

# Pacific Horizon Investment Trust PLC

Annual Report & Accounts

31 July 2000



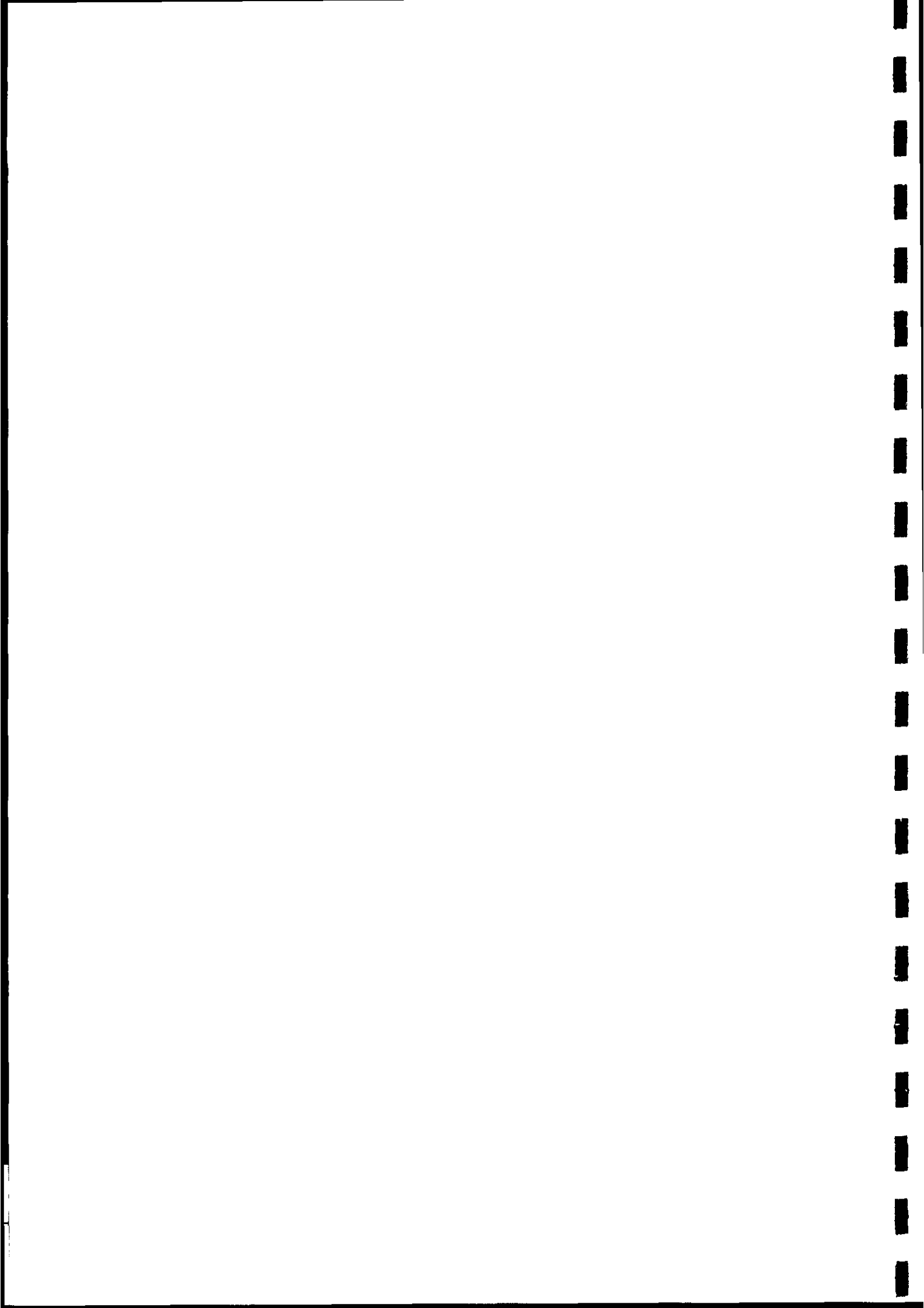
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# Company Summary

## COMPANY DATA AT 31 JULY 2000

Total assets†	Shareholders' funds	Market capitalisation
£50m	£44m	£37m

† total assets less current liabilities before deduction of bank loan.

### Policy and Objective

Pacific Horizon's objective is to invest in the stockmarkets of the Asia-Pacific region (excluding Japan) in order to achieve capital growth. The Company is prepared to move freely between the markets of the region as opportunities for growth vary. The portfolio consists entirely of quoted securities.

### Comparative Index

The principal index against which performance is measured is the MSCI All Countries Far East ex Japan Free Index in sterling terms.

### Management Details

Baillie Gifford & Co are appointed as investment managers and secretaries to the Company. The management contract can be terminated at twelve months notice.

### Capital Structure

The Company's share capital consists of 78,841,864 ordinary shares of 10p each which are issued and fully paid. There are also 15,763,976 warrants which are exercisable at 56p on 30 June in either of the remaining years 2001 and 2002.

### Management Fee

Baillie Gifford & Co's annual remuneration is 1.0% of total assets less current liabilities, calculated on a quarterly basis.

### ISA/PEP

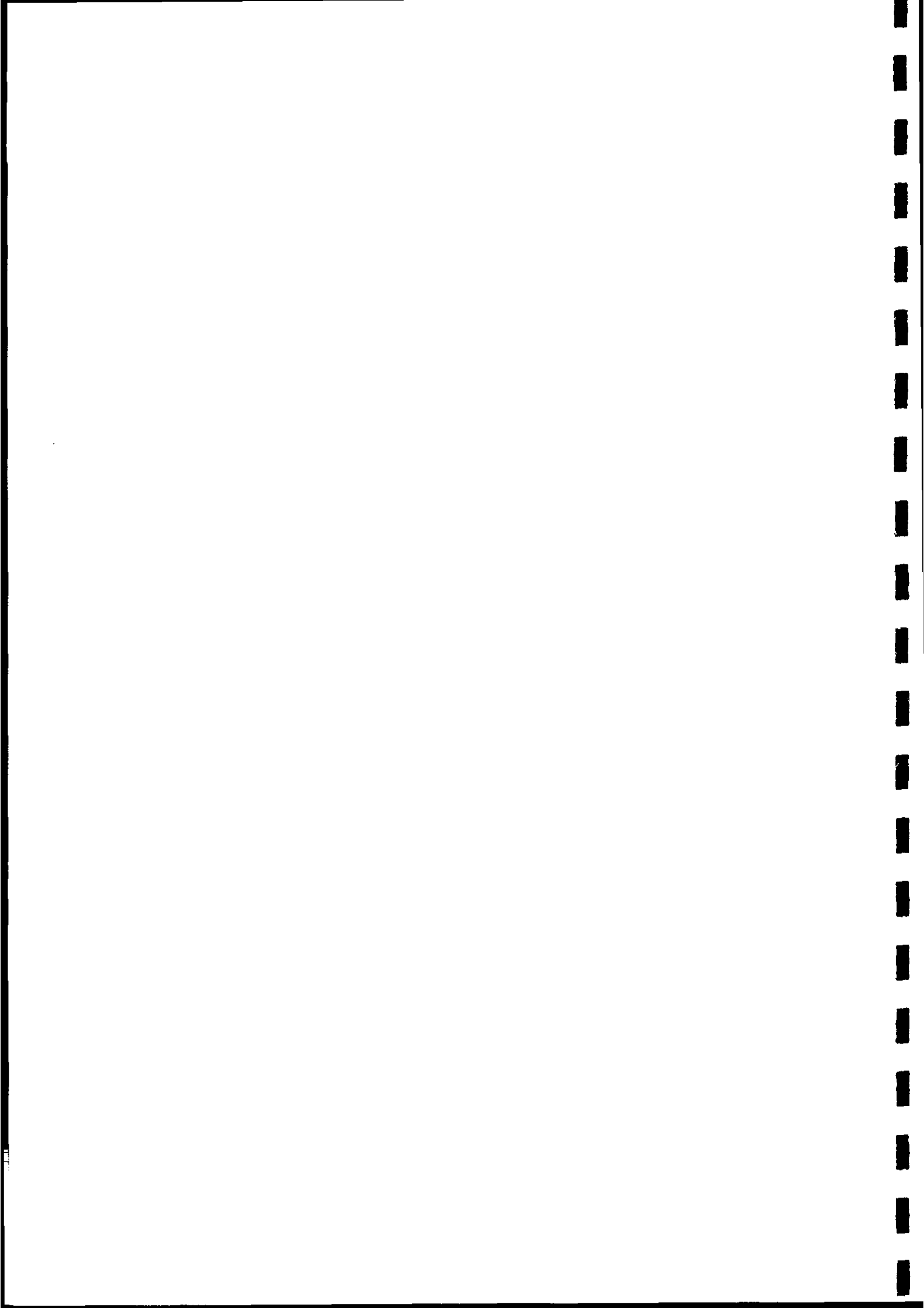
An ISA and a PEP transfer facility are available (see inside back cover). Up to £7,000 per annum can be invested in a Maxi ISA currently.

### AITC

The Company is a member of the Association of Investment Trust Companies.

### Wind-Up

The Company's Articles of Association require the Directors to convene an EGM not later than 16 July 2002 at which a resolution will be proposed to wind up the Company unless such obligation shall have been postponed by ordinary resolution.



# Year's Summary

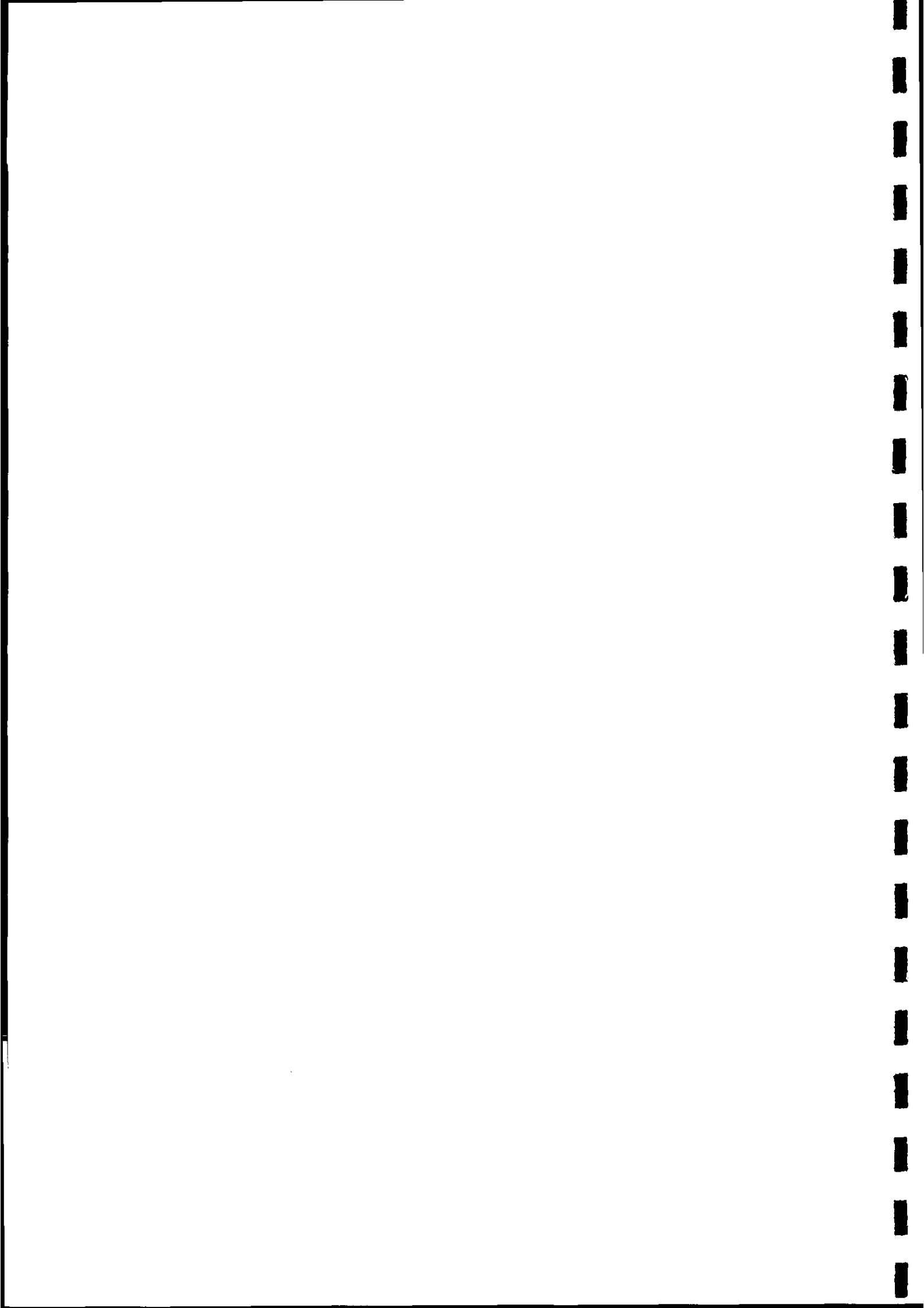
	31 July 2000	31 July 1999	% change
Total assets (total assets less current liabilities before deduction of bank loan)	£49.6m	£38.1m	30.2
Bank loan	£6.0m	£3.2m	89.6
Equity shareholders' funds	£43.6m	£34.9m	24.8
Net asset value per ordinary share	55.35p	44.33p	24.8
Diluted net asset value per ordinary share	55.35p	44.33p	24.8
Share price	46.75p	37.00p	26.4
MSCI All Countries Far East ex Japan Free Index (in sterling terms)	180.4	177.1	1.9
Dividend per ordinary share	0.20p	0.20p	-
Earnings per ordinary share	0.22p	0.29p	(24.1)
Expense ratio	1.30	1.20	8.3
Discount	15.5%	16.5%	

	Year to 31 July 2000		Year to 31 July 1999	
	High	Low	High	Low
Year's high and low				
Share price	59.75p	31.00p	43.25p	15.75p
Net asset value	70.18p	39.41p	49.00p	24.68p
Diluted net asset value (FRS14)	69.31p	39.41p	49.00p	24.68p
Fully diluted net asset value	67.82p	39.41p	49.00p	24.68p
Discount (to diluted net asset value)	9.8%	25.0%	10.6%	39.1%

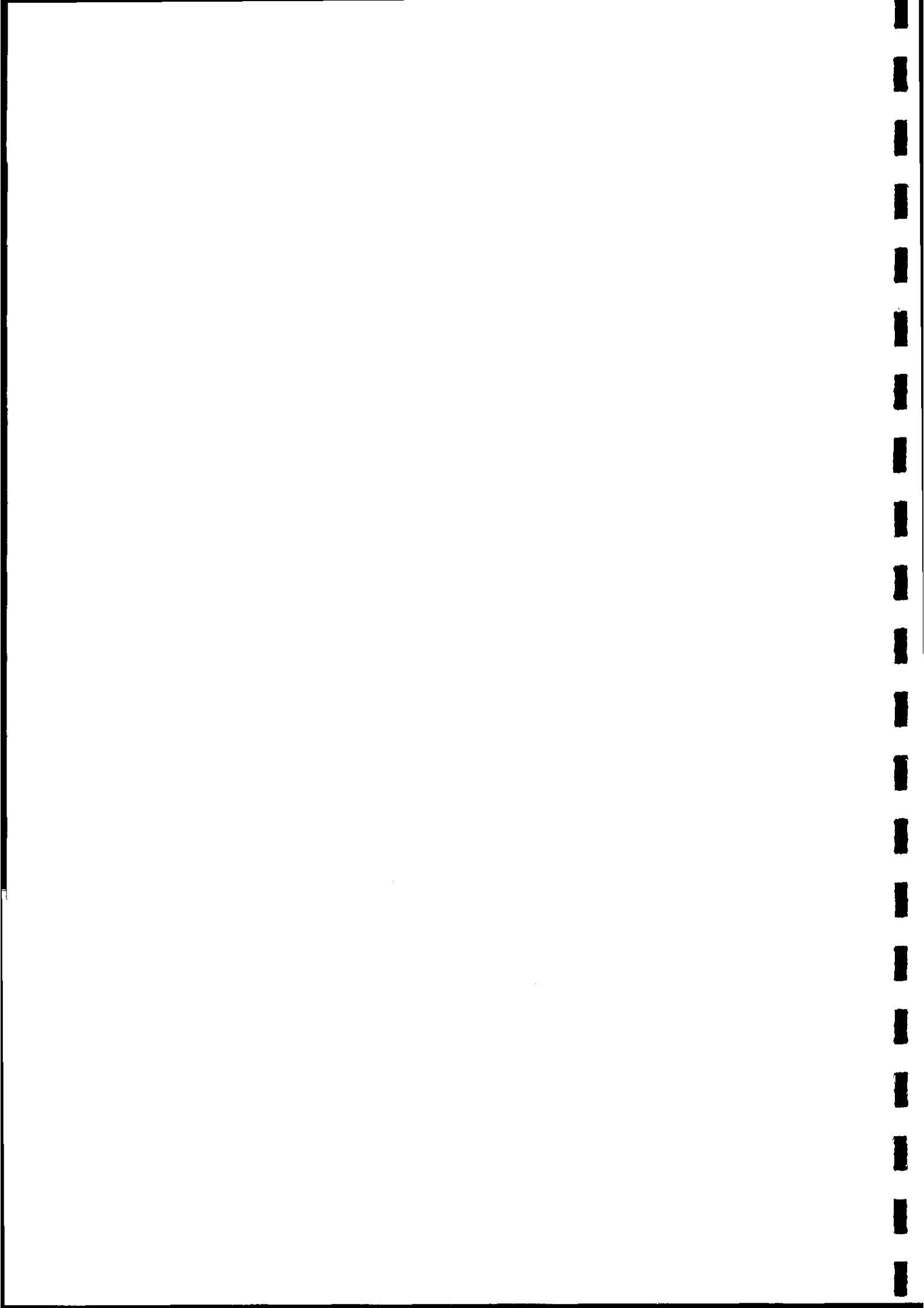
  

	31 July 2000	31 July 1999
<b>Total return per ordinary share</b>		
Revenue	0.22p	0.29p
Capital	11.00p	15.59p
<b>Total</b>	<b>11.22p</b>	<b>15.88p</b>



# Five Year Summary

The following charts indicate how an investment in Pacific Horizon has performed relative to its comparative index (MSCI All Countries Far East ex Japan Free Index in sterling terms) and its underlying net asset value over a five year period to 31 July 2000:



# Directors and Management

## Directors

**Michael Hamilton**, the Chairman, is aged 74. 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 67, was investment manager to the Pilkington Pension Funds and is a director of The Asian Technology Trust PLC and INVESCO techMARK Enterprise Trust plc. He was appointed a Director of the Company in 1989.

**Graham McCallum CBE**, aged 74, 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 56, is a former senior partner of Baillie Gifford & Co. He is chairman of Foreign & Colonial Eurotrust PLC and Law Debenture Corporation plc and is a director of The Scottish Investment Trust PLC. He is a former chairman of the Investment Management Regulatory Organisation and of the Association of Investment Trust Companies. He was appointed a Director of the Company in 1992.

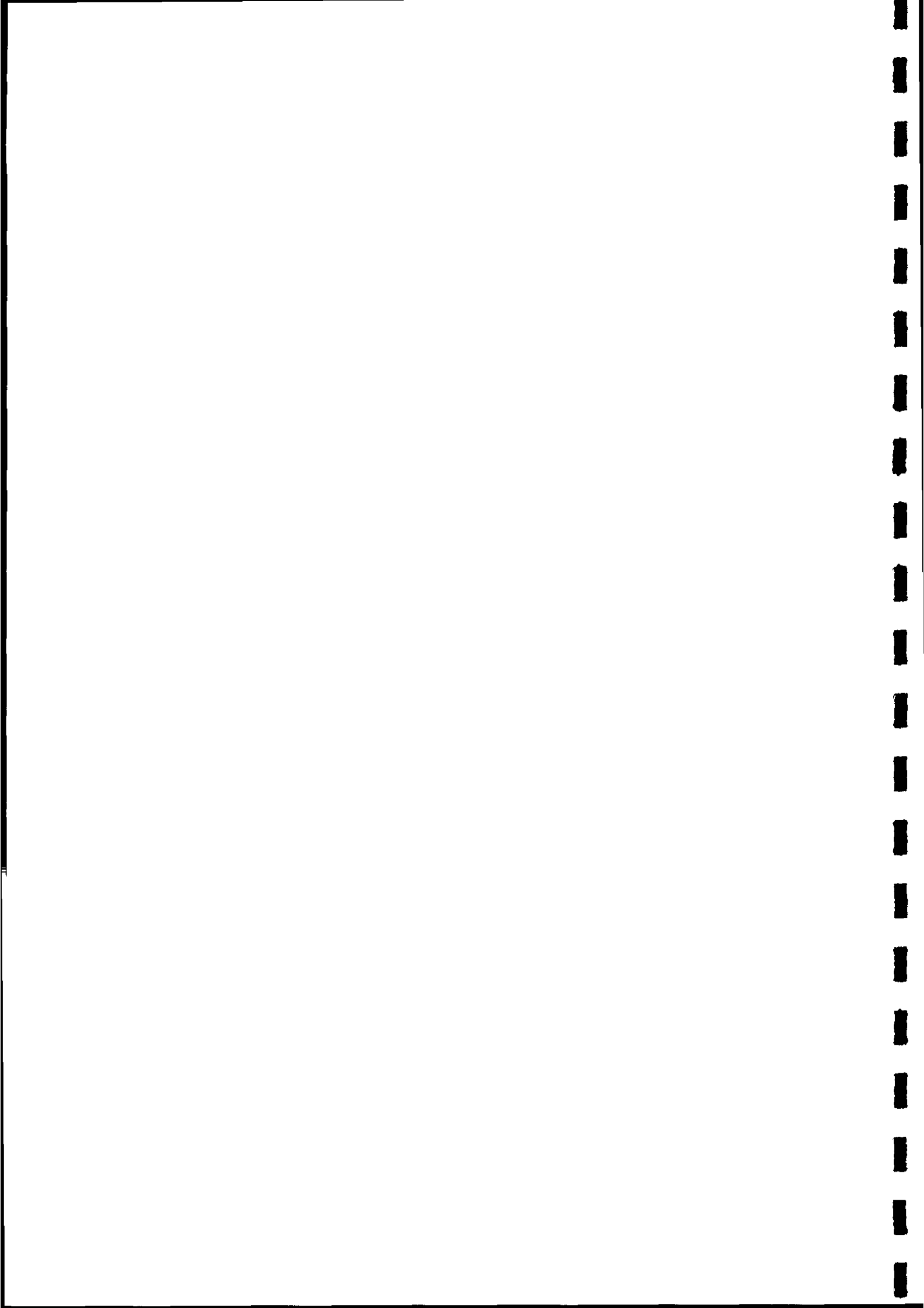
## Managers and Secretaries

Pacific Horizon is managed by Baillie Gifford & Co, an investment management business formed in 1927 out of the legal firm Baillie & Gifford, WS, which had been involved in investment management since 1908.

