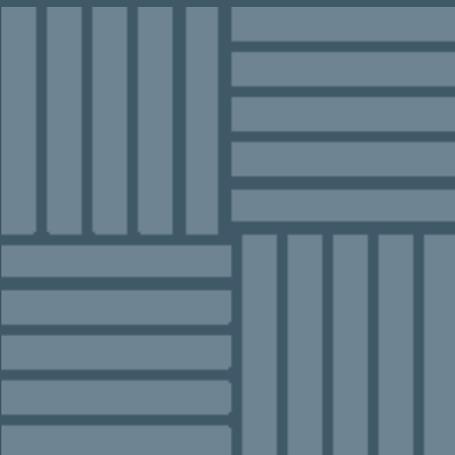
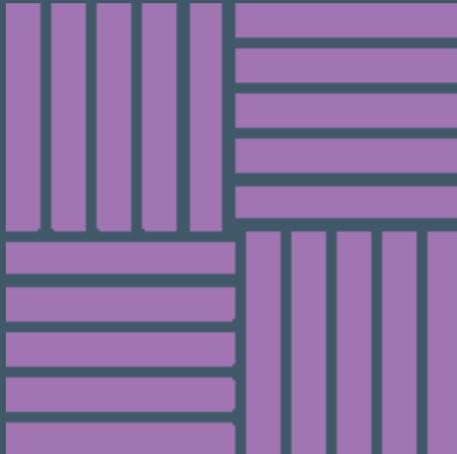
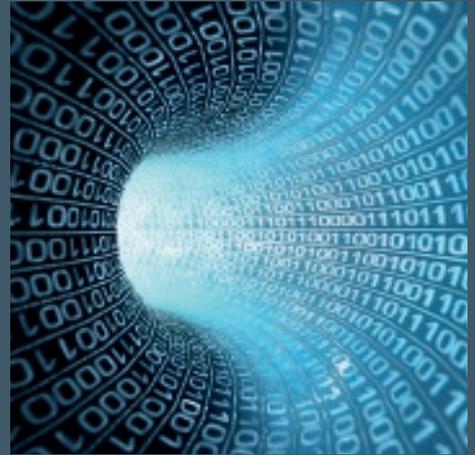
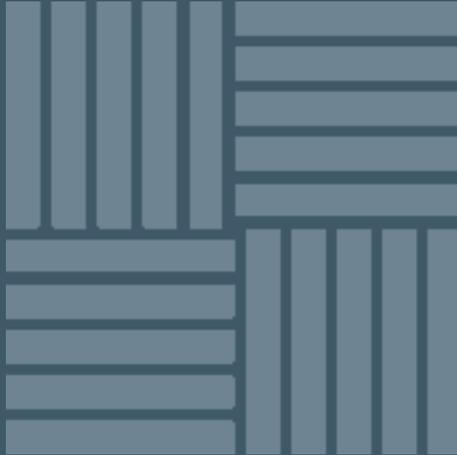


# PACIFIC HORIZON INVESTMENT TRUST PLC

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## 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 as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Conduct Authority.

Pacific Horizon Investment Trust PLC currently conducts its affairs, and intends to continue to conduct its affairs, so that the Company's Ordinary Shares can qualify to be considered as a mainstream investment product and can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the rules of the Financial Conduct Authority (FCA) in relation to non-mainstream investment products.

### **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser.

If you have sold or otherwise transferred all of your ordinary shares in Pacific Horizon Investment Trust PLC, please forward this document, together with any accompanying documents, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee.

## Company Summary

Pacific Horizon's objective is to invest in the Asia-Pacific region (excluding Japan) and in the Indian Sub-continent in order to achieve capital growth.

### Investment Policy

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.

Further details of the Company's investment policy are given in the Business Model and Review on page 7.

### Comparative Index

The principal index against which performance is measured is the MSCI All Country Asia ex Japan Index (in sterling terms).

### Management Details

In order to comply with the Alternative Investment Fund Managers Directive, the Company has appointed Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, as its Alternative Investment Fund Manager ("AIFM") and Company Secretary with effect from 1 July 2014. The investment management agreement with Baillie Gifford & Co has been terminated and the Company has entered into a new agreement with Baillie Gifford & Co Limited. The management fee and notice period are unchanged under these new arrangements. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co; therefore the Company's portfolio continues to be managed by Baillie Gifford & Co. The Managers may terminate the Management Agreement on six months' notice and the Company may terminate on three months' notice.

### Management Fee

The annual management fee payable is 0.95% on the first £50m of net assets and 0.65% on the balance. Management fees are calculated on a quarterly basis.

### Capital Structure

At the year end the Company's share capital consisted of 70,126,152 ordinary shares of 10p each which are issued and fully paid. The Company currently has powers to buy back a limited number of its own ordinary shares for cancellation at a discount to net asset value per share (NAV) as well as to issue shares at a premium to NAV. The Company has also obtained shareholder approval to implement, at the Board's discretion, a bi-annual tender offer. At the forthcoming Annual General Meeting, the Directors are seeking to renew these authorities. Further information is given on pages 22 and 23.

