

Pacific Horizon Investment Trust PLC  
Annual Report and Accounts 2004



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## Company data at 31 July 2004

Shareholders' funds	Market capitalisation
£47m	£43m

# Company Summary

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

## 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 will normally consist entirely of quoted securities.

## Comparative Index

The principal index against which performance is measured is the MSCI All Country Far East 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.

## Management Fee

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

## 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. The Directors are seeking to renew this authority at the forthcoming Annual General Meeting.

## ISA/PEP

ISA and PEP transfer facilities are available (see inside back cover).

## 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.

## Notes

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

Investment trusts are UK public listed companies and are not authorised or regulated by the Financial Services Authority.

# Year's Summary

	31 July 2004	31 July 2003	% change
Equity shareholders' funds	£47.3m	£40.8m	15.9
Net asset value per ordinary share (NAV)	61.84p	53.34p	15.9
Share price	56.75p	48.25p	17.6
MSCI All Country Far East ex Japan Index (in sterling terms)	127.8	127.2	0.5
Dividend per ordinary share	0.70p	0.45p	55.6
Earnings per ordinary share	1.03p	0.67p	53.7
Total expense ratio	1.14%	0.99%	
Discount	8.2%	9.5%	

Year's high and low	Year to 31 July 2004		Year to 31 July 2003	
	High	Low	High	Low
Share price	68.50p	47.75p	48.75p	35.50p
Net asset value	70.64p	52.01p	53.48p	41.45p
Discount	0.1%	12.3%	3.5%	16.7%

	31 July 2004	31 July 2003
Total return per ordinary share		
Revenue	1.03p	0.67p
Capital	8.17p	2.49p
<b>Total</b>	<b>9.20p</b>	<b>3.16p</b>

Past performance is no guarantee of future performance.

## One Year Performance

(figures rebased to 100 at 31 July 2003)

# Five Year Summary

The following charts indicate how Pacific Horizon has performed relative to its comparative index (MSCI All Country Far East ex Japan Index (in sterling terms)) and the relationship between share price and asset value over the five year period to 31 July 2004.

5 Year Total Return Performance  
Share Price, Net Asset Value and Index  
(figures rebased to 100 at 31 July 1999)

Annual Price Total Return and Diluted  
NAV Total Return

Discount to Fully Diluted Net Asset Value  
(figures plotted on a monthly basis)

Annual Share Price Total Return and  
Diluted NAV Total Return  
(relative to the MSCI All Country Far East ex Japan  
Index total return in sterling terms)

# Chairman's Statement

The net asset value per share rose by 15.9%, compared with a rise of 0.5% in the MSCI All Country Far East ex Japan Index (in sterling terms).

## Performance

### Capital Account

In the first six months of the Company's year markets made significant gains, some of which were given up in the second half. The first half was also a particularly strong period for the Company, with net asset value per share increasing by 29.6% compared with a rise of 13.1% in the comparative index. In the second half of the year the net asset value fell by 10.5%, which was in line with the 11.2% fall in the comparative index. As in previous years, the tactical use of short-term gearing contributed to performance. Short-term gearing was introduced in August 2003 in order to take advantage of attractive investment opportunities and exceptionally low interest rates. Net gearing was eliminated in April 2004 in the light of the deteriorating outlook for markets and at the yearend there were no outstanding borrowings. The Managers' report on page 6 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 53.7% to

1.03p from 0.67p for last year. The Board is recommending that a dividend of 0.70p should be paid, an increase of 55.6% from 0.45p for the previous year.

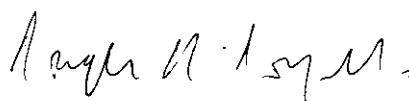
## Outlook

Until very recently, the world appears to have been experiencing one of the strongest periods of economic expansion in the last twenty years, with strong growth in North America, the United Kingdom and Asia and an acceleration from depressed levels elsewhere. Inflation has been low and interest rates have been kept at extremely low levels in order to ward off the threat of deflation. This favourable background supported growth in the countries of the Asia-Pacific region and, together with the recovery from the effects of Severe Acute Respiratory Syndrome ('SARS'), it contributed to a marked improvement in profits and dividends for companies in the region during the last year.

Demand for industrial raw materials and other commodities has grown rapidly as a consequence of this rapid increase in economic activity and prices have risen as supply has been unable to keep pace. This development has contributed to a build-up

in inflationary pressures. The problem is most acute in China, where various measures have been taken which are aimed at slowing down the hectic rate of growth. In addition, the price of oil has risen to levels that are likely to reduce economic growth while increasing inflation. The combination of slowing growth, high oil prices and rising global interest rates is particularly unfavourable for those Asia-Pacific countries that are highly dependent on imported oil and exports of manufactured goods and intermediate products such as semiconductors, chemicals and steel.

While it seems that we are moving into a more challenging environment for many companies, there are others for which an increasingly inflationary environment is a marked improvement after years of disinflation or outright deflation. Furthermore, valuations are reasonable. In the absence of outright global recession, therefore we are cautiously optimistic.



Douglas McDougall  
10 September 2004

# Directors and Management

## Directors

### **Douglas McDougall OBE**

Douglas McDougall, who is 60, was appointed a Director in 1992 and became Chairman in 2002. He is chairman of The Scottish Investment Trust plc, The Law Debenture Corporation plc, 3i Bioscience Investment Trust plc, The Independent Investment Trust PLC, Foreign & Colonial Eurotrust plc and is a director of The Monks Investment Trust PLC and Herald Investment Trust plc. From 1969 to 1999 he was a partner in Baillie Gifford & Co and from 1989 to 1999 was joint senior partner and chief investment officer. He is a former Chairman of the Investment Management Regulatory Organisation, the Fund Managers' Association and the Association of Investment Trust Companies.

### **Peter Mackay CB**

Peter Mackay, who is 64, was appointed a Director in 2001. He is a former member of the Competition Commission and 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.

### **Jean Matterson**

Jean Matterson, who is 48, was appointed a Director on 2 September 2003. She 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.

### **Michael Morrison**

Michael Morrison, who is aged 65, was appointed a Director in 2002. He is a former senior partner of Taylor Joynson Garrett, solicitors, and is chairman of Yuills Limited.

All Directors are members of the Audit Committee.

## 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, WVS, which had been involved in investment management since 1908.

Baillie Gifford is one of the largest investment trust managers in the UK and currently manages eight investment trusts. Baillie Gifford also manages unit trusts and Open Ended Investment Companies, together with investment portfolios on behalf of pension funds, charities and other institutional clients, both in the UK and overseas. Funds under the management or advice of Baillie Gifford total around £29 billion. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 27 partners and a staff of over 400.

Within Baillie Gifford the Asia Pacific investments are managed by a team of eight. Gerald Smith, a partner of 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.

# Managers' Overview

The year to the end of July 2004 saw rises in sterling terms in most of the Asian markets in which we invest, with the exceptions of Korea and Taiwan. The first six months of the period saw stockmarkets reacting favourably to increasing global economic growth, particularly within the United States and China, before concerns about the impact of a Chinese slowdown hit the markets from March onwards. Korea and Taiwan were relatively weak in the last few months of the Company's year due to political concerns and pessimism concerning technology-related shares, which account for a significant proportion of these markets. Throughout the twelve-month period, the strength of sterling against the region's currencies hindered performance. More detailed comments on individual countries are contained in the Portfolio Review on pages 10 to 12.

In August we introduced short-term gearing in order to capitalise on the more positive outlook for economic growth. Initially, borrowings were on a one month basis and were renewed monthly. In December, we decided to take advantage of the very low interest rates prevailing in Hong Kong and the gearing was switched to a basis of six months in order to lock in these low rates. From April onwards sales were made in order to repay the gearing, and the outstanding loan was repaid in June. Overall, the use of gearing during the year made a positive contribution to the net asset value per share. The net effect of these transactions is shown in the table opposite. The most significant moves were increases in Taiwan, Malaysia, Hong Kong and China and the reduction in Thailand.

