no separate remuneration committee and the Board as a whole considers recommendations put forward by the Managers and Secretaries, from time to time, for changes in Directors' fees.

In setting Directors' fee levels it is the Company's policy to take account of fees paid by comparable investment trusts to ensure that remuneration is sufficient to attract Directors of the appropriate quality and experience.

No Director has a contract of service and there is no notice period. Directors' fees are detailed on page 28; no other benefits are provided.

Internal Control

The practical measures to ensure compliance with regulation and company law, and to provide effective and efficient operations and investment management, have been delegated to the Managers and Secretaries, Baillie Gifford & Co, under the terms of the Management Agreement. The Board acknowledges its responsibilities to supervise and control the discharge by the Managers and Secretaries of their obligations.

Baillie Gifford & Co is responsible for the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company and to manage its affairs properly. This responsibility also extends to maintaining effective operational and compliance controls and risk management.

The Company's investments are segregated from those of Baillie Gifford & Co and its other clients through the appointment of RBS Trust Bank Ltd as independent custodian of the Company's investments.

Baillie Gifford & Co has a long established compliance function in accordance with IMRO regulations. The compliance function provides the Board with a report on monitoring procedures at least annually. Baillie Gifford & Co conducts an annual review of its internal controls which is documented within an internal controls report. This report is independently reviewed and is approved by Baillie Gifford & Co's auditors. A copy of the internal controls report is submitted to the Board. Baillie Gifford & Co reviews, from time to time, the requirement for an internal audit function and in April 1999 Baillie Gifford & Co expanded its compliance department with the intention of introducing an internal audit function.

The Directors acknowledge their responsibility for the Company's system of internal financial controls, which is designed to provide reasonable but not absolute assurance against material misstatement or loss, and confirm that they have reviewed the effectiveness of the system.

Accountability and Audit

The respective responsibilities of the Directors and the auditors in connection with the Financial Statements are set out on pages 22 and 23.

The accounts have been prepared on the going concern basis as it is the Directors' opinion that the Company will continue in operational existence for the foreseeable future.

An Audit Committee has been established in compliance with the Combined Code consisting of all the non-executive Directors. Its authority and duties are clearly defined within its written terms of reference. The Chairman of the Board has been appointed Chairman of the Audit Committee. The committee meets periodically to review the Company's interim and annual financial statements. It meets at least annually with the external auditors and approves the level of fees for audit and non-audit services.

An Investment Management Agreement between the Company and Baillie Gifford & Co sets out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board. The Management Agreement is terminable on not less than 12 months' notice and the Audit Committee regularly reviews the terms of the management agreement.

Relations with Shareholders

The Company's Managers meet regularly with institutional shareholders and report to the Board. The Company's Annual General Meeting provides a forum for communication with private shareholders and the Board intends in future to announce the level of proxies lodged. The notice period for the Annual General Meeting has been extended to twenty working days.

Compliance

The Board considers that throughout the year it has complied fully with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance. In addition, the Board considers that throughout the year the Company has been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange, with the exception of three new provisions and the appointment of a nomination committee, the absence of which has been explained above. The new provisions introduced by the Combined Code, namely appropriate training for new Directors, announcement of the level of proxies lodged and extension of the notice period for the Company's Annual General Meeting, have been addressed by the Board and have now been implemented.

As permitted by the London Stock Exchange, and pending the issue of further guidance for directors, the Company has complied with Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

Directors

The Directors at the end of the year under review, and their interests in the Company, were as follows:

Name	Nature of interest	31 July 1999 Ordinary shares	31 July 1999 Warrants	31 July 1998 Ordinary shares	31 July 1998 Warrants
† M Hamilton	Beneficial	20,000	1,762	20,000	1,762
	Non-beneficial	3,418	–	1,888	–
† PD Griffiths	Beneficial	8,811	1,762	8,811	1,762
† AGS McCallum	Beneficial	8,811	1,762	8,811	1,762
† DCP McDougall	Beneficial	693,853	38,770	693,853	38,770

Mr DCP McDougall retires by rotation. Mr M Hamilton and Mr AGS McCallum offer themselves for re-election having served a minimum of three consecutive years. Being eligible the aforementioned Directors are recommended by the Board for re-election.

