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# Pacific Horizon Investment Trust PLC

Annual Report & Accounts  
31 July 2003



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COMPANIES HOUSE 15/11/03

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# Company Summary

## COMPANY DATA AT 31 JULY 2003

Shareholders' funds	Market capitalisation
£41m	£37m

### 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 Country Far East Free ex Japan 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

At the year end the Company's share capital consisted of 76,487,002 ordinary shares of 10p each which are issued and fully paid. The Company has been granted authority to buy back a limited number of its own ordinary shares for cancellation.

### Management Fee

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

### AITC

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

### Wind-Up

At the Extraordinary General Meeting of the Company held on 27 May 2002, the shareholders approved the resolution postponing until 27 May 2007, or such later date as the shareholders may resolve, the obligation of the Directors to convene an Extraordinary General Meeting at which a resolution will be proposed pursuant to section 84 of the Insolvency Act 1986 to wind the Company up voluntarily.

# Year's Summary

	31 July		
	2003	2002	% change
Equity shareholders' funds	£40.8m	£38.7m	5.4
Net asset value per ordinary share (NAV)	53.34p	50.63p	5.4
Share price†	48.25p	45.50p	6.0
MSCI All Country Far East Free ex Japan Index (in sterling terms)	127.2	126.0	0.9
Dividend per ordinary share	0.45p	0.45p	-
Earnings per ordinary share	0.67p	0.66p	1.5
Expense ratio	0.99%	1.19%	
Discount	9.5%	10.1%	

† Past performance is not necessarily a guide to future performance.

Year's high and low	Year to		Year to	
	31 July 2003		31 July 2002	
	High	Low	High	Low
Share price	48.75p	35.50p	56.75p	27.25p
Net asset value	53.48p	41.45p	63.02p	36.66p
Diluted net asset value (FRS14)‡	53.48p	41.45p	60.58p	36.66p
Fully diluted net asset value‡	53.48p	41.45p	61.82p	36.66p
Discount (to diluted net asset value)	3.5%	16.7%	5.3%	25.7%

‡ The final subscription date of the Company's warrants, which entitled the holder to subscribe for one ordinary 10p share in the Company at 56p per ordinary share between 1996 and 2002 inclusive, was 1 July 2002. The warrants have now lapsed (see note 15, page 35).

	31 July	31 July
	2003	2002
<b>Total return per ordinary share</b>		
Revenue	0.67p	0.66p
Capital	2.49p	2.07p
<b>Total</b>	<b>3.16p</b>	<b>2.73p</b>

# Five Year Summary

The following charts indicate how an investment in Pacific Horizon has performed relative to its comparative index (MSCI All Country Far East Free ex Japan Index in sterling terms) and the relationship between share price and asset value over the five year period to 31 July 2003:

# Directors and Management

## Directors

**Douglas McDougall OBE**, the Chairman, is aged 59. He is chairman of Law Debenture Corporation plc, The Independent Investment Trust PLC, Foreign & Colonial Eurotrust PLC and 3i Bioscience Investment Trust PLC. He is a former senior partner of Baillie Gifford & Co and a former chairman of IMRO, of the Association of Investment Trust Companies and of the Fund Managers Association. He was appointed a Director of the Company in 1992 and Chairman on 28 October 2002.

**Peter Griffiths**, aged 69, was investment manager to the Pilkington Pension Funds. He was appointed a Director of the Company in 1989.

**Peter Mackay CB**, aged 63, is a former member of the Competition Commission. He is a former non-executive member of the Management Board of the Business Banking Division of the Bank of Scotland and a former director of the British Linen Bank. He was appointed a Director of the Company in 2001.

**Jean Matterson**, aged 47, is a partner of Rossie House Investment Management which specialises in private client portfolio management with a particular emphasis on investment trusts. She was previously with Stewart Ivory & Co for 20 years, as an investment manager and a director since 1988. She is a director of Dunedin Income Growth Investment Trust PLC. She was appointed a director of the Company on 2 September 2003.

**Michael Morrison**, aged 64, is a former senior partner of Taylor Joynson Garrett, solicitors, and is chairman of Yuills Limited. He was appointed a Director of the Company on 3 September 2002.

## Managers and Secretaries

Pacific Horizon is managed by Baillie Gifford & Co, an investment management firm 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 largest investment trust groups in the UK and currently manages six investment trusts. Baillie Gifford manages 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 around £25 billion. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 24 partners and a staff of around 400.

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 authorised and regulated by the Financial Services Authority.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

# Chairman's Statement

## Performance

### *Capital Account*

The net asset value per share rose by 5.4%, compared with a rise of 0.9% in the MSCI All Country Far East Free ex Japan Index in sterling terms.

The use of short term borrowings during the year made a positive contribution to performance. We introduced gearing equivalent to approximately 10% of shareholders' funds in January, when many shares appeared undervalued, and had fully repaid these borrowings by the middle of May. With hindsight it appears that the repayment was premature and this, together with our relatively modest weighting in technology shares, meant that we failed to benefit fully from the strength of markets in the last few months 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*

Earnings per share rose by 1.5% to 0.67p from 0.66p for last year. The Board is recommending that a dividend of 0.45p should be paid, unchanged from the previous year.

## Changes to the Board

Peter Griffiths will not be standing for re-election to the Board at the Annual General Meeting on 28 October 2003. He has been a Director since 1989 and is the longest serving Director of the Company. I am sure that shareholders will join me in thanking him for his valuable contribution over the years. I would also like to welcome onto the Board Jean Matterson, who has a considerable experience in investment

management, latterly including investment in Investment Trusts on behalf of private clients. Shareholders will be asked to vote on her appointment at the Annual General Meeting.

## Share buy-back

We did not buy back any shares during the year. We shall be asking shareholders to renew the mandate to repurchase 14.99% of the outstanding shares at the forthcoming Annual General Meeting.

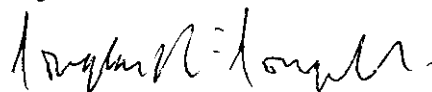
## Outlook

The share prices of certain companies appear to have run ahead of the limited improvement, if any, in their businesses, but there remain plenty of companies for which the reverse is true. For the majority of technology companies valuations appear high, except in comparison with the extreme levels of early 2000. There remain some attractive investment opportunities in this sector arising from the improved competitive positions and scale advantages of leading companies but we believe that there are more opportunities elsewhere. In particular, the rapid expansion of manufacturing industry in China and the relatively low investment levels of recent years have created a more favourable environment for suppliers of industrial raw materials than they have enjoyed for some time. The increased spending power of Chinese consumers is also beneficial for the rest of the region and there are attractively rated companies in a variety of industries which should be able to exploit this favourable long-term trend. In addition, there are companies which have yet to fully recover from the effects of Severe Acute Respiratory Syndrome on the economies of the region and which are likely to surprise the market with the speed and magnitude of the rebound in their earnings.

## CHAIRMAN'S STATEMENT

The full effects of the sharp rise in bond yields that occurred in the late summer have probably yet to be felt and the impact, through the mechanism of higher borrowing costs, is likely to be negative for growth. It is, however, difficult to quantify.

Against this background the prospects for active stock selection should be favourable even though the broader indices may be held back by the less favourable outlook for some of their larger constituents.



Douglas McDougall  
11 September 2003

# Managers' Overview

	% of total assets as at		Indices % change in sterling terms
	31 July 2003	31 July 2002	
Hong Kong and China	33.6	30.0	(4.1)
Korea	15.9	20.8	(2.8)
Malaysia	12.6	15.9	(3.0)
Singapore	11.6	9.1	0.7
Indonesia	8.8	3.0	13.4
Taiwan	8.2	13.6	2.7
Thailand	6.2	4.9	25.2
Philippines	2.8	2.2	0.6
Net liquid assets	0.3	0.5	-
PACIFIC HORIZON INVESTMENT TRUST (NAV)	100.0	100.0	5.4
MSCI All Country Far East Free ex Japan Index			0.9

The year to the end of July 2003 can be divided into two parts. From the start of August 2002 until late April 2003 markets were highly volatile but the underlying trend was downwards. Impending war in Iraq, continuing uncertainty about the health of the global economy and the outbreak of Severe Acute Respiratory Syndrome (SARS) overhung markets. Subsequently, the overthrow of Saddam Hussein, growing confidence in the strength of the US economy and the containment of SARS contributed to a marked change in sentiment, and from the April lows to the end of the Company's year markets rose sharply. Over the period as a whole, as the figures in the table above show, the majority of the markets in which we invest rose in sterling terms. More detailed comments on individual

countries are contained in the Portfolio Review on pages 10 to 12.