Baillie Gifford is one of the five largest investment trust groups in the UK and currently manages six investment trusts. Baillie Gifford also manages unit trusts and open-ended investment companies, together with investment portfolios on behalf of pension funds, charities and other institutional clients, both in the UK and overseas. Funds under the management or advice of Baillie Gifford total over £22 billion. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 20 partners and a staff of over 300.

Within Baillie Gifford the Asia Pacific investments are managed by a team of eight. Gerald Smith, a partner at Baillie Gifford, is the head of this team and has been responsible for the management of Pacific Horizon since 1995. Baillie Gifford have been Managers and Secretaries to the Company since August 1992.

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



# Chairman's Statement

Michael Hamilton  
Chairman

## Performance

### *Capital Account*

The Company's year was very satisfactory on the Capital Account. The net asset value per share rose by 24.8%, compared with a rise of 1.9% in the MSCI All Countries Far East ex Japan Free Index in sterling terms.

Our out performance was the result of a number of factors, one of the most significant being the rise in value of our holdings of companies in the telecommunications, media and technology industries during the first half of the Company's year. The Managers' report on page 7 and pages 10 to 12 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.

### *Revenue Account*

Owing mainly to higher expenses related to the increase in the value of the Company's assets and higher interest expenses, the net revenue for the year under review fell by 23.2% compared with the previous year and earnings per share were 0.22p compared with 0.29p. The Board is recommending that a dividend of 0.20p should be paid, the same as that paid for the previous year.

## Holdings in other Investment Trusts

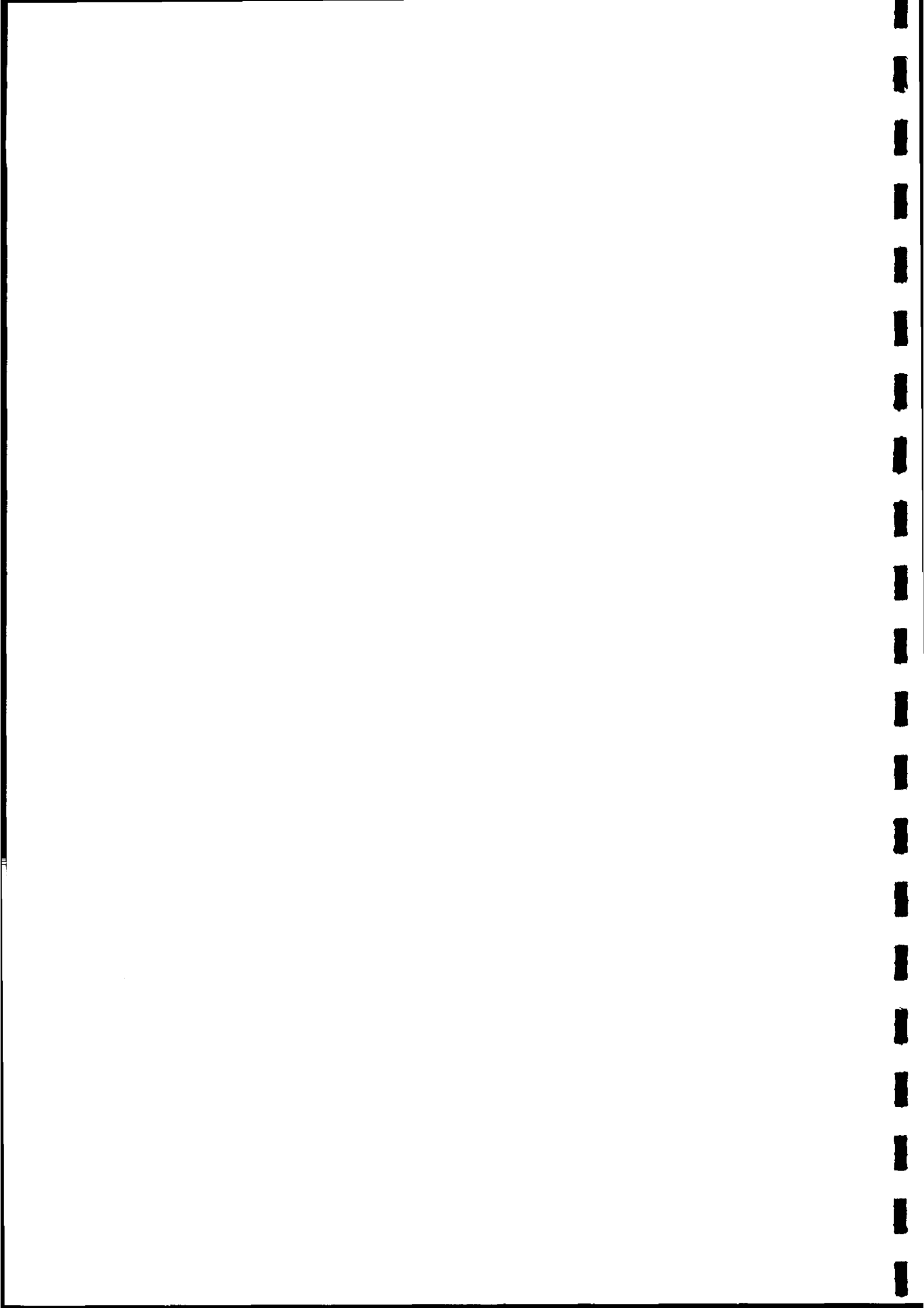
In the summer of 1998, close to what turned out to be the low point of the Asian economic crisis, we invested in the shares of a number of other investment trusts investing in the Asia Pacific region excluding Japan. These were bought on discounts to their net asset values of 25% or more. We believed that this level of discount was excessive and that discounts were likely to narrow once regional stockmarkets rallied, providing an extra benefit to shareholders through share prices rising more rapidly than underlying asset values. We have no intention of becoming a 'fund of funds' and so we decided that shareholdings should be sold once the discounts had narrowed to 10% or less, and to limit the amount of the Company's assets invested in these shares to no more than 10% at the time of purchase. Markets have since risen substantially and from the beginning of July 1998 to the end of July 2000 the MSCI All Countries Far East ex Japan Free Index has risen by 80% in sterling terms. Discounts on regional investment trusts have taken longer to adjust than in previous market cycles, and so we still had some holdings in other investment trusts at the end of the Company's year, but our money weighted return from the exercise was almost 250% over the same period.

## Share buy-back

The Board is seeking powers to allow the Company to repurchase and cancel its own shares. The purchase of shares when they are trading at a discount to their asset backing enhances the net asset value per share for continuing shareholders on the cancellation of those shares.

## ISA and Share Plan

The Baillie Gifford Investment Trust ISA offers an attractive method for individuals to invest in the Company with the benefit of tax concessions.



## CHAIRMAN'S STATEMENT

The Company also participates in the Baillie Gifford Investment Trust Share Plan. Further details are given on the inside back cover of this report.

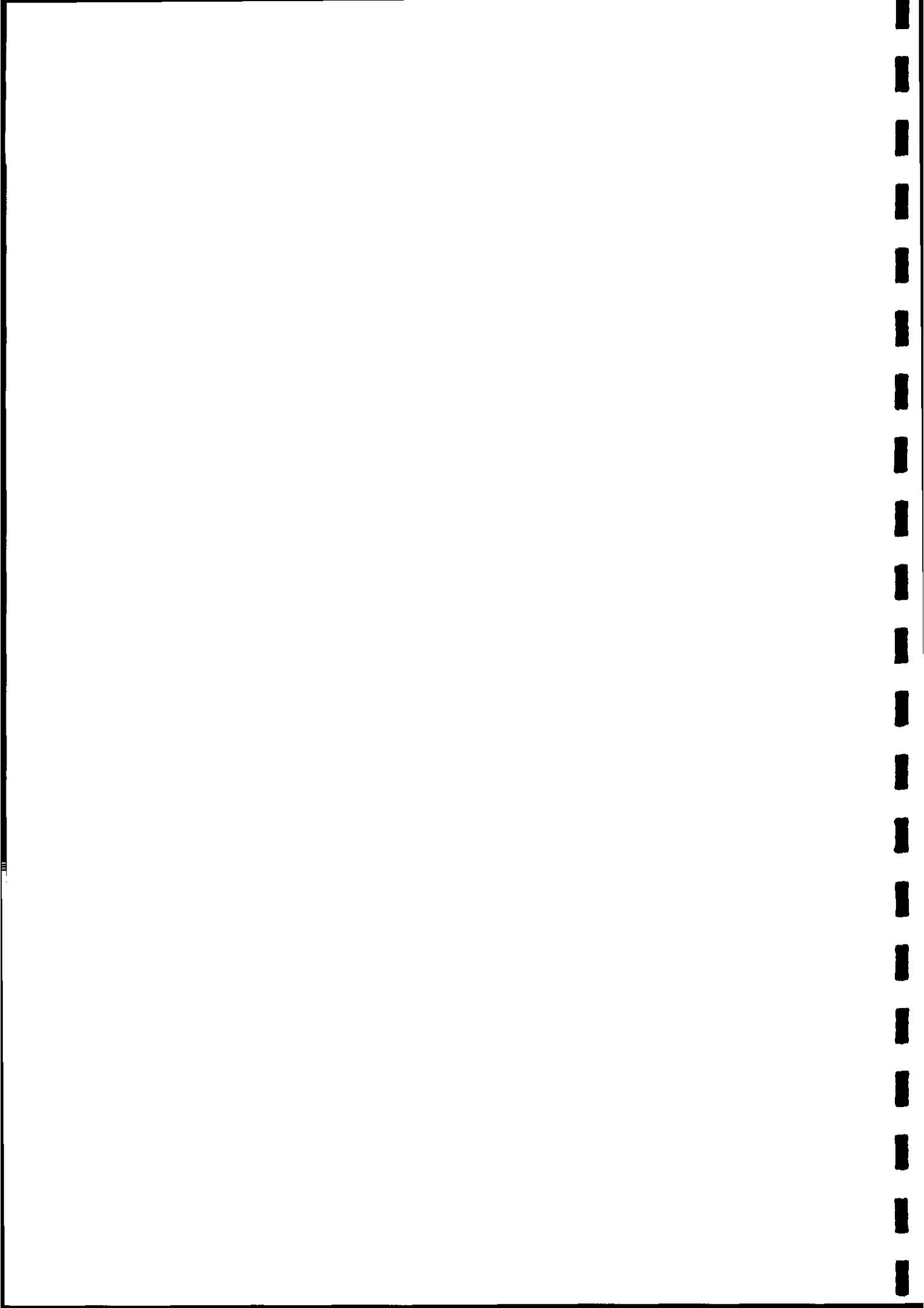
### Outlook

In the year to 31 July 2000 the major Asian economies enjoyed rapid economic growth. In part this was a continuation of the rebound from depressed levels of economic activity brought about by the financial crisis of 1997/98, but it is also related to Asia's role as supplier of many of the components used to build up the infrastructure of the 'e-economy' throughout the world. With the prospect of slower economic growth elsewhere in the world and a higher base for comparisons we believe that it will be hard for some Asia countries to sustain these very high rates of growth. At the same time the outlook for interest

rates has become more benign and the prospects for the Chinese economy look brighter than they have for many years. In the light of these changing prospects we have significantly increased our Hong Kong and China weighting in the portfolio, largely at the expense of Korea, Singapore and Taiwan. Our optimism about the outlook for our holdings is reflected in the continued use of a modest amount of short-term borrowing.



Michael Hamilton  
11 September 2000



# Managers' Overview

	% of total assets as at		indices % change in sterling terms
	31 July 2000	31 July 1999	
Hong Kong and China	59.6	27.9	+37.5
Singapore	9.6	19.7	+1.7
Korea	8.4	18.6	-15.1
Taiwan	7.4	8.4	+22.9
Malaysia	4.3	6.7	+12.0
Thailand	2.7	3.6	-39.3
Indonesia	1.6	2.3	-31.6
Philippines	1.3	2.4	-44.0
UK*	4.1	8.2	-
Net liquid assets	1.0	2.2	-
<b>PACIFIC HORIZON INVESTMENT TRUST (NAV)</b>	<b>100.0</b>	<b>100.0</b>	<b>+24.8</b>
MSCI All Countries Far East ex Japan Free Index	-	-	+1.9

\*Closed end funds investing in more than one country in the Asia-Pacific region (excluding Japan).

For much of the year from the end of July 1999 to the end of July 2000 the performance of markets was dominated by companies involved in technology, media or telecommunications. Towards the end of the Company's year these shares suffered a setback and country specific factors became more important.

Perhaps the most remarkable event of the year was the rise of Pacific Century Cyberworks under the leadership of Richard Li, son of the famous tycoon Li Ka-shing, from an Internet company with a plan to offer Internet access by satellite across Asia into one of the largest and most actively traded companies in the region. Before it had even developed its Internet

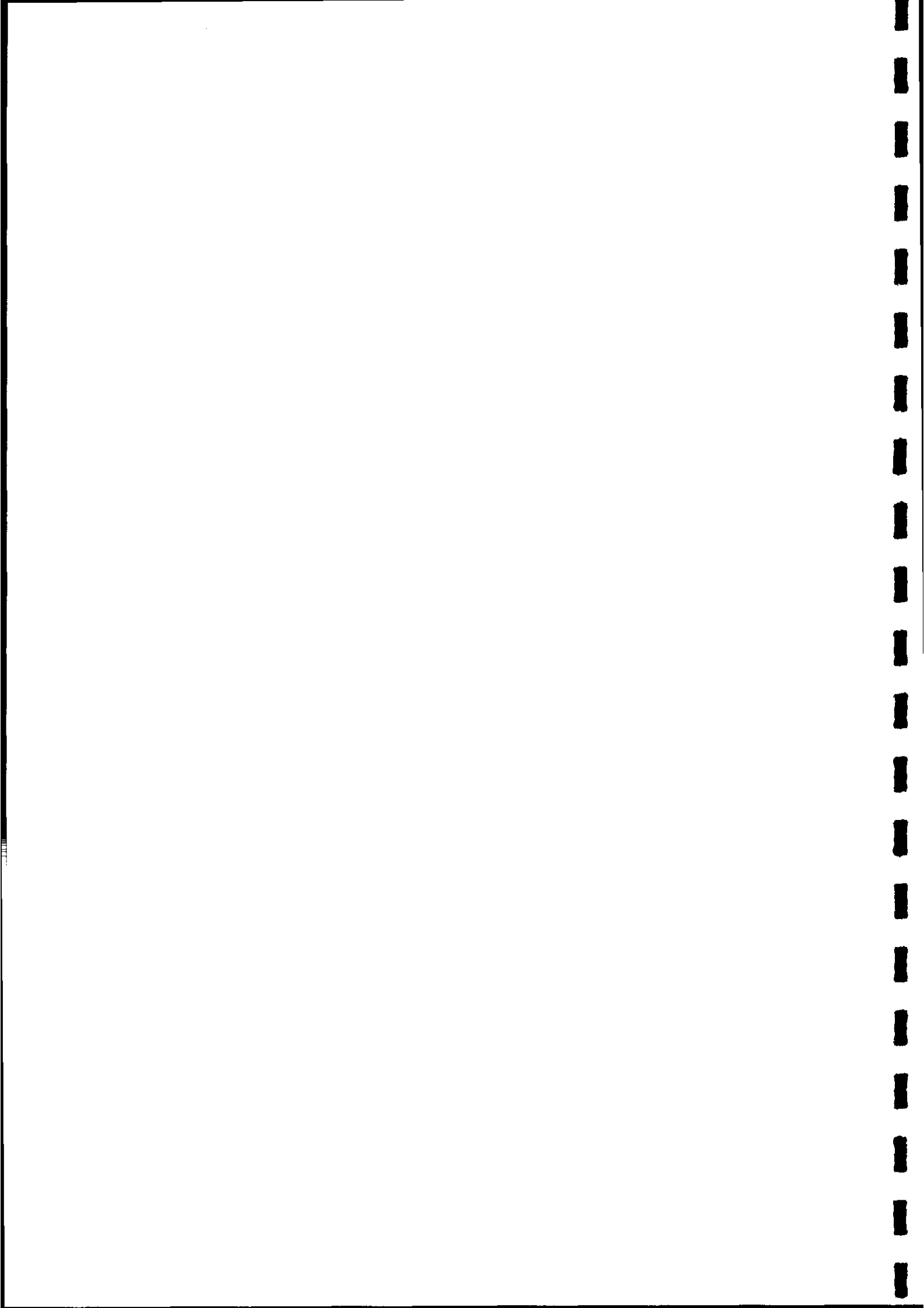
offering called 'Network of the World', or NOW, Pacific Century Cyberworks made a successful bid for the long established Hongkong Telecom. This is possibly the first time a big company has been taken over by a big idea.

As explained in the comments on individual countries on pages 10 to 12, we shifted the balance of the portfolio during the year towards Hong Kong and China and away from Korea, Taiwan and Singapore. We remain optimistic about the prospects for the region and we feel that the best opportunities are no longer concentrated in a few industries.

## INVESTMENT CHANGES (£'000)

	Valuation at 31 July 1999	Net acquisitions (disposals)	Appreciation (depreciation)	Valuation at 31 July 2000
Equities (including convertible and preference stock):				
Hong Kong and China	10,645	14,493	4,459	29,597
Singapore	7,523	(5,765)	3,032	4,790
Korea	7,089	(2,364)	(557)	4,168
Taiwan	3,194	(293)	797	3,698
Malaysia	2,540	(1,794)	1,403	2,149
Thailand	1,359	980	(998)	1,341
Indonesia	876	(841)	755	790
Philippines	908	164	(448)	624
UK	3,135	(1,905)	786	2,016
<b>Total investments</b>	<b>37,269</b>	<b>2,675</b>	<b>9,229</b>	<b>49,173</b>
Net liquid assets	855	(379)	-	476
<b>Total assets</b>	<b>38,124</b>	<b>2,296</b>	<b>9,229</b>	<b>49,649</b>

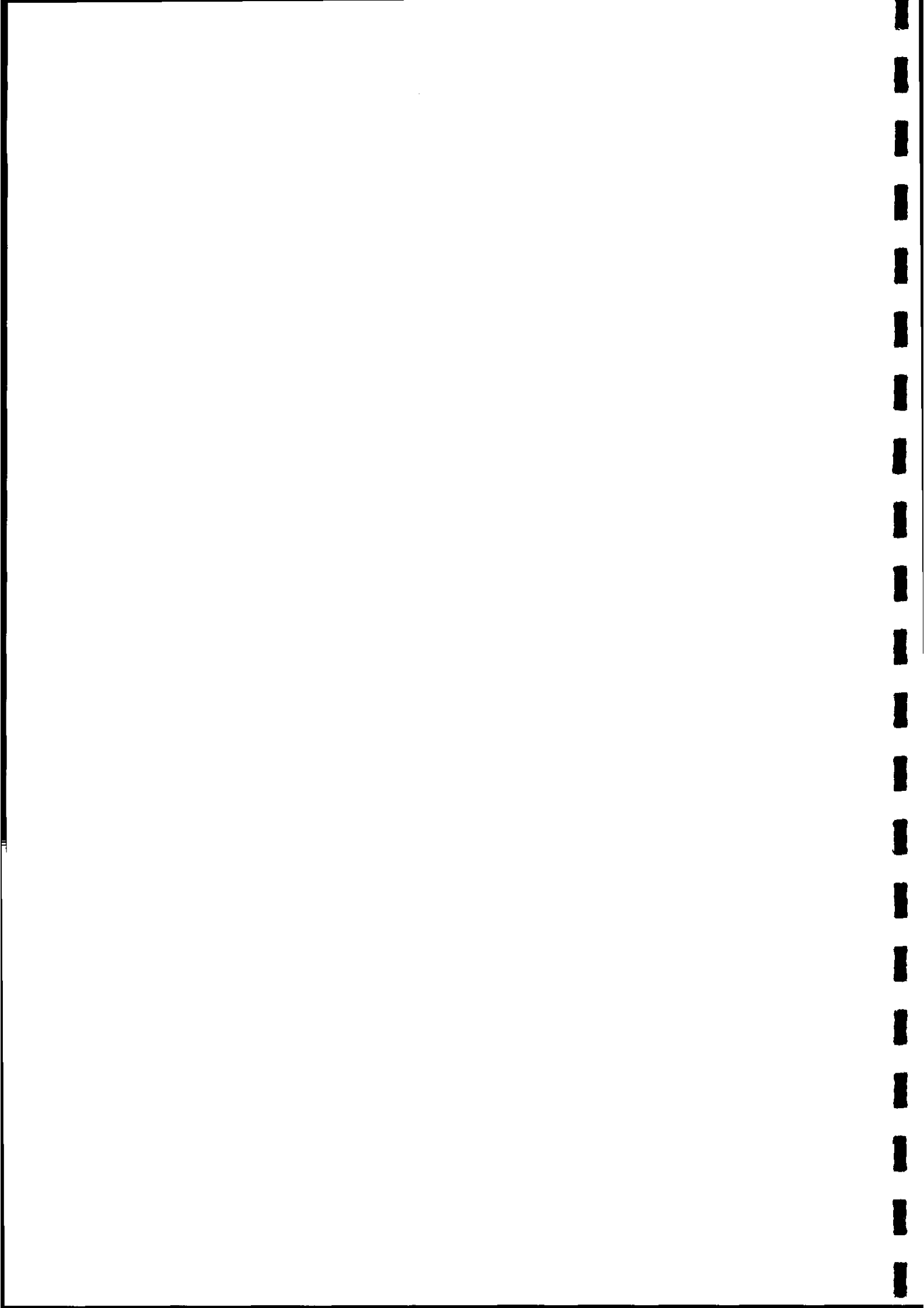
The figures for total assets comprises total assets less current liabilities before deduction of bank loan.