Mr M Hamilton participates in the Baillie Gifford Investment Trust Share Plan and purchases a number of shares in the Company on a monthly basis. By this method he acquired an additional 169 shares on 12 August and 9 September 1999 in which he has a non-beneficial interest.

There have been no other changes intimated in the Directors' interests up to 10 September 1999.

† Member of the Audit Committee

Substantial Holdings

The following information has been intimated to the Company as at 10 September 1999 in compliance with section 198 of the Companies Act 1985:

Name	Number of ordinary 10p shares held	% of issue
A & OT Investments Limited*	13,571,743	17.21
Baillie Gifford (Personal Pensions) International Fund*	5,502,460	6.98
Pilkington Pension Funds	4,377,300	5.55
Legal & General Assurance Society Limited	4,083,342	5.18
Rio Tinto plc	4,000,000	5.07
Friends Ivory & Sime plc	3,348,370	4.25

* Discretionary client of Baillie Gifford & Co.

Share Capital

The Directors wish to draw your attention to the final item of business in the Notice of Annual General Meeting. At present, the Directors have power under section 80 of the Companies Act 1985 to allot ordinary shares in terms of a special resolution passed at the Extraordinary General Meeting of the Company held on 28 March 1996. If Resolution No. 8 in the Notice of the Annual General Meeting is passed, the Directors' authority to allot those ordinary shares for cash on a non-pre-emptive basis will be renewed. This authority will be limited to a maximum number of ordinary shares with an aggregate nominal value of £394,205.80 (being an amount equal to 5% of the issued ordinary share capital of the Company as at 31 July 1999). The authority contained in Resolution No. 8 will continue until 25 January 2001 or, if earlier, the conclusion of the next Annual General Meeting of the Company held after the date on which that resolution is passed.

The Directors envisage using the authority which will be conferred by Resolution No. 8 primarily to allot new shares to applicants under the Baillie Gifford Investment Trust Share Plan at times when the share price stands at a premium to net asset value. The Directors will not make any issue of new ordinary shares to investors unless they consider it advantageous to the Company to do so, and no issue of ordinary shares will be made pursuant to the authorisation in Resolution No. 8 which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

During the year, no ordinary shares were allotted for cash under the Baillie Gifford Investment Trust Share Plan.

Creditor Payment Policy

It is the Company's payment policy for the forthcoming financial year to get the best terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is its policy to abide by these terms. The Company had no trade creditors at 31 July 1999.

Year 2000 Compliance

The Year 2000 will present problems for many computer systems which express dates using only the last two digits of the year, requiring modification to, or replacement of, existing systems.

Baillie Gifford & Co, the Company's Managers and Secretaries, is well advanced in a project to ensure, as far as possible, that the Year 2000 issue will have a minimal impact upon its business operations and those of Pacific Horizon.

The Year 2000 issue is complex and pervasive; it affects not only Baillie Gifford's systems but also those of its suppliers. A programme seeking reassurance from external suppliers has been implemented and is complete in all critical areas. The suppliers of Baillie Gifford's core business systems have designated their products as being Year 2000 compliant and in 1998 these systems were tested at Baillie Gifford's disaster recovery site. Further testing was undertaken in February 1999 as part of Baillie Gifford's ongoing Year 2000 testing procedures. All new computer equipment purchased by Baillie Gifford will be Year 2000 compliant, and any equipment which was not has now been replaced.

Baillie Gifford has assured the Directors that it is taking all appropriate steps to minimise disruption to Pacific Horizon's business operations resulting from the date change to the Year 2000.

The costs associated with implementing the Year 2000 review will be borne by Baillie Gifford & Co, and therefore no provision has been made in Pacific Horizon's accounts for Year 2000 expenses.

Auditors

The auditors, Ernst & Young, are willing to continue in office and in accordance with sections 385 and 390A of the Companies Act 1985 resolutions concerning their reappointment and remuneration will be submitted to the Annual General Meeting.

By order of the Board

BAILLIE GIFFORD & Co
Managers and Secretaries
13 September 1999

Baillie Gifford & Co

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those accounts, the Directors are required to:

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

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts 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.