In January we made use of short-term borrowings to purchase or add to holdings in sound, well run companies whose shares were trading at depressed prices in a number of different countries. This exercise was successful in boosting the net asset value during a period of general market weakness but gearing was eliminated early in the recovery in markets mentioned above. The net effect of these transactions is shown in the table below. The most significant moves were the reductions in Korea and Taiwan and the increases in Hong Kong and China, Indonesia and Thailand, the latter achieved by price appreciation as net sales were made over the period.

## INVESTMENT CHANGES (£'000)

	Valuation at 31 July 2002	Net acquisitions (disposals)	Appreciation (depreciation)	Valuation at 31 July 2003
Equities*				
Hong Kong and China	11,611	1,734	360	13,705
Korea	8,068	(1,569)	2	6,501
Malaysia	6,155	(638)	(361)	5,156
Singapore	3,506	766	460	4,732
Indonesia	1,175	1,598	823	3,596
Taiwan	5,266	(1,609)	(307)	3,350
Thailand	1,913	(263)	862	2,512
Philippines	857	(2)	263	1,118
Total investments	38,551	17	2,102	40,670
Net liquid assets	178	124	(171)	131
Total assets	38,729	141	1,931	40,801

\*Equities includes warrants.

**DISTRIBUTION OF PORTFOLIO**

***Geographical***  
**2003 (2002)**

Hong Kong and China 33.6% (30.0%)	Korea 15.9% (20.8%)
Net Liquid Assets 0.3% (0.5%) Philippines 2.8% (2.2%)	Malaysia 12.6% (15.9%)
Thailand 6.2% (4.9%)	Singapore 11.6% (9.1%)
Taiwan 8.2% (13.6%)	Indonesia 8.8% (3.0%)

***Sectoral***  
**2003 (2002)**

Industrials 28.9% (34.8%)	
Resources 14.0% (1.0%)	
Net Liquid Assets 0.3% (0.5%)	
Information Technology 4.7% (10.6%)	Consumer Goods 16.9% (13.0%)
Financials 15.2% (16.7%)	Services and Utilities 20.0% (23.4%)

CLASSIFICATION OF INVESTMENTS

Classification	Hong Kong and China %	Korea %	Malaysia %	Singapore %	Indonesia %	Other countries %	2003 Total %	2002 Total %
<b>Equities:*</b>								
Resources	10.0	1.6	-	-	2.4	-	14.0	1.0
Mining	-	1.6	-	-	2.4	-	4.0	-
Oil and gas	10.0	-	-	-	-	-	10.0	1.0
Industrials	6.1	8.6	2.7	2.3	-	9.2	28.9	34.8
Chemicals	1.1	2.5	-	-	-	4.5	8.1	9.2
Construction and building materials	1.2	1.6	2.6	-	-	1.2	6.6	6.4
Forestry and paper	-	-	-	-	-	0.9	0.9	-
Steel and other metals	-	-	-	-	-	-	-	2.2
Diversified industrials	-	4.5	0.1	1.1	-	-	5.7	3.2
Electronic and electrical equipment	2.4	-	-	1.2	-	2.6	6.2	12.7
Engineering and machinery	1.4	-	-	-	-	-	1.4	1.1
Consumer Goods	3.0	3.6	4.4	0.4	5.4	0.1	16.9	13.0
Automobiles	-	1.0	-	-	1.4	-	2.4	3.2
Household goods and textiles	0.9	-	-	-	-	-	0.9	1.3
Beverages	1.1	-	-	-	-	-	1.1	-
Food producers and processors	-	-	-	-	-	0.1	0.1	0.7
Healthcare and pharmaceuticals	1.0	0.6	-	0.4	-	-	2.0	0.6
Personal care and household products	-	-	-	-	4.0	-	4.0	3.0
Tobacco	-	2.0	4.4	-	-	-	6.4	4.2
Services and Utilities	4.8	1.3	4.5	5.8	1.0	2.6	20.0	23.4
Retailers	0.4	-	-	2.8	-	1.6	4.8	6.2
Leisure and hotels	-	-	3.7	-	-	-	3.7	0.9
Media and entertainment	0.9	1.2	-	-	-	-	2.1	3.4
Transport	1.8	-	-	1.7	-	-	3.5	5.2
Telecommunication services	1.7	0.1	0.8	1.3	1.0	1.0	5.9	7.7
Financials	6.6	0.8	1.0	3.1	-	3.7	15.2	16.7
Banks	1.6	-	-	-	-	-	1.6	5.7
Insurance	-	-	1.0	-	-	-	1.0	1.1
Real estate	5.0	-	-	1.6	-	3.0	9.6	9.0
Speciality and other finance	-	0.8	-	1.5	-	0.7	3.0	0.9
Information Technology	3.1	-	-	-	-	1.6	4.7	10.6
Information technology hardware	2.1	-	-	-	-	-	2.1	9.6
Software and computer services	1.0	-	-	-	-	1.6	2.6	1.0
<b>Total Equities*</b>	<b>33.6</b>	<b>15.9</b>	<b>12.6</b>	<b>11.6</b>	<b>8.8</b>	<b>17.2</b>	<b>99.7</b>	
Total Equities* - 2002	30.0	20.8	15.9	9.1	3.0	20.7		99.5
Net Liquid Assets	0.1	-	-	-	0.1	0.1	0.3	0.5
<b>Equity Shareholders' Funds</b>	<b>33.7</b>	<b>15.9</b>	<b>12.6</b>	<b>11.6</b>	<b>8.9</b>	<b>17.3</b>	<b>100.0</b>	
Equity Shareholders' Funds - 2002	30.0	21.1	16.0	9.1	3.0	20.8		100.0
<b>Number of equity investments*</b>	<b>20</b>	<b>13</b>	<b>9</b>	<b>9</b>	<b>4</b>	<b>16</b>	<b>71</b>	<b>68</b>

\* Equities includes warrants.

# Managers' Portfolio Review

The operating environment for many companies in the Asia-Pacific region has been challenging owing to overcapacity following the information technology investment boom of the recent past and the relatively modest growth rate of the global economy. There are, however, other companies for which there has been a greater underlying improvement in fundamentals. The rapid growth of the Chinese economy was a factor affecting the majority of economies and markets in the region and this is discussed in more detail below. A shift in fiscal and monetary policy, away from the austerity advocated by bodies such as the IMF and towards the promotion of growth, was evident in a number of countries, most notably Thailand, and has also proved beneficial. As mentioned elsewhere in this report, the outbreak and subsequent containment of the SARS virus had a significant but transitory impact on markets. Its economic impact varied significantly across the region as described below.

## Hong Kong and China

The Chinese economy has been robust during the last year. On official figures the economy is growing at approximately 8% p.a. in real terms but anecdotal evidence suggests that the true rate may be even higher. Deflation has given way to modest inflation and both exports and imports have been booming. The effect of SARS on the overall economy has proved to have been quite small even though its impact on certain companies, such as the airlines and airport operators, was severe. The main discernible effect for the economy as a whole appears to have been a displacement of consumption spending rather than a reduction.

Investment spending has been accelerating and concerns have been raised about speculative excesses, especially in residential property. There has been a transition in the country's top leadership and this has created some uncertainty concerning policy in a variety of areas but no major changes were announced during the period under review. The policy of fixing the value of the currency against the US dollar has attracted some international criticism from Japan and the US but we think that any significant change in this area is unlikely in the near term as there would first need to be further reform in the financial system. A side-effect of this policy has been a rapid expansion in the domestic money supply as foreign exchange reserves have grown. The main cause of this accumulation of reserves has been the inflow of capital from companies seeking to lower manufacturing cost or to exploit opportunities in the Chinese market. Despite a large bilateral surplus with the United States, the trade account is close to balance and has been showing signs of moving into a modest deficit. This partly reflects higher commodity prices, which we believe is likely to be a persistent trend, but it also reflects the growing demand on the part of Chinese consumers and companies for goods and services from the rest of Asia. Chinese demand is thus a major factor influencing our investment decisions throughout the region.

Given the extremely competitive environment in China, the number of Chinese companies that are able to translate this strong demand into attractive returns to shareholders is quite small and this is reflected in our portfolio. With the exceptions of the oil and transportation sectors, where

Carrier belonging to Sinotrans.  
Courtesy of Sinotrans Ltd.

Refinery for oil by CNOOC. Picture  
of CNOOC.

we find companies with genuine competitive advantages, the majority of our exposure to these favourable trends is through companies quoted elsewhere in the region.