DISTRIBUTION OF PORTFOLIO

*Geographical*  
2000 (1999)

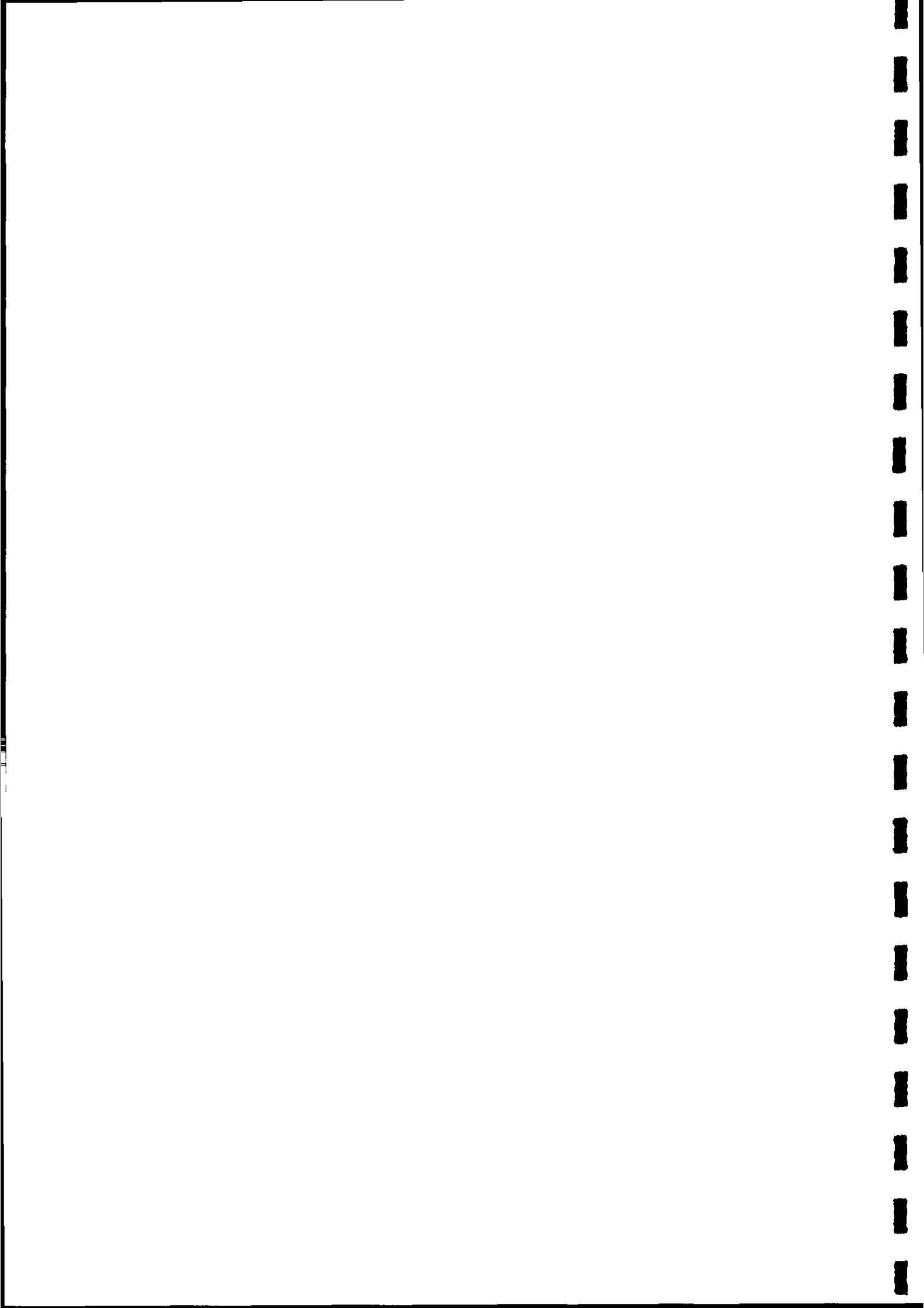
*Sector*  
2000 (1999)



## CLASSIFICATION OF INVESTMENTS

Classification	Hong Kong and China %	Singapore %	Korea %	Taiwan %	Malaysia %	Other countries %	2000 Total %	1999 Total %
<b>Equities (including convertible and preference stock):</b>								
Resources	0.6	-	-	-	-	-	0.6	-
Mining	0.6	-	-	-	-	-	0.6	-
<b>Industrials</b>	<b>11.0</b>	<b>2.7</b>	<b>6.7</b>	<b>1.9</b>	-	<b>0.4</b>	<b>22.7</b>	<b>23.2</b>
Construction and building materials	2.8	-	1.8	-	-	-	4.6	6.5
Steel and other metals	-	-	-	-	-	-	-	1.9
Diversified industrials	8.2	-	-	-	-	-	8.2	-
Electronic and electrical equipment	-	2.7	4.9	-	-	0.4	8.0	13.3
Engineering and machinery	-	-	-	1.9	-	-	1.9	1.5
<b>Consumer Goods</b>	<b>1.3</b>	-	-	-	<b>3.1</b>	<b>1.9</b>	<b>6.3</b>	<b>5.9</b>
Household goods and textiles	1.3	-	-	-	-	-	1.3	1.5
Food producers and processors	-	-	-	-	-	0.3	0.3	0.8
Personal care and household products	-	-	-	-	-	1.6	1.6	1.6
Tobacco	-	-	-	-	3.1	-	3.1	2.0
<b>Services and Utilities</b>	<b>18.5</b>	<b>6.1</b>	<b>1.7</b>	<b>1.5</b>	<b>1.2</b>	<b>1.7</b>	<b>30.7</b>	<b>21.0</b>
Distributors	3.4	-	-	-	-	-	3.4	1.0
Retailers	1.2	2.3	1.7	-	-	-	5.2	3.8
Media	2.1	3.8	-	-	1.2	-	7.1	6.4
Support services	-	-	-	0.1	-	-	0.1	0.7
Transport	1.5	-	-	1.4	-	-	2.9	1.7
Telecommunication services	7.5	-	-	-	-	1.7	9.2	5.6
Electricity	2.8	-	-	-	-	-	2.8	1.8
<b>Financials</b>	<b>19.3</b>	-	-	-	-	<b>5.1</b>	<b>24.4</b>	<b>34.6</b>
Banks	3.3	-	-	-	-	0.2	3.5	10.6
Insurance	-	-	-	-	-	-	-	1.1
Real estate	14.4	-	-	-	-	0.8	15.2	13.7
Speciality and other finance	1.6	-	-	-	-	-	1.6	1.0
Investment trusts	-	-	-	-	-	4.1	4.1	8.2
<b>Information Technology</b>	<b>8.9</b>	<b>0.8</b>	-	<b>4.0</b>	-	<b>0.6</b>	<b>14.3</b>	<b>13.1</b>
Information technology hardware	6.4	-	-	4.0	-	-	10.4	5.1
Software and computer services	2.5	0.8	-	-	-	0.6	3.9	8.0
<b>Total Equities</b>	<b>59.6</b>	<b>9.6</b>	<b>8.4</b>	<b>7.4</b>	<b>4.3</b>	<b>9.7</b>	<b>99.0</b>	
(including convertible and preference stocks)								
Total Equities - 1999	27.9	19.7	18.6	8.4	6.7	16.5		97.8
(including convertible and preference stocks)								
<b>Net Liquid Assets</b>	<b>0.2</b>	-	<b>1.0</b>	<b>0.4</b>	<b>0.6</b>	<b>(1.2)</b>	<b>1.0</b>	<b>2.2</b>
<b>Total Assets</b>	<b>59.8</b>	<b>9.6</b>	<b>9.4</b>	<b>7.8</b>	<b>4.9</b>	<b>8.5</b>	<b>100.0</b>	
(total assets less current liabilities before deduction of bank loan)								
Total Assets - 1999	27.9	20.3	18.6	8.9	6.7	17.6		100.0
Bank Loan†	-	-	-	-	-	(18.1)	(18.1)	(8.3)
<b>Equity Shareholders' Funds</b>	<b>59.8</b>	<b>9.6</b>	<b>9.4</b>	<b>7.8</b>	<b>4.9</b>	<b>(9.6)</b>	<b>81.9</b>	
Equity Shareholders' Funds - 1999	27.9	20.3	18.6	8.9	6.7	9.3		91.7
<b>Number of equity investments</b>	<b>29</b>	<b>4</b>	<b>5</b>	<b>8</b>	<b>2</b>	<b>12</b>	<b>60</b>	<b>67</b>
(including convertible and preference stocks)								

† Bank loan comprises US dollars drawings



# Managers' Portfolio Review

## Hong Kong and China

Hong Kong lagged behind most of its Asian neighbours in recovering from the contraction in economic activity brought about by the Asian financial crisis, but in the three months to 31 March the economy grew by 14.3%, one of the highest growth rates seen in the region. While a number of countries experienced devaluations of their currencies in 1997 and 1998, Hong Kong's currency remained pegged to the US dollar through the robust mechanism of a currency board. As a consequence competitiveness has had to be restored through deflation and this trend has continued despite rising domestic demand. As interest rates are linked to those in the United States, increases in American interest rates fed through into higher rates in Hong Kong at a time when prices were falling. This had a depressing effect on interest rate sensitive sectors of the economy such as property, which have traditionally dominated the Hong Kong stockmarket. Towards the end of the Company's year there was an improvement in the outlook for American interest rates and this offers the hope of a respite for companies in these sectors.

The well-known adaptability of the Hong Kong people has resulted in an enthusiastic embrace of the Internet and anything with an 'e' in front of it or a 'dot' in its name. One feature has been a rash of 'dotcom' companies raising money from investors who are unlikely ever to see a return on their investment, but there is no doubt that it is bringing about major changes in the whole economy. This development has given rise to

profitable opportunities in the Hong Kong market and has been one reason for an increase in our weighting during the year. Another reason is that there has been a marked improvement in the Chinese economy, with domestic demand picking up as consumers have started to spend more and save a little less. Chinese economic statistics have to be treated with some caution but the number of statistics pointing in the same direction and the evidence from the ground convince us that this is so. Of possibly greater importance is the improvement in the quality of Chinese companies available to investors, particularly through the Hong Kong market.

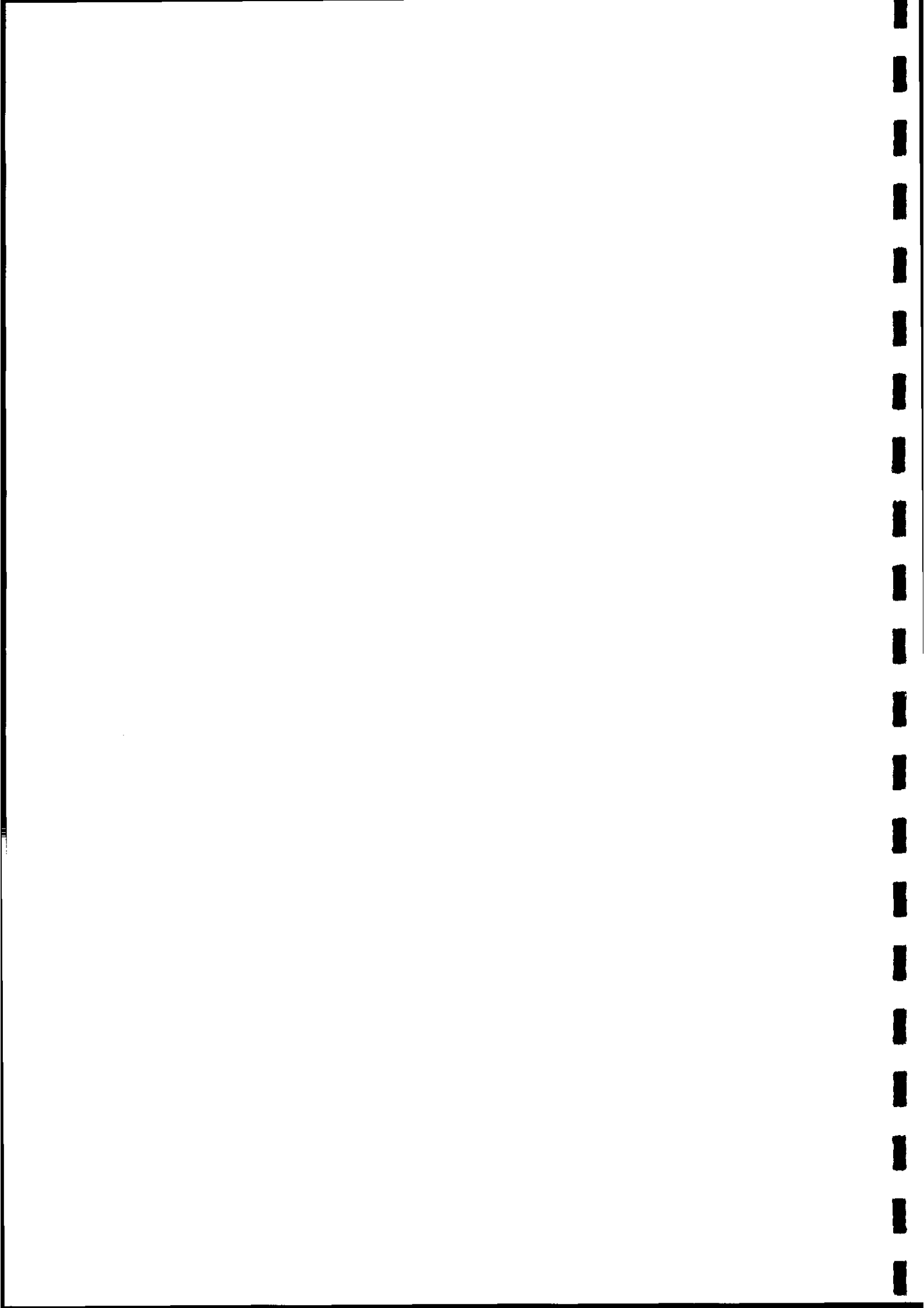
Hong Kong continues to enjoy the autonomy granted to it under the Basic Law (effectively the constitution) but its stockmarket has become increasingly weighted towards companies from the mainland such as China Mobile (HK), which is now a major constituent of the Hang Seng Index. Because of the blurring distinction between Hong Kong and Chinese companies we think it is no longer sensible to try to break out separate figures for our weightings in Hong Kong and China.

## Singapore

In 1999 the economy grew by 5.6% and there was a marked acceleration in the growth rate which has continued in 2000 on the basis of more recent economic statistics. Singapore is home to a number of large contract manufacturers serving the global electronics industry and it

*The main campus of the Hong Kong Institute  
Education being constructed by Shui On*

*Hutchison Whampoa provides mobile  
telephony services through Hutchison  
Telephone*



is also of increasing importance as a location for the manufacture of semiconductors. Growth in these industries has more than offset a decline in other areas of electronics manufacturing such as computer disk drives. During the year we built up a large position in Singaporean electronics companies but this was reduced towards the end of the year as we became concerned about the impact of component shortages and high valuations in the near term and a slowdown in demand growth looking further out.

#### Korea

The poor performance of the Korean stockmarket during the year, as shown in the table on page 7, was in marked contrast to the strong performance of the country's economy. In 1999 the economy grew by more than 10% and growth has remained very robust in 2000. There have also been improvements in corporate governance and the fact that a large group, Daewoo, was allowed to go bankrupt marks an important step forward for Korea as a maturing capitalist economy. Nevertheless, the reforms have been too slow in coming to satisfy the market and high profile bankruptcies ultimately proved too much for the nerves of domestic investors. With the added risk of an impending downturn in the semiconductor industry also in mind we reduced our Korean weighting.

#### Taiwan

The most notable event in Taiwan during the year was the election of

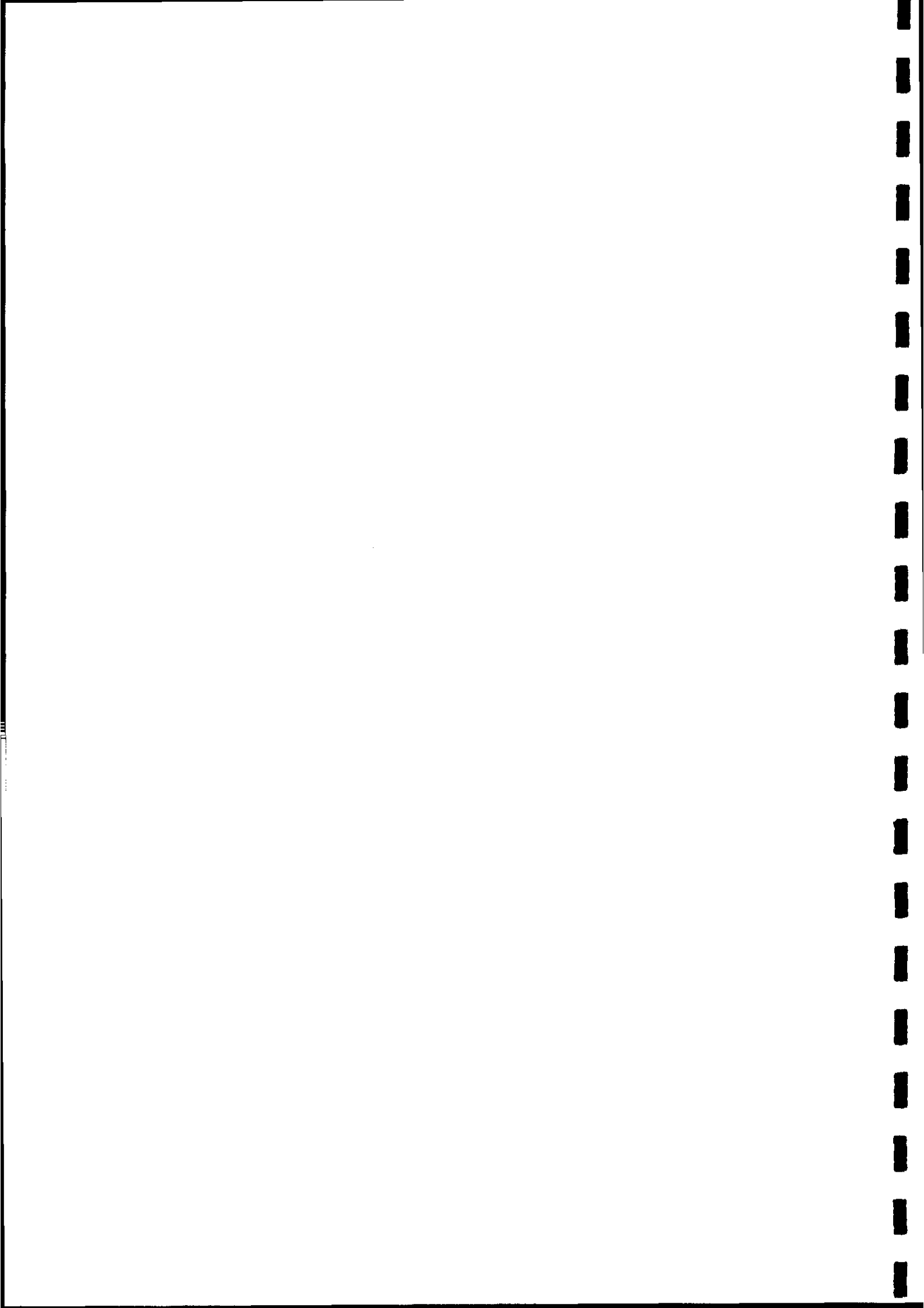
the first President to come from a party other than the Kuomintang (KMT) in the history of the island. President Chen was a member of the main opposition party and had previously been associated with moves to declare independence from China. Since his election he has made considerable efforts to improve relations with the mainland and threats of war made by Beijing ahead of the elections have been replaced by more conciliatory language. Unfortunately, on the domestic political front his new government has so far proved less adroit. Proposals to alter or remove tax concessions favouring the electronics industry and large scale selling of equities by the KMT unsettled the market and only the use of considerable amounts of public funds prevented a large sell-off in a market that up until then had been a strong performer on the back of the booming electronics industry. Having increased our Taiwanese position we reduced it again towards the end of the year.

#### Malaysia

Very little has changed in Malaysia during the last year. The economy grew at a rate of nearly 12% in the first quarter of 2000 after expanding at an accelerating rate during 1999 and the fixed exchange rate against the US dollar has ensured that Malaysian exports are highly competitive in world markets. With capital controls still in place this has led to a build up in the amount of money within the domestic banking system, some of which has found its way into the stockmarket. However,

1 *Hongkong Electric has mobile generators on stand-by to achieve reliability of supply*

2 *One of Singapore Press's Stop Press news kiosks*



planned bank mergers have not happened and standards of corporate governance have not improved. Having had some success during the year in finding attractive investments in Malaysia, we made net sales towards the end of the Company's year because we were finding it increasingly difficult to find stocks that we wished to buy to replace those sold.