## Distribution of Portfolio and movement of Indices

	% of total assets as at		Principal local indices % change in sterling terms
	31 July 2004	31 July 2003	
Hong Kong and China	34.4	33.6	6.7
Korea	15.1	15.9	(8.0)
Malaysia	14.7	12.6	2.3
Singapore	12.9	11.6	9.6
Taiwan	11.5	8.2	(8.8)
Indonesia	10.4	8.8	22.7
Philippines	1.0	2.8	10.4
Thailand	0.5	6.2	18.1
Net liquid (liabilities)/assets	(0.5)	0.3	
<b>Pacific Horizon Investment Trust (NAV)</b>	<b>100.0</b>	<b>100.0</b>	<b>15.9%</b>
<b>MSCI All Country Far East ex Japan Index</b>			<b>0.5%</b>

Source: Thomson Financial Datastream/Baillie Gifford & Co

Past performance is no guarantee of future performance.

## Investment Changes (£'000)

	Valuation at 31 July 2003	Net acquisitions (disposals)	Appreciation (depreciation)	Valuation at 31 July 2004
Equities* :				
Hong Kong and China	13,705	1,631	950	16,286
Korea	6,501	(701)	1,341	7,141
Malaysia	5,156	1,357	426	6,939
Singapore	4,732	853	507	6,092
Taiwan	3,350	2,287	(183)	5,454
Indonesia	3,596	(226)	1,557	4,927
Philippines	1,118	(528)	(124)	466
Thailand	2,512	(3,098)	831	245
Total investments	40,670	1,575	5,305	47,550
Net liquid assets/(liabilities)	131	(247)	(129)	(245)
<b>Total assets</b>	<b>40,801</b>	<b>1,328</b>	<b>5,176</b>	<b>47,305</b>

\* Equities includes warrants.

## Distribution of Portfolio

Geographical 2004 (2003)

Sectoral 2004 (2003)

## Twenty Largest Equity Holdings

Name	Country	Business	Market value £'000	% of total assets
BAT Malaysia	Malaysia	Tobacco	1,993	4.2
Unilever Indonesia	Indonesia	Consumer products manufacturer	1,900	4.0
Petrochina Co.	China	Integrated oil company	1,503	3.2
CNOOC	China	Oil and gas exploration and production	1,487	3.2
Cheung Kong	Hong Kong	Property developer	1,486	3.1
Samsung Corporation	Korea	Construction and trading company	1,426	3.0
Bumi Resources	Indonesia	Coal mining	1,391	2.9
Pacific Basin Shipping	Hong Kong	Shipping company	1,314	2.8
Malaysia International Shipping Corporation	Malaysia	Shipping company	1,228	2.6
Sinopec	China	Integrated oil company	1,204	2.6
Hysan Developments	Hong Kong	Property developer	1,090	2.3
MobileOne	Singapore	Wireless telecommunications provider	1,087	2.3
ASM Pacific Technology	Hong Kong	Semiconductor equipment manufacturer	930	2.0
Taiwan Cellular	Taiwan	Wireless telecommunications provider	922	2.0
BOC Hong Kong	Hong Kong	Banking	919	1.9
Hong Kong Exchanges & Clearing	Hong Kong	Stock exchange	865	1.8
Comfortelgro	Singapore	Vehicle leasing and engineering services	861	1.8
Hon Hai Precision Industries	Taiwan	Contract manufacturer	855	1.8
China Telecom	China	Telecommunications services provider	814	1.7
CNPC Hong Kong	Hong Kong	Oil and gas exploration and production	813	1.7
			<b>24,088</b>	<b>50.9</b>

## Classification of Investments

Classification	Hong Kong and China %	Korea %	Malaysia %	Singapore %	Taiwan %	Other Countries %	2004 Total %	2003 Total %
<b>Equities*:</b>								
Mining	-	-	-	-	-	3.7	3.7	4.0
Oil and gas	10.5	2.0	1.8	-	-	-	14.3	10.0
<b>Resources</b>	<b>10.5</b>	<b>2.0</b>	<b>1.8</b>	<b>-</b>	<b>-</b>	<b>3.7</b>	<b>18.0</b>	<b>14.0</b>
Chemicals	-	0.7	-	-	0.1	-	0.8	8.1
Construction and building materials	-	-	-	-	0.8	-	0.8	6.6
Forestry and paper	-	-	-	-	0.7	-	0.7	0.9
Steel and other metals	-	1.3	-	-	1.2	-	2.5	-
Diversified industrials	-	3.6	1.6	1.8	-	-	7.0	5.7
Electronic and electrical equipment	3.6	-	-	2.1	1.8	0.1	7.6	6.2
Engineering and machinery	-	2.0	-	1.0	-	1.5	4.5	1.4
<b>Industrials</b>	<b>3.6</b>	<b>7.6</b>	<b>1.6</b>	<b>4.9</b>	<b>4.6</b>	<b>1.6</b>	<b>23.9</b>	<b>28.9</b>
Automobiles and parts	1.4	-	-	-	-	-	1.4	2.4
Household goods and textiles	4.0	-	-	-	-	-	4.0	0.9
Beverages	-	-	-	-	-	-	-	1.1
Food producers and processors	-	-	-	-	-	0.1	0.1	0.1
Health	-	-	-	-	0.7	-	0.7	1.4
Personal care and household products	-	-	-	-	-	4.0	4.0	4.0
Pharmaceuticals	-	0.4	-	-	-	-	0.4	0.6
Tobacco	-	-	4.2	-	-	-	4.2	6.4
<b>Consumer Goods</b>	<b>5.4</b>	<b>0.4</b>	<b>4.2</b>	<b>-</b>	<b>0.7</b>	<b>4.1</b>	<b>14.8</b>	<b>16.9</b>
General retailers	-	-	-	-	0.9	0.7	1.6	4.8
Leisure and hotels	-	-	0.8	-	-	-	0.8	3.7
Media and entertainment	-	0.9	0.6	-	-	-	1.5	2.1
Support services	-	1.5	-	-	-	-	1.5	-
Transport	4.1	1.6	2.6	1.8	1.2	-	11.3	3.5
Telecommunication services	1.7	-	2.3	2.3	1.9	1.2	9.4	5.9
<b>Services and Utilities</b>	<b>5.8</b>	<b>4.0</b>	<b>6.3</b>	<b>4.1</b>	<b>4.0</b>	<b>1.9</b>	<b>26.1</b>	<b>20.0</b>
Banks	1.9	-	-	-	-	-	1.9	1.6
Insurance	-	1.1	0.8	-	-	-	1.9	1.0
Real estate	5.4	-	-	2.6	1.4	0.5	9.9	9.6
Speciality and other finance	1.8	-	-	1.3	-	-	3.1	3.0
<b>Financials</b>	<b>9.1</b>	<b>1.1</b>	<b>0.8</b>	<b>3.9</b>	<b>1.4</b>	<b>0.5</b>	<b>16.8</b>	<b>15.2</b>
Information technology hardware	-	-	-	-	0.8	-	0.8	2.1
Software and computer services	-	-	-	-	-	0.1	0.1	2.6
<b>Information Technology</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.8</b>	<b>0.1</b>	<b>0.9</b>	<b>4.7</b>
<b>Total Equities*</b>	<b>34.4</b>	<b>15.1</b>	<b>14.7</b>	<b>12.9</b>	<b>11.5</b>	<b>11.9</b>	<b>100.5</b>	
Total Equities* - 2003	33.6	15.9	12.6	11.6	8.2	17.8		99.7
Net Liquid (Liabilities)/Assets	0.1	-	-	-	0.3	(0.9)	(0.5)	0.3
<b>Equity Shareholders' Funds</b>	<b>34.5</b>	<b>15.1</b>	<b>14.7</b>	<b>12.9</b>	<b>11.8</b>	<b>11.0</b>	<b>100.0</b>	
Equity Shareholders' Funds - 2003	33.7	15.9	12.6	11.6	8.4	17.8		100.0
Number of equity investments	17	13	10	10	11	10	71	71

\* Equities includes warrants.