In real terms the economy of the Hong Kong Special Administrative Region has been growing significantly more slowly than that of the rest of China. Deflation has shown no signs of coming to an end and, in nominal terms, the economy contracted during the calendar year 2002. SARS had a particularly severe effect on Hong Kong owing to its dependence on business and leisure travel. While some recovery post-SARS is to be expected, the problems of oversupply in commercial and residential property are likely to persist for some time. We further reduced our exposure to the domestic economy during the year. The increase in our weighting in Hong Kong/China is the result of purchases of Chinese oil companies.

#### Korea

The Korean economy grew by 6.3% in real terms in calendar 2002 but growth had slowed to 3.7% in the first quarter of 2003. The government expects that for the whole of 2003 the growth rate will be 3.5%. A major factor affecting investments in Korea is the slowdown in the domestic economy following a credit-fuelled spending binge by consumers and small and medium-sized companies. This has been reflected in a high level of defaults at credit card companies. At the insistence of the government, affiliated companies, including banks and industrial concerns, have had to recapitalise the credit card companies. This process raised concerns about the treatment of minority shareholders, to which the

near-bankruptcy of SK Global and the efforts of the controlling family to avoid losing control of its assets then added. North Korea's nuclear programme also adversely affected sentiment towards the stockmarket. While we made a net reduction in our Korean weighting, it remains a large part of our portfolio, reflecting the broad range of companies, including ones where corporate governance is improving, and relatively attractive valuations available in the Korean market.

#### Malaysia

The Malaysian economy is quite sensitive to the global electronics industry, even though this is not reflected in the composition of its stockmarket. In order to offset the effects of the slowdown in technology spending the government has attempted to stimulate growth through increased fiscal spending, largely on infrastructure projects. This was partially successful and the economy grew by more than 4% in 2002. The government has more recently become concerned that this form of stimulus is less effective than policies aimed at supporting small and medium-sized companies and individual entrepreneurs and has signalled a change in policy. This is coinciding with a change in political leadership as the long-serving Prime Minister, Dr Mahathir, has announced that he will step down in October. These changes are likely to affect the prospects for a variety of companies and we have made net sales in Malaysia as a result of re-evaluating the prospects of individual companies. Our performance was adversely affected by the impact of the decline in tourism brought about by SARS on stocks in the portfolio such as Genting

1 *Samsung Corporation construction project. Picture courtesy of Samsung Corporation.*

2 *KT & G cigarette production line. Picture courtesy of KT & G.*

and Star Cruises. As we view these as attractive businesses that will benefit from increased Chinese tourism we used this weakness as an opportunity to add to Star Cruises.

### Singapore

Singapore was badly affected by SARS, as shown by the contraction of more than 4% in real GDP in the three months ending in June. It is also highly dependent on exports of electronics. While the economic background is not very inspiring the valuations of many companies in Singapore now look very attractive, offering high yields and some prospect of growth. We have made net additions during the year despite sales of economically-sensitive companies.

### Indonesia

There has been significant progress in achieving macroeconomic stabilisation and in introducing reforms and the country should shortly exit from the direct supervision of the IMF. Indonesia is rich in resources for which demand is strong and, in time, the broader economy and not just the commodity producers should benefit. Political risks remain high but this is reflected in the valuation of shares. We added a number of new holdings in Indonesia including the mining company, Aneka Tambang, reflecting our positive view on commodity prices.

### Taiwan

During 2002 the Taiwanese economy showed some signs of recovery following the first recession in its history. In real terms the economy expanded by 3.5%. Monetary policy is stimulative and both deposit rates and borrowing costs are extremely low. Despite the low cost of debt finance,

companies have preferred to raise funds through equity and convertible bond issues. The ability of companies to raise finance in this way has prevented marginal companies in oversupplied industries from going out of business and allowed companies to continue to add capacity. As a result, the prospects for Taiwanese companies are highly sensitive to changes in final demand. We have preferred companies in traditional industries where capacity utilisation is high, such as chemicals, to technology companies. We have, however, made net sales even in these areas as valuations no longer appear as attractive following share price appreciation.

### Thailand

As mentioned above, Thailand adopted very different policies from those advocated by the IMF following the crisis of 1997/8. The government of Thaksin Shinawatra, which came to power in early 2001, has successfully stimulated domestic activity and targeted small-scale exporters in sectors such as agriculture. In 2002 the economy grew by 5.2% in real terms and property prices have recovered along with consumer spending. The success of these policies has begun to influence other governments in the region. Problems remain, however, most notably the failure to resolve contested bankruptcies going back to 1997.

### Philippines

Considerable doubt surrounds the accuracy of official economic statistics and the politicians and the courts appear deeply antithetical to anything that might be good for business. We have continued to hold shares in companies that are either performing well in this difficult environment or are in the process of restructuring.

is Mall in Singapore. Picture of CapitaMall Property Trust.

uilt by Land and Houses in Picture courtesy of Land and

TWENTY LARGEST EQUITY HOLDINGS

Name	Business	Market value £'000	% of total assets
Cheung Kong	Property developer	2,036	5.0
BAT Malaysia	Tobacco	1,779	4.4
Petrochina Co.	Oil and gas exploration	1,632	4.0
Unilever Indonesia	Consumer products manufacturer	1,626	4.0
CNOOC	Oil and gas exploration	1,422	3.5
Robinson & Company	General retailer	1,159	2.8
Land and Houses	House builder	1,040	2.5
Samsung Corporation	Construction and trading company	1,039	2.5
Hon Hai Precision Industries	Electrical connectors manufacturer	1,021	2.5
Aneka Tambang	Mining	983	2.4
ASM Pacific Technology	Semiconductor equipment manufacturer	967	2.4
Legend Group	Computer manufacturer and distributor	856	2.1
KT & G	Tobacco	816	2.0
National Petrochemical	Chemicals manufacturer	768	1.9
China Unicom	Wireless telecommunications provider	683	1.7
Dah Sing Financial	Banking	648	1.6
Hyundai Development Co.	Construction	648	1.6
SPI Technologies	IT services provider	646	1.6
CapitaMall Property Trust	Property trust	640	1.6
Dongkuk Steel Mill	Steel manufacturer	623	1.5
		21,032	51.6

Hong Kong and China

Malaysia

Indonesia

Singapore

Thailand

Korea

Taiwan

Philippines

# Review of Investments

A review of the Company's ten largest investments as at 31 July 2003 is given below and on the following page.

## Cheung Kong

Cheung Kong is one of Hong Kong's largest and best run residential property developers. It is also the major shareholder in Hutchison Whampoa, Hong Kong's leading industrial conglomerate whose primary businesses include container ports, telecommunications, property and retail. Both companies have a track record

of superior management and consistent value creation.

Country	Hong Kong
Valuation	£2,036,000
% of total assets	5.0

## 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.

Country	Malaysia
Valuation	£1,779,000
% of total assets	4.4

## Petrochina Co.

Petrochina is one of two integrated Chinese oil majors, operating primarily in the north of the country. Its inefficiency makes it particularly sensitive to increases in the oil price. China's rampant energy demand growth underpins both Petrochina's own volume growth and also ongoing tightness in world markets, which

should make that sensitivity work in Petrochina's favour.

Country	China
Valuation	£1,632,000
% of total assets	4.0

## Unilever Indonesia

Unilever Indonesia, an 85% owned subsidiary of the multinational corporation of the same name, manufactures and distributes a range of consumer products in Indonesia. The strength of its brand portfolio together with a well established distribution network mean that the

company continues to prosper despite the problems of the Indonesian economy.

Country	Indonesia
Valuation	£1,626,000
% of total assets	4.0

## CNOOC

China National Offshore Oil Corp (CNOOC) engages in the exploration, development and production of crude oil and natural gas in offshore regions in China. The company also owns exclusive rights to engage in production sharing contracts with foreign investors to conduct exploration and production operations in offshore China. The group boasts a strengthening reserve and production profile in

both oil and gas after a number of successful new finds and they have a good track record at negotiating value enhancing acquisitions. There is also the prospect of further special dividends on the back of a higher oil price.

Country	China
Valuation	£1,422,000
% of total assets	3.5

**Robinson & Company**

Robinson & Company operates a number of department stores in Singapore, including some Marks & Spencer outlets. The company has a history of conservative management and has been a successful means of exploiting rising real incomes and growth in the consumer economy. Robinson's high margins keep it

comparatively insulated from Singapore's fickle economic cycle.

Country	Singapore
Valuation	£1,159,000
% of total assets	2.8

**Land and Houses**

Land and Houses is a major Thai house builder. Demand for well located properties has picked up and supply is constrained by the weak balance sheets of many of the developers. As a result margins on new developments continue to rise.