Auditors' Report

TO THE MEMBERS OF PACIFIC HORIZON INVESTMENT TRUST PLC

We have audited the financial statements on pages 24 to 34, which have been prepared under the historical cost convention modified to include the revaluation of fixed asset investments and on the basis of the accounting policies set out on page 27.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the annual report and accounts, as described on page 22. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

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

We review whether the statement on pages 18 to 20 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of either the Company's corporate governance procedures or its internal controls.

We read the 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.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company, 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 July 1999 and of its revenue for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

ERNST & YOUNG
Registered Auditor
Edinburgh
13 September 1999

STATEMENT OF TOTAL RETURN
(incorporating the revenue account*)

		for the year ended 31 July 1999			for the year ended 31 July 1998		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	9	–	12,490	12,490	–	(24,135)	(24,135)
Currency losses	15	–	(198)	(198)	–	(338)	(338)
Income	2	738	–	738	1,629	–	1,629
Investment management fee	3	(300)	–	(300)	(280)	–	(280)
Other administrative expenses	4	(138)	–	(138)	(134)	–	(134)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		300	12,292	12,592	1,215	(24,473)	(23,258)
Finance costs of borrowings	5	(14)	–	(14)	–	–	–
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		286	12,292	12,578	1,215	(24,473)	(23,258)
Tax on ordinary activities	6	(58)	–	(58)	(327)	–	(327)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION *for the financial year attributable to equity shareholders*		228	12,292	12,520	888	(24,473)	(23,585)
Dividend in respect of equity shares	7	(158)	–	(158)	(710)	–	(710)
TRANSFER TO/(FROM) RESERVES		70	12,292	12,362	178	(24,473)	(24,295)
RETURN PER ORDINARY SHARE	8	0.29p	15.59p	15.88p	1.12p	(31.04p)	(29.92p)

There was no dilution of the above returns in either year.

*The revenue column of this statement is the profit and loss account of the Company.
All revenue and capital items in the above statement derive from continuing operations.
The accompanying notes are an integral part of this statement.

	Notes	at 31 July 1999 £'000	at 31 July 1999 £'000	at 31 July 1998 £'000	at 31 July 1998 £'000
FIXED ASSETS					
Investments	9		37,269		19,042
CURRENT ASSETS					
Debtors	11	424		517	
Cash at bank and in hand		753		4,471	
		1,177		4,988	
CREDITORS					
Amounts falling due within one year	12	(3,492)		(1,439)	
NET CURRENT (LIABILITIES)/ASSETS			(2,315)		3,549
TOTAL ASSETS					
less current liabilities			34,954		22,591
CAPITAL AND RESERVES					
Called-up share capital	14		7,884		7,884
Share premium	15		14,945		14,944
Capital redemption reserve			17,724		17,724
Capital reserve – realised	15		(12,938)		(11,607)
Capital reserve – unrealised	15		6,611		(7,012)
Revenue reserve	15		728		658
EQUITY SHAREHOLDERS' FUNDS	17		34,954		22,591
NET ASSET VALUE PER ORDINARY SHARE	16		44.33p		28.65p
DILUTED NET ASSET VALUE PER ORDINARY SHARE	16		44.33p		28.65p

The Accounts were approved by the Board and signed on their behalf on 13 September 1999.

Michael Hamilton

Chairman

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT

		for the year ended 31 July 1999		for the year ended 31 July 1998	
		£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18		317		1,048
TAXATION					
ACT paid		(173)		(69)	
TOTAL TAX PAID			(173)		(69)
FINANCIAL INVESTMENT					
Acquisitions of investments		(27,392)		(19,895)	
Disposals of investments		21,267		18,975	
Realised currency loss		(49)		(338)	
NET CASH OUTFLOW FROM FINANCIAL INVESTMENT			(6,174)		(1,258)
EQUITY DIVIDEND PAID			(710)		(276)
NET CASH OUTFLOW BEFORE FINANCING			(6,740)		(555)
FINANCING					
Bank loan drawn down		3,021		–	
Proceeds from exercise of warrants		1		–	
NET CASH INFLOW FROM FINANCING			3,022		–
DECREASE IN CASH	19		(3,718)		(555)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS	19				
Decrease in cash in the period			(3,718)		(555)
Cash received from bank loan			(3,021)		–
Exchange movement			(149)		–
MOVEMENT IN NET (DEBT)/FUNDS IN THE PERIOD			(6,888)		(555)
NET FUNDS AT 1 AUGUST 1998			4,471		5,026
NET (DEBT)/FUNDS AT 31 JULY 1999			(2,417)		4,471

: accompanying notes are an integral part of this statement.