#### Thailand, the Philippines and Indonesia

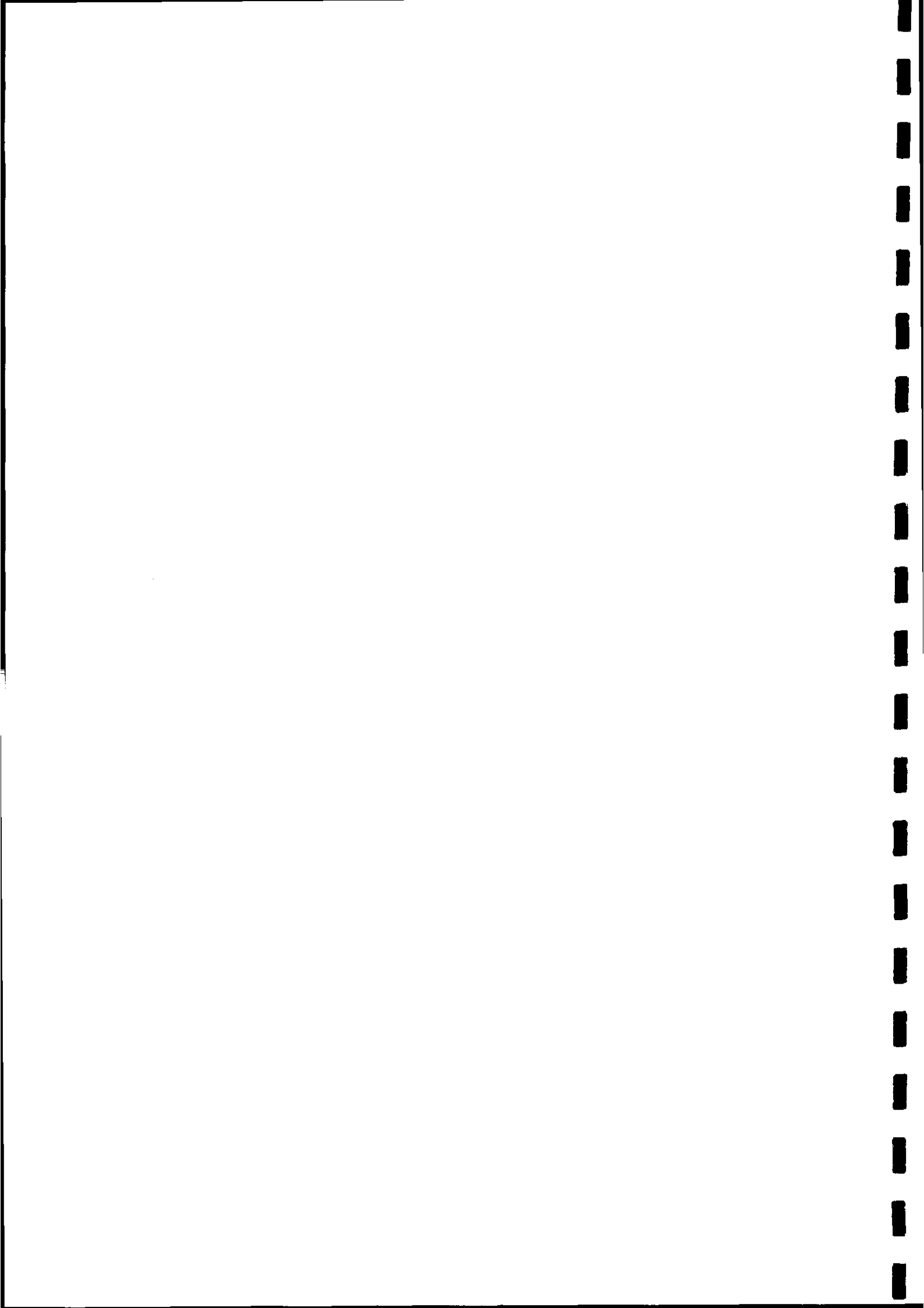
These three countries had at least two things in common during the year to 31 July 2000: firstly, that their stockmarkets have become so small that most international investors seem to have decided to ignore them; secondly, that those who did invest in them were not rewarded for their efforts. We had only a very small position in these markets at the start of the period and our position at the year-end is smaller still as a proportion of the total portfolio. Net sales were made in Indonesia, net purchases in Thailand and there was a small net investment in the Philippines. Our remaining holding in Indonesia performed extremely well but unfortunately the same cannot be said for our overall positions in Thailand and the Philippines.

All three countries have some very fundamental problems. The problems of Thailand are largely financial, in that the level of bad debts is still inhibiting the growth of credit three years after the onset of the crisis. There is a similar problem in

Indonesia, but of greater near term concern is the tendency of the country to disintegrate, with numerous separatist movements and frequent outbreaks of communal violence the main symptoms. Separatist violence is also a problem in the Philippines but here the biggest issue is the fear of a drift back to the 'crony capitalism' of the latter days of President Marcos under the current President, Mr Estrada. All of these problems are matters for genuine concern, but the very depressed level of share prices also holds out the prospect of very large gains should the outlook improve. We therefore intend to retain some exposure to these markets and may add if attractive opportunities present themselves.

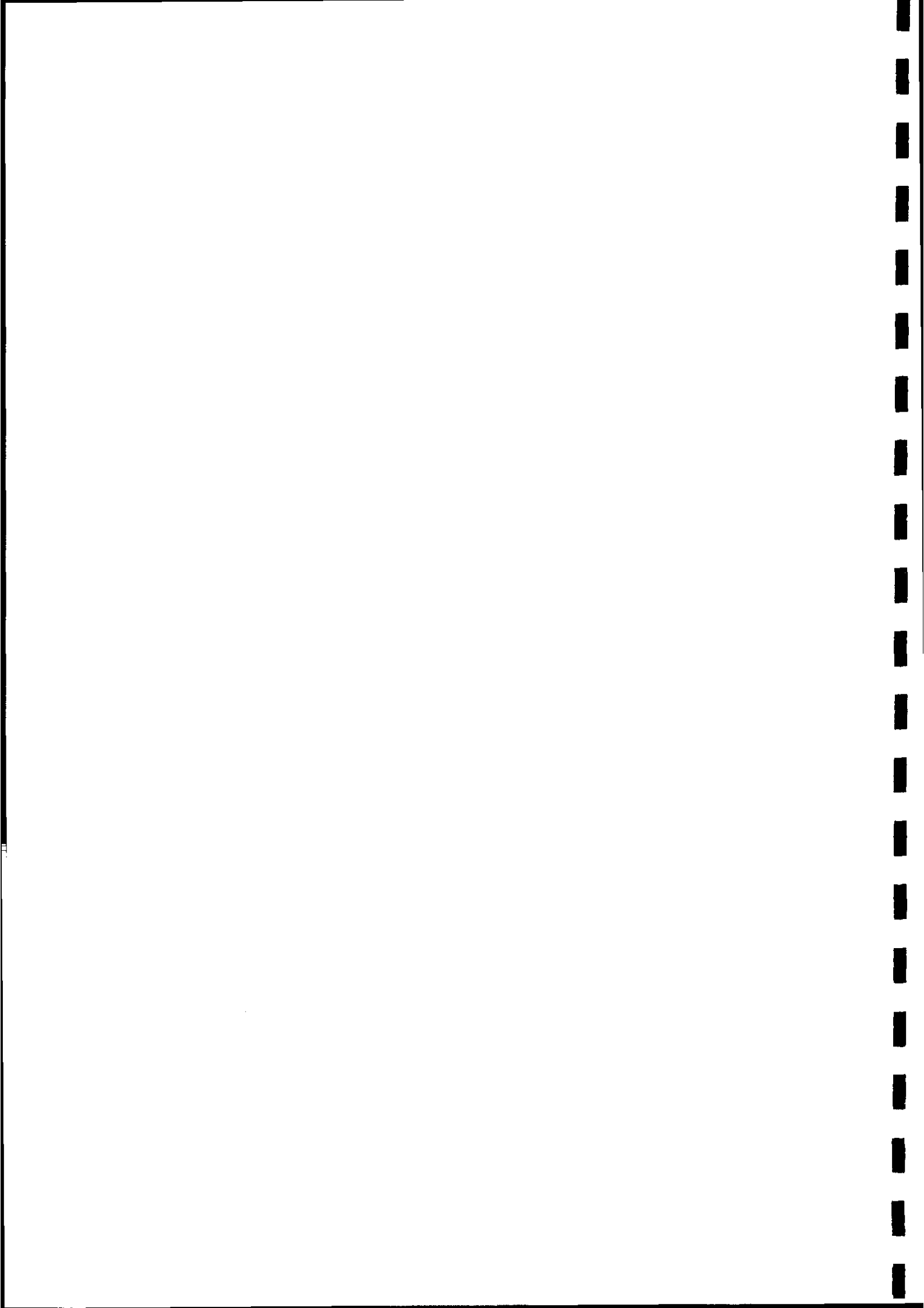
*venture Manufacturing uses state-of-the-art automated machines in its production*

*Output on one of Star Publications printing presses*



TWENTY LARGEST EQUITY HOLDINGS

Name	Business	Market value £'000	% of total assets
Cheung Kong Holdings	Property developer	5,010	10.1
Legend Holdings	Computer manufacturer and distributor	3,164	6.4
China Mobile (Hong Kong)	Mobile phone operator	2,612	5.3
Singapore Press	Newspaper and magazine publisher	1,911	3.8
Hutchison Whampoa	Property and industrial conglomerate	1,725	3.5
Samsung Electronics	Semiconductors and electrical goods manufacturer	1,654	3.3
Swire Pacific	Aviation and property conglomerate	1,558	3.1
BAT Malaysia	Tobacco company	1,542	3.1
li & Fung	Exporter of consumer products	1,382	2.8
Hongkong Electric	Electricity supplier	1,372	2.8
Shui On Construction and Materials	Construction company	1,366	2.8
Venture Manufacturing	Electronics manufacturer	1,319	2.7
Robinson & Company	Retail	1,137	2.3
Pacific Century Cyberworks	Telecommunications	1,092	2.2
Via Technologies	Chipset producer	1,005	2.0
Taiwan Semiconductor Manufacturing	Integrated circuit manufacturer	915	1.8
Total Access Communication	Mobile phone operator	851	1.7
Hyundai Department Store	Department store operator	841	1.7
China Everbright	Financial services provider	805	1.6
China Resources Enterprise	Property developer and consumer products distributor	790	1.6
		32,051	64.6



# Review of Investments

A review of the Company's ten largest investments as at 31 July 2000 is given below and on the following page.

## Cheung Kong Holdings

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 sharp upturn in the Hong Kong economy.

Country	Hong Kong
Valuation	£5,010,000
% of total assets	10.1

## Legend Holdings

Legend is the leading manufacturer and distributor of PCs in China. Selling under its own brand name, Legend's share of this rapidly growing market has risen substantially over the last year. This puts the company in a strong position to capitalise on the developments in the internet. In addition, its efficient distribution network has not only enabled Legend to expand

into the production of other branded hardware but it also makes the company the preferred partner of choice for multinational companies.

Country	Hong Kong
Valuation	£3,164,000
% of total assets	6.4

## China Mobile (Hong Kong)

China Mobile is the dominant mobile phone operator with an approximate 85% market share in the provinces in China in which it operates. The mobile phone penetration rate in China is low but rising fast. We expect more competition to be introduced into this market which will accelerate the take up of new subscribers. However, we also believe the

number of new entrants will be limited which will help preserve the underlying profitability of the existing operators.

Country	Hong Kong
Valuation	£2,612,000
% of total assets	5.3

## Singapore Press

Singapore Press has an effective, if not absolute, monopoly over newspaper publishing in Singapore. This allows it to generate high returns on capital and strong cash flow. This cash flow has been reinvested into a range of multimedia businesses. The deregulation of the telecommunications industry in Singapore is providing Singapore Press with new

opportunities at the same time as its core business is benefiting from a strong cyclical upswing.

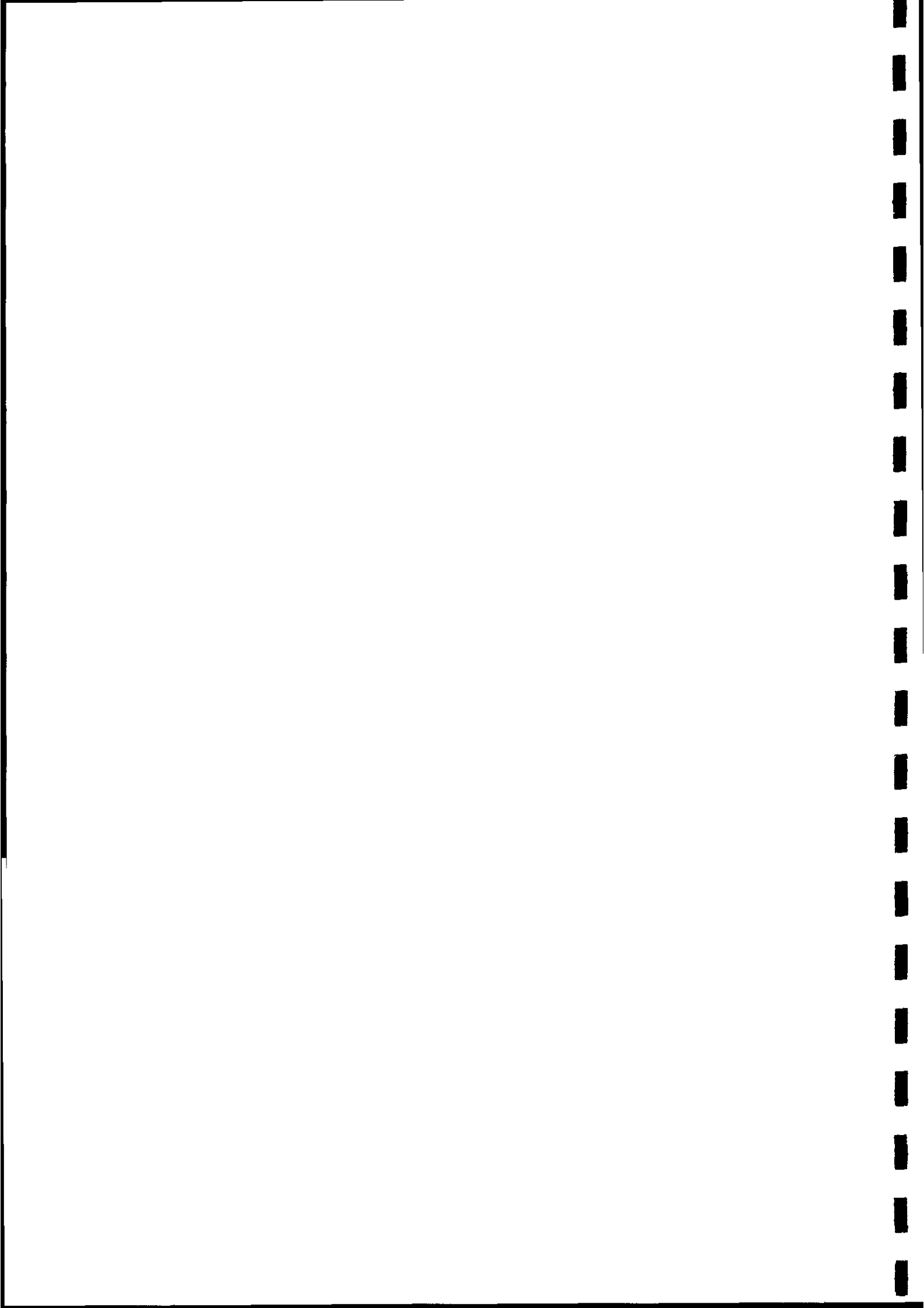
Country	Singapore
Valuation	£1,911,000
% of total assets	3.8

## Hutchison Whampoa

Hutchison Whampoa is a diversified conglomerate and the flag ship company of Li Ka-shing. The company has repeatedly created substantial value for shareholders through the timely acquisition and sale of assets. Recently, this was perfectly illustrated with the sale of Orange and subsequent sale of stakes in

Mannesmann and Vodafone. Proceeds from these investments are being reinvested into European 3G mobile phone licences.

Country	Hong Kong
Valuation	£1,725,000
% of total assets	3.5



**Samsung Electronics**

Samsung Electronics operates globally competitive businesses in semiconductor DRAMs, CDMA telecommunications equipment and consumer electronics. It has leading edge semiconductor technology, which has been a benefit as the cycle has progressed. Its CDMA systems and handsets hold half of the domestic market and it now has a significant global

market share in handsets. Our holding has been significantly reduced as we feel that much of the good news has been priced into the share price.

Country	Korea
Valuation	£1,654,000
% of total assets	3.3

**Swire Pacific**

Swire Pacific is a Hong Kong based conglomerate whose principal businesses are real estate (primarily Hong Kong investment property) and airlines (Cathay Pacific). Both business are benefiting from the strong rebound in economic activity in the Hong Kong economy. The office property market in

particular appears to be tightening which should lead to rising rents and capital values.

Country	Hong Kong
Valuation	£1,558,000
% of total assets	3.1

**BAT Malaysia**

BAT Malaysia is the dominant tobacco manufacturer in Malaysia. The merger between Rothmans and BAT has strengthened the position of the company further and it now commands a market share in excess of 70%. The enhanced economies of scale will help preserve the high returns on capital that BAT

Malaysia enjoys. Meanwhile the company has continued with its policy of returning any surplus capital to shareholders through dividends.

Country	Malaysia
Valuation	£1,542,000
% of total assets	3.1

**Li & Fung**

Li & Fung manages the supply chain for companies sourcing products from the lower cost manufacturing countries of Asia and South America. As such it is a beneficiary of the strong trend towards the outsourcing of procurement functions. The development of an internet strategy builds upon an already successful business model and should put Li &

Fung in touch with a large number of small retailers, who despite paying the largest commissions, have been uneconomic to serve to date.

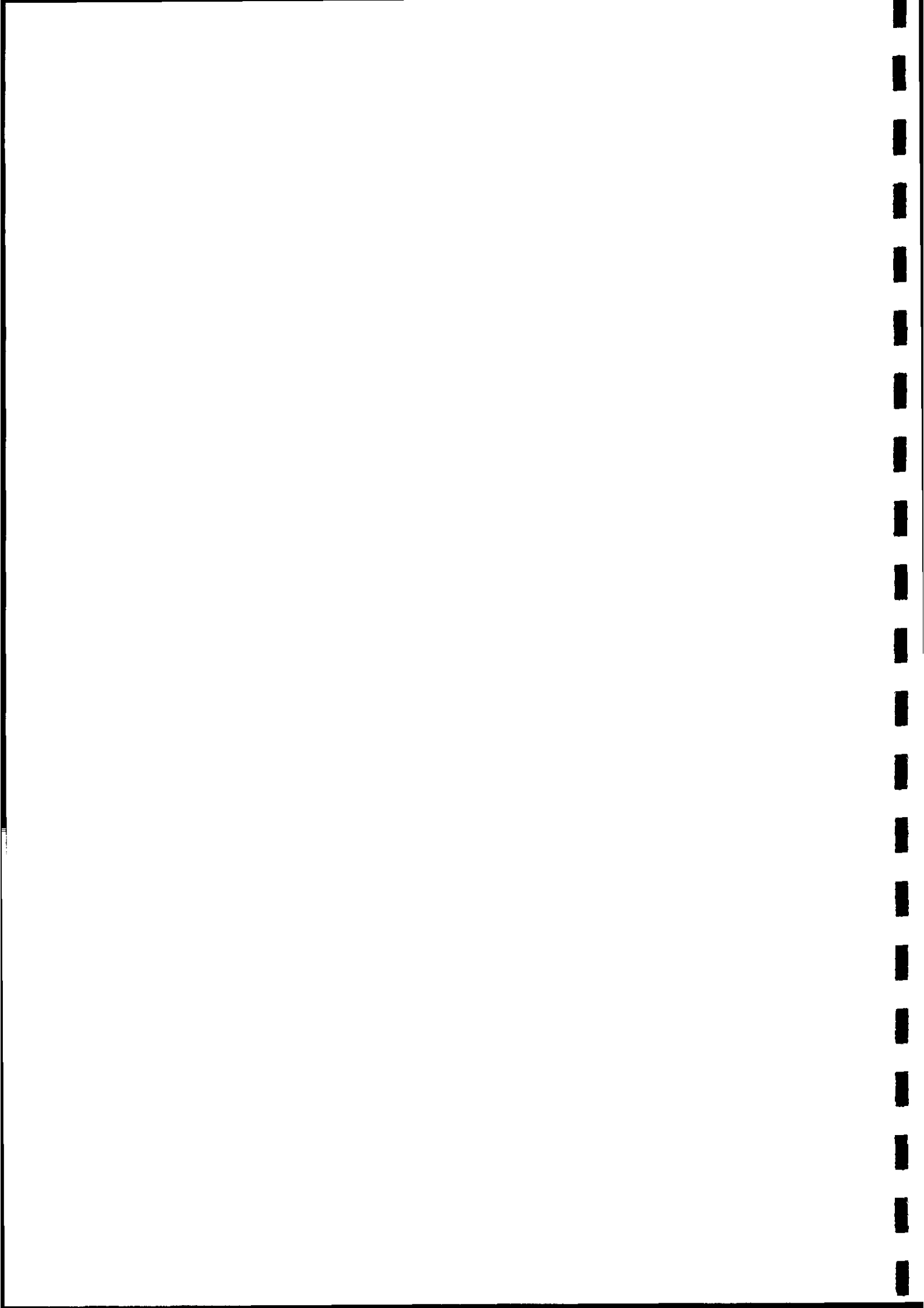
Country	Hong Kong
Valuation	£1,382,000
% of total assets	2.8

**Hongkong Electric**

Hongkong Electric is the sole supplier of electricity to Hong Kong Island. The high returns permitted under the scheme of control are matched by limited growth prospects in Hong Kong. However, recently the company has shown interest in expanding overseas and, in

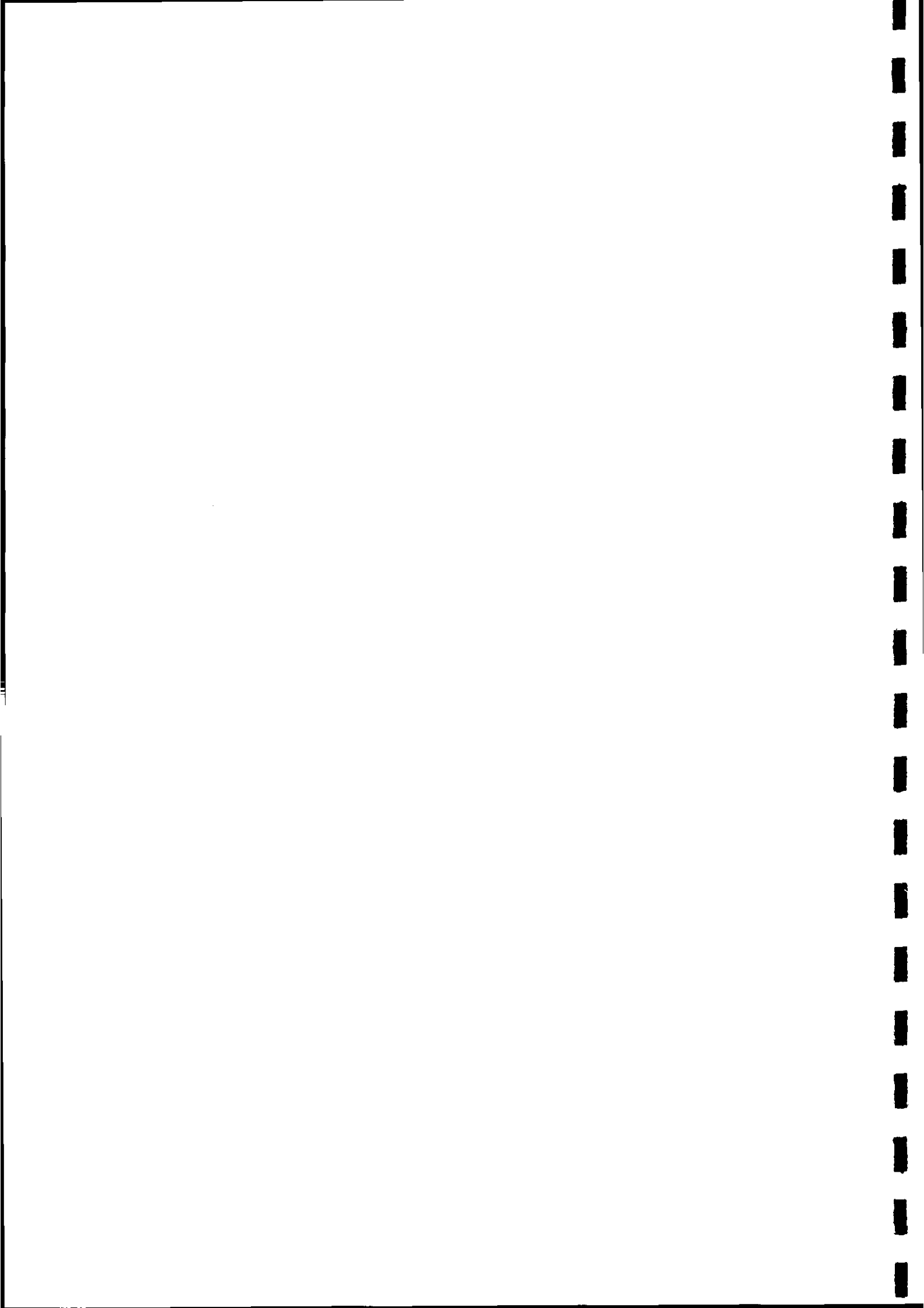
the process of doing so, making more efficient use of its balance sheet.