Country	Thailand
Valuation	£1,040,000
% of total assets	2.5

**Samsung Corporation**

Samsung Corporation was once the trading operation and flagship company of the Samsung chaebol. It now operates construction and retail businesses alongside the traditional trading activities and its investment holdings in Samsung affiliates, which include Samsung Electronics. We believe that there is substantial hidden value in the company and the

restructuring that has been ongoing over the past five years will continue in the years ahead and lead to a re-appraisal of the company's true value.

Country	Korea
Valuation	£1,039,000
% of total assets	2.5

**Hon Hai Precision Industries**

Hon Hai Precision is one of the world's largest Electronic Manufacturing Service (EMS) companies. It produces a wide range of electronic products in its factories which are predominantly located in China for most of the world's largest electronics companies including Dell, Nokia, CISCO and Sony amongst others. There is plenty of room for more outsourcing

from these large companies and this should underpin Hon Hai's growth prospects for many years to come.

Country	Taiwan
Valuation	£1,021,000
% of total assets	2.5

**Aneka Tambang**

Aneka Tambang is an Indonesian mining company and is 65% owned by the government. It mines nickel, bauxite, iron sands and gold. It is significantly expanding the production of both nickel and gold.

Country	Indonesia
Valuation	£983,000
% of total assets	2.4

**LIST OF INVESTMENTS AS AT 31 JULY 2003**

Name	Business	Market value	
		£'000	%
<b>HONG KONG AND CHINA</b>			
ASM Pacific Technology	Semiconductor equipment manufacturer	967	
Beijing Capital International Airport	Airport services provider	324	
Cheung Kong	Property developer	2,036	
China Unicom	Wireless telecommunications provider	683	
CK Life Sciences International	Biotechnology company	390	
CNOOC	Oil and gas exploration	1,422	
Convenience Retail Asia	Convenience store chains	189	
Dah Sing Financial	Banking	648	
Harbin Brewery	Brewing	434	
Hong Kong Aircraft Engineering	Aircraft maintenance	566	
Kingboard Chemicals	Copper foil and laminates manufacturer	460	
Kingmaker Footwear	Shoe manufacturer and distributor	356	
Legend Group	Computer manufacturer and distributor	856	
Panva Gas Holdings	Gas distributor	458	
Petrochina Co.	Oil and gas exploration	1,632	
Shui On Construction and Materials	Construction	491	
Sinopec Zhenhai Refining	Oil refiner	569	
Sinotrans Ltd	Logistics services provider	428	
Tom.com	Chinese media company	374	
Travelsky Technology	IT solutions provider	422	
		<u>13,705</u>	33.6
<b>KOREA</b>			
Cheil Communications	Advertising agency	480	
Cheil Industries	Industrial conglomerate	370	
Daelim Industrial	Construction and petrochemicals	469	
Dongkuk Steel Mill	Steel manufacturer	623	
Honam Petrochemical	Petrochemicals manufacturer	595	
Hyundai Development Co.	Construction	648	
Hyundai Motor Co.	Motor vehicle manufacturer	417	
Jeil Pharmaceutical	Drug manufacturer	228	
KT & G	Tobacco	816	
LG Petrochemical	Petrochemical manufacturer	439	
Samsung Corporation	Construction and trading company	1,039	
Shinyoung Securities	Financial services	341	
SK Telecom	Wireless telecommunications provider	36	
		<u>6,501</u>	15.9
<b>MALAYSIA</b>			
BAT Malaysia	Tobacco	1,779	
Genting	Diversified holding company	576	
UM	Civil engineering constructor	501	
UM Plantations	Diversified holding company	34	
MAA Holdings	Insurance	393	
Maxis Communication	Wireless telecommunications provider	344	
Road Builder	Construction and property development	580	
Star Cruises	Cruise line operator	607	
Tanjong	Lottery operator	342	
		<u>5,156</u>	12.6

LIST OF INVESTMENTS

Name	Business	Market value	
		£'000	%
<b>SINGAPORE</b>			
CapitaMall Property Trust	Property trust	640	
Comfortdelgro	Vehicle leasing and engineering services	606	
Haw Par Corporation	Healthcare products manufacturer	189	
Jardine Strategic	Property and industrial conglomerate	458	
MobileOne	Wireless telecommunications provider	515	
Robinson & Company	General retailer	1,159	
Singapore Airlines	Airline	78	
Singapore Exchange	Securities exchange owner/operator	599	
Venture	Electronics manufacturer	488	
		<u>4,732</u>	11.6
<b>INDONESIA</b>			
Aneka Tambang	Mining	983	
Astra International	Car and motorcycle manufacturer	585	
Telkomunikasi	Telecommunications services provider	402	
Unilever Indonesia	Consumer products manufacturer	1,626	
		<u>3,596</u>	8.8
<b>OTHER COUNTRIES</b>			
<b>TAIWAN</b>			
China Development Financial	Financial services	299	
Chung HWA Pulp	Pulp and paper manufacturer	383	
Hon Hai Precision Industries	Electrical connectors manufacturer	1,021	
Nan Ya Plastics	Plastic and chemical fibre manufacturer	537	
Oriental Union Chemical	Chemicals manufacturer	476	
Taiwan Cellular	Wireless telecommunications provider	390	
Test Rite	DIY and home furnishing store operator	244	
		<u>3,350</u>	8.2
<b>THAILAND</b>			
§land and Houses	House builder	1,040	
MBK Development	Property developer and rice distributor	211	
National Petrochemical	Chemicals manufacturer	768	
Siam Cement	Diversified industrial	493	
		<u>2,512</u>	6.2
<b>PHILIPPINES</b>			
RFM Corporation	Food manufacturer and distributor	32	
SM Prime Holdings	Shopping mall operator	396	
Solid Group	Electronics manufacturer and distributor	40	
SPI Technologies	IT services provider	646	
Swift Foods	Food manufacturer and distributor	4	
		<u>1,118</u>	2.8
	Value of equity stocks	39,630	
	Warrants having an element of equity	<u>1,040</u>	
<b>TOTAL INVESTMENTS</b>		40,670	99.7
<b>NET LIQUID ASSETS</b>		<u>131</u>	0.3
<b>TOTAL ASSETS AT MARKET VALUE</b>		<u>40,801</u>	100.0

§ denotes holding partly or wholly in warrants.

## 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§ %
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
2001	37,713	-	37,713	47.83	47.83	38.50	19.5
2002	38,729	-	38,729	50.63	50.63	45.50	10.1
<b>2003</b>	<b>40,801</b>	<b>-</b>	<b>40,801</b>	<b>53.34</b>	<b>53.34</b>	<b>48.25</b>	<b>9.5</b>

\* Total assets comprise total assets less current liabilities and deferred tax, before deduction of bank loans.

† The diluted net asset value per ordinary share figures have been calculated in accordance with FRS14 (see note 17, page 36).

‡ 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.

▲ Past performance is not necessarily a guide to future performance.

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

## REVENUE

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‡‡
1993	341	38	0.09	-	2.14	93	100
1994	437	107	0.26	0.11	1.69	91	100
1995	524	202	0.49	0.35	1.37	95	100
1996	817	349	0.67	0.30	1.08	97	100
1997	1,098	398	0.51	0.35	1.00	89	100
1998	1,629	888	1.12	0.90	0.83	80	100
1999	733	228	0.29	0.20	1.20	107	109
2000	1,183	175	0.22	0.20	1.30	111	114
2001	1,378	507	0.64	0.45	1.04	98	100
2002	1,442	504	0.66	0.45	1.19	98	100
<b>2003</b>	<b>1,263</b>	<b>514</b>	<b>0.67</b>	<b>0.45</b>	<b>0.99</b>	<b>98</b>	<b>100</b>

## GEARING RATIOS

¶ 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 33). There was no dilution of earnings per share in any of the years 1993 to 2003.

\*\* 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.

## 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¶¶
1993	100	100	100	100	100	100	100	100
1994	119	119	120	118	135	137	289	102
1995	115	115	117	116	133	138	544	106
1996	122	124	126	128	135	143	744	109
1997	142	143	134	136	141	152	567	112
1998	69	70	61	63	54	60	1,244	116
1999	106	112	97	104	99	112	322	118
2000	133	141	123	132	101	116	244	121
2001	115	122	101	109	72	84	711	123
2002	121	130	120	131	70	84	733	125
<b>2003</b>	<b>128</b>	<b>138</b>	<b>127</b>	<b>141</b>	<b>71</b>	<b>88</b>	<b>744</b>	<b>129</b>

## Compound Annual Returns

5 year	13.2%	14.5%	15.7%	17.5%	5.6%	7.9%	(9.8%)	2.2%
10 year	2.5%	3.3%	2.4%	3.5%	(3.4%)	(1.3%)	22.2%	2.6%

§§ Source: AITC.