1 PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies, which are unchanged from last year and have been applied consistently, is set out below.

(a) BASIS OF ACCOUNTING

The accounts are prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and on the assumption that approval as an investment trust will continue to be granted.

The accounts have been prepared in accordance with applicable UK accounting standards and with the Statement of Recommended Practice 'Financial statements of investment trust companies'.

(b) INVESTMENTS

Listed investments are shown at middle market value.

Unlisted investments are shown at a valuation determined by the Directors based upon latest dealing prices, stockbroker valuations, net asset values and other information, as appropriate.

(c) INCOME

(i) Income from equity investments is brought into account on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.

(ii) Interest from fixed interest securities is recognised on an accruals basis. Fixed interest securities issued at a significant discount or premium are accounted for on an effective yield basis.

(iii) Franked and unfranked investment income include the imputed tax credits or taxes deducted at source.

(iv) Interest receivable on deposits is dealt with on an accruals basis.

(v) If scrip is taken in lieu of dividends in cash, the net amount of the cash dividend declared is credited to the revenue account.

(d) EXPENSES

All expenses are accounted for on an accruals basis and are charged through the revenue account except where they relate directly to the acquisition or disposal of an investment, in which case they are added to the cost of the investment or deducted from the sale proceeds.

(e) FINANCE COSTS

Finance costs are accounted for on an accruals basis and are charged through the revenue account.

(f) TAXATION

Where appropriate deferred taxation is provided for short-term timing differences, calculated at the current tax rate relevant to the benefit or liability.

(g) FOREIGN CURRENCIES

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Assets and liabilities in foreign currencies are translated at the closing rates of exchange at the balance sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or revenue reserve as appropriate.

(h) CAPITAL RESERVES

Realised: Gains and losses on realisation of investments and realised exchange differences of a capital nature are dealt with in this reserve.

Unrealised: Unrealised appreciation/depreciation represents the amount by which the market value of assets and liabilities differs from their book value and is dealt with in this reserve.

	1999	1998
	£'000	£'000
2 INCOME		
INCOME FROM INVESTMENTS		
Franked investment income	35	5
UK unfranked income	41	–
Overseas dividends	403	1,243
Overseas interest	118	126
	597	1,374
OTHER INCOME		
Deposit interest	141	255
TOTAL INCOME	738	1,629
TOTAL INCOME COMPRISES		
Dividends	438	1,248
Interest from investments	159	126
Other	141	255
	738	1,629
INCOME FROM INVESTMENTS		
Listed UK	76	5
Listed overseas	521	1,369
	597	1,374
3 INVESTMENT MANAGEMENT FEE – *all charged to revenue*		
Investment management fee	280	269
Irrecoverable VAT thereon	20	11
	300	280

Baillie Gifford & Co are employed by the Company as Managers and Secretaries under a management agreement which is terminable on not less than twelve months' notice or on shorter notice in certain circumstances. For the year to 31 July 1999 Baillie Gifford & Co's annual remuneration was calculated at 0.25% of the total assets less current liabilities per quarter.

Mr DCP McDougall, a Director of the Company, was a senior partner of Baillie Gifford & Co until he retired from the firm on 30 April 1999. Mr G Veitch, a former Director of the Company, is a partner of Baillie Gifford & Co.

	1999	1998
4 OTHER ADMINISTRATIVE EXPENSES – *all charged to revenue*		
General administrative expenses	101	92
Directors' fees	31	36
Auditors' remuneration – audit services	6	6
	138	134

The Chairman's emoluments amounted to £10,000 (1998 – £10,000). The three other Directors who served on the Board throughout the year each received fees of £7,000 (1998 – £7,000) per annum. In the year to 31 July 1998, Mr G Veitch, who retired on 29 April 1998, received fees of £5,202. No pension contributions were made in respect of Directors.