Country	Hong Kong
Valuation	£1,372,000
% of total assets	2.8



LIST OF INVESTMENTS AS AT 31 JULY 2000

Name	Business	Market value £'000	%
<b>HONG KONG AND CHINA</b>			
ABC Communications	On-line trading solutions provider	599	
Cheung Kong Holdings	Property developer	5,010	
China Everbright	Financial services provider	805	
China Mobile (Hong Kong)	Mobile phone operator	2,612	
China Resources Enterprise	Property developer and consumer products distributor	790	
Giordano International	Own brand retailer for accessories and casual wear	579	
Great Eagle Holdings	Property investment	756	
Greencool Technology	Refrigerant parts manufacturer	328	
Guangshen Railway	Passenger and freight rail service	726	
HKCB Bank	Banking	482	
†Hon Kwok Land	Commercial property investment	700	
Hongkong Electric	Electricity supplier	1,372	
HSBC Holdings	Banking	632	
Hutchison Whampoa	Property and industrial conglomerate	1,725	
Kerry Properties	Property developer	715	
Kingmaker Footwear	Brown shoe manufacturer	326	
Legend Holdings	Computer manufacturer and distributor	3,164	
Li & Fung	Exporter of consumer products	1,382	
Liu Chong Hing Bank	Banking	551	
Next Media	Internet and e-commerce	602	
Ng Fung Hong	Hong Kong and Chinese food distributor	316	
Oriental Press Group	Newspaper publisher	15	
Pacific Century Cyberworks	Telecommunications	1,092	
Shaw Brothers	Film company	443	
Shui On Construction and Materials	Construction company	1,366	
Sunevision Holdings	Internet service provider	1	
Swire Pacific	Aviation and property conglomerate	1,558	
Timeless Software	Internet applications software designer	642	
Yanzhou Coal Mining	Coal mining	308	
		<u>29,597</u>	59.6
<b>SINGAPORE</b>			
Datacraft Asia	Systems integration	423	
Robinson & Company	Retail	1,137	
Singapore Press	Newspaper and magazine publisher	1,911	
Venture Manufacturing	Electronics manufacturer	1,319	
		<u>4,790</u>	9.6
<b>KOREA</b>			
Hyundai Department Store	Department store operator	841	
Hyundai Electronics Industries	DRAM semiconductor manufacturer	759	
Samsung Corp.	Housing construction and e-commerce	505	
Samsung Electronics	Semiconductors and electrical goods manufacturer	1,654	
Tae Young	Construction and broadcasting	409	
		<u>4,168</u>	8.4
<b>TAIWAN</b>			
Accton Technology	Networking equipment manufacturer	76	
Asustek Computer	Motherboard manufacturer	109	
D-Link	Networking product supplier	71	
Evergreen Marine	Container exporter	716	
Hon Hai Precision Industries	Electrical connectors	776	
Taiwan Secom	Security company	30	
Taiwan Semiconductor Manufacturing	Integrated circuit manufacturer	915	
Via Technologies	Chipset producer	1,005	
		<u>3,698</u>	7.4



LIST OF INVESTMENTS

Name	Business	Market value £'000	%
<b>MALAYSIA</b>			
BAT Malaysia	Tobacco company	1,542	
Star Publication	Newspaper publisher	607	
		<u>2,149</u>	4.3
<b>OTHER COUNTRIES</b>			
<b>THAILAND</b>			
Golden Land	Property developer	370	
§†Siam Commercial Bank	Banking	120	
Total Access Communication	Mobile phone operator	851	
		<u>1,341</u>	2.7
<b>INDONESIA</b>			
Unilever Indonesia	Consumer products manufacturer	<u>790</u>	1.6
<b>PHILIPPINES</b>			
†RFM Corporation	Food manufacturer	148	
Solid Group	Electronics manufacturer and distributor	170	
SPI Technologies	Data conversion services	306	
		<u>624</u>	1.3
<b>UNITED KINGDOM</b>			
Aberdeen New Dawn	Investment trust	93	
Edinburgh Dragon Trust	Investment trust	645	
Fleming Chinese	Investment trust	476	
INVESCO Asia Trust	Investment trust	612	
Pacific Assets Trust	Investment trust	190	
		<u>2,016</u>	4.1
	Value of equity stocks	48,296	
	Convertible loan stocks having an element of equity	700	
	Warrants having an element of equity	20	
<b>TOTAL EQUITY INVESTMENTS</b>		<u>49,016</u>	
	Preference stocks	<u>157</u>	
<b>TOTAL INVESTMENTS</b>		49,173	99.0
<b>NET LIQUID ASSETS</b>		<u>476</u>	1.0
<b>TOTAL ASSETS AT MARKET VALUE</b>		<u>49,649</u>	100.0
(total assets less current liabilities before deduction of bank loan)			

† denotes holding partly or wholly in convertible loan stock

§ denotes holding partly or wholly in warrants

‡ denotes holding partly or wholly in preference shares

# TEN YEAR RECORD

## CAPITAL

At 31 July	Total assets† £'000	Bank loans £'000	Equity shareholders' funds £'000	Net asset value per share p	Diluted net asset value per share# p	Share price p	Discount †† %
1990	17,680	-	17,680	43.26	43.26	33.00	23.7
1991	14,518	-	14,518	35.52	35.52	29.00	18.4
1992	10,736	-	10,736	26.26	26.26	24.00	8.6
1993	17,073	-	17,073	41.75	41.75	38.00	9.0
1994	20,300	-	20,300	49.65	49.65	45.50	8.4
1995	19,565	-	19,565	47.84	47.84	44.50	7.0
1996	40,266	-	40,266	51.07	51.07	48.00	6.0
1997	46,886	-	46,886	59.47	59.47¶	51.00	14.2
1998	22,591	-	22,591	28.65	28.65	23.25	18.8
1999	38,124	3,170	34,954	44.33	44.33	37.00	16.5
2000	49,649	6,009	43,640	55.35	55.35	46.75	15.5

† Total assets comprise total assets less current liabilities before deduction of bank loans.

# The diluted net asset value per ordinary share figures have been calculated in accordance with FRS14 (see note 16, page 35).

¶ The diluted net asset value at 31 July 1997 has been restated with the adoption of FRS14. The previously reported fully diluted net asset value was 58.89p.

†† Discount is the difference between Pacific Horizon's quoted share price and its underlying net asset value.

## REVENUE

## GEARING RATIOS

Period to 31 July	Gross revenue £'000	Available for ordinary shareholders £'000	Earnings per ordinary share¶¶ p	Dividend per ordinary share net p	Expense ratio§§ %	Actual gearing‡	Potential gearing§
1990	424	316	0.77	-	1.46	99	100
1991	361	29	0.07	0.729	2.96	98	100
1992	271	97	0.24	0.140	2.74	95	100
1993	341	38	0.09	-	2.14	93	100
1994	437	107	0.26	0.110	1.69	91	100
1995	524	202	0.49	0.350	1.37	95	100
1996	817	349	0.67	0.300	1.08	97	100
1997	1,098	398	0.51	0.350	1.00	89	100
1998	1,629	888	1.12	0.900	0.83	80	100
1999	733*	228	0.29	0.200	1.20	107	109
2000	1,183	175	0.22	0.200	1.30	111	114

¶¶ 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 31). There was no dilution of earnings per share in any of the years 1990 to 2000.

§§ Ratio of total operating costs against average shareholders' funds.

‡ Total assets (including all debt used for investment purposes) less all cash and fixed interest securities (ex convertibles) divided by shareholders' funds.

§ Total assets (including all debt used for investment purposes) divided by shareholders' funds.

\* Restated for the adoption of FRS16 "Current Taxation" (see note 1, page 29).

## CUMULATIVE PERFORMANCE

At 31 July	Net asset value per share	Net asset value total return**	Share price	Share price total return**	Index (in sterling terms)	Index (in sterling terms) total return‡‡	Earnings per ordinary share	Retail price index
1990	100	100	100	100	100	100	100	100
1991	82	84	88	88	104	108	9	106
1992	61	62	73	75	112	120	31	109
1993	97	99	115	119	176	193	12	111
1994	115	118	138	141	237	265	34	114
1995	111	114	135	138	234	267	64	118
1996	118	123	145	152	238	276	87	120
1997	137	144	155	163	247	292	66	124
1998	66	72	70	75	95	116	145	129
1999	102	111	112	124	174	216	38	130
2000	128	139	142	158	177	224	29	134

### Compound Annual Returns

5 year	3.0%	4.0%	1.0%	2.6%	(5.4%)	(3.5%)	(14.8%)	2.7%
10 year	2.5%	3.4%	3.5%	4.7%	5.9%	8.4%	(11.8%)	3.0%

\*\* Source: AITC.

‡‡ Source: Primark Datastream.

The 'C' share issue in April 1996 raised approx. £21.5m increasing the issued share capital from 40,893,211 to 78,841,160.

# Directors' Report

The Directors have pleasure in submitting their Annual Report together with the results of the Company for the year to 31 July 2000.

## 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 27 October 2000 to shareholders on the register at the close of business on 6 October 2000.

After payment of the dividend the accumulated revenue balance is increased by £17,000 to £745,000.

## Status

The Company carries on business as an investment trust. It was approved by the Inland Revenue as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 July 1998. In the opinion of the Directors the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval.

The Company will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year. However, under Corporation Tax Self Assessment, which applies to accounting periods ended after 30 June 1999, the Inland Revenue will no longer be obliged to give written approval. Instead the Inland Revenue have twelve months after the return filing date in which to give notice that they intend to enquire into the return but, if no such notice is given then approval may be assumed to have been obtained.

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. Given the size and composition of the Board it is not felt necessary to separate the roles of Chairman and 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 4.

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 provide 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 that they 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 in note 4 on page 30; no other benefits are provided.

### *Internal Controls*

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 The Bank of New York Europe Limited as independent custodian of the Company's investments.

Baillie Gifford & Co has an 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 system of internal controls which is documented within an internal controls report. This report is submitted for independent review and approval by Baillie Gifford & Co's auditors. A copy of the internal controls report is submitted to the Board. Baillie Gifford & Co has expanded its compliance department to establish an internal audit function responsible for ensuring that all significant strategic, commercial relationship, investment and operational risks are controlled effectively by management.

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.

In limiting their review to internal financial controls, the Directors have adopted the transitional approach recommended by the UK Listing Authority of the Financial Services Authority in respect of the implementation of the guidance "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance).

The Board has undertaken a full review of all aspects of the Turnbull recommendations. The Board confirms that, by formalising its review of the effectiveness of internal controls, it has established the procedures necessary to implement the guidance on the wider aspects of internal controls (the Turnbull guidance). To ensure that risk management and internal controls are considered on a regular basis and that a full risk and control assessment is undertaken, the following processes have been established in compliance with the guidance:

- Internal controls strategy has been formalised following the production of a detailed risk map whereby significant risks are identified and the key controls to manage those risks are confirmed as in place and operating effectively.
- Reporting procedures for the internal audit function and compliance department, with regard to their respective risk framework and regulatory monitoring programmes, are defined and formalised within a service level agreement.
- Regular reports on internal controls are submitted for Board review.

In setting internal control policies, the Board has reviewed the guidance provided by the Association of Investment Trust Companies and has adopted their recommendations as they relate to a wholly non-executive Board, where the executive functions of investment management and administration have been delegated to third parties.

#### *Accountability and Audit*

The respective responsibilities of the Directors and the auditors in connection with the Financial Statements are included on pages 24 and 25.

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 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 announces the level of proxies lodged. The notice period for the Annual General Meeting is twenty working days.

#### *Compliance*

The Board considers that throughout the year it has complied 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 Combined Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the UK Listing Authority of the Financial Services Authority, with the exception of the appointment of a nomination committee, the absence of which has been explained above. As permitted by the UK Listing Authority of the Financial Services Authority, the Company has complied with the Combined Code provision D.2.1 on internal controls by reporting on internal financial controls in accordance with the guidance for directors on internal controls and financial reporting that was issued in December 1994.

## DIRECTORS' REPORT

### Directors

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

Name	Nature of interest	31 July 2000		31 July 1999	
		Ordinary shares	Warrants	Ordinary shares	Warrants
M Hamilton	Beneficial	20,000	1,762	20,000	1,762
	Non-beneficial	4,252	-	3,418	-
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	793,853	38,770	693,853	38,770

Mr PD Griffiths retires by rotation and, being eligible, is 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 118 shares on 4 August and 8 September 2000 in which he has a non-beneficial interest.

There have been no other changes intimated in the Directors' interests up to 8 September 2000.

### Substantial Holdings

The following information has been intimated to the Company as at 8 September 2000 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
Mercury Asset Management Group	6,034,906	7.65
Baillie Gifford (Personal Pensions) International Fund*	5,502,460	6.98
BAE Systems	4,600,000	5.83
Pilkington Pension Funds	4,094,431	5.19
Legal & General Assurance Society Limited	4,083,342	5.18
Rio Tinto plc	3,750,000	4.75

\* Discretionary client of Baillie Gifford & Co.

### Share Capital

The Directors wish to draw your attention to Resolutions No. 6 and No. 7 in the Notice of Annual General Meeting. At present, the Directors have power under section 80 of the Companies Act 1985 to issue ordinary shares up to an aggregate nominal amount of £394,205.80. This authority, which was conferred on them at the Extraordinary General Meeting of the Company on 28 March 1996, is due to expire on 27 March 2001. Resolution No. 6 seeks to renew the Directors' general authority to issue a limited number of shares and Resolution No. 7 seeks to renew their power to issue a limited number of shares for cash on a non-pre-emptive basis. The maximum number of ordinary shares permitted to be issued under Resolutions No. 6 and No. 7 will be limited to shares with an aggregate nominal value of £394,209.32 (being an amount equal to 5% of the issued ordinary share capital of the Company as at 31 July 2000). The authority contained in Resolution No. 6 and the power granted by Resolution No. 7 will continue until 23 October 2005.

The Directors envisage using the power, which will be conferred by Resolution No. 7, primarily to issue 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. 7 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.

Resolution No. 6 is an Ordinary Resolution and requires only a simple majority; Resolution No. 7 is proposed as a Special Resolution and will not be passed unless 75% of those voting are in favour.

#### 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 2000.

#### 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*  
11 September 2000



## 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 SHAREHOLDERS OF PACIFIC HORIZON INVESTMENT TRUST PLC

We have audited the accounts on pages 26 to 36, which have been prepared under the historical cost convention modified to include the revaluation of fixed asset investments and the accounting policies set out on page 29.

## Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the annual report. As described on page 24, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts 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 accounts, 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 corporate governance statement on pages 19 to 21 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

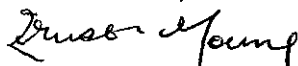
## Basis of audit opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

## Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 July 2000 and of its revenue for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG  
Registered Auditor  
Edinburgh  
11 September 2000

**STATEMENT OF TOTAL RETURN**  
(incorporating the revenue account\*)

	Notes	for the year ended 31 July 2000			for the year ended 31 July 1999		
		Revenue £'000	Capital £'000	Total £'000	Revenue (restated) £'000	Capital £'000	Total (restated) £'000
Gains on investments	9	-	9,229	9,229	-	12,490	12,490
Currency losses	15	-	(560)	(560)	-	(198)	(198)
Income	2	1,183	-	1,183	733	-	733
Investment management fee	3	(438)	-	(438)	(300)	-	(300)
Other administrative expenses	4	(201)	-	(201)	(138)	-	(138)
<b>NET RETURN BEFORE FINANCE COSTS AND TAXATION</b>		<b>544</b>	<b>8,669</b>	<b>9,213</b>	<b>295</b>	<b>12,292</b>	<b>12,587</b>
Finance costs of borrowings	5	(325)	-	(325)	(14)	-	(14)
<b>RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>219</b>	<b>8,669</b>	<b>8,888</b>	<b>281</b>	<b>12,292</b>	<b>12,573</b>
Tax on ordinary activities	6	(44)	-	(44)	(53)	-	(53)
<b>RETURN ON ORDINARY ACTIVITIES AFTER TAXATION</b> <i>for the financial year attributable to equity shareholders</i>		<b>175</b>	<b>8,669</b>	<b>8,844</b>	<b>228</b>	<b>12,292</b>	<b>12,520</b>
Dividend in respect of equity shares	7	(158)	-	(158)	(158)	-	(158)
<b>TRANSFER TO RESERVES</b>		<b>17</b>	<b>8,669</b>	<b>8,686</b>	<b>70</b>	<b>12,292</b>	<b>12,362</b>
<b>RETURN PER ORDINARY SHARE</b>	<b>8</b>	<b>0.22p</b>	<b>11.00p</b>	<b>11.22p</b>	<b>0.29p</b>	<b>15.59p</b>	<b>15.88p</b>

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 on pages 29 to 36 are an integral part of this statement.

## BALANCE SHEET

		at 31 July 2000		at 31 July 1999	
	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Investments	9		49,173		37,269
CURRENT ASSETS					
Debtors	11	3,633		424	
Cash at bank and in hand		1,379		753	
		5,012		1,177	
CREDITORS					
Amounts falling due within one year	12	(10,545)		(3,492)	
NET CURRENT LIABILITIES			(5,533)	(2,315)	
TOTAL ASSETS LESS CURRENT LIABILITIES			43,640	34,954	
CAPITAL AND RESERVES					
Called-up share capital	14		7,884		7,884
Share premium			14,945		14,945
Capital redemption reserve			17,724		17,724
Capital reserve – realised	15		(1,926)		(12,938)
Capital reserve – unrealised	15		4,268		6,611
Revenue reserve	15		745		728
EQUITY SHAREHOLDERS' FUNDS			43,640	34,954	
NET ASSET VALUE PER ORDINARY SHARE			16	55.35p	44.33p

There was no dilution of net asset value at either date.

The Accounts were approved by the Board and signed on their behalf on 11 September 2000.

*Mickael Hanne*

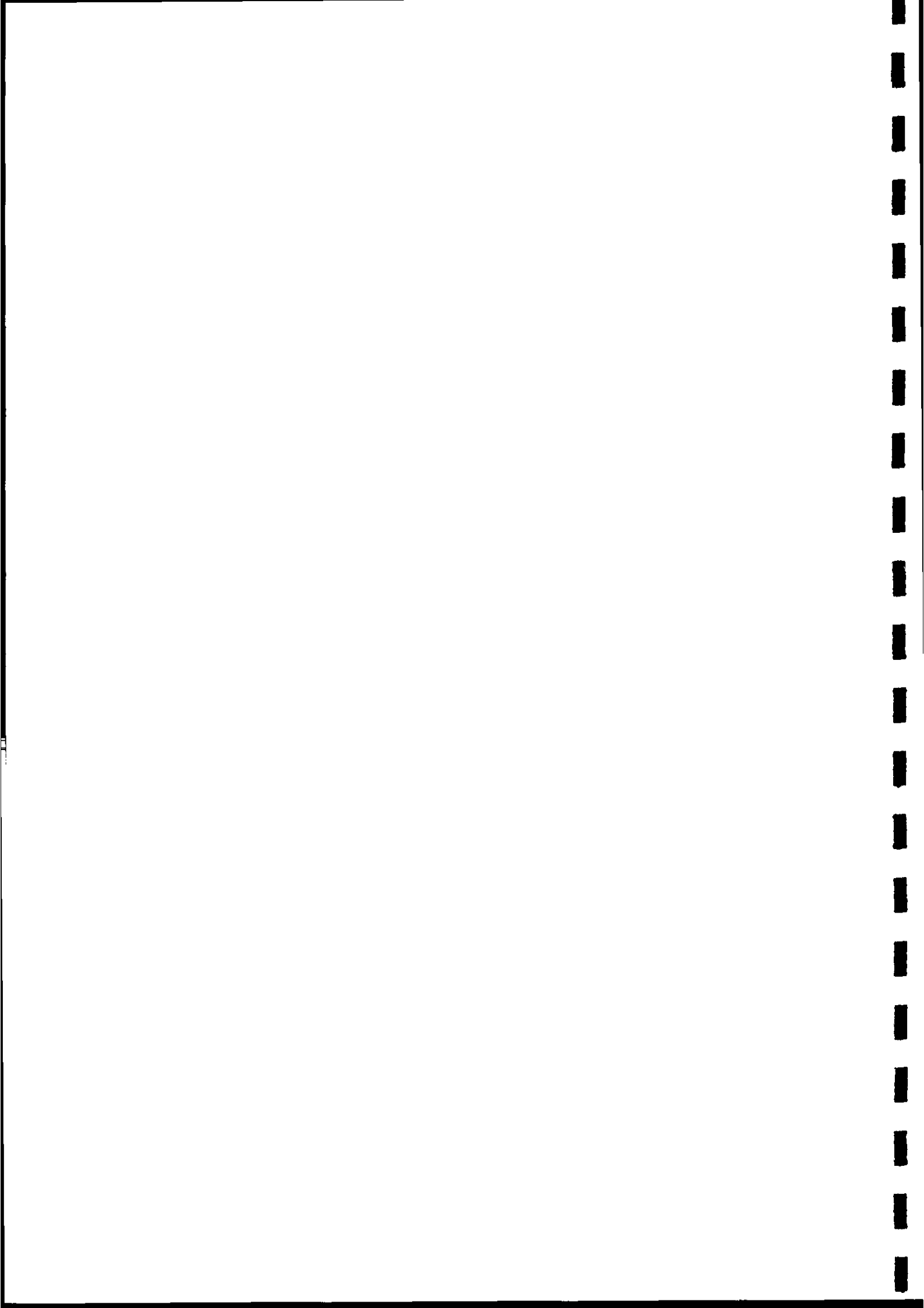
Chairman

The accompanying notes on pages 29 to 36 are an integral part of this statement.