# Managers' Portfolio Review

## Hong Kong and China

The Chinese economy grew at a rate that exceeded even the most optimistic expectations at the start of the Company's year. Official figures suggest a growth rate of a little over 9% in real GDP for 2003, with an acceleration towards the end of the calendar year and into the early part of 2004. *This rapid expansion was driven by large amounts of inward investment, high levels of investment in residential and commercial property and massive capacity expansions in industries such as steel and aluminium. The country's infrastructure has not expanded at a matching rate and severe bottlenecks have emerged. These are adding to the inflationary pressures brought about by the impact on commodity prices of growth in Chinese demand for industrial and agricultural commodities. In order to try to reduce the risk of boom turning to bust the government has introduced a range of measures aimed at curbing what it sees as unwise and*

*speculative investments. Mixed signals concerning the success or failure of these measures have triggered large and erratic moves in the prices of Chinese shares. The Hong Kong economy, in contrast, now appears to be on a much clearer path. Improved economic integration with the rest of the country and clear signs that the economic success of Hong Kong is a central government priority were the catalysts for a major improvement in consumer sentiment. One important source of stimulus is a large increase in tourists visiting from the mainland. The economic revival has led to a recovery in property prices from the low levels reached last year and a highly competitive mortgage market should mitigate the effects of rising interest rates. We have made a number of changes to our holdings in the Hong Kong market which have had the effect of increasing our exposure to companies that benefit from the local economy and reducing that to companies exposed*

*directly to Chinese real estate and construction.*

## Korea

The Korean economy has been adversely affected by an unfortunate combination of events. Korea relies almost totally on imports for oil, gas and other key industrial commodities and the significant increases in prices for these items act as a tax on the economy. The financial sector is suffering from the after-effects of an uncontrolled explosion in credit card lending and this is being compounded by increasing problems with loans to small businesses. A failed attempt to impeach the president contributed to general uncertainty and, while the situation was resolved and the president now has a popular mandate and a parliamentary majority, he is more likely to use this position to favour labour over the interests of shareholders. To add to this inflation is rising and is likely to result in demands for higher wages. Despite this

rather unattractive background there are Korean companies for which the outlook, at least on a longer-term view, remains far more favourable. Based on their bottom-up attractions, Korean companies therefore continue to account for a reasonably large part of the portfolio.

### Malaysia

The Malaysian economy has been growing steadily for the last couple of years. Government policies aimed at supporting small and medium-sized companies have proved successful and the economy has also benefited from strength in the prices of commodities, palm oil and crude oil. October 2003 saw the long-serving Prime Minister, Dr Mahathir Mohamad, step down to be replaced by Abdullah Badawi, whose coalition government subsequently won a resounding victory in March's parliamentary elections. Expectations were initially high that this would lead to a

crackdown on corruption and cronyism but, so far, there has been a lack of significant reform. However, recent restructuring of government-linked companies, including the replacement and reshuffling of top management, is a positive sign. We made net additions in Malaysia over the twelve month period including new holdings in IOI Corp, to capitalise on the strong palm oil market, and Crest Petroleum and Scomi Group, to take advantage of the outlook for the oil services industry.

### Singapore

After suffering badly in early 2003 because of the outbreak of SARS the domestic Singaporean economy showed signs of picking up during the last year. However, there are few attractive companies with direct exposure to the domestic economy and we believe that the high dividend yields on the shares of less economically sensitive companies will make them better investments in the long

run. We made net additions during the year, including purchases of Jaya Holdings and Keppel in view of the favourable outlook for the offshore oil exploration and production industry.

### Taiwan

The industrial mix of the Taiwanese economy has some similarities with that of Korea and so its export sector is suffering from some of the same difficulties as a result of higher raw material costs and downward pressure on the prices of electronic goods. However, Taiwan is starting from a more favourable position, with a very large current account surplus, lower inflation and a strengthening property market. The market has been buffeted by tensions with the mainland and investors were disappointed that President Chen was narrowly re-elected rather than replaced by a more conciliatory alternative. The uncertain outlook for technology shares also contributed to market volatility. As a

result of these concerns, the shares of quite a number of sound companies now appear very attractively rated and we are encouraged by a trend to pay higher cash dividends. This makes us comfortable with our holdings in Taiwan despite the difficult background.

### Indonesia

The Indonesian economy had showed signs of strength in late 2003, with GDP increasing and inflation falling. However, since January 2004, uncertainties resulting from the lengthy parliamentary and presidential election processes, volatile commodity prices and the likely consequences of higher oil prices have dampened the picture. The currency has been weak recently and economic growth could be further threatened by government measures to reduce market liquidity, such as the increasing of reserve requirements for banks. We added a few new holdings in Indonesia, such as Bumi Resources and

United Tractors, on the basis of our positive view on the outlook for the coal industry.

### Philippines

The frequent hostility of politicians and the courts towards business and sound macro-economic policies has made the Philippines one of the least successful economies in the region. Having gained a new six-year mandate, President Arroyo has made much-needed fiscal consolidation a priority but it may be difficult to achieve. One of our long-standing holdings, SPI Technologies, was taken over during the year and as part of the restructuring ahead of this deal we received shares in eTelecare, an unquoted call-centre operator, through a distribution to shareholders.

### Thailand

In 2003 the Thai economy grew by 6.6%, with property prices and consumer demand being particularly strong. Indeed, the government has introduced various

measures aimed at cooling the property market and, after previously taking some profits in Land & Houses, we took the view that conditions within the Thai property market were unlikely to get any better and sold the remaining holding. However, problems remain. Thailand is likely to be significantly adversely affected by high oil prices, with official growth forecasts already being cut by approximately 1% and inflation has started to rise. There has also been, ahead of elections early in 2005, an erosion of confidence in Prime Minister Thaksin Shinawatra, who cancelled the privatisation of the Electricity Generating Authority of Thailand due to worker protests and made a failed attempt to take a stake in Liverpool FC using public money. Lastly, there are concerns about bad debts within the banking sector. We made net sales during the year, taking profits in National Petrochemical and Siam Cement.

# Review of Investments

A review of the Company's ten largest investments as at 31 July 2004 is given below and on the following page.

## BAT Malaysia

BAT Malaysia is the dominant tobacco manufacturer in Malaysia. The merger between Rothmans and BAT strengthened the position of the company and it now commands a market share of around 70%. The enhanced economies of scale have helped 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	£1,993,000
% of total assets	4.2%

## Unilever Indonesia

Unilever Indonesia, an 85% owned subsidiary of the multinational corporation, 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.

Country	Indonesia
Valuation	£1,900,000
% of total assets	4.0%

## Petrochina Co.

Petrochina is one of two integrated Chinese oil majors, operating primarily in the north of the country. Its high costs and favourable tax regime make 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	£1,503,000
% of total assets	3.2%

## 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 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	£1,487,000
% of total assets	3.2%

### 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.

Country	Hong Kong
Valuation	£1,486,000
% of total assets	3.1%

### 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 that the restructuring which has been ongoing over the past five years will continue, leading to a re-appraisal of the company's true value.