	1999	1998
5 FINANCE COSTS OF BORROWINGS – *all charged to revenue*		
On bank loans	14	–

	1999 £'000	1998 £'000
6 TAX ON ORDINARY ACTIVITIES		
UK corporation tax at 21% (1998 – 30%)	51	381
Overseas taxation	17	9
Tax attributable to franked investment income	5	1
ACT written off/(back) in the year	3	(44)
Deferred taxation	(1)	(11)
	75	336
Relief for overseas taxation	(17)	(9)
	58	327

7 ORDINARY DIVIDEND	1999	1998	1999 £'000	1998 £'000
Proposed dividend per ordinary share (payable 29 October 1999)	0.20p	0.90p	158	710

The proposed dividend of £158,000 (1998 – £710,000) is allowed under section 265 of the Companies Act 1985 although the net assets are less than the called-up share capital and undistributable reserves as defined in section 264(3) of that Act.

8 RETURN PER ORDINARY SHARE	1999			1998		
	Revenue	Capital	Total	Revenue	Capital	Total
	0.29p	15.59p	15.88p	1.12p	(31.04p)	(29.92p)

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £228,000 (1998 – £888,000), and on 78,841,220 (1998 – 78,841,160) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Capital return per ordinary share is based on the net capital profit for the financial year of £12,292,000 (1998 – loss of £24,473,000), and on 78,841,220 (1998 – 78,841,160) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

There was no dilution of the above returns in either year. The number of outstanding warrants at 31 July 1999 was 15,763,976 (31 July 1998 – 15,764,680).

	1999	1998
	[illegible]	£'000
9 FIXED ASSETS – INVESTMENTS		
Listed at market value – UK	3,135	1,127
– Overseas	34,134	17,915
	37,269	19,042

	Listed in UK £'000	Listed overseas £'000	Total £'000
Cost of investments held at 1 August 1998	1,606	24,448	26,054
Unrealised depreciation at 1 August 1998	(479)	(6,533)	(7,012)
Value of investments held at 1 August 1998	1,127	17,915	19,042
Movements in year:			
Purchases at cost	2,192	24,739	26,931
Sales – proceeds	(2,044)	(19,150)	(21,194)
– realised profits/(losses) on sales	371	(1,653)	(1,282)
Increase in unrealised appreciation	1,489	12,283	13,772
Value of investments held at 31 July 1999	3,135	34,134	37,269
Cost of investments held at 31 July 1999	2,125	28,384	30,509
Unrealised appreciation at 31 July 1999	1,010	5,750	6,760
Value of investments held at 31 July 1999	3,135	34,134	37,269

GAINS/(LOSSES) ON INVESTMENTS	1999 £'000	1998 £'000
Realised losses on sales	(1,282)	(7,371)
Increase/(decrease) in unrealised appreciation	13,772	(16,764)
	12,490	(24,135)

10 FINANCIAL ASSETS

A full list of the Company's investments is given on pages 6 and 7. In addition, a geographical analysis of the portfolio, an analysis of the investment portfolio by broad industrial or commercial sector, and a list of the 20 largest equity investments by their aggregate market value, are contained in the Managers' Review Section and the Review of Investments. All financial assets and liabilities are included in the accounts at market value (see note 1).

Exposure to currency risk through asset allocation is indicated on page 9. Included within the analysis provided on pages 6 and 7 is the Company's holding in warrants which confer the right to convert into equity shares. An analysis of the currency exposure and maturity profile of these warrants at 31 July 1999 is provided below:

	Market value £'000	Weighted average period until maturity
Warrants:		
Singapore dollars	835	3 years
Thai bhats	142	3 years

The interest rate risk profile of the Company's financial assets at 31 July 1999 was:

	Market value £'000	Weighted average interest rate	Weighted average period until maturity
Fixed rate:			
Hong Kong convertible bonds	577	5.1%	2 years

	1999 £'000
Cash:	
UK deposits	350
Foreign deposits – US dollar	138
– Singapore dollar	81
– Taiwan dollar	184
	753

The cash deposits generally comprise call or short term money market deposits of less than one month.

Short term debtors and creditors have been excluded from the disclosure of financial instruments.