## CASH FLOW STATEMENT

		for the year ended 31 July 2000		for the year ended 31 July 1999	
	Notes	£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18		511		317
SERVICING OF FINANCE					
Interest paid		(334)		-	
NET CASH OUTFLOW FROM SERVICING OF FINANCE			(334)		-
TAXATION					
ACT reclaimed/(paid)		137		(173)	
TOTAL TAX RECLAIMED/(PAID)			137		(173)
FINANCIAL INVESTMENT					
Acquisitions of investments		(44,860)		(27,392)	
Disposals of investments		43,051		21,267	
Realised currency profit/(loss)		117		(49)	
NET CASH OUTFLOW FROM FINANCIAL INVESTMENT			(1,692)		(6,174)
EQUITY DIVIDEND PAID			(158)		(710)
NET CASH OUTFLOW BEFORE FINANCING			(1,536)		(6,740)
FINANCING					
Loans repaid		(12,701)		-	
Loans drawn down		14,863		3,021	
Proceeds from exercise of warrants		-		1	
NET CASH INFLOW FROM FINANCING			2,162		3,022
INCREASE/(DECREASE) IN CASH	19		626		(3,718)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	19				
Increase/(decrease) in cash in the period			626		(3,718)
Cash received from bank loan			(2,162)		(3,021)
Exchange movement			(677)		(149)
MOVEMENT IN NET DEBT IN THE PERIOD			(2,213)		(6,888)
NET (DEBT)/FUNDS AT 1 AUGUST 1999			(2,417)		4,471
NET DEBT AT 31 JULY 2000			(4,630)		(2,417)

The accompanying notes on pages 29 to 36 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, except for the adoption of FRS16 'Current Tax', is set out below.

The change introduced by FRS16, accounting for UK dividend income net of tax, has been reflected in the 2000 financial statements with corresponding changes to the comparative figures. In the year to 31 July 2000 this reduces gross income and taxation equally by £1,000 (31 July 1999 – £5,000); the net effect has no impact upon the revenue returns attributable to equity shareholders.

### (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) Unfranked investment income includes 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.

## NOTES TO ACCOUNTS

	2000	1999
	£'000	£'000
2 INCOME		(restated)
INCOME FROM INVESTMENTS		
Franked investment income†	12	30
UK unfranked income	-	41
Overseas dividends	1,064	403
Overseas interest	33	118
	<u>1,109</u>	<u>592</u>
OTHER INCOME		
Deposit interest	72	141
Other income	2	-
TOTAL INCOME	<u>1,183</u>	<u>733</u>
TOTAL INCOME COMPRISES		
Dividends	1,076	433
Interest from investments	33	159
Other	74	141
	<u>1,183</u>	<u>733</u>
INCOME FROM INVESTMENTS		
Listed UK	12	71
Listed overseas	1,097	521
	<u>1,109</u>	<u>592</u>

† Restated to comply with FRS16 'Current Tax' (see note 1).

### 3 INVESTMENT MANAGEMENT FEE – all charged to revenue

Investment management fee	421	280
Irrecoverable VAT thereon	17	20
	<u>438</u>	<u>300</u>

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. Their fee in respect of each quarter is 0.25% of the total assets less current liabilities and is subject to VAT at the appropriate rate.

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.

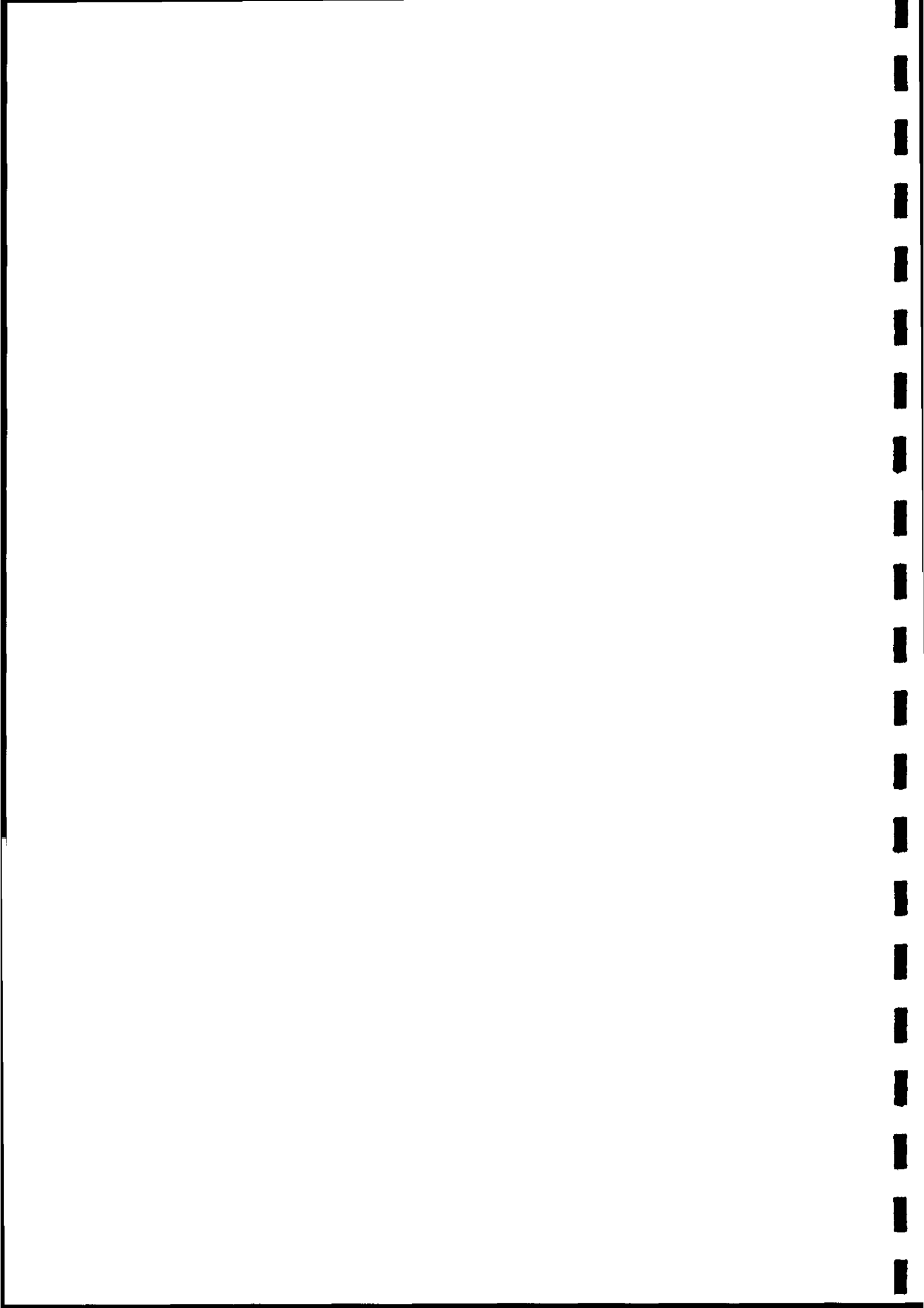
### 4 OTHER ADMINISTRATIVE EXPENSES – all charged to revenue

General administrative expenses	164	101
Directors' fees	31	31
Auditors' remuneration – audit services	6	6
	<u>201</u>	<u>138</u>

General administrative expenses includes the Company's contribution to the AITC <sup>its</sup> campaign of £17,000 (1999 – £1,500) plus VAT. The Chairman's emoluments amounted to £10,000 (1999 – £10,000). The three other Directors who served on the Board throughout the year each received fees of £7,000 (1999 – £7,000) per annum. No pension contributions were made in respect of Directors.

### 5 FINANCE COSTS OF BORROWINGS – all charged to revenue

On bank loans	<u>325</u>	<u>14</u>
---------------	------------	-----------



	2000	1999
	£'000	£'000
6 TAX ON ORDINARY ACTIVITIES		(restated)
UK corporation tax at 20% (1999 – 21%)	43	51
Overseas taxation	16	17
ACT written off in the year	–	3
Deferred taxation	1	(1)
	<u>60</u>	<u>70</u>
Relief for overseas taxation	(16)	(17)
	<u>44</u>	<u>53</u>

Restated to comply with FRS16 'Current Tax' (see note 1).

7 ORDINARY DIVIDEND	2000	1999	2000	1999
			£'000	£'000
Proposed dividend per ordinary share (payable 27 October 2000)	0.20p	0.20p	158	158

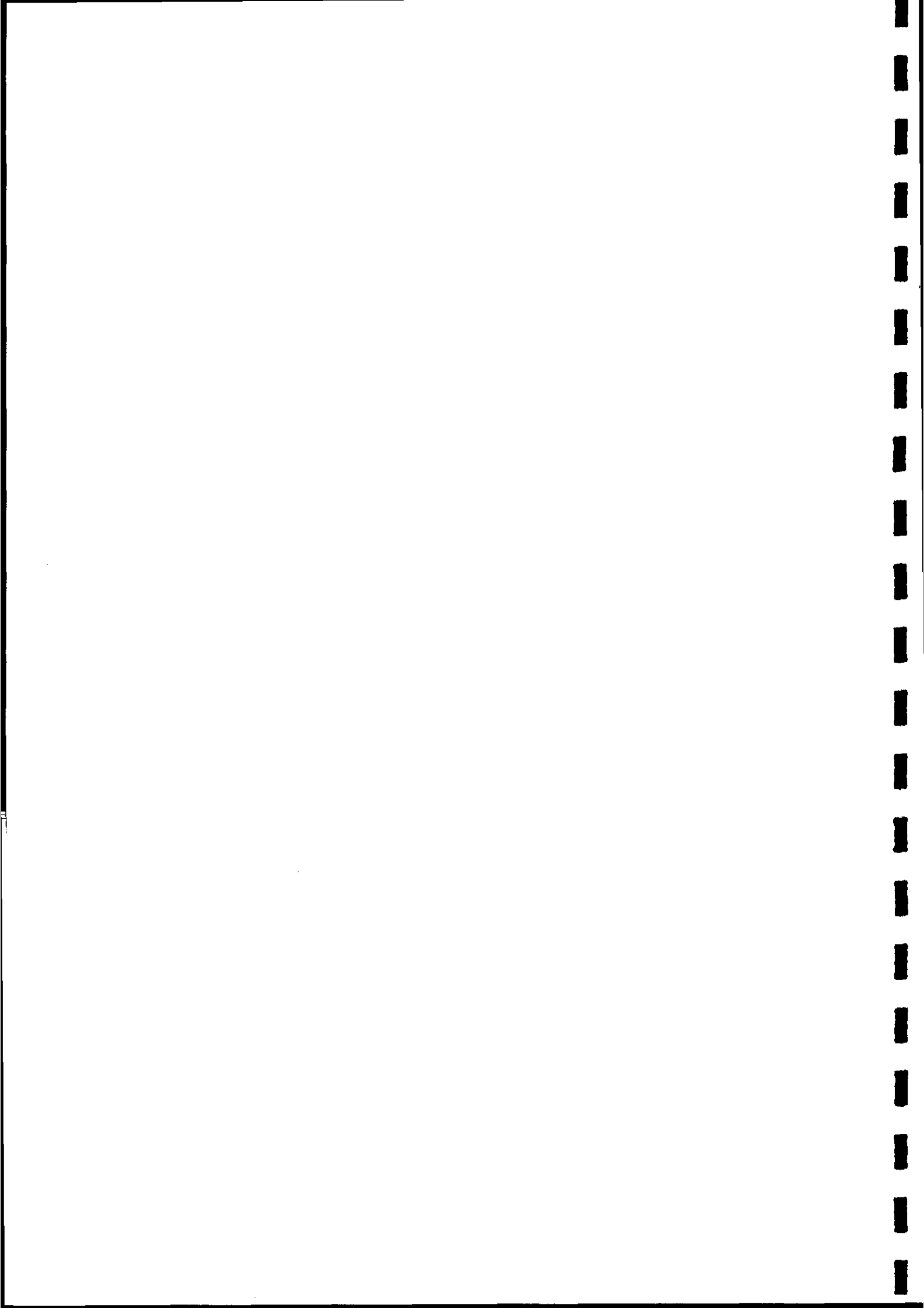
The proposed dividend of £158,000 (1999 – £158,000) is allowed under section 265 of the Companies Act 1985 although the net assets are less than the called-up share capital and undistributable reserves as defined in section 264(3) of that Act.

8 RETURN PER ORDINARY SHARE	2000			1999		
	Revenue	Capital	Total	Revenue	Capital	Total
	0.22p	11.00p	11.22p	0.29p	15.59p	15.88p

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £175,000 (1999 – £228,000) and on 78,841,864 (1999 – 78,841,220) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

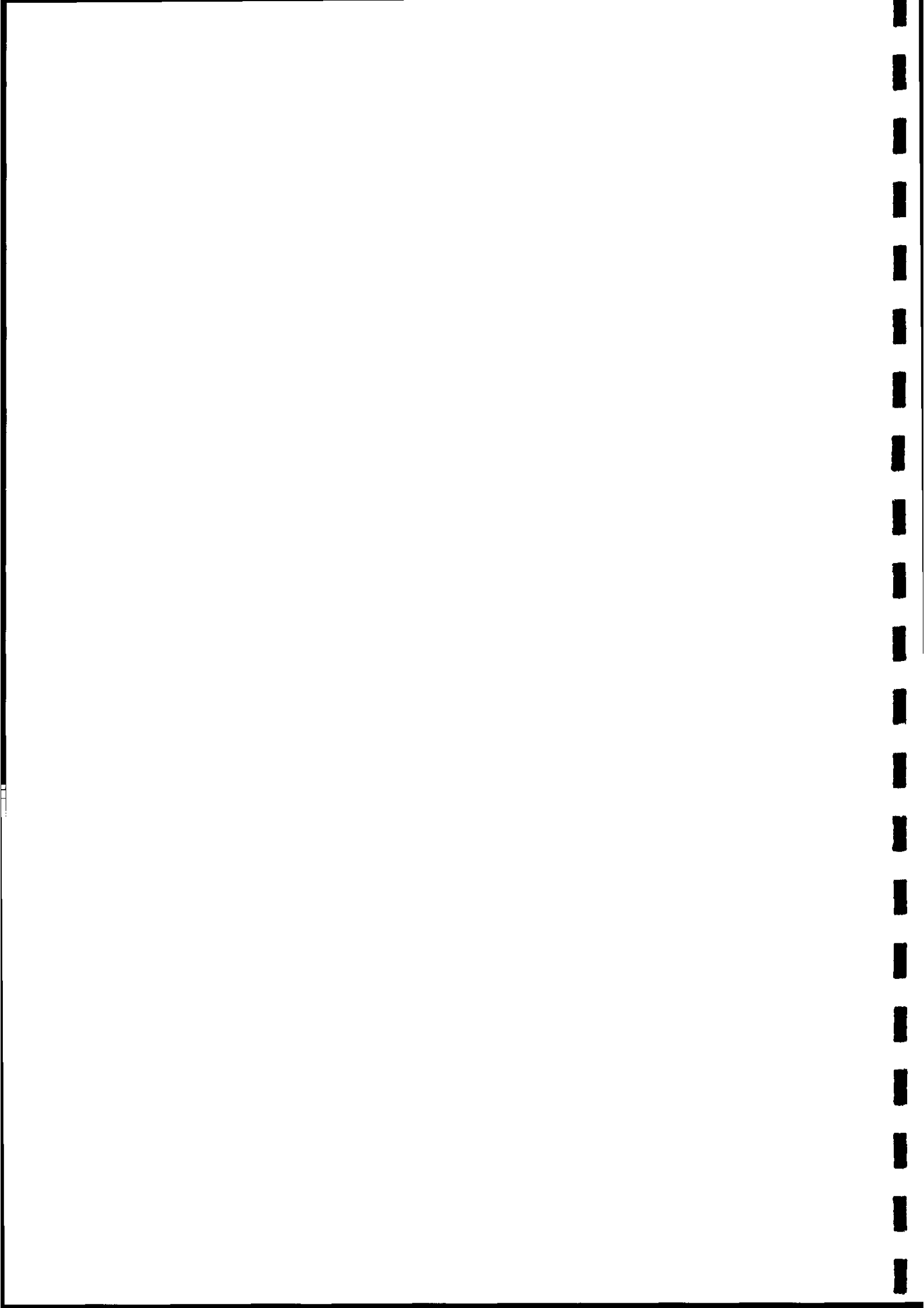
Capital return per ordinary share is based on the net capital profit for the financial year of £8,669,000 (1999 – £12,292,000) and on 78,841,864 (1999 – 78,841,220) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

There was no dilution of the above returns in either year. The number of outstanding warrants at 31 July 1999 and 2000 was 15,763,976.



NOTES TO ACCOUNTS

	2000	1999
	£'000	£'000
<b>9 FIXED ASSETS – INVESTMENTS</b>		
Listed at market value – UK	2,016	3,135
– Overseas	47,157	34,134
	<u>49,173</u>	<u>37,269</u>
	<b>Listed</b>	<b>Listed</b>
	<b>in UK</b>	<b>overseas</b>
	<b>£'000</b>	<b>£'000</b>
Cost of investments held at 1 August 1999	2,125	28,384
Unrealised appreciation at 1 August 1999	1,010	5,750
Value of investments held at 1 August 1999	<u>3,135</u>	<u>34,134</u>
Movements in year:		
Purchases at cost	–	47,634
Sales – proceeds	(1,905)	(43,054)
– realised profits on sales	1,144	10,222
Decrease in unrealised appreciation	(358)	(1,779)
Value of investments held at 31 July 2000	<u>2,016</u>	<u>47,157</u>
Cost of investments held at 31 July 2000	1,364	43,186
Unrealised appreciation at 31 July 2000	652	3,971
Value of investments held at 31 July 2000	<u>2,016</u>	<u>49,173</u>
	<b>2000</b>	<b>1999</b>
	<b>£'000</b>	<b>£'000</b>
<b>GAINS ON INVESTMENTS</b>		
Realised gains/(losses) on sales	11,366	(1,282)
(Decrease)/increase in unrealised appreciation	(2,137)	13,772
	<u>9,229</u>	<u>12,490</u>



## 10 FINANCIAL ASSETS

A full list of the Company's investments is given on pages 16 and 17. 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 16 and 17 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 is provided below:

	2000		1999	
	Market value £'000	Weighted average period until maturity	Market value £'000	Weighted average period until maturity
<i>Warrants:</i>				
Singapore dollars	–	–	835	3 years
Thai bhats	20	2 years	142	3 years

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

	2000			1999		
	Market value £'000	Weighted average interest rate	Weighted average period until maturity	Market value £'000	Weighted average interest rate	Weighted average period until maturity
<i>Fixed rate:</i>						
Hong Kong convertible bonds	700	5.1%	1 year	577	5.1%	2 years

	2000 £'000	1999 £'000
<i>Cash:</i>		
UK deposits	74	350
Foreign deposits – US dollar	1,092	138
– Singapore dollar	–	81
– Taiwan dollar	213	184
	<u>1,379</u>	<u>753</u>

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.

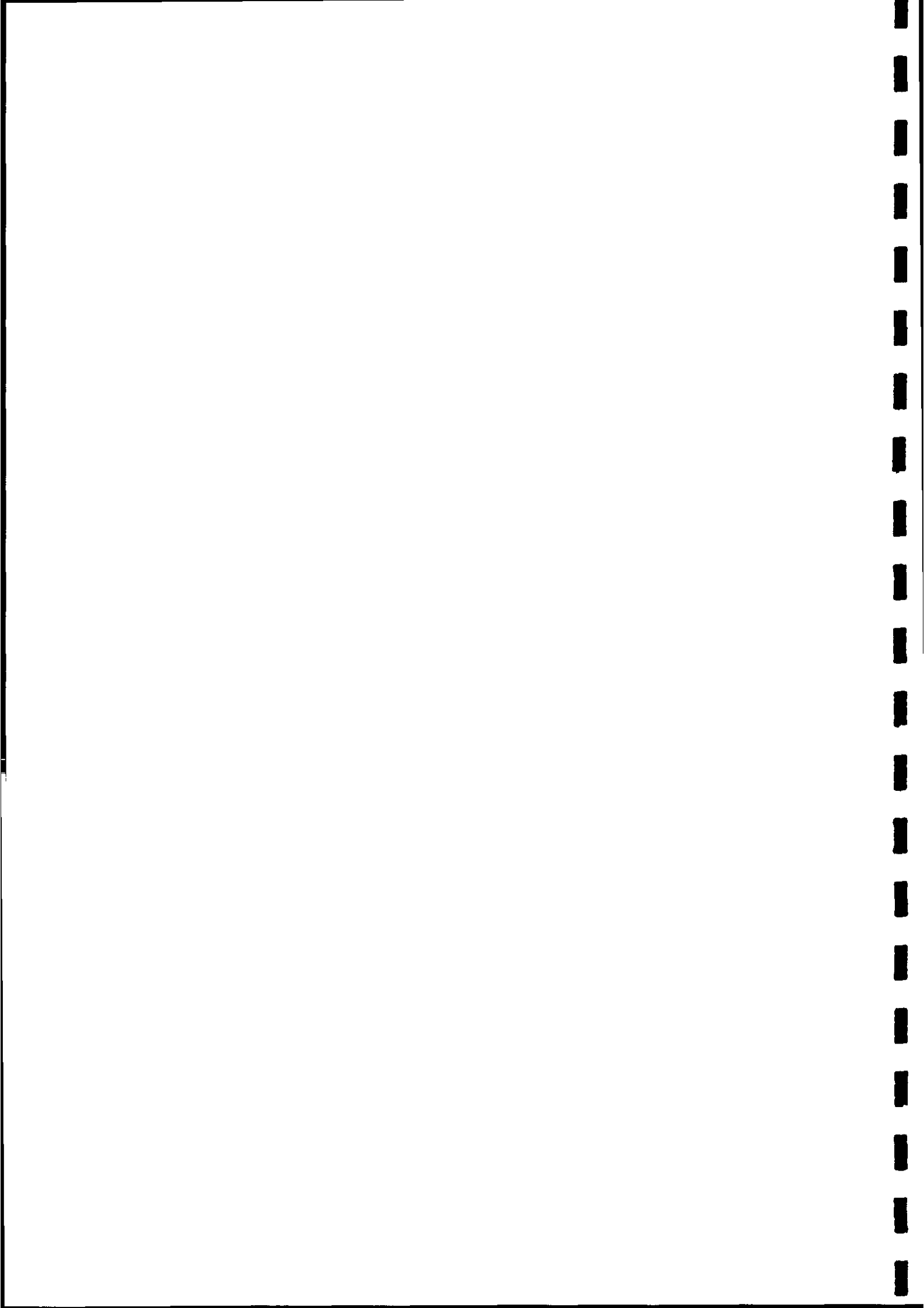
## 11 DEBTORS

*Amounts falling due within one year:*

Income accrued (net)	20	21
Sales for subsequent settlement	2,065	157
FX sales for subsequent settlement	1,433	–
Taxation recoverable	72	219
Other debtors	42	25

*Amounts falling due in more than one year:*

<i>Deferred taxation:</i>		
Timing differences related to income accrued, but not received	1	2
	<u>3,633</u>	<u>424</u>



## NOTES TO ACCOUNTS

	2000	1999
	£'000	£'000
<b>12 CREDITORS</b>		
<i>Amounts falling due within one year:</i>		
Purchases for subsequent settlement	2,774	-
FX purchases for subsequent settlement	1,433	-
Proposed dividend	158	158
Bank loan	6,009	3,170
Other creditors and accruals	171	164
	<u>10,545</u>	<u>3,492</u>

### *Loan facilities*

#### *Maturity profile:*

A one year £10 million multi-currency loan has been arranged with The Royal Bank of Scotland plc. At 31 July 2000 there were outstanding drawings of US\$9 million (1999-¥400 million and US\$1.65 million).