▲ Past performance is not necessarily a guide to future performance.

¶¶ Source: Thomson Financial 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 2003.

## 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 0.45p per ordinary share.

If approved, the recommended final dividend on the ordinary shares will be paid on 30 October 2003 to shareholders on the register at the close of business on 10 October 2003.

After payment of the dividend the accumulated revenue balance is increased by £170,000 to £1,229,000.

## Status

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

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 2002, subject to any matters that may arise from any subsequent enquiry by the Inland Revenue into the Company's tax return. In the opinion of the Directors the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval and will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year.

## Duration of the Company

At the Extraordinary General Meeting of the Company held on 27 May 2002, the shareholders approved the resolution postponing until the 27 May 2007, or such later date as the shareholders resolve, the obligation on the Directors to convene an Extraordinary General Meeting at which a resolution will be proposed pursuant to section 84 of the Insolvency Act 1986 to wind the Company up voluntarily. At such Extraordinary General Meeting every shareholder present in person or by proxy and entitled to vote shall be obliged to vote in favour of such resolution and any votes purported to be cast against such resolution shall not be counted as valid votes.

## Corporate Governance

The Board has considered the principles set out in the Combined Code operative during the Company's year and believes that the Company's current practice, given the special circumstances of an investment trust company is, in all material respects consistent with those principles.

### *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 five Directors, all of whom are non-executive and are considered 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 DCP McDougall was appointed Chairman on 28 October 2002 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 the chairman and senior independent director. 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 arrange appropriate training for new Directors where necessary.

Under the provisions of the Company's Articles, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that one third of the Directors retire by rotation and that they submit themselves for re-election. In order to ensure compliance with the spirit of this provision, the Board has resolved further that Directors shall not serve for a period of greater than three consecutive years without submitting themselves 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. The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 24 and 25.

#### *Internal Controls and Risk Management*

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 as independent custodian of the Company's investments.

Baillie Gifford & Co has an established compliance function in accordance with Financial Services Authority 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 independently reviewed by Baillie Gifford & Co's auditors. A copy of the internal controls report is submitted to the Board. The Baillie Gifford & Co partner in charge of internal audit and compliance provides the Board with regular reports on its monitoring programmes.

The Directors acknowledge their responsibility for the Company's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance against material misstatement or loss. The Directors confirm that they have reviewed the effectiveness of the system and that they have procedures in place to review its effectiveness on a regular basis.

The Board has undertaken a full review of all aspects of the published guidance "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance) and has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, in accordance with the Turnbull recommendations. To ensure that risk management and internal controls are considered on a regular basis and that a full risk and control assessment is undertaken on an annual basis, 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 these risks are confirmed as in place and operating effectively;
- reporting procedures for the internal audit department, in respect of its risk framework monitoring and audit programme, and the compliance department, in respect of its regulatory monitoring programme, are defined and formalised within a service level agreement; and
- regular reports on internal controls are prepared by the Managers and submitted for Board review.

These procedures ensure that consideration is given regularly to the nature and extent of the risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year they also provide a mechanism to assess whether further action is required to manage the risks identified. The Board confirms that these procedures have been in place throughout the Company's financial year, are operating effectively and continue to be in place up to the date of approval of this Report.

#### *Accountability and Audit*

The respective responsibilities of the Directors and the auditors in connection with the Financial Statements are set out on pages 25 to 27.

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, all of whom are considered independent (the entire Board). 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 shareholders and their representatives and report to the Board. The Company's Annual General Meeting provides a forum for communication with shareholders and the Board announces the level of proxies lodged. The notice period for the Annual General Meeting is at least twenty working days.

Baillie Gifford & Co give due weight to what they consider to be socially responsible investment when making investment decisions, but their overriding objective is to produce good investment returns for shareholders.

#### *Compliance*

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. There is no nomination committee or senior independent member (other than the Chairman), the absence of which has been explained above. As previously stated, internal control procedures have been in place throughout the Company's financial year which accord with the guidance for directors on compliance with the Combined Code.

## Directors

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

Name	Nature of interest	Ordinary 10p shares held at	
		31 July 2003	31 July 2002
DCP McDougall	Beneficial	793,853	793,853
PD Griffiths	Beneficial	8,811	8,811
P Mackay	Beneficial	11,074	6,779
MJ Morrison	-	-	-

Miss JGK Matterson was appointed to the Board on 2 September 2003, she has a beneficial interest in 50,000 shares in the Company and her appointment falls to be confirmed at the Annual General Meeting.

Mr PD Griffiths will retire from the Board at the conclusion of the Annual General Meeting.

Mr M Hamilton retired from the Board on 28 October 2002.

Mr P Mackay 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 295 shares on 15 August 2003 in which he has a beneficial interest.

Mr MJ Morrison purchased 10,000 ordinary shares, in which he has a beneficial interest between 3 and 5 September 2003.

There have been no other changes intimated in the Directors' interests up to 10 September 2003.

## Substantial Holdings

The following information has been intimated to the Company as at 10 September 2003 in compliance with section 198 of the Companies Act 1985:

Name	Number of ordinary 10p shares held	% of issue
A & OT Investments Limited*	12,241,743	16.00
Rio Tinto plc	3,750,000	4.90
Baillie Gifford (Personal Pensions) International Fund*	3,700,000	4.84

\* Discretionary client of Baillie Gifford & Co.

## Share Capital

Authority to issue shares for cash to participants of the share plan when the share price stands at a premium to the net asset value was renewed for the period of five years at the Annual General Meeting of the Company held on 24 October 2000. The authority is limited to a maximum number of ordinary shares with an aggregate nominal value of £394,209.32 (being the amount equal to 5% of the issued share capital at 31 July 2000).

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

At the Extraordinary General Meeting held on 25 April 2001 shareholders approved, and the warrant holders sanctioned and consented to, the Company reducing its share premium account and authorising the Company to make market purchases of up to 11,818,395 shares (equivalent to 14.99% of its issued share capital at 25 April 2001), such authority to expire on 24 October 2002 unless previously varied, revoked or renewed.

The passing of the resolution to reduce the share premium account of the Company was conditional on the confirmation of the High Court of Justice in England and Wales which was confirmed by the Court on 23 May 2001.

The authority was renewed at the Annual General Meeting on 28 October 2002 in respect of 11,465,401 shares (equivalent to 14.99% of its issued share capital at that date).

During the year to 31 July 2003 and between 1 August 2003 and the date of this report the Company has not bought back any shares for cancellation.

The principal reasons for such share buy-backs are:

- (i) to enhance net asset value for continuing shareholders by purchasing shares at a discount to the prevailing net asset value;
- (ii) to address any imbalance between the supply of and the demand for Pacific Horizon's shares that results in a large discount of the quoted market price to the published net asset value per share.

The Directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to purchase up to 14.99% of the Company's ordinary shares in issue at the date of the passing of the resolution, such authority to expire at the Annual General Meeting of the Company to be held in 2004 or 27 April 2005. Under the Listing Rules of the UK Listing Authority of the Financial Services Authority, the maximum price that may be paid on the exercise of the authority must not exceed 105% of the average of the middle market quotations for the shares over the five business days immediately preceding the date of purchase. The minimum price that may be paid will be 10p per share. Purchases of shares will be made within guidelines established, from time to time, by the Board. Your attention is drawn to Special Business, Resolution No. 7, in the Notice of Annual General Meeting.

#### Creditor Payment Policy

It is the Company's payment policy for the forthcoming financial year to obtain 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 2003.

#### Auditors

The auditors, Ernst & Young LLP, are willing to continue in office and in accordance with section 385 and section 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 2003



# Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time this financial year. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 26 and 27.

## Remuneration Committee

The Company currently has five Directors, all of whom are non-executive. There is no separate remuneration committee and the Board as a whole considers changes to Directors' fees from time to time. The Directors who served during the year under review were Mr M Hamilton (retired 28 October 2002), Mr DCP McDougall, Mr PD Griffiths, Mr P Mackay and Mr MJ Morrison. Baillie Gifford & Co, who have been appointed by the Board as Managers and Secretaries, provide advice when the Board considers the level of Directors' fees.