11 DEBTORS	1999 £'000	1998 £'000
Amounts falling due within one year:		
Income accrued	24	70
UK and withholding taxes deductible therefrom	(3)	(14)
	21	56
Sales for subsequent settlement	157	230
Taxation recoverable	219	202
Other debtors	25	17
Amounts falling due in more than one year:		
Deferred taxation		
Timing differences related to income accrued, but not received	2	12
	424	517

	1999 £'000	1998 £'000
CREDITORS		
Amounts falling due within one year:		
Purchases for subsequent settlement	–	461
Proposed dividend	158	710
Advance Corporation Tax on proposed dividend	–	177
Bank loan	3,170	–
Other creditors	164	91
	3,492	1,439

Loan facilities

Maturity profile:

A one year £4 million multi-currency loan has been arranged with The Royal Bank of Scotland plc. At 31 July 1999 there were outstanding drawings of ¥400 million and US$1,650,000.

Included in other creditors is £87,000 (1998 – £56,000) in respect of the investment management fee.

FINANCIAL LIABILITIES

The interest rate risk profile of the Company's financial liabilities at 31 July 1999 was:

	Market value £'000	Weighted average interest rate	Weighted average period until maturity
Bank loan:			
Yen denominated	2,152	0.37%	1 week
US$ denominated	1,018	5.25%	1 week

All borrowings are stated at market value.

Short term debtors and creditors have been excluded from the disclosure of financial instruments.

Gains and losses on hedges

At 31 July 1999 there were no unrecognised gains/losses on hedges. Realised currency profits/losses are taken to capital reserve and are not reflected in the profit and loss account unless they are of a revenue nature.

	1999 £'000	1998 £'000
CALLED-UP SHARE CAPITAL		
Authorised:		
Ordinary shares – 113,684,758 shares of 10p each	11,368	11,368
Allotted, issued and fully paid:		
Ordinary shares – 78,841,864 (1998 – 78,841,160) shares of 10p each	7,884	7,884

The unissued ordinary shares are being reserved in part to satisfy the subscription rights of the warrants which were issued on 16 April 1996 to holders of the new ordinary shares on conversion of the 'C' shares.

Each warrant carries the right to subscribe for one ordinary share at a price of 56p on 30 June in any one of the remaining years 2000 to 2002 (inclusive). On 30 June 1999 the right to 704 warrants were exercised from which £70 has been applied in increasing the issued share capital and £324 in increasing the share premium account.

The number of outstanding warrants at 31 July 1999 was 15,763,976 (1998 – 15,764,680).

A warrant reserve has not been established for the warrants since the conversion of the 'C' share issue did not result in an increase in the share premium account.

	Share premium £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
15 RESERVES				
At 1 August 1998	14,944	(11,607)	(7,012)	658
Premium arising from exercise of warrants	1	–	–	–
Net loss on realisation of investments	–	(1,282)	–	–
Increase in unrealised appreciation	–	–	13,772	–
Exchange differences	–	(49)	–	–
Exchange differences on bank loans	–	–	(149)	–
Retained net revenue for the year	–	–	–	70
At 31 July 1999	14,945	(12,938)	6,611	728

16 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share and the net asset values attributable to the ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows:

	1999	1998	1999 £'000	1998 £'000
Ordinary shares	44.33p	28.65p	34,954	22,591

The movements during the year of the assets attributable to the ordinary shares were as follows:

	£'000
Total net assets at 1 August 1998	22,591
Total recognised gains and losses for the year	12,520
Dividend appropriated in the year	(158)
Proceeds from exercise of warrants	1
Total net assets at 31 July 1999	34,954

Net asset value per ordinary share is based on the net assets as shown above and 78,841,864 (1998 – 78,841,160) ordinary shares, being the number of ordinary shares in issue at each date.

There was no dilution to net asset value at either date. In accordance with FRS 14 the outstanding warrants have been treated as non-dilutive because the exercise price is greater than the prevailing share price. The number of outstanding warrants at 31 July 1999 was 15,763,976 (1998 – 15,764,680).