Included in other creditors and accruals is £109,000 (1999 - £87,000) in respect of the investment management fee.

## 13 FINANCIAL LIABILITIES

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

	2000			1999		
	Market value £'000	Weighted average interest rate	Weighted average period until maturity	Market value £'000	Weighted average interest rate	Weighted average period until maturity
<i>Bank loan:</i>						
Yen denominated	-	-	-	2,152	0.37%	1 week
US\$ denominated	6,009	7.29%	1 month	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 2000 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.

## 14 CALLED-UP SHARE CAPITAL

### Authorised:

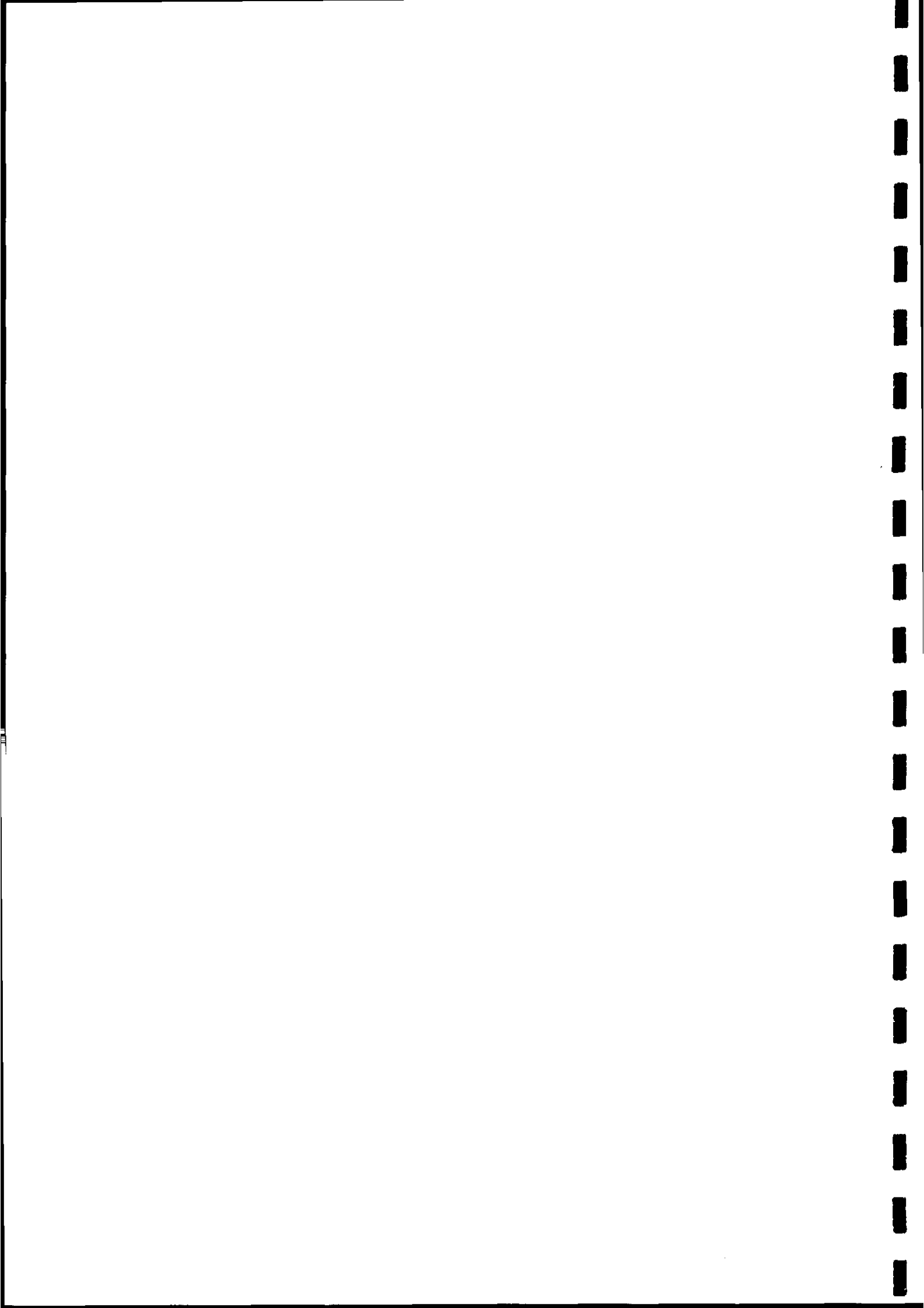
Ordinary shares - 113,684,758 shares of 10p each	<u>11,368</u>	<u>11,368</u>
Alotted, issued and fully paid:		
Ordinary shares - 78,841,864 shares of 10p each	<u>7,884</u>	<u>7,884</u>

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 either of the remaining years 2001 and 2002. There were no warrants exercised in the year to 31 July 2000.

The number of outstanding warrants at 31 July 1999 and 2000 was 15,763,976.

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.



	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
15 RESERVES			
At 1 August 1999	(12,938)	6,611	728
Net gain on realisation of investments	11,366	–	–
Decrease in unrealised appreciation	–	(2,137)	–
Exchange differences on bank loans	(471)	(206)	–
Other exchange differences	117	–	–
Retained net revenue for the year	–	–	17
At 31 July 2000	(1,926)	4,268	745

## 16 NET ASSET VALUE PER ORDINARY SHARE

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

	2000	1999	2000 £'000	1999 £'000
Ordinary shares	55.35p	44.33p	43,640	34,954

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

Total net assets at 1 August 1999		34,954	22,591
Total recognised gains and losses for the year		8,844	12,520
Dividend appropriated in the year		(158)	(158)
Proceeds from exercise of warrants		–	1
Total net assets at 31 July 2000		43,640	34,954

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

The diluted net asset value per ordinary share is calculated in accordance with FRS14 'Earnings per share'. The calculation determines the potential number of dilutive share which would be issued on the exercise of warrants by reference to the share price (fair value) at the year end. In accordance with FRS14 the outstanding warrants have been treated as non-dilutive because the exercise price is greater than the prevailing share price.

The fully diluted net asset value per ordinary share is calculated on the assumption that the warrants in issue were fully exercised at the year end at 56p each.

There was no dilution to net asset value under either of these methods at either date.

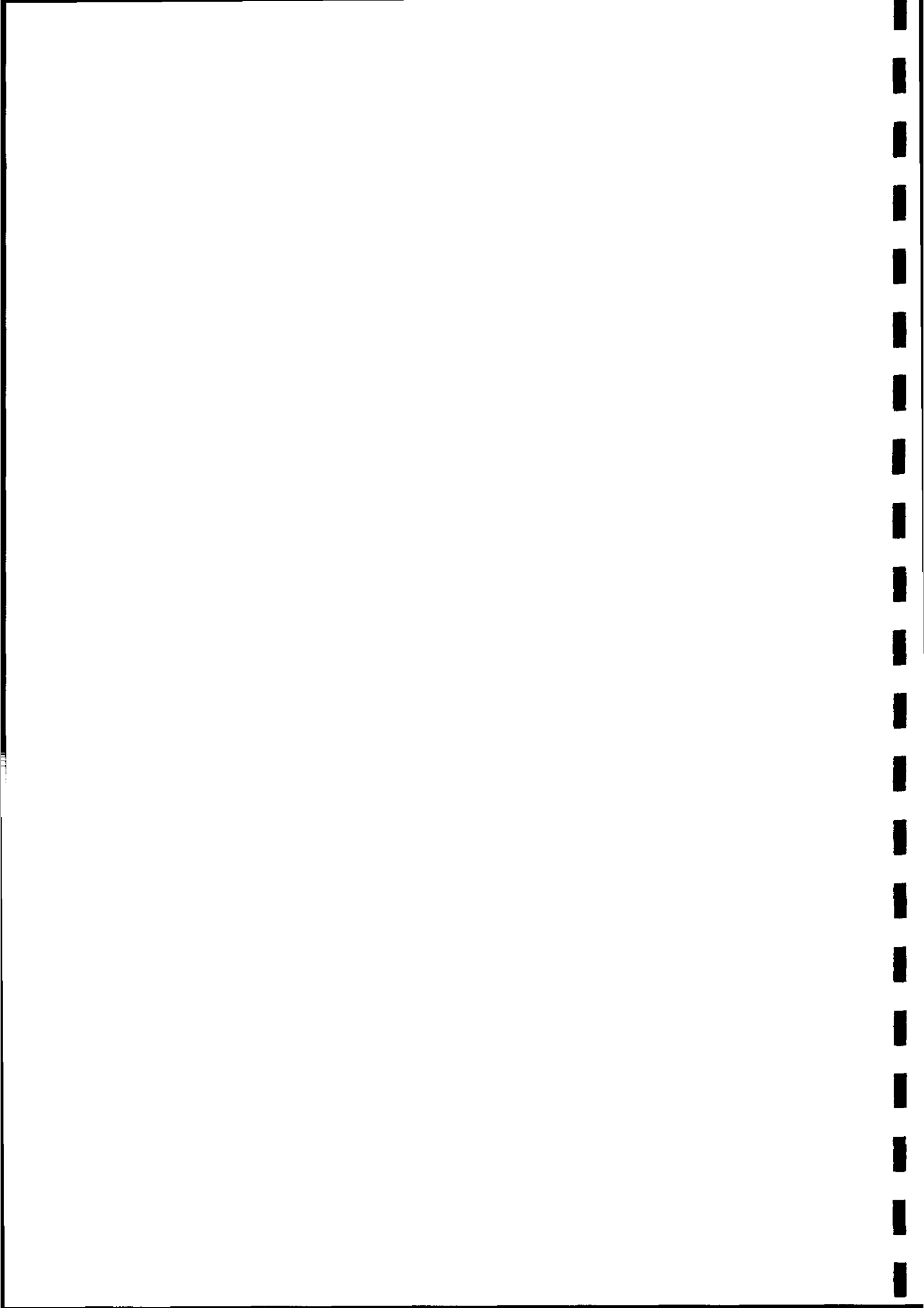
The number of outstanding warrants at 31 July 1999 and 2000 was 15,763,976.

## 17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Shareholders' funds at 1 August 1999		34,954	22,591
Proceeds from exercise of warrants		–	1
Total recognised gains and losses for the year (after dividend payment)		8,686	12,362
Shareholders' funds at 31 July 2000		43,640	34,954

## 18 RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET

		(restated)
CASH INFLOW FROM OPERATING ACTIVITIES		
Net revenue on ordinary activities before finance costs and taxation	544	295
Decrease in accrued income	2	49
Increase in debtors	(17)	(12)
Increase in creditors	16	59
Income tax suffered	(18)	(57)
Overseas tax suffered	(16)	(17)
	511	317



## NOTES TO ACCOUNTS

	At 1 August 1999 £'000	Cash flows £'000	Exchange movement £'000	At 31 July 2000 £'000
19 ANALYSIS OF CHANGE IN NET DEBT				
Cash	753	626	-	1,379
Loans due within one year	(3,170)	(2,162)	(677)	(6,009)
	<u>(2,417)</u>	<u>(1,536)</u>	<u>(677)</u>	<u>(4,630)</u>

### 20 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.

### 21 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company operates as an Investment Trust Company in accordance with Section 842 of the Income and Corporation 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 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 short term multi-currency borrowing facility linked to LIBOR and may draw down funds for a period of up to 12 months.

#### *Liquidity Risk*

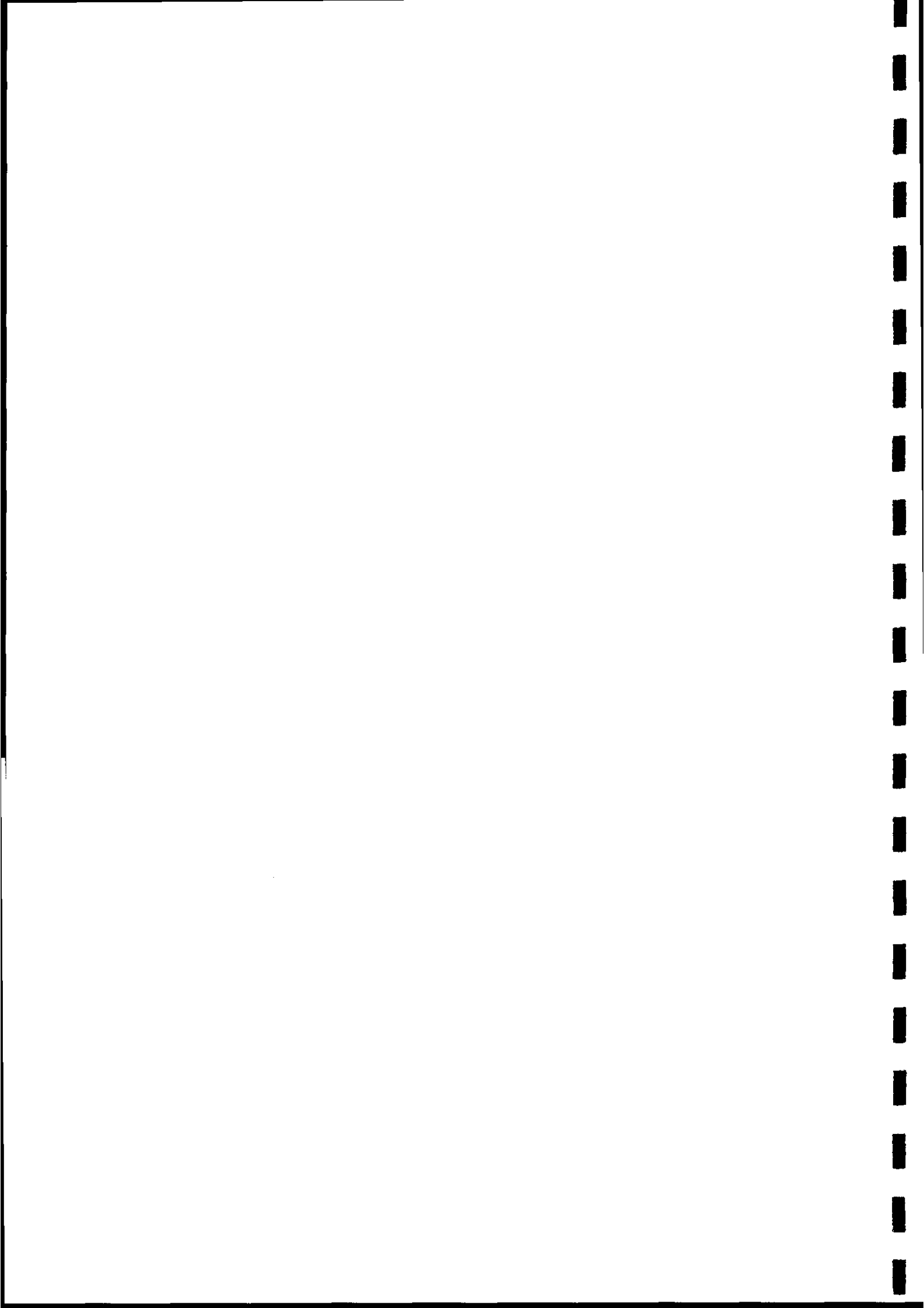
The Company's policy with regard to liquidity is to ensure continuity of funding. Short term flexibility is achieved by overdraft facilities.

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.



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, 24 October 2000 at 11.30 am for the following purposes:

Ordinary Business

1. To approve the Accounts of the Company for the year to 31 July 2000 with the Reports of the Directors and of the Auditors thereon.
2. To declare a dividend.
3. To re-elect Mr PD Griffiths as a Director.
4. To reappoint Ernst & Young as Auditors.
5. To authorise the Directors to fix the remuneration of the Auditors.

Special Business

To consider and, if thought fit, to pass the following resolutions:

As an ordinary resolution:

6. THAT, in substitution for any existing authority under section 80 of the Companies Act 1985 (the 'act'), but without prejudice to the exercise of any such authority prior to the date hereof, the Directors be and they are hereby generally and unconditionally authorised, pursuant to section 80 of the Act, to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £394,209.32, such authority to expire five years from the date of this resolution, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may at any time prior to the expiry of such authority make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.

As a special resolution:

7. 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 by Resolution 5 in the notice of meeting convening the Annual General Meeting of the Company dated 21 September 2000, 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 £394,209.32 and shall expire on 23 October 2005, 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.

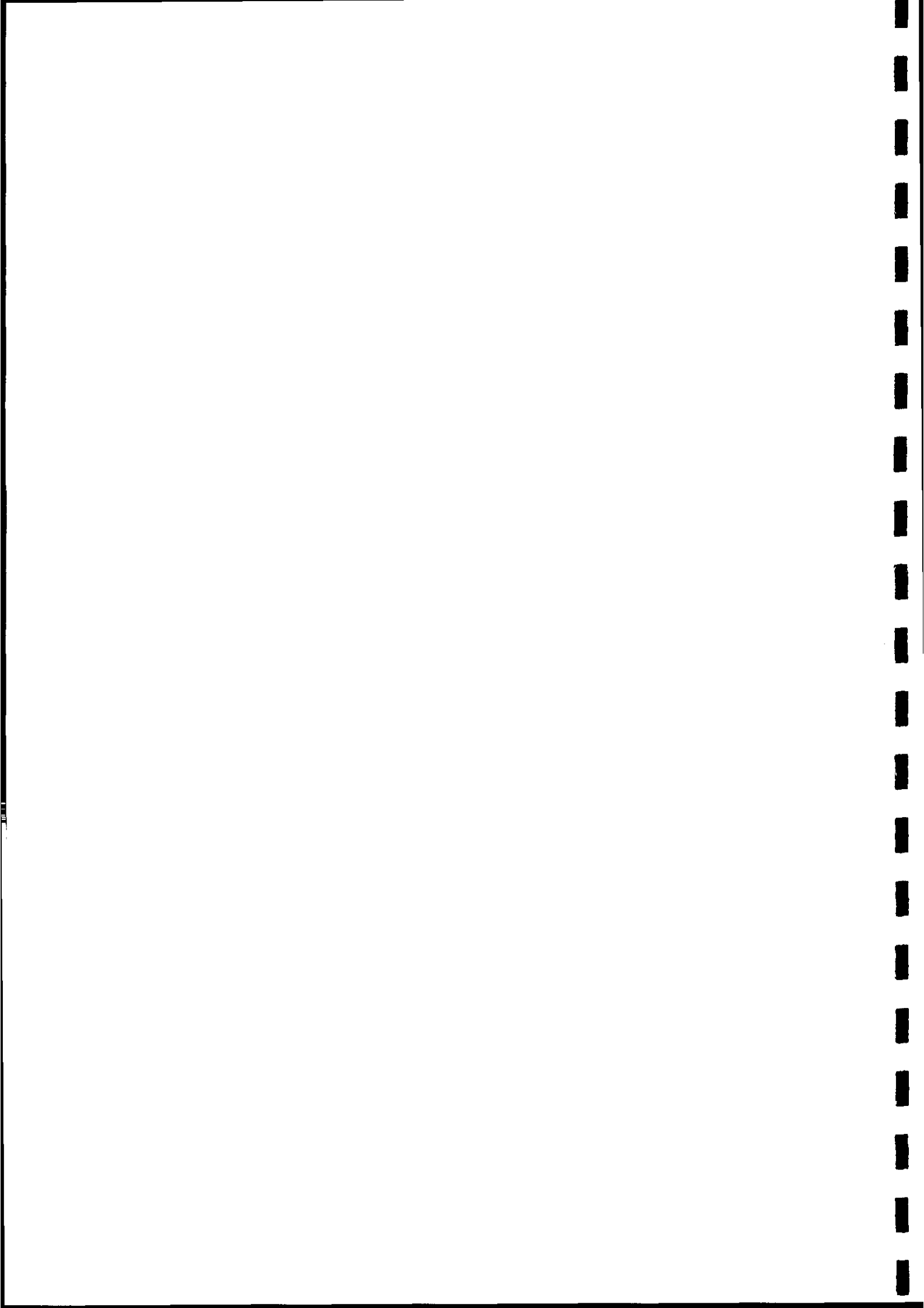
By Order of the Board

BAILLIE GIFFORD & Co  
Managers and Secretaries  
21 September 2000

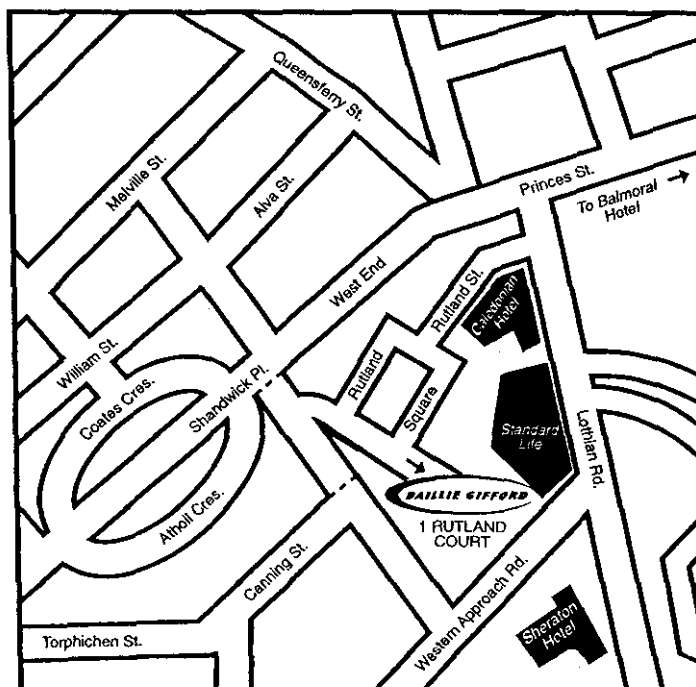


Notes

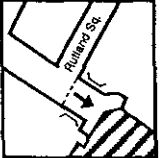
- 1 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. A Form of Proxy is enclosed.
- 2 Only holders of ordinary shares are entitled to attend or be represented at 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 No Director has a contract of service with the Company.