## Policy on Directors' fees

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. It should also reflect the experience of the Board as a whole, be fair and should take account of the level of fees paid by comparable investment trusts. It is intended that this policy will continue for the year ended 31 July 2004 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. These state that Directors' remuneration shall not exceed £60,000 per annum. This amount may be varied by ordinary resolution in General Meeting. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The Board carried out a review of the level of Directors' fees in 2000, and concluded that the fees should be increased from £10,000 to £12,000 for the Chairman and from £7,000 to £8,000 per Director. The increase was effective from 1 August 2000.

Directors' and officers' liability insurance cover is held by the Company in respect of the Directors.

## Directors' service contracts

It is the Board's policy that none of the Directors has a service contract. All of the Directors have been provided with appointment letters.

Name	Date of appointment	Due date for re-election
DCP McDougall	25 November 1992	AGM 2005
PD Griffiths	16 August 1989	Retires AGM 2003
P Mackay	27 June 2001	AGM 2004
JGK Matterson	2 September 2003	Election AGM 2003
MJ Morrison	3 September 2002	AGM 2005

The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after their appointment. Thereafter they are obliged to retire by rotation, and, if they wish, to offer themselves for re-election, at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment.

## Company performance

The graph on the next page compares for the five financial years ending 31 July 2003, the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment

## DIRECTORS' REMUNERATION REPORT

made up of shares in the component parts of the FTSE All-Share Index. This index was chosen for comparison purposes, as it is a widely used measure of performance for UK listed companies. (Comparative index provided for information purposes only.)

### Directors' emoluments for the year (audited)

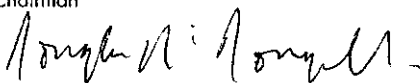
The Directors who served in the year received the following emoluments in the form of fees:

Name	Fees 2003 £	Fees 2002 £
Directors who served during the year:		
M Hamilton (Chairman, retired 28 October 2002)	2,926	12,000
DCP McDougall (assumed the Chair 28 October 2002)	11,052	8,000
PD Griffiths	8,000	8,000
P Mackay	8,000	8,000
MJ Morrison (appointed 3 September 2002)	7,288	-
	37,266	36,000
Past Directors:		
AGS McCallum (retired 23 October 2001)	-	1,841
	37,266	37,841

### Approval

The Directors' Remuneration Report on pages 24 and 25 was approved by the Board of Directors on 2 September 2003 and signed on its behalf by

DOUGLAS McDOUGALL  
Chairman



### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

Company law requires the Directors to prepare financial statements 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 financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

# Independent Auditors' Report

TO THE MEMBERS OF PACIFIC HORIZON INVESTMENT TRUST PLC

We have audited the Company's financial statements for the year ended 31 July 2003 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters that we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Company Summary, Year's Summary, Five Year Summary, Directors and Management, Chairman's Statement, Portfolio Review, Directors' Report, unaudited part of the Directors' Remuneration Report, Notice of Annual General Meeting, How to Find Us, Analysis of Shareholders and Further Shareholder Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

## INDEPENDENT AUDITORS' REPORT

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

### Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company as at 31 July 2003 and of its net revenue for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

ERNST & YOUNG LLP  
Registered Auditor  
Edinburgh  
11 September 2003

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

	Notes	for the year ended 31 July 2003			for the year ended 31 July 2002		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	9	-	2,102	2,102	-	1,025	1,025
Currency (losses)/gains	16	-	(200)	(200)	-	571	571
Income	2	1,263	-	1,263	1,442	-	1,442
Investment management fee	3	(359)	-	(359)	(396)	-	(396)
Other administrative expenses	4	(177)	-	(177)	(228)	-	(228)
<b>NET RETURN BEFORE FINANCE COSTS AND TAXATION</b>		<b>727</b>	<b>1,902</b>	<b>2,629</b>	<b>818</b>	<b>1,596</b>	<b>2,414</b>
Finance costs of borrowings	5	(24)	-	(24)	(128)	-	(128)
<b>RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>703</b>	<b>1,902</b>	<b>2,605</b>	<b>690</b>	<b>1,596</b>	<b>2,286</b>
Tax on ordinary activities	6	(189)	-	(189)	(186)	-	(186)
<b>RETURN ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>514</b>	<b>1,902</b>	<b>2,416</b>	<b>504</b>	<b>1,596</b>	<b>2,100</b>
<i>- the financial year attributable to equity shareholders</i>							
Dividend in respect of equity shares	7	(344)	-	(344)	(342)	-	(342)
<b>TRANSFER TO RESERVES</b>		<b>170</b>	<b>1,902</b>	<b>2,072</b>	<b>162</b>	<b>1,596</b>	<b>1,758</b>
<b>RETURN PER ORDINARY SHARE</b>	8	<b>0.67p</b>	<b>2.49p</b>	<b>3.16p</b>	<b>0.66p</b>	<b>2.07p</b>	<b>2.73p</b>

The revenue column of this statement is the profit and loss account of the Company. Revenue and capital items in this statement derive from continuing operations. The accompanying notes on pages 31 to 37 are an integral part of this statement.

BALANCE SHEET

		at 31 July 2003		at 31 July 2002	
	Notes	£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>					
Investments	9		40,670		38,551
<b>CURRENT ASSETS</b>					
Debtors	11	140		96	
Cash at bank and in hand	10	623		738	
		<u>763</u>		<u>834</u>	
<b>CREDITORS</b>					
Amounts falling due within one year	12	<u>(614)</u>		<u>(647)</u>	
<b>NET CURRENT ASSETS</b>			149	187	
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>40,819</u>	<u>38,738</u>	
<b>PROVISION FOR LIABILITIES AND CHARGES</b>					
Deferred taxation	14		<u>(18)</u>		<u>(9)</u>
			<u>40,801</u>	<u>38,729</u>	
<b>CAPITAL AND RESERVES</b>					
Called-up share capital	15		7,649		7,649
Share premium			965		965
Special distributable reserve			13,233		13,233
Capital redemption reserve			17,964		17,964
Capital reserve – realised	16		<u>(5,387)</u>		<u>(641)</u>
Capital reserve – unrealised	16		5,148		<u>(1,500)</u>
Revenue reserve	16		1,229		1,059
<b>EQUITY SHAREHOLDERS' FUNDS</b>			<u>40,801</u>	<u>38,729</u>	
<b>NET ASSET VALUE PER ORDINARY SHARE</b>			17	53.34p	50.63p

The Accounts were approved by the Board and signed on their behalf on 11 September 2003.

*Douglas McHugh*

Chairman

The accompanying notes on pages 31 to 37 are an integral part of this statement.

# CASH FLOW STATEMENT

		for the year ended 31 July 2003		for the year ended 31 July 2002	
	Notes	£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	19		602		763
SERVICING OF FINANCE					
Interest paid		(24)		(128)	
NET CASH OUTFLOW FROM SERVICING OF FINANCE			(24)		(128)
TAXATION					
Corporation tax paid		(130)		(82)	
TOTAL TAX PAID			(130)		(82)
FINANCIAL INVESTMENT					
Acquisitions of investments		(25,198)		(36,633)	
Disposals of investments		25,179		36,566	
Realised currency loss		(171)		(161)	
NET CASH OUTFLOW FROM FINANCIAL INVESTMENT			(190)		(228)
EQUITY DIVIDEND PAID			(344)		(353)
NET CASH OUTFLOW BEFORE FINANCING			(86)		(28)
FINANCING					
Shares purchased for cancellation		-		(767)	
Issue of ordinary shares		-		25	
Dividends drawn down		3,603		15,084	
Dividends repaid		(3,632)		(14,352)	
NET CASH OUTFLOW FROM FINANCING			(29)		(10)
DECREASE IN CASH	20		(115)		(38)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	20				
Decrease in cash in the year			(115)		(38)
Cash outflow/(inflow) from movement in bank loans			29		(732)
Exchange movement			(29)		732
MOVEMENT IN NET FUNDS IN THE YEAR			(115)		(38)
NET FUNDS AT 1 AUGUST			738		776
NET FUNDS AT 31 JULY			623		738

Accompanying notes on pages 31 to 37 are an integral part of this statement.

## 1 PRINCIPAL ACCOUNTING POLICIES

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

## (a) BASIS OF ACCOUNTING

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

The accounts have been prepared in accordance with applicable UK accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' issued in 1995.

## (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 recognised 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) DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods. Deferred tax is measured without discounting and based on enacted tax rates.

## (g) FOREIGN CURRENCIES

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 the 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

	2003	2002
	£'000	£'000
<b>INCOME</b>		
<b>INCOME FROM INVESTMENTS</b>		
Listed overseas dividends	1,246	1,413
<b>OTHER INCOME</b>		
Deposit interest	17	29
<b>TOTAL INCOME</b>	<u>1,263</u>	<u>1,442</u>

**INVESTMENT MANAGEMENT FEE – all charged to revenue**

Investment management fee	359	396
Irrecoverable VAT thereon	–	–
	<u>359</u>	<u>396</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.