Country	Korea
Valuation	£1,426,000
% of total assets	3.0%

### Bumi Resources

Bumi Resources is a highly leveraged Indonesian coal company. Its high level of debt is the result of the acquisition of one of the largest coal mines in Indonesia. As production expands earnings should rise rapidly. It enjoys significant cost advantages owing to low production and transport costs to the rapidly growing East Asian markets.

Country	Indonesia
Valuation	£1,391,000
% of total assets	2.9%

### Pacific Basin Shipping

Pacific Basin Shipping is a bulk shipping company which specialises in the shipping of minor bulks (e.g. timber and grains) in handysize ships in the Pacific region. A high proportion of the current handysize fleet is old and the fleet size is expected to contract as scrapping becomes a more economically attractive option. With a relatively low average age of its ships (6 years), an improving supply-demand balance and an experienced management team with a good track record, the company is well-placed to capitalise on favourable market conditions.

Country	Hong Kong
Valuation	£1,314,000
% of total assets	2.8%

### Malaysia International Shipping Corporation

Malaysia International Shipping is the largest shipping company in Malaysia, with 85% of earnings coming from long term contracts in LNG transportation. The recent acquisition of American Eagle Tankers complements the LNG transportation business with a well-run petroleum tanker business, enhancing MISC's geographic reach and access to clients such as Shell and BP.

Country	Malaysia
Valuation	£1,228,000
% of total assets	2.6%

### Sinopec

China Petroleum and Chemical Corporation (Sinopec) is a Chinese integrated petroleum and petrochemical company. In addition to exploring for and producing oil and gas, Sinopec owns refineries which manufacture a wide variety of petroleum and petrochemical products. The company has a dominant position in the world's fastest-growing oil market and is currently upgrading its refining capacity and expanding its pipeline networks.

Country	China
Valuation	£1,204,000
% of total assets	2.6%

Name	Business	Market value £'000	%
<b>Hong Kong and China</b>			
ASM Pacific Technology	Semiconductor equipment manufacturer	930	
BOC Hong Kong	Banking	919	
Cheung Kong	Property developer	1,486	
China Telecom	Telecommunications services provider	814	
CNOOC	Oil and gas exploration and production	1,487	
CNPC Hong Kong	Oil and gas exploration and production	813	
Denway Motors	Car manufacturer	660	
Elec & Eltek International	Electronics components manufacturer	744	
Guangdong Kelon	Household durable goods manufacturer	462	
Hong Kong Exchanges & Clearing	Stock exchange	865	
Hysan Developments	Property developer	1,090	
Li & Fung	Supply chain management	784	
Orient Overseas International	Shipping company	595	
Pacific Basin Shipping	Shipping company	1,314	
Petrochina Co.	Integrated oil company	1,503	
Sinopec	Integrated oil company	1,204	
TCL International	TV and handset manufacturer	616	
		<u>16,286</u>	34.4
<b>Korea</b>			
Cheil Communications	Advertising agency	410	
Cheil Industries	Industrial conglomerate	290	
Dongkuk Steel Mill	Steel manufacturer	603	
Fine Tec Corp	Industrial materials manufacturer	347	
Hyundai Marine & Fire	Insurance	508	
Jeil Pharmaceutical	Drug manufacturer	180	
Korea Line	Shipping company	772	
SI	Security services provider	682	
S-Oil	Oil refiner	534	
Samsung Corporation	Construction and trading company	1,426	
Samsung Heavy Industries	Shipbuilder	512	
SK Corp	Oil refining and marketing	445	
STX Shipbuilding	Shipbuilder	432	
		<u>7,141</u>	15.1
<b>Malaysia</b>			
Astro All Asia Networks	Satellite TV operator	298	
BAT Malaysia	Tobacco	1,993	
†Crest Petroleum	Oil services	193	
IOI	Diversified industrial	771	
MAA Holdings	Insurance	365	
Malaysia International Shipping Corporation	Shipping company	1,228	
Maxis Communication	Wireless telecommunications provider	446	
Scomi Group	Oil services	654	
Tanjong	Lottery operator	395	
Telekom Malaysia	Fixed line telecommunications services provider	596	
		<u>6,939</u>	14.7

†denotes holding partly or wholly in warrants.

LIST OF INVESTMENTS

Name	Business	Market value £'000	%
<b>Singapore</b>			
CapitaMall Property Trust	Property trust	725	
Comfortdelgro	Vehicle leasing and engineering services	861	
Fortune Real Estate Investment Trust	Property trust	540	
Haw Par Corporation	Healthcare products manufacturer	191	
Jaya Holdings	Shipbuilder	478	
Keppel Corp.	Industrial conglomerate	641	
MobileOne	Wireless telecommunications provider	1,087	
Singapore Exchange	Stock exchange	623	
Unisteel Technology	Electronics equipment manufacturer	547	
Venture	Electronics manufacturer	399	
		<u>6,092</u>	12.9
<b>Taiwan</b>			
China Steel	Steel manufacturer	550	
Chung Hwa Pulp	Pulp and paper manufacturer	332	
Hon Hai Precision Industries	Contract manufacturer	855	
Hung Poo Real Estate Development	Property developer	677	
Nan Ya Plastics	Plastic and chemical fibre manufacturer	34	
National Petroleum	Petrol station operator	416	
Pihsiang Machine Manufacturing	Electric scooter and wheelchair manufacturer	329	
Synnex Technology International	Electronic equipment distributor	400	
Taiwan Cellular	Wireless telecommunications provider	922	
Taiwan Cement	Cement manufacturer	363	
Wan Hai Lines	Shipping company	576	
		<u>5,454</u>	11.5
<b>Indonesia</b>			
Bumi Resources	Coal mining	1,391	
International Nickel Indonesia	Nickel mining	349	
Telekom	Telecommunications services provider	583	
Unilever Indonesia	Consumer products manufacturer	1,900	
United Tractors	Heavy equipment manufacturer	704	
		<u>4,927</u>	10.4
<b>Philippines</b>			
* †Telecore	Call-centre operator	42	
RFM Corporation	Food manufacturer and distributor	30	
SM Prime Holdings	Shopping mall operator	354	
Solid Group	Electronics manufacturer and distributor	40	
		<u>466</u>	1.0
<b>Thailand</b>			
MBK Development	Property developer and rice distributor	245	
		<u>245</u>	0.5
Value of equity stocks		47,357	
Warrants having an element of equity		<u>193</u>	
<b>Total Investments</b>		<b>47,550</b>	<b>100.5</b>
<b>Net Liquid Liabilities</b>		<b>(245)</b>	<b>(0.5)</b>
<b>Total Assets at Market Value</b>		<b>47,305</b>	<b>100.0</b>

\* denotes unlisted security.

† 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‡ %
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
2003	40,801	–	40,801	53.34	–	48.25	9.5
<b>2004</b>	<b>47,305</b>	<b>–</b>	<b>47,305</b>	<b>61.84</b>	<b>–</b>	<b>56.75</b>	<b>8.2</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 'Earnings per share' (see note 17, page 37).

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

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

## Revenue

Year to 31 July	Gross revenue £'000	Available for ordinary shareholders £'000	Earnings per ordinary share** p	Dividend per ordinary share (net) p	Total expense ratio†† %	Gearing Ratios	
						Actual gearing††	Potential gearing†††
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
2003	1,263	514	0.67	0.45	0.99	98	100
<b>2004</b>	<b>1,858</b>	<b>786</b>	<b>1.03</b>	<b>0.70</b>	<b>1.14</b>	<b>99</b>	<b>100</b>

\*\* 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 34). There was no dilution of earnings per share in any of the years 1994 to 2004.