## HOW TO FIND US



➤ Entrance to Baillie Gifford is across the pedestrian bridge from Rutland Square.



Balmoral Hotel:  
5 minute taxi journey

Caledonian Hotel:  
3 minute walk

Sheraton Hotel:  
5 minute walk

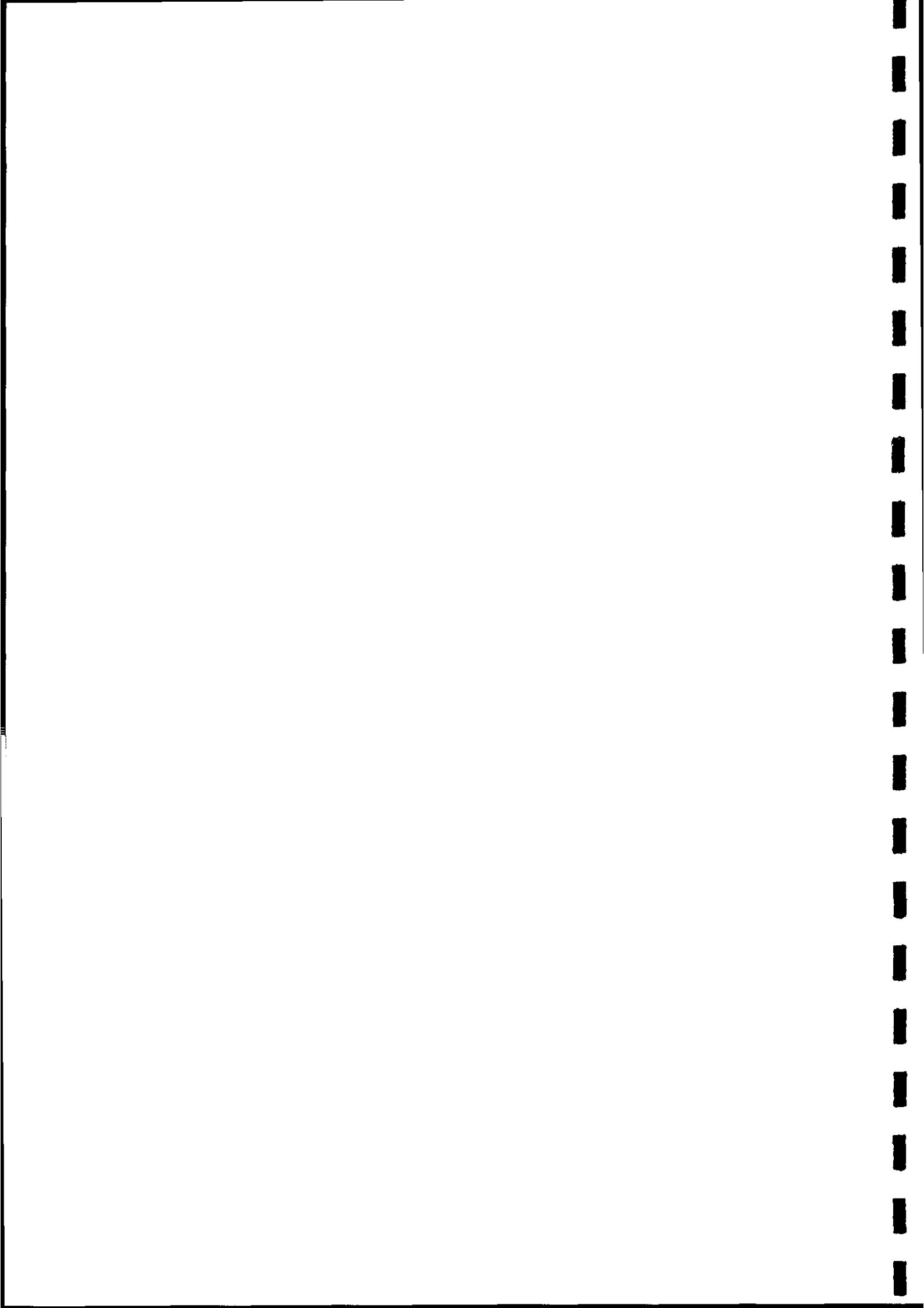
The Annual General Meeting of the Company will be held at the offices of Baillie Gifford & Co at 1 Rutland Court, Edinburgh EH3 8EY on Tuesday, 24 October 2000 at 11.30 am.

If you have any queries as to how to vote or how to attend the meeting, please call us on 0800 917 2112.

## ANALYSIS OF SHAREHOLDERS

### ANALYSIS OF SHAREHOLDERS AT 31 JULY 2000

	Ordinary shares held		Shareholders	
	Number	%	Number	%
Individuals	4,947,775	6.3	401	28.3
Baillie Gifford Share Plan/PEP/ISA	3,541,803	4.5	673	47.4
Nominee Companies and Banks	64,684,696	82.0	258	18.2
Insurance Companies	166,112	0.2	7	0.5
Other holders	5,501,478	7.0	79	5.6
	<b>78,841,864</b>	<b>100.0</b>	<b>1,418</b>	<b>100.0</b>



- **How to Invest** The Company's shares are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford Investment Trust Share Plan (of which details follow on the inside back cover of this report).
- **Sources of Further Information on the Trust** The price of shares is quoted daily in the *Financial Times*, *The Scotsman* and *The Herald*. The share price can also be found on the Baillie Gifford website at [www.bailliegifford.co.uk](http://www.bailliegifford.co.uk), Trustnet at [www.trustnet.co.uk](http://www.trustnet.co.uk) and on other financial websites. Company factsheets are also available on the Baillie Gifford website and are updated monthly. These are available from Baillie Gifford on request.
- **Key Dates** Ordinary shareholders normally receive a dividend in respect of each financial year which is normally paid at the end of October. The AGM is normally held in October. Warrants are exercisable on 30 June 2001 and 2002.
- **CGT** 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

- **Share Register Enquiries** Computershare Services PLC currently maintains the share register on behalf of the Company. In the event of queries regarding shares registered in your own name, please contact the Registrars on 0870 702 0010. By quoting the reference number on your share certificate, investors can check their holding on the Registrar's web site: [www.cshare.co.uk](http://www.cshare.co.uk)

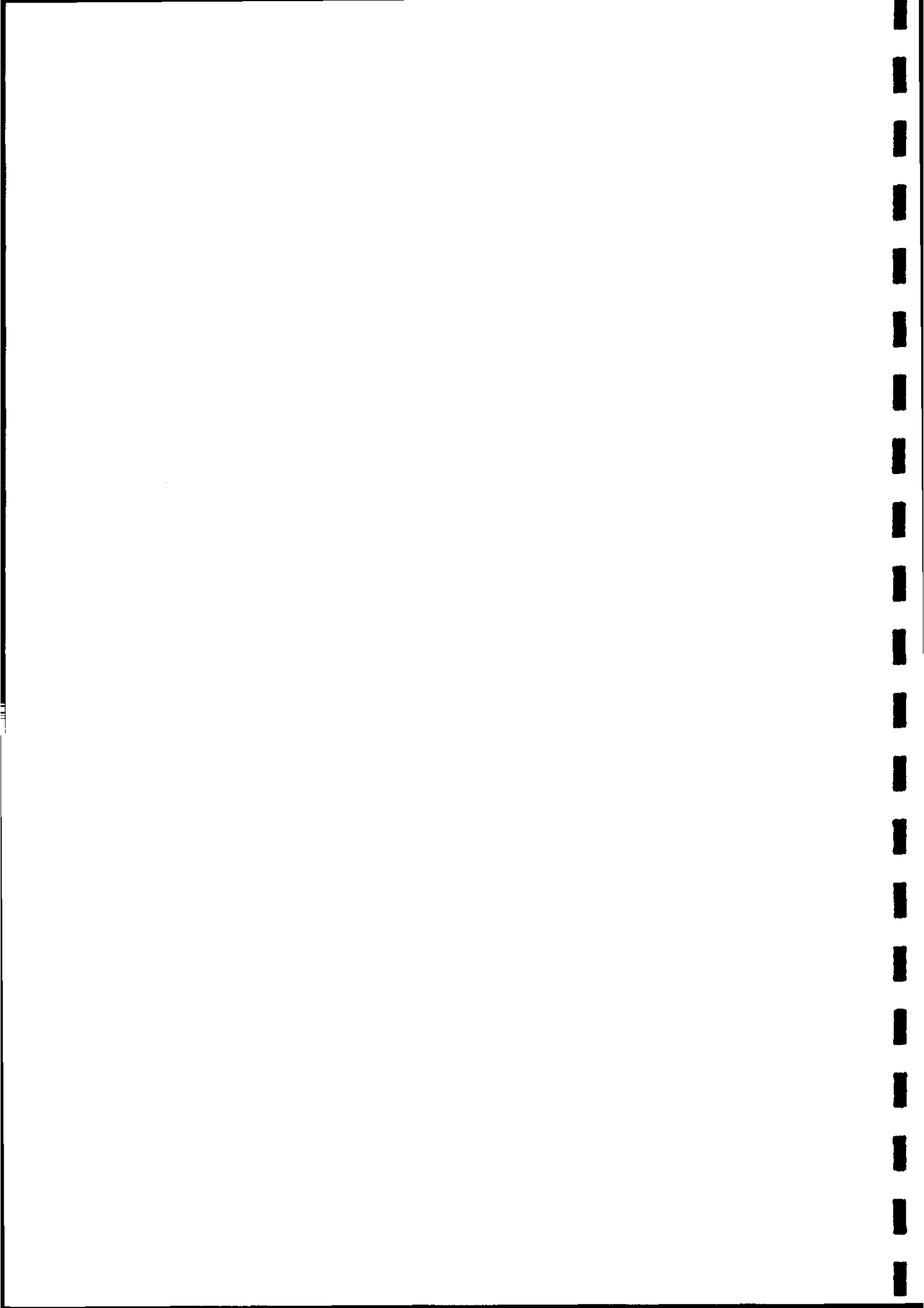
**Pacific Horizon is an investment trust. Investment trusts offer investors the following advantages:**

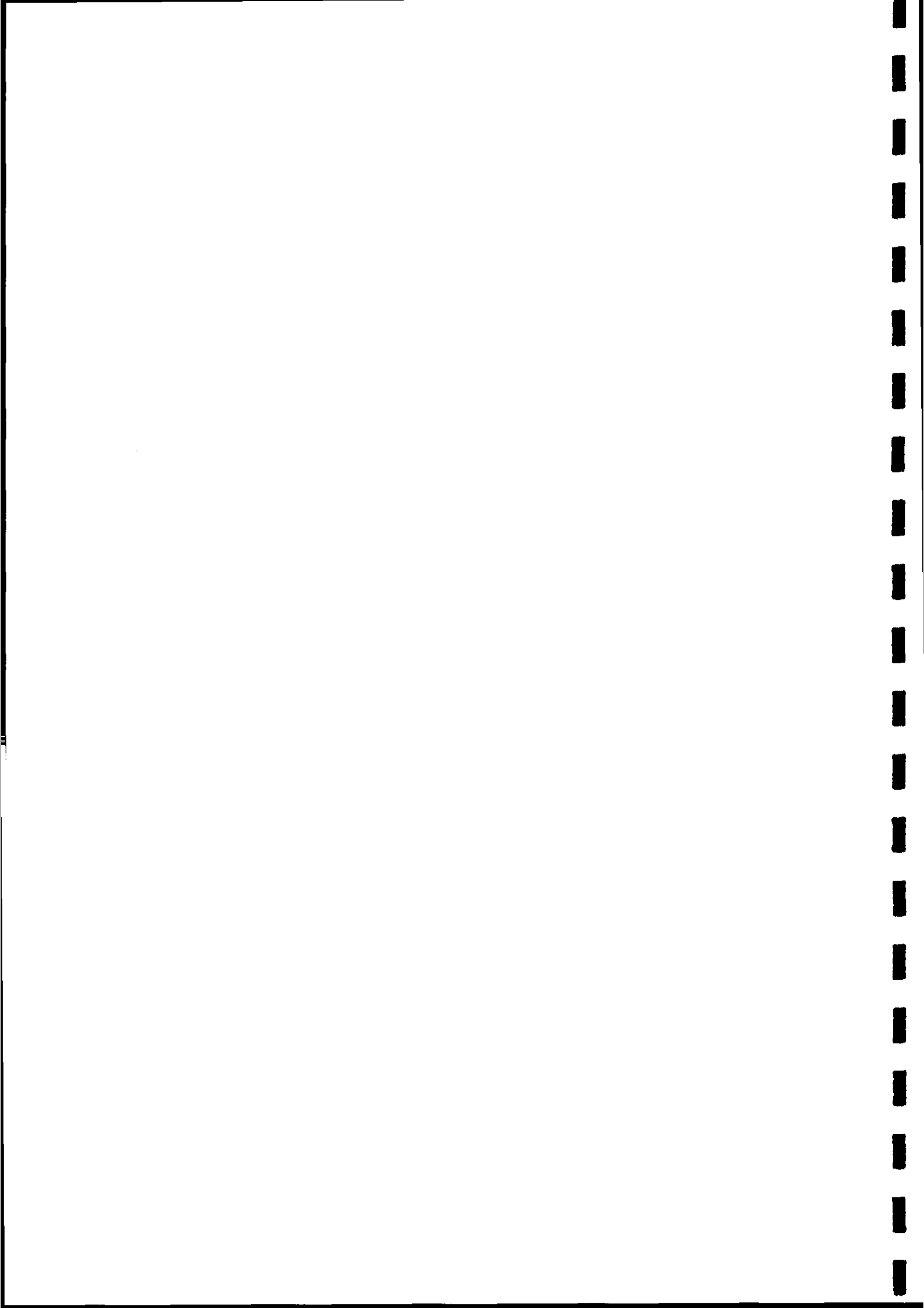
- Participation in a diversified portfolio of shares.
- Constant supervision at low cost by experienced professional managers.
- Freedom from capital gains tax on capital profits realised within the portfolio.
- The opportunity to achieve improved performance for shareholders' funds in rising markets by the borrowing of additional money.

Shares in Pacific Horizon are also available within an ISA or PEP Transfer wrapper or through Baillie Gifford's Investment Trust Share Plan as detailed on the inside back cover of this report. These products can also be used to invest in the five other investment trusts managed by Baillie Gifford:

- Baillie Gifford Shin Nippon PLC
- Mid Wynd International Investment Trust PLC
- The Baillie Gifford Japan Trust PLC
- The Monks Investment Trust PLC
- The Scottish Mortgage and Trust PLC.

These accounts have been approved by the Directors of Pacific Horizon Investment Trust PLC. The information about the ISA, PEP and Share Plan has been approved by Baillie Gifford Savings Management Limited. Baillie Gifford Savings Management Limited is the ISA Manager of the Baillie Gifford Investment Trust ISA, the PEP Manager of the Baillie Gifford Investment Trust PEP and the Manager of the Baillie Gifford Investment Trust Share Plan. Baillie Gifford Savings Management Limited is wholly owned by Baillie Gifford & Co. Both are regulated by IMRO. Baillie Gifford only provides information about its products and does not provide investment advice. The staff of Baillie Gifford may have positions in investment trusts managed by Baillie Gifford and may buy, sell or offer to make a purchase or sale of such securities from time to time. The value of ISA and PEP tax advantages will depend on personal circumstances. Past performance is not necessarily a guide to future performance. The capital value of and income distributed by an investment trust can go down as well as up and an investor may not get back the amount originally invested. The price of an investment trust share will fluctuate in accordance with supply and demand and may not reflect the underlying net asset value.





**its Baillie Gifford's Investment Trust Share Plan**

You can invest from £250 or from £30 per month in any of the six investment trusts managed by Baillie Gifford through the Baillie Gifford Investment Trust Share Plan. The only charges are stamp duty at 0.5%, market maker's spread and a selling charge of £10 plus VAT.

**its Baillie Gifford's Investment Trust ISA**

You can put any of our trusts in a tax efficient wrapper by investing from £2,000 or £250 per month or by transferring an ISA from your existing manager.

**its Baillie Gifford's Investment Trust PEP Transfer**

You can transfer an existing PEP to access different markets through our investment trusts or to change your investment manager.

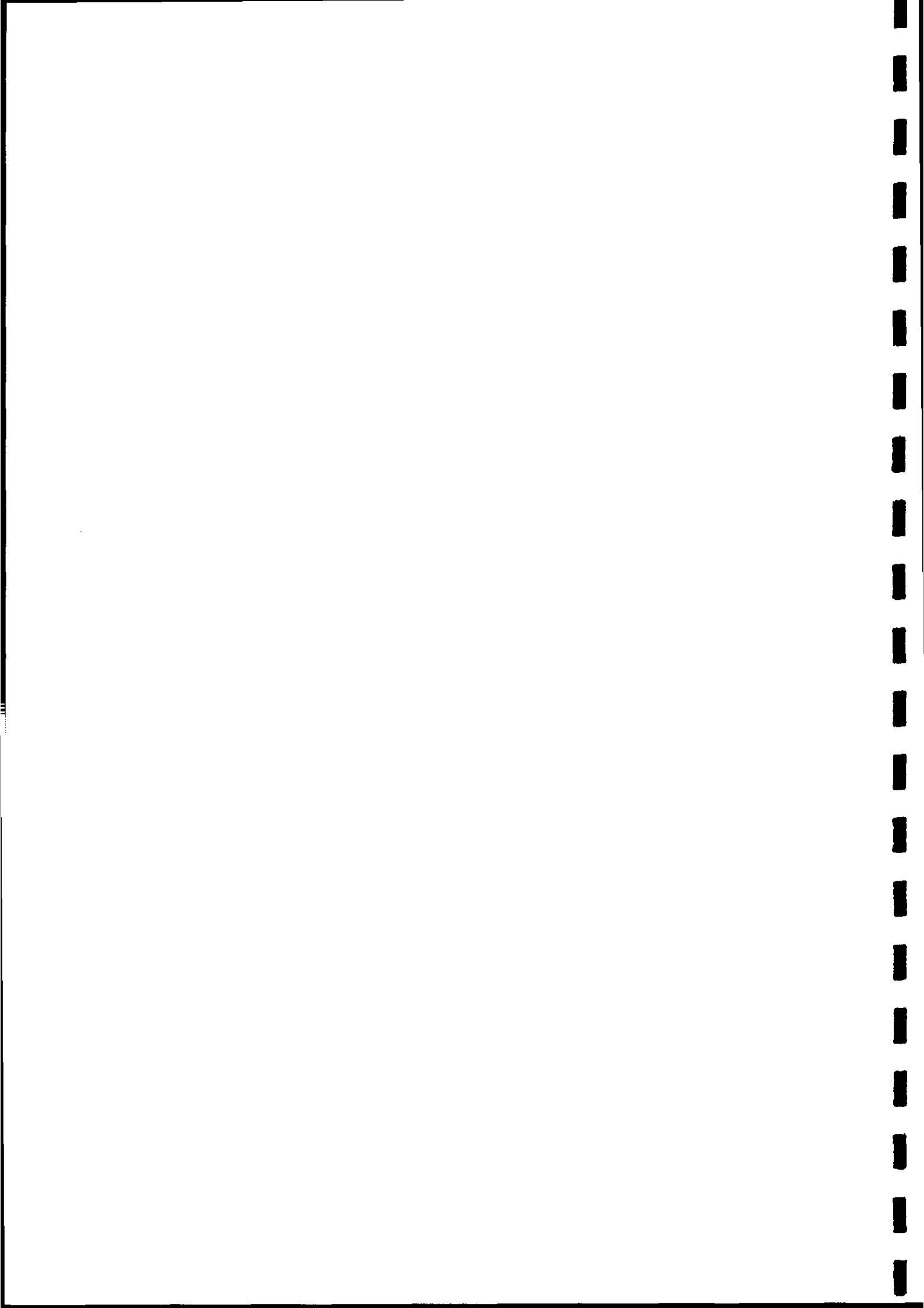
**its Further Information**

Retail Investments Department  
Baillie Gifford Savings Management Limited  
1 Rutland Court  
EDINBURGH EH3 8EY

0800 027 0133  
We may record your call

[its@bailliegifford.co.uk](mailto:its@bailliegifford.co.uk)

Fax: 0131 474 3248



DIRECTORS

*Chairman*  
M Hamilton

PD Griffiths  
AGS McCallum CBE  
DCP McDougall

MANAGERS AND  
SECRETARIES

Baillie Gifford & Co  
1 Rutland Court  
Edinburgh EH3 8EY  
Telephone: 0131 222 4000  
Website: [www.bailliegifford.co.uk](http://www.bailliegifford.co.uk)

REGISTERED OFFICE

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Triton Court  
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London EC2A 1BR

REGISTRARS

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8 Bankhead Crossway North  
Edinburgh EH11 4BR  
Telephone: 0370 702 0010

BROKERS

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Broadwalk House  
5 Appold Street  
London EC2A 2DA

AUDITORS

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Company Registration No. 2342193