**OTHER ADMINISTRATIVE EXPENSES – all charged to revenue**

General administrative expenses	133	183
Directors' fees (see Directors' Remuneration Report on pages 24 and 25)	37	38
Auditors' remuneration – audit services	7	7
	<u>177</u>	<u>228</u>

**FINANCE COSTS OF BORROWINGS – all charged to revenue**

On bank loans	<u>24</u>	<u>128</u>
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**TAX ON ORDINARY ACTIVITIES – all charged to revenue**

UK corporation tax at 26% (2002 – 27%)	173	186
Overseas taxation	62	56
	<u>235</u>	<u>242</u>
Relief for overseas taxation	(62)	(56)
Total current tax	173	186
Deferred taxation (note 14)	16	–
	<u>189</u>	<u>186</u>

The current tax charge for the year is lower than the standard rate of corporation tax in the UK (30%).

The differences are explained below:

Revenue return on ordinary activities before taxation	<u>703</u>	<u>690</u>
Revenue return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 – 30%)	211	207
Marginal small companies relief	(22)	(21)
Income taxable in different periods (note 14)	(16)	–
Current tax charge for the year	<u>173</u>	<u>186</u>

Capital returns are not included in the above analysis since, as an Investment Trust, the Company's capital gains are not taxable.

	2003	2002	2003	2002
			£'000	£'000
<b>7 ORDINARY DIVIDEND</b>				
Adjustment to provision for 2001 final dividend	-	-	-	(2)
Proposed dividend per ordinary share (payable 30 October 2003)	0.45p	0.45p	344	344
	<u>0.45p</u>	<u>0.45p</u>	<u>344</u>	<u>342</u>

8 RETURN PER ORDINARY SHARE	2003			2002		
	Revenue	Capital	Total	Revenue	Capital	Total
	0.67p	2.49p	3.16p	0.66p	2.07p	2.73p

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £514,000 (2002 – £504,000) and on 76,487,002 (2002 – 76,929,958) 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 gain for the financial year of £1,902,000 (2002 – £1,596,000) and on 76,487,002 (2002 – 76,929,958) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

There was no dilution of the above returns in the year to 31 July 2002.

9 FIXED ASSETS – INVESTMENTS	2003	2002
	£'000	£'000
Listed at market value – Overseas	<u>40,670</u>	<u>38,551</u>
	<b>Listed</b>	<b>Total</b>
	<b>overseas</b>	<b>£'000</b>
	<b>£'000</b>	<b>£'000</b>
Cost of investments held at 1 August 2002	40,051	40,051
Unrealised depreciation at 1 August 2002	(1,500)	(1,500)
Value of investments held at 1 August 2002	<u>38,551</u>	<u>38,551</u>
Movements in year:		
Purchases at cost	25,198	25,198
Sales – proceeds	(25,181)	(25,181)
– realised losses on sales	(4,546)	(4,546)
Increase in unrealised appreciation	<u>6,648</u>	<u>6,648</u>
Value of investments held at 31 July 2003	<u>40,670</u>	<u>40,670</u>
Cost of investments held at 31 July 2003	35,522	35,522
Unrealised appreciation at 31 July 2003	5,148	5,148
Value of investments held at 31 July 2003	<u>40,670</u>	<u>40,670</u>
	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
<b>GAINS/(LOSSES) ON INVESTMENTS</b>		
Realised (losses)/gains on sales	(4,546)	1,373
Increase/(decrease) in unrealised appreciation	<u>6,648</u>	<u>(348)</u>
	<u>2,102</u>	<u>1,025</u>

## NOTES TO ACCOUNTS

### 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 below.

	2003 £'000	2002 £'000
<i>Portfolio (currency of listing):</i>		
Hong Kong dollar	13,705	11,611
US dollar	1,881	239
Korean won	5,685	8,068
Malaysian dollar	4,549	6,155
Singapore dollar	4,274	3,267
Indonesian rupiah	3,596	1,175
Taiwan dollar	3,350	5,266
Thai baht	2,512	1,913
Philippine peso	1,118	857
	<u>40,670</u>	<u>38,551</u>
<i>Cash:</i>		
UK deposits	536	626
Foreign deposits – Taiwan dollar	87	–
– Malaysian dollar	–	112
	<u>623</u>	<u>738</u>

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

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

Included within the analysis provided above and 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.

	2003		2002	
	Market value £'000	Weighted average period until maturity	Market value £'000	Weighted average period until maturity
<i>Warrants:</i>				
Thai baht	1,040	5 years	687	6 years

	2003 £'000	2002 £'000
<b>DEBTORS</b>		
<i>Amounts falling due within one year:</i>		
Income accrued (net)	113	55
Sales for subsequent settlement	2	–
Other debtors and prepayments	25	41
	<u>140</u>	<u>96</u>

	2003	2002
	£'000	£'000
<b>12 CREDITORS</b>		
<i>Amounts falling due within one year:</i>		
Proposed dividend	344	344
Corporation tax payable	118	130
Other creditors and accruals	152	173
	<u>614</u>	<u>647</u>

Included in other creditors and accruals is £102,000 (2002 – £97,000) in respect of the investment management fee.

### 13 FINANCIAL LIABILITIES

#### *Loan facilities*

#### *Maturity profile:*

A one year £5 million multi-currency loan facility has been arranged with The Royal Bank of Scotland plc which expires on 31 March 2004. In addition the Company has a £9 million multi-currency facility with The Bank of New York which expires on 10 December 2003.

The Company had no borrowings at 31 July 2002 or 2003.

Foreign currency gearing is discussed in the Chairman's Statement on page 5.

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

#### *Gains and losses on hedges*

At 31 July 2003 there were no unrecognised gains/losses on hedges. Realised currency profits/losses are taken to the capital reserve and are not reflected in the profit and loss account unless they are of a revenue nature.

### 14 DEFERRED TAXATION

Income taxable in a later period	29	13
Overseas withholding tax claimable as a deduction in a later period	(11)	(4)
	<u>18</u>	<u>9</u>
Deferred taxation charge on income taxable in a later period for the year (note 6)	16	–
Deferred taxation credit on overseas' withholding tax claimable in a later period	(7)	1
Net movement in deferred tax provision for year	9	1
Deferred taxation provision at 1 August	9	8
Deferred taxation provision at 31 July	<u>18</u>	<u>9</u>

### 15 CALLED-UP SHARE CAPITAL

2003

2002

	2003		2002	
			Number	£'000
Authorised ordinary shares of 10p each	113,684,758	11,368	113,684,758	11,368
Allotted, called-up and fully paid ordinary shares of 10p each	<u>76,487,002</u>	<u>7,649</u>	<u>76,487,002</u>	<u>7,649</u>

The unissued ordinary shares were 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 carried the right to subscribe for one ordinary share at a price of 56p on 30 June in any of the years 1996 to 2002. On 1 July 2002, the final date for the exercise of the warrants, 45,138 warrants were exercised. The rights to the remaining 15,718,838 warrants lapsed and were delisted on 13 August 2002.

There were no outstanding warrants at 31 July 2002 or 2003.

At the Extraordinary General Meeting in April 2001 the Company was first granted authority to purchase shares in the market, in respect of 11,818,395 ordinary shares (equivalent to 14.99% of its issued share capital at that date). The authority was renewed at the Annual General Meeting on 28 October 2002 in respect of 11,465,401 shares (equivalent to 14.99% of its issued share capital at that date). In the year to 31 July 2003 no ordinary shares were bought back and therefore at 31 July 2003 the Company's authority to buy back its own shares remains unchanged at 11,465,401 ordinary shares. In the year to 31 July 2002 a total of 2,400,000 ordinary shares with a nominal value of £240,000 were bought back at a total cost of £767,000. The Companies Act provides that a public company may only purchase its shares out of distributable profits and it imposes limitations on the use of a company's share premium account. Under the provisions of the authority granted any share buy-backs will be funded from the special distributable reserve which was created by the reduction of the share premium account. The nominal value of the share capital is maintained through a transfer to the capital redemption reserve.

NOTES TO ACCOUNTS

	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Revenue reserve £'000
RESERVES			
At 1 August 2002	(641)	(1,500)	1,059
Net loss on realisation of investments	(4,546)	-	-
Increase in unrealised appreciation	-	6,648	-
Exchange differences on bank loans	(29)	-	-
Other exchange differences	(171)	-	-
Retained net revenue for the year	-	-	170
At 31 July 2003	<u>(5,387)</u>	<u>5,148</u>	<u>1,229</u>

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:

	2003	2002	2003 £'000	2002 £'000
Ordinary shares	<u>53.34p</u>	<u>50.63p</u>	<u>40,801</u>	<u>38,729</u>

The movements during the year of the assets attributable to the ordinary shares are shown in note 18.