†† 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 (taking 1994 as 100)

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†††
1994	100	100	100	100	100	100	100	100
1995	96	97	98	98	99	101	188	104
1996	103	104	105	108	101	104	258	106
1997	120	120	112	115	104	110	196	109
1998	58	59	51	53	40	44	431	113
1999	89	94	81	88	74	82	112	115
2000	111	118	103	112	75	85	85	118
2001	96	102	85	92	53	61	246	120
2002	102	109	100	111	52	62	254	122
2003	107	116	106	119	53	64	258	126
<b>2004</b>	<b>125</b>	<b>136</b>	<b>125</b>	<b>141</b>	<b>53</b>	<b>66</b>	<b>396</b>	<b>130</b>
<b>Compound annual returns</b>								
5 year	6.9%	7.5%	8.9%	9.8%	(6.3%)	(4.2%)	28.9%	2.5%
10 year	2.2%	3.1%	2.2%	3.5%	(6.1%)	(4.1%)	14.8%	2.6%

§§ Source: AITC.

††† 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.

Past performance is no guarantee of future performance.

# Directors' Report

The Directors have pleasure in submitting their Annual Report together with the results of the Company for the year to 31 July 2004.

## 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' Overview and Portfolio Review and the Review of Investments on the preceding pages.

## Dividend

The Board recommends a final dividend of 0.70p per ordinary share.

If approved, the recommended final dividend on the ordinary shares will be paid on 9 November 2004 to shareholders on the register at the close of business on 15 October 2004.

After payment of the dividend the accumulated revenue balance is increased by £251,000 to £1,480,000.

## 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 2003, 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 it 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

### Compliance

The Board has considered the principles set out in the 1998 Combined Code (the "1998 Code") and has also considered the revised

Combined Code on Corporate Governance (the "revised Code"), which was published in July 2003. The Board believes that the Company's current practice, given the special circumstances of an investment trust company, is in all material respects consistent with the principles of the 1998 Code and that it has taken the necessary steps to comply with the principles of the revised Code that are relevant to it.

The Board believes that the Company has complied throughout the year under review with the provisions set out in Section 1 of the 1998 Code which are relevant to it, unless otherwise stated below.

**The Board**

The Board has overall responsibility for the Company's affairs. It has a number of matters reserved for its approval including Board appointments, strategy, investment policy, borrowings, treasury matters, dividend and corporate governance policy. Full and timely information is provided to the Board to enable the Board to function effectively and to allow Directors to discharge their responsibilities. The Board also reviews the financial statements, investment transactions, revenue budgets and performance.

The Board currently comprises four Directors all of whom are non-executive and are considered to be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. Mr DCP McDougall was a senior partner of Baillie Gifford & Co until he retired on 30 April 1999. He is also a director of

The Monks Investment Trust PLC which is managed by Baillie Gifford & Co. The Board takes the view that independence is not compromised by length of service and that experience adds significantly to the strength of the Board. Given the size and composition of the Board it was not felt necessary to have a senior independent director. 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.

The Directors all have appropriate business and financial experience to enable the Board to provide effective strategic leadership and proper governance of the Company. Information about the Directors, including their relevant experience, can be found on page 5.

The number of meetings of the Board and the Audit Committee during the year and the attendance of the individual directors at those meetings is shown in the following table.

	Board	Audit Committee
<b>Number of meetings</b>	<b>6</b>	<b>2</b>
DCP McDougall	6	2
PD Griffiths*	2	1
P Mackay	6	2
JGK Matterson	5	1
Mj Morrison	5	2

\*retired 28 October 2003

Given the non-executive nature of the Board a separate nominations committee

has not been established and this function is fulfilled by the Board as a whole. An evaluation of the performance of the Board and its Directors will be carried out in 2005.

New directors appointed to the Board have a formal induction meeting with the Manager. Directors will receive other relevant training as necessary.

During the course of the year the Board reviewed its composition having regard to the present and future needs of the Company and the need for a balanced Board. Mr PD Griffiths retired during the year and Miss JGK Matterson was appointed during the year.

Under the provisions of the Company's Articles, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. The articles also require that one third of the Directors retire by rotation and submit themselves for re-election. In addition, all Directors are required to submit themselves for re-election at least every three years. Directors with more than 9 years service will be required to submit themselves for re-election annually with effect from 2005.

Mr P Mackay retires by rotation and will offer himself for re-election at the Annual General Meeting. The Board recommends his re-election to shareholders.

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

Company also maintains Directors' and Officers' Liability insurance.

#### Remuneration

Since all the Directors are non-executive, a Remuneration Committee is considered unnecessary. The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 23 and 24.

#### 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 the

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 heads of Business Risk & Internal Audit and Regulatory Risk provide the Board with regular reports on Baillie Gifford & Co's 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 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 Business Risk & Internal Audit department, in respect of its risk framework monitoring and audit programme, and the Regulatory Risk 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.

## Directors' Interests

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 2004	31 July 2003 or date of appointment
DCP McDougall	Beneficial	793,853	793,853
P Mackay	Beneficial	14,181	11,074
JGK Matterson	Beneficial	50,000	50,000
MJ Morrison	Beneficial	10,000	-

An audit committee has been established in compliance with the Combined Code consisting of all the independent non-executive directors (the entire Board). Its authority and duties are clearly defined within its written terms of reference which are available on request. The Chairman of the Board is Chairman of the Audit Committee.

The Committee meets at least twice a year to review the Company's interim and annual financial statements. The Committee keeps under review the scope and effectiveness of the external audit and considers on a regular basis the independence and objectivity of the external Auditors. It meets at least annually with the external Auditors and approves the level of fees for audit and non audit services. It also reviews regularly the terms of the Investment Management Agreement.

### Going concern

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.

### Investment Manager

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 twelve months' notice. Details of the fee arrangements with Baillie Gifford & Co are shown on page 32.

The Board considers the Company's investment management and secretarial arrangements on a continuing basis and a formal review is conducted annually. The Board considers, amongst other matters, the following topics in its review: investment performance in relation to the investment policy and strategy; the continuity of personnel managing the assets and reporting to the Board; the level of service provided in terms of accuracy and timeliness of reports to the Board and the quality of communications with shareholders. Following the most recent review the Board is of the opinion that the continued appointment of Baillie Gifford & Co as investment managers, on the terms agreed, is in the interests of shareholders.

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.

### Relations with shareholders

The Company's Managers meet regularly with shareholders and their representatives and report to the Board. The Chairman is available to meet with shareholders as appropriate. Shareholders wishing to communicate with the Chairman or any other member of the Board may do so by writing to him at the address on the back cover. The Company's Annual General Meeting provides a forum for all communication with shareholders and the Board announces the level of proxies lodged. The notice period for the Annual General Meeting is at least 20 working days.

The Company has given discretionary voting powers to the investment managers, Baillie Gifford & Co. The Managers vote against resolutions they consider may damage shareholders' rights or economic interests.

## Directors

Information about the Directors, including their relevant experience, can be found on page 5.

Mr PD Griffiths retired from the Board on 28 October 2003.

Miss JGK Matterson was appointed to the Board on 2 September 2003. Her appointment was ratified at the Annual General Meeting on 28 October 2003.

Mr P Mackay retires by rotation and being eligible offers himself for re-election.

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 257 shares on 17 August 2004 in which he has a beneficial interest.

There have been no other changes intimated in the Directors' interests up to 9 September 2004.

## Share Capital

Authority to issue shares for cash to participants of the share plan when the share

### Substantial Holdings

Name	Number of ordinary 10p shares held	% of issue
A & OT Investment Limited*	12,241,743	16.0
Rio Tinto plc	3,750,000	4.9

\*Discretionary client of Baillie Gifford & Co.

The above information has been intimated to the Company as at 9 September 2004 in compliance with section 198 of the Companies Act 1985.