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Shareholders' funds at 1 August 1998	22,591	46,886
Proceeds from exercise of warrants	1	–
Total recognised gains and losses for the year (after dividend payment)	12,362	(24,295)
Shareholders' funds at 31 July 1999	34,954	22,591

18 RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

Net revenue on ordinary activities before finance costs and taxation	300	1,215
Decrease in accrued income	49	24
(Increase)/decrease in debtors	(12)	9
Increase/(decrease) in creditors	59	(72)
Tax on franked investment income included within income from UK companies	(5)	(1)
Income tax suffered	(57)	(118)
Overseas tax suffered	(17)	(9)
	317	1,048

	[illegible]	Cash flows £'000	Exchange movement £'000	At 31 July 1999 £'000
19 ANALYSIS OF CHANGE IN NET (DEBT)/FUNDS				
Cash	4,471	(3,718)	–	753
Loans due within one year	–	(3,021)	(149)	(3,170)
	4,471	(6,739)	(149)	(2,417)

20 CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

There were no contingent liabilities at either year end.

21 DIRECTORS' INTERESTS IN CONTRACTS

No Director has a contract of service with the Company.

During the year no Director was interested in any contract or other matter requiring disclosure under section 232 of the Companies Act 1985.

22 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company operates as an Investment Trust Company in accordance with Section 842 of the Taxes Act 1988. The international nature of the Company's investment activities provides opportunities for both market appreciation and currency gains, but leaves it exposed to the risk of market volatility and currency fluctuations.

In the case of an investment trust, capital profits from investing activities and currency gains are not recognised in the revenue account, but are credited directly to a separate capital reserve which the Company is prohibited from distributing in the form of dividends.

The Company makes use of gearing (long and short term borrowings) to achieve improved performance in rising markets.

The Company's revenue account may be affected by fluctuations in short term interest rates; income from overseas investment can be affected by currency fluctuations.

The Company's financial instruments which provide finance for investment activities comprise bank borrowings, cash and liquid resources. In addition, the Company maintains financial assets comprising an international equity portfolio and overseas government and corporate bonds as part of its investment strategy.

The Company may, from time to time, enter into derivative transactions to hedge specific currency or interest rate risk. No such transactions were undertaken in the period under review.

Trading in financial instruments is not within the normal activities of an investment trust, nor is it the Company's policy to trade in such instruments. Transactions in financial instruments generally arise as a result of strategic investment decisions.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Company's Managers may not enter into derivative transactions without the prior approval of the Board, and all borrowing facilities require Board authorisation. The Board agrees policies for managing risk with the Company's Managers.

Interest Rate Risk

The Company finances its operations by means of realised capital profits, retained revenue reserves and bank borrowings.

The Company has negotiated a one year multi-currency borrowing facility at variable rates of interest. In addition, the Company has negotiated a short term multi-currency borrowing facility linked to LIBOR and may draw down funds for a period of up to 12 months.

Liquidity Risk

The Company's policy with regard to liquidity is to ensure continuity of funding. Short term flexibility is achieved by overdraft facilities.

The Company's assets comprise mainly readily realisable securities which can be sold freely to meet funding commitments if necessary.

Foreign Currency Risk

The international nature of the Company's investment activities gives rise to a currency risk which is inherent in the performance of its overseas investments. It is not the Company's policy to hedge this risk on a continuing basis, but the Company may from time to time match specific overseas investment with foreign currency borrowings.

The revenue account is subject to currency fluctuation arising on overseas income. The Company does not hedge this currency risk.

FURTHER SHAREHOLDER INFORMATION

The Company's shares are traded on the London Stock Exchange. They can be bought by investors either by placing an order with a stockbroker or by asking a professional adviser, eg lawyer, accountant or independent financial adviser, to do so on their behalf. They are also available through the Baillie Gifford Investment Trust Share Plan and ISA referred to on page 2. The price of the shares is quoted daily in the *Financial Times*, *The Scotsman* and *The Herald*.

Pacific Horizon publishes half-yearly progress reports. Shareholders are welcome at the Annual General Meeting of the Company to be held on Tuesday, 26 October 1999.

The calendar for these and other items of interest to shareholders is set out below:

July	*Financial year ends on 31 July*
September	Preliminary announcement of annual results issued to Press
September	Annual Report and Accounts issued
October	Annual General Meeting
February	Figures for half-year to 31 January announced
March	Interim Report issued
June	*30 June – date for exercise of warrants (at warrantholders' discretion)*

CAPITAL GAINS TAX

The cost for capital gains taxation purposes to shareholders who subscribed for the conversion shares, subsequently converted into new ordinary shares (with warrants attached), is apportioned between the ordinary shares and the warrants as set out in the placing and offer document dated 5 March 1996. The attributable costs are:

Cost of each ordinary share	53.45p
Cost of each warrant	16.52p

Market values on 17 April 1996 (first day of dealing) were as follows:

Ordinary share	55.00p
Warrant	17.00p

If shareholders are in any doubt as to their personal taxation position they should consult their professional advisers.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Pacific Horizon Investment Trust PLC will be held within the offices of Baillie Gifford & Co, 1 Rutland Court, Edinburgh EH3 8EY, on Tuesday, 26 October 1999 at 11.30 am for the following purposes:

Ordinary Business

1. To approve the Accounts of the Company for the year to 31 July 1999 with the Reports of the Directors and of the Auditors thereon.
2. To declare a dividend.
3. To re-elect Mr DCP McDougall as a Director.

   To consider resolutions No. 4 and No. 5, special notice having been received of the intention to propose the resolutions as ordinary resolutions (see note 4).
4. *To re-elect Mr M Hamilton as a Director.*
5. To re-elect Mr AGS McCallum as a Director.
6. To reappoint Ernst & Young as Auditors.
7. To authorise the Directors to fix the remuneration of the Auditors.

Special Business

To consider and, if thought fit, to pass the following resolution as a special resolution:

8. THAT, in substitution for any existing power under section 95 of the Companies Act 1985, but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and they are hereby empowered pursuant to section 95 of the said Act to allot equity securities (within the meaning of section 94(2) of the said Act) for cash pursuant to the authority conferred on them in accordance with section 80 of the said Act at the Extraordinary General Meeting of the Company on 28 March 1996, as if subsection 89(1) of the said Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal value of £394,205.80 and shall expire on 25 January 2001 or at the conclusion of the next Annual General Meeting of the Company held after the date on which this resolution is passed, whichever is earlier, 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 such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board

Baillie Gifford & Co

BAILLIE GIFFORD & Co
Managers and Secretaries
24 September 1999

Notes

1 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. A Form of Proxy is enclosed.

2 Only holders of ordinary shares are entitled to attend or be represented at the meeting.

3 Shareholders participating in the Baillie Gifford Investment Trust Share Plan and/or the Baillie Gifford Investment Trust ISA/PEP may vote and/or attend the meeting on application to their respective plan administrator as detailed in the terms and conditions of the plans.

4 In accordance with section 293 of the Companies Act 1985 special notice has been given to the Company of the resolution to reappoint Directors who are over the age of 70.

5 No Director has a contract of service with the Company.

Form of Proxy

I/We

of

being a Member(s) of the above-named Company, hereby appoint the Chairman of the Meeting,

or (see note 2)

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Tuesday, 26 October 1999, and at any adjournment thereof.

Please indicate with an X in the spaces below how you wish your votes to be cast on a poll. Where no indication is given the proxy will vote or abstain as he/she thinks fit.

RESOLUTIONS	FOR	AGAINST
Ordinary Business		
1. To approve the Report of the Directors and the Accounts for the year ended 31 July 1999.		
2. To declare a dividend.		
3. To re-elect Mr DCP McDougall as a Director.		
4. To re-elect Mr M Hamilton as a Director.		
5. To re-elect Mr AGS McCallum as a Director.		
6. To reappoint Ernst & Young as Auditors.		
7. To authorise the Directors to fix the remuneration of the Auditors.		
Special Business		
8. To approve by Special Resolution that the Directors be authorised to issue additional shares for the purposes of Section 95 of the Companies Act 1985.		

Signature

Dated this day of 1999

Notes

1. *In the case of joint holders the vote of the senior who tenders a vote will be accepted.*
2. *A member may appoint a proxy of his/her own choice by deleting the reference to the Chairman of the Meeting and inserting the name of the proxy in the space provided. A proxy need not be a member of the Company but must attend the meeting in person to represent the member.*
3. *An instrument appointing a proxy by a corporation must be given under its common seal or signed by an officer or attorney on its behalf.*
4. *An instrument appointing a proxy must be lodged with the Registrar of the Company not less than 48 hours before the time of the meeting, and in default will not be treated as valid.*

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BUSINESS REPLY SERVICE
Licence No. EH 59

2

Computershare Services PLC
PO Box 457
Owen House
8 Bankhead Crossway North
Edinburgh EH11 0XG

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