Net asset value per ordinary share is based on the net assets as shown above and 76,487,002 ordinary shares, being the number of ordinary shares in issue at each date.

July 2002 was the final date for the exercise of warrants, any remaining after that date lapsed and were delisted. There were no outstanding warrants at 31 July 2002 or 2003 (note 15).

When the warrants were in existence the diluted net asset value per ordinary share was calculated in accordance with FRS14 'Earnings per share'. The calculation determined the potential number of dilutive shares which would have been issued on the exercise of warrants by reference to the share price (fair value). In accordance with FRS14 the outstanding warrants were treated as non-dilutive when the exercise price was greater than the prevailing share price. The fully diluted net asset value per ordinary share was calculated on the assumption that the warrants in issue were fully exercised at 56p each.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Shareholders' funds at 1 August	38,729	37,713
Total recognised gains and losses for the year	2,416	2,100
Dividend appropriated in the year	(344)	(342)
Shares purchased for cancellation	-	(767)
Proceeds from exercise of warrants	-	25
Shareholders' funds at 31 July	<u>40,801</u>	<u>38,729</u>

RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET

CASH INFLOW FROM OPERATING ACTIVITIES

Net revenue on ordinary activities before finance costs and taxation	727	818
Increase) in accrued income	(65)	(10)
Decrease)/(increase) in debtors	16	(10)
Decrease)/increase in creditors	(21)	21
Overseas tax suffered	(55)	(56)
	<u>602</u>	<u>763</u>

	At 1 August 2002 £'000	Cash flows £'000	Exchange movement £'000	At 31 July 2003 £'000
20 ANALYSIS OF CHANGE IN NET FUNDS				
Cash	738	(115)	-	623
Loans due within one year	-	29	(29)	-
	<u>738</u>	<u>(86)</u>	<u>(29)</u>	<u>623</u>

## 21 DIRECTORS' INTERESTS IN CONTRACTS

No Director has a contract of service with the Company.

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

## 22 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company operates as an investment trust company in accordance with Section 842 of the 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 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. The main risks arising from the Company's financial instruments are market risk (as noted above) interest rate risk, credit risk, liquidity risk and foreign currency risk.

*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.

*Credit Risk*

In addition to interest rate risk, the Company's investments in bonds, if any, are also subject to credit risk. Credit risk reflects the possibility that a borrower will not be able to meet its obligation to make payments of interest or principal when they fall due. The managers analyse the credit risk of the Company's bond investments prior to purchase and continue to monitor developments in credit quality subsequently.

*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 OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Pacific Horizon Investment Trust PLC will be held within the offices of Baillie Gifford & Co, 1 Rutland Court, Edinburgh EH3 8EY, on Tuesday, 28 October 2003 at 11.30 am for the following purposes:

### Ordinary Business

1. To approve the Accounts of the Company for the year to 31 July 2003 with the Reports of the Directors and of the Auditors thereon.
2. To approve the Directors' Remuneration Report.
3. To declare a dividend.
4. To elect Miss JGK Matterson as a Director.
5. To reappoint Ernst & Young LLP as Auditors.
6. To authorise the Directors to determine the remuneration of the Auditors.

### Special Business

To consider and, if thought fit, pass the following resolution as a Special Resolution:

7. That, in substitution for any existing authority, the Company be authorised, in accordance with section 166 of the Companies Act 1985 (the 'Act'), to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 10p each in the capital of the Company ('Shares'), provided that:
  - (a) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the issued share capital on the date on which this resolution is passed;
  - (b) the minimum price which may be paid for a Share shall be 10p;
  - (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the Shares for the five business days immediately preceding the date of purchase; and
  - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2004 or 27 April 2005, whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

By Order of the Board

BAILLIE GIFFORD & Co  
Managers and Secretaries  
19 September 2003



### 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 for the use of members is enclosed.
- 2 An ordinary shareholder entered on the Register of Members 48 hours before the meeting is entitled to attend and vote at the meeting pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any shareholder to attend and/or vote at the meeting.
- 3 Shareholders participating in the Baillie Gifford Investment Trust Share Plan, Children's Savings Plan and/or the Baillie Gifford Investment Trust ISA/PEP who wish to vote and/or attend the meeting must complete and return the enclosed reply-paid Form of Direction.
- 4 No Director has a contract of service with the Company.

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, 28 October 2003 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 027 0133.

## ANALYSIS OF SHAREHOLDERS

### ANALYSIS OF SHAREHOLDERS

	At 31 July 2003		At 31 July 2002	
	Shares held	%	Shares held	%
Institutions	36,822,499	48.1	40,422,578	52.8
Intermediaries	27,932,380	36.5	24,921,925	32.6
Individuals	6,420,377	8.4	6,644,495	8.7
Baillie Gifford Share Plan/PEP/ISA	4,704,863	6.2	4,442,231	5.8
Marketmakers	606,883	0.8	55,773	0.1
	76,487,002	100.0	76,487,002	100.0

- **How to Invest** The Company's shares are traded on the London Stock Exchange. They can be bought through a stockbroker, by asking a professional adviser to do so.
- **Sources of Further Information on the Trust** The price of shares is quoted daily in the *Financial Times* and can also be found on the Baillie Gifford website at [www.bailliegifford.com](http://www.bailliegifford.com), on Trustnet at [www.trustnet.co.uk](http://www.trustnet.co.uk) and on other financial websites. Company factsheets are also available from Baillie Gifford on request and are updated monthly on the Baillie Gifford website.
- **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. The final date for the exercise of the warrants was 1 July 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
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Market values on 17 April 1996 (first day of dealing) were as follows (Source: Thomson Financial Datastream):

Ordinary share	55.00p	Warrant	17.00p
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- **Share Register Enquiries** Computershare Investor Services PLC maintains the share register. In the event of queries regarding shares registered in your own name, please contact the Registrars on 0870 702 0010. You can check your holding on the Registrar's web site: [www.cshare.co.uk](http://www.cshare.co.uk) (by quoting the reference number on your share certificate).
- **Telephone Share Dealing Service** A telephone share dealing service has been established by Computershare Investor Services PLC, which provides a simple way of buying or selling Pacific Horizon Investment Trust PLC ordinary shares on the London Stock Exchange. The commission is 1%, subject to a minimum charge of £15. In addition stamp duty, currently 0.5% is payable on purchases. There are no forms to complete and the share price at which you deal will generally be confirmed to you whilst you are still on the telephone. The service is available from 8.00 am to 4.30 pm Monday to Friday excluding bank holidays on telephone number 0870 703 0084. Please ensure you have your Shareholder Reference Number (SRN) ready when making the call. The SRN appears on your share certificate. Detailed terms and conditions are available on request, please phone 0870 702 0000. Please note that this share dealing service is not available to shareholders participating in the Baillie Gifford Investment Trust Share Plan, Children's Savings Plan, ISA and PEP.

This is not a recommendation to buy, sell or hold shares in Pacific Horizon. If you are unsure of what action to take contact a financial advisor authorised under the Financial Services and Markets Act 2000. Please note that share values may go down as well as up, which may result in you receiving less than you originally invested.

In so far as this statement constitutes a financial promotion for the share dealing service provided by Computershare Investor Services it has been approved by Computershare Investor Services PLC for the purpose of Section 21(2)(b) of the Financial Services and Markets Act 2000 only. Computershare Investor Services PLC is authorised and regulated by the Financial Services Authority.

Where this has been received in a country where the provision of such a service would be contrary to local laws or regulations, this should be treated as information only.

**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.

**DIRECTORS**

*Chairman*  
DCP McDougall OBE  
  
\*D Griffiths  
\* Mackay CB  
\*GK Matterson  
\*J Morrison

**MANAGERS AND  
SECRETARIES**

Baillie Gifford & Co  
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Website: [www.bailliegifford.com](http://www.bailliegifford.com)

**REGISTERED OFFICE**

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Finsbury Square  
London EC2A 1BR

**REGISTRARS**

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Services PLC  
Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR  
Telephone: 0870 702 0010

**BROKERS**

Credit Lyonnais Securities  
Broadwalk House  
5 Appold Street  
London EC2A 2DA

**AUDITORS**

Ernst & Young LLP  
Ten George Street  
Edinburgh EH2 2DZ

Company Registration No. 2342193