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 2003 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 2004 and between 1 August 2004 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 2005 or 4 May 2006. 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 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 either 31 July 2003 or 31 July 2004.

### 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  
10 September 2004

*Baillie Gifford & Co.*

## Directors' emoluments for the year (audited)

	2004 £	2003 £
<b>Directors who served during the year:</b>		
DCP McDougall (assumed the Chair 28 October 2002)	15,000	11,052
P Mackay	10,000	8,000
JGK Matterson (appointed 2 September 2003)	7,630	-
MJ Morrison (appointed 3 September 2002)	10,000	7,288
	42,630	26,340
<b>Past Directors:</b>		
M Hamilton (Chairman, retired 28 October 2002)	-	2,926
PD Griffiths (retired 28 October 2003)	2,438	8,000
	<b>45,068</b>	<b>37,266</b>

The Directors who served in the year received the above emoluments in the form of fees.

# Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to 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 four 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 DCP McDougall, Mr PD Griffiths (retired 28 October 2003), Mr P Mackay, Miss JGK Matterson (appointed 2 September 2003), and Mr MJ Morrison. Baillie Gifford & Co, who have been appointed by the

Board as Managers and Secretaries, provide advice and comparative information 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 2005 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 any other remuneration apart from the reimbursement of allowable expenses.

The Board carried out a review of the level of Directors' fees in 2003, and concluded that the fees should be increased from £12,000 to £15,000 for the Chairman and from £8,000 to £10,000 per Director. The increase was effective from 1 August 2003.

## Sums paid to third parties (audited)

The Directors' fees payable to Miss JGK Matterson were paid to Rossie House Investment Management. The payment was for making her services available as a Director of the Company.

## 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 revised appointment letters dated 31 August 2004.

Directors' service details

	Date of appointment	Due date for re-election
DCP McDougall	25 November 1992	AGM 2005
P Mackay	27 June 2001	AGM 2004
JGK Matterson	2 September 2003	AGM 2006
MJ Morrison	3 September 2002	AGM 2005

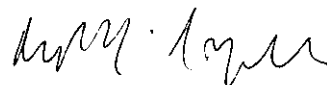
The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after their appointment. Thereafter they are obliged to retire by rotation, and, if they wish, to offer themselves for re-election, at least every three years after that. Directors with more than 9 years service will submit themselves for re-election annually with effect from 2005. There is no notice period and no provision for compensation upon early termination of appointment.

Performance Graph

Approval

The Directors' Remuneration Report on pages 23 and 24 was approved by the Board of Directors and signed on its behalf on 10 September 2004.

DCP McDOUGALL  
Chairman



Company performance

The graph opposite compares for the five financial years ending 31 July 2004, the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment 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.)

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 2004 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, Chairman's Statement, Directors and Management, Managers' Overview, Distribution of Portfolio, Twenty Largest Equity Holdings, Classification of Investments, Managers' Portfolio Review, Review of Investments, List of Investments, Ten Year Record, Directors' Report, unaudited part of the Directors' Remuneration Report, Notice of Annual General Meeting, Further Shareholder Information and Analysis of Shareholders. 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.

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 2004 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

10 September 2004

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

	Notes	for the year ended 31 July 2004			for the year ended 31 July 2003		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	9	–	5,305	<b>5,305</b>	–	2,102	<b>2,102</b>
Currency gains/(losses)	16	–	948	<b>948</b>	–	(200)	<b>(200)</b>
Income	2	1,858	–	<b>1,858</b>	1,263	–	<b>1,263</b>
Investment management fee	3	(493)	–	<b>(493)</b>	(359)	–	<b>(359)</b>
Other administrative expenses	4	(208)	–	<b>(208)</b>	(177)	–	<b>(177)</b>
<b>Net return before finance costs and taxation</b>		<b>1,157</b>	<b>6,253</b>	<b>7,410</b>	<b>727</b>	<b>1,902</b>	<b>2,629</b>
Finance costs of borrowings	5	(58)	–	<b>(58)</b>	(24)	–	<b>(24)</b>
<b>Return on ordinary activities before taxation</b>		<b>1,099</b>	<b>6,253</b>	<b>7,352</b>	<b>703</b>	<b>1,902</b>	<b>2,605</b>
Tax on ordinary activities	6	(313)	–	<b>(313)</b>	(189)	–	<b>(189)</b>
<b>Return on ordinary activities after taxation</b>		<b>786</b>	<b>6,253</b>	<b>7,039</b>	<b>514</b>	<b>1,902</b>	<b>2,416</b>
for the financial year attributable to equity shareholders							
Dividend in respect of equity shares	7	(535)	–	<b>(535)</b>	(344)	–	<b>(344)</b>
<b>Transfer to reserves</b>		<b>251</b>	<b>6,253</b>	<b>6,504</b>	<b>170</b>	<b>1,902</b>	<b>2,072</b>
<b>Return per ordinary share</b>	<b>8</b>	<b>1.03p</b>	<b>8.17p</b>	<b>9.20p</b>	<b>0.67p</b>	<b>2.49p</b>	<b>3.16p</b>

\* The revenue column of this statement is the profit and loss account of the Company.

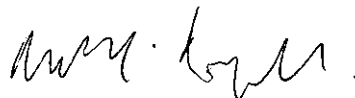
All revenue and capital items in this statement derive from continuing operations.

The accompanying notes on pages 31 to 38 are an integral part of this statement.

	Notes	at 31 July 2004		at 31 July 2003	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Investments	9		47,550		40,670
<b>Current assets</b>					
Debtors	11	268		140	
Cash at bank and in hand	10	447		623	
		715		763	
<b>Creditors</b>					
Amounts falling due within one year	12	(910)		(614)	
<b>Net current (liabilities)/assets</b>			(195)		149
<b>Total assets less current liabilities</b>			47,355		40,819
<b>Provisions for liabilities and charges</b>					
Deferred taxation	14		(50)		(18)
			<b>47,305</b>		<b>40,801</b>
<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		1,921		(5,387)
Capital reserve – unrealised	16		4,093		5,148
Revenue reserve	16		1,480		1,229
<b>Equity shareholders' funds</b>		18	<b>47,305</b>		<b>40,801</b>
<b>Net asset value per ordinary share</b>		17	<b>61.84p</b>		<b>53.34p</b>

The Accounts were approved by the Board and signed on their behalf on 10 September 2004.

DCP McDougall  
Chairman



The accompanying notes on pages 31 to 38 are an integral part of this statement.

## CASH FLOW STATEMENT

	Notes	for the year ended 31 July 2004 £'000	£'000	for the year ended 31 July 2003 £'000	£'000
Net cash inflow from operating activities	19		873		431
<b>Servicing of finance</b>					
Interest paid		(58)		(24)	
Net cash outflow from servicing of finance			(58)		(24)
<b>Taxation</b>					
Corporation tax paid		(114)		(130)	
Total tax paid			(114)		(130)
<b>Financial investment</b>					
Acquisitions of investments		(38,009)		(25,198)	
Disposals of investments		36,399		25,179	
Net cash outflow from financial investment			(1,610)		(19)
Equity dividend paid			(344)		(344)
Net cash outflow before financing			(1,253)		(86)
<b>Financing</b>					
Loans drawn down		15,215		3,603	
Loans repaid		(14,138)		(3,632)	
Net cash inflow/(outflow) from financing			1,077		(29)
Decrease in cash	20		(176)		(115)
<b>Reconciliation of net cash flow to movement in net funds</b>					
Decrease in cash in the year			(176)		(115)
Cash (inflow)/outflow from movement in bank loans			(1,077)		29
Exchange movement			1,077		(29)
Movement in net funds in the year			(176)		(115)
Net funds at 1 August			623		738
Net funds at 31 July			<b>447</b>		<b>623</b>

The accompanying notes on pages 31 to 38 are an integral part of this statement.

# Notes to Accounts

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## 1 Principal Accounting Policies

A summary of the principal accounting policies as set out in paragraphs (a) to (h) below. All have been applied consistently throughout the current and preceding year.

### (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 revised Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' issued in January 2003, which has not led to any changes in accounting policy.

### (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

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

(ii) Capital Reserves 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.

## 2 Income

	2004 £'000	2003 £'000
<b>Income from investments</b>		
Listed overseas dividends	1,811	1,246
<b>Other income</b>		
Deposit interest	47	17
<b>Total income</b>	<b>1,858</b>	<b>1,263</b>

## 3 Investment Management Fee – all charged to revenue

	2004 £'000	2003 £'000
Investment management fee	<b>493</b>	<b>359</b>

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 total assets less current liabilities and is subject to VAT at the appropriate rate.

## 4 Other Administrative Expenses – all charged to revenue

	2004 £'000	2003 £'000
General administrative expenses	154	133
Directors' fees	45	37
Auditors' remuneration – audit services	9	7
	<b>208</b>	<b>177</b>

## 5 Finance Costs of Borrowings – all charged to revenue

	2004 £'000	2003 £'000
On bank loans	<b>58</b>	<b>24</b>

## 6 Tax on Ordinary Activities – all charged to revenue

	2004 £'000	2003 £'000
UK corporation tax at 29% (2003 – 26%)	288	173
Overprovision of corporation tax previous year	(4)	–
Overseas taxation	80	62
	364	235
Relief for overseas taxation	(80)	(62)
Total current tax	284	173
Deferred taxation (note 14)	29	16
	<b>313</b>	<b>189</b>

	2004 £'000	2003 £'000
--	---------------	---------------

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	1,099	703
Revenue return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003 – 30%)	330	211
Overprovision of corporation tax previous year	(4)	–
Marginal small companies relief	(13)	(22)
Income taxable in different periods (note 14)	(29)	(16)
Current tax charge for the year	<b>284</b>	<b>173</b>

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

## 7 Ordinary Dividend

	2004	2003	2004 £'000	2003 £'000
Proposed dividend per ordinary share (payable 9 November 2004)	<b>0.70p</b>	<b>0.45p</b>	<b>535</b>	<b>344</b>

## 8 Return per Ordinary Share

	2004			2003		
	Revenue	Capital	Total	Revenue	Capital	Total
	<b>1.03p</b>	<b>8.17p</b>	<b>9.20p</b>	<b>0.67p</b>	<b>2.49p</b>	<b>3.16p</b>

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £786,000 (2003 – £514,000) and on 76,487,002 ordinary shares, being the number of ordinary shares in issue during each year.

Capital return per ordinary share is based on the net capital gain for the financial year of £6,253,000 (2003 – £1,902,000) and on 76,487,002 ordinary shares, being the number of ordinary shares in issue during each year.

## 9 Fixed Assets – Investments

	2004 £'000	2003 £'000
Listed at market value – Overseas	47,508	40,670
Unlisted†	42	–
	<b>47,550</b>	<b>40,670</b>

	Unlisted† £'000	Listed overseas £'000	Total £'000
Cost of investments held at 1 August 2003	–	35,522	<b>35,522</b>
Unrealised appreciation at 1 August 2003	–	5,148	<b>5,148</b>
Value of investments held at 1 August 2003	–	40,670	<b>40,670</b>
Movements in year:			
Purchases at cost	12	37,997	<b>38,009</b>
Sales – proceeds	–	(36,434)	<b>(36,434)</b>
– realised profit on sales	–	6,360	<b>6,360</b>
Transfer as a result of distribution	75	(75)	–
Decrease in unrealised appreciation	(45)	(1,010)	<b>(1,055)</b>
Value of investments held at 31 July 2004	<b>42</b>	<b>47,508</b>	<b>47,550</b>
Cost of investments held at 31 July 2004	87	43,370	<b>43,457</b>
Unrealised (depreciation)/appreciation at 31 July 2004	(45)	4,138	<b>4,093</b>
Value of investments held at 31 July 2004	<b>42</b>	<b>47,508</b>	<b>47,550</b>

	2004 £'000	2003 £'000
<b>Gains/(losses) on investments</b>		
Realised gains/(losses) on sales	6,360	(4,546)
(Decrease)/increase in unrealised appreciation	(1,055)	6,648
	<b>5,305</b>	<b>2,102</b>

Of the realised gains/(losses) on sales during the year a net gain of £3,204,000 (2003 – net loss of £1,783,000) was included in unrealised appreciation at the previous year end.

† Unlisted investment acquired as a distribution by its parent SPI Technologies.

## 10 Financial Assets

A full list of the Company's investments is given on pages 15 and 16. 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.

	2004 £'000	2003 £'000
<b>Portfolio (currency of listing):</b>		
Hong Kong dollar	16,826	13,705
US dollar	-	1,881
Korean won	7,141	5,685
Malaysian dollar	6,939	4,549
Singapore dollar	5,552	4,274
Taiwan dollar	5,454	3,350
Indonesian rupiah	4,927	3,596
Philippine peso	466	1,118
Thai baht	245	2,512
	<b>47,550</b>	<b>40,670</b>
<b>Cash:</b>		
UK deposits	404	536
Foreign deposits – Taiwan dollar	8	87
– US dollar	35	-
	<b>447</b>	<b>623</b>

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

Short term debtors and creditors are excluded from disclosure of financial instruments as allowed by FRS13 other than for currency disclosures. The following currency amounts are included in net current assets:

	2004 £'000	2003 £'000
<b>Income accrued:</b>		
Hong Kong dollar	-	23
Korean won	11	-
Malaysian dollar	13	7
Singapore dollar	18	1
Taiwan dollar	119	21
Indonesian rupiah	34	61
	<b>195</b>	<b>113</b>
<b>Sales for subsequent settlement:</b>		
Hong Kong dollar	37	-
Philippine peso	-	2
	<b>37</b>	<b>2</b>

Included within the analysis provided above and on pages 15 and 16 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.

	2004		2003	
	Market value £'000	Maturity date	Market value £'000	Maturity date
<b>Warrants:</b>				
Malaysian dollar	193	18/02/09	-	-
Philippine peso	-	12/11/06	-	-
Thai baht	-	-	1,040	02/09/08

## 11 Debtors

	2004 £'000	2003 £'000
<b>Amounts falling due within one year:</b>		
Income accrued (net)	195	113
Sales for subsequent settlement	37	2
Other debtors and prepayments	36	25
	<b>268</b>	<b>140</b>

## 12 Creditors – Amounts falling due within one year

	2004 £'000	2003 £'000
Proposed dividend	535	344
Corporation tax payable	205	118
Other creditors and accruals	170	152
	<b>910</b>	<b>614</b>

Included in other creditors and accruals is £118,000 (2003 – £102,000) 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 2005. In addition the Company has a £9 million multi-currency facility with The Bank of New York which expires on 7 December 2004.

The Company had no borrowings at 31 July 2003 or 2004. Foreign currency gearing is discussed in the Chairman's Statement on page 4.

Short term debtors and creditors have been excluded from the disclosure of financial instruments as allowed by FRS13.

## Gains and losses on hedges

At 31 July 2004 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

	2004 £'000	2003 £'000
Income taxable in a later period	58	29
Overseas withholding tax claimable as a deduction in a later period	(8)	(11)
	<b>50</b>	<b>18</b>
Movement in deferred taxation charge on income taxable in a later period for the year (note 6)	29	16
Movement in deferred taxation credit on overseas' withholding tax claimable in a later period	3	(7)
Net movement in deferred tax provision for year	32	9
Deferred taxation provision at 1 August	18	9
Deferred taxation provision at 31 July	<b>50</b>	<b>18</b>

## 15 Called-up Share Capital

	2004		2003	
	Number	£'000	Number	£'000
Authorised ordinary shares of 10p each	<b>113,684,758</b>	<b>11,368</b>	<b>113,684,758</b>	<b>11,368</b>
Allotted, issued and fully paid ordinary shares of 10p each	<b>76,487,002</b>	<b>7,649</b>	<b>76,487,002</b>	<b>7,649</b>

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. 1 July 2002 was the final date for the exercise of the warrants.

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 2003 or 2004.

## 15 Called-up Share Capital (continued)

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 2003 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 2004 no ordinary shares were bought back and therefore at 31 July 2004 the Company's authority to buy back its own shares remains unchanged at 11,465,401 ordinary shares. 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.

## 16 Reserves

	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 1 August 2003	(5,387)	5,148	1,229
Net gain on realisation of investments	6,360	–	–
Decrease in unrealised appreciation	–	(1,055)	–
Exchange differences on bank loans	1,077	–	–
Other exchange differences	(129)	–	–
Retained net revenue for the year	–	–	251
At 31 July 2004	<b>1,921</b>	<b>4,093</b>	<b>1,480</b>

## 17 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:

	2004	2003	2004 £'000	2003 £'000
Ordinary shares	<b>61.84p</b>	<b>53.34p</b>	<b>47,305</b>	<b>40,801</b>

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.

1 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 2003 or 2004 (see 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.

## 18 Reconciliation of Movements in Shareholders' Funds

	2004 £'000	2003 £'000
Shareholders' funds at 1 August	40,801	38,729
Total recognised gains and losses for the year	7,039	2,416
Dividend appropriated in the year	(535)	(344)
Shareholders' funds at 31 July	<b>47,305</b>	<b>40,801</b>

## 19 Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

	2004 £'000	2003 £'000
Net revenue on ordinary activities before finance costs and taxation	1,157	727
Increase in accrued income	(80)	(65)
(Increase)/decrease in debtors	(11)	16
Increase/(decrease) in creditors	18	(21)
Realised currency loss	(129)	(171)
Overseas tax suffered	(82)	(55)
	<b>873</b>	<b>431</b>

## 20 Analysis of Change in Net Funds

	At 1 August 2003 £'000	Cash flows £'000	Exchange movement £'000	At 31 July 2004 £'000
Cash	623	(176)	-	<b>447</b>
Loans due within one year	-	(1,077)	1,077	-
	<b>623</b>	<b>(1,253)</b>	<b>1,077</b>	<b>447</b>

## 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), detailed in note 13 and in the Chairman's Statement and Managers' Report, 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 (detailed in note 10) comprising an international equity portfolio which may contain overseas corporate bonds as part of its investment strategy.

The Company may, from time to time, enter into derivative transactions to hedge specific market, 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 facilities 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.

The Annual General Meeting of the Company will be held at the new offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Friday, 5 November 2004 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.

Baillie Gifford may record your call.

# 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, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Friday, 5 November 2004 at 11.30 am for the following purposes:

## Ordinary Business

1. To approve the Accounts of the Company for the year to 31 July 2004 with the Reports of the Directors and of the Auditors thereon.
2. To approve the Directors' Remuneration Report for the year to 31 July 2004.
3. To declare a dividend.
4. To re-elect Mr P Mackay as a Director.
5. To re-appoint Ernst & Young LLP as Auditors.
6. To authorise the Directors to determine the remuneration of the Auditors.

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 2005 or 4 May 2006, 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  
17 September 2004

## 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. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders entered on the Register of Members of the Company as at 6.00 pm on 3 November 2004 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the Register of Members after 6.00 pm on 3 November 2004 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
3. Shareholders participating in the Baillie Gifford Investment Trust Share Plan, Children's Savings Plan 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.

*Baillie Gifford & Co.*

## Analysis of Shareholders

	At 31 July 2004		At 31 July 2003	
	Number of shares held	%	Number of shares held	%
Institutions	35,914,436	47.0	36,822,499	48.1
Intermediaries	28,824,870	37.7	27,932,380	36.5
Individuals	6,693,916	8.7	6,420,377	8.4
Baillie Gifford Share Plans/PEP/ISA	4,719,304	6.2	4,704,863	6.2
Marketmakers	334,476	0.4	606,883	0.8
	<b>76,487,002</b>	<b>100.0</b>	<b>76,487,002</b>	<b>100.0</b>

# Further Shareholder Information

## How to Invest

The Company's shares are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker, by asking a professional adviser to do so or through the Baillie Gifford savings vehicles (see inside back cover for details).

## Sources of Further Information on the Company

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 on the Baillie Gifford website and are updated monthly. These are available from Baillie Gifford on request.

## Key Dates

Ordinary shareholders normally receive a dividend in respect of each financial year which is normally paid at the end of October or early November. The AGM is normally held in October or early November.

## Capital Gains Tax

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

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

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

Ordinary share 55.00p  
Warrant 17.00p

## Share Register Enquiries

Computershare Investor Services PLC maintains the share register on behalf of the Company. In the event of queries regarding shares registered in your own name, please contact the Registrars on 0870 702 0010. By quoting the reference number on your share certificate you can check your holding on the Registrar's website: [www-uk.computershare.com/investor](http://www-uk.computershare.com/investor).

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

- Participation in a diversified portfolio of shares.
- Constant supervision by experienced professional managers.
- The Company is free from capital gains tax on capital profits realised within its portfolio.

These accounts have been approved by the Directors of Pacific Horizon Investment Trust PLC. Baillie Gifford Savings Management

Limited is the ISA Manager of the Baillie Gifford Investment Trust ISA, the PEP Manager of the Baillie Gifford Investment Trust PEP and the Manager of the Baillie Gifford Investment Trust Share Plan and Children's Savings Plan. Baillie Gifford Savings Management Limited is wholly owned by Baillie Gifford & Co. Both are authorised and regulated by the Financial Services Authority. Baillie Gifford only provides information about its products and does not provide investment advice. The staff of Baillie Gifford may have positions in Pacific Horizon and may buy, sell or offer to make a purchase or sale of Pacific Horizon shares from time to time subject to Baillie Gifford's personal account dealing rules.

The value of ISA and PEP tax advantages will depend on personal circumstances. Tax rates and reliefs may change in the future. Past performance is no guarantee of future performance. The capital value of and income distributed by an investment trust can go down as well as up and an investor may not get back the amount originally invested. The price of an investment trust share will fluctuate in accordance with supply and demand and may not reflect the underlying net asset value.

Pacific Horizon's shares are traded on the London Stock Exchange. They can be bought through a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles – see below.

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

You can invest from £250 or from £30 per month. The plan is designed to be a cost-effective way of saving on a regular or lump sum basis.

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

You can invest in a tax efficient way by investing a minimum of £2,000 or from £250 per month or by transferring an ISA with a value of at least £2,000 from your existing manager.

#### **Baillie Gifford's Children's Savings Plan**

A cost-effective plan tailored especially to meet the requirements to save for children. You can invest a minimum of £250 or from £30 per month.

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

You can transfer an existing PEP to access a different market or to change your investment manager (minimum value of £2,000).

#### **Further Information**

Retail Investments Department  
Baillie Gifford Savings Management Limited  
Calton Square  
1 Greenside Row  
EDINBURGH EH1 3AN

Tel: 0800 027 0133  
We may record your call

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Website: [www.bailliegifford.com](http://www.bailliegifford.com)

Fax: 0131 275 3955

**Directors**

Chairman:  
DCP McDougall OBE  
  
P Mackay CB  
JGK Matterson  
MJ Morrison

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Company registration No. 2342193

**Managers and Secretaries**

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