### Savings Vehicles

Pacific Horizon shares can be held through a variety of savings vehicles (see page 48).

### AIC

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

### Duration of the Company

Shareholders are given the opportunity to vote on the continuation of the Company every five years. The next vote will be at the Annual General Meeting of the Company to be held in 2016.

## Strategic Report

This Strategic Report, which includes pages 2 to 15 and incorporates the Chairman's Statement has been prepared in accordance with the Companies Act 2006.

## Chairman's Statement

### Performance

In the year to 31 July 2014, the Company's net asset value per share (NAV) rose 10.4% which compares favourably against the equivalent 4.0% increase in the comparative index, MSCI All Country Asia ex Japan Index (in sterling terms). The share price increased by 13.4% and the discount narrowed from 13.9% to 11.5%. The Managers' Review on pages 9 and 10 provides a more detailed review of the Company's performance along with comment on the various markets in which the Company invests.

The Board is pleased to report a significant improvement in the Company's results. The Board holds regular discussions with the Managers about the performance of the Company's investment portfolio: it is pleasing to note that the Managers have achieved not only positive returns, but also strong outperformance against the comparative benchmark and the majority of the peer group over the period.

Earnings per share decreased from 1.66p to 1.40p. The Board is recommending that a final dividend of 1.40p (2013 – 1.50p) should be paid. The ongoing charges of the Company were 1.01% (2013 – 1.15%).

Ewan Markson-Brown was appointed as portfolio manager in March 2014, with Roderick Snell as deputy, when Mike Gush stepped down. The Managers' investment process, philosophy and investment style has remained unchanged.

### Share Buy-backs and Discount

At the 2013 AGM, the Company obtained shareholder approval to implement, at the Board's discretion, a bi-annual tender offer for up to 5% of the Company's shares at a 2% discount to NAV, less costs, in the event that the discount averaged more than 9% during the six month periods to 31 January and 31 July 2014.

Over the first six month period to 31 January 2014, the Company's average discount was 11.3% and the Board implemented a 5% tender offer in April. The Company's average discount for the six month period to 31 July 2014 was 10.2% and it has been decided to implement a 5% tender offer in respect of that period, applicable to shareholders on the register on 13 August 2014. Details of how to tender your shares in respect of this 5% tender offer are contained within the Circular accompanying this Report.

In addition to the bi-annual tender offers, the Company has authority to buy back up to 14.99% of its shares on an ad hoc basis. The Board uses this authority opportunistically, taking into account not only the level of the discount but also the underlying liquidity and trading volumes in the Company's shares. This approach allows the Board to seek to address any imbalance

between the supply and demand for the Company's shares that results in a large discount to NAV; the Board is also mindful that current and potential shareholders require ongoing liquidity.

Through the exercise of both of these authorities, the Company bought back a total of 3,845,850 ordinary shares, representing 5.2% of the issued share capital as at 31 July 2013 during the year, at a cost of £6,966,000.

Subject to receiving the necessary shareholder approval at the forthcoming AGM, the Board intends to renew the bi-annual 5% tender offers, on the same terms as approved at the 2013 AGM, for the six month periods to 31 January 2015 and 31 July 2015. Shareholders should note that these tender offers will, however, remain at the discretion of the Board and will be subject to prevailing market conditions, so they should place no expectation on these tender offers being implemented as a matter of course. If such a tender offer is implemented, a separate circular and tender form will be sent to shareholders which will set out the full terms and conditions of the tender offer and the procedure for tendering shares. At the forthcoming AGM, the Board will also be asking shareholders to renew the mandate to repurchase up to 14.99% of the outstanding shares. Further details on both resolutions are set out in the Directors' Report on pages 22 and 23.

### Gearing

The Company utilised a modest amount of gearing towards the end of its financial year by drawing down US\$7 million under its credit facility with The Bank of New York Mellon to fund investment in a basket of Korean biotech companies. At the year end, net gearing was equal to 2% of shareholders' funds. Gearing was last used in 2006.

### Contractual Arrangements

In order to comply with the requirements of the EU Alternative Investment Fund Managers Directive, the Company has appointed Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, as its Alternative Investment Fund Manager ("AIFM") and Company Secretary with effect from 1 July 2014. The Company's existing investment management agreement with Baillie Gifford & Co has been terminated. The new management agreement is made on the same commercial terms as the previous agreement with Baillie Gifford & Co. Under these new arrangements, the Company's portfolio will continue to be managed by Baillie Gifford & Co by way of a delegation agreement between Baillie Gifford & Co Limited and Baillie Gifford & Co. In addition the Company has appointed BNY Mellon Trust & Depositary (UK) Limited as its Depositary.

Past performance is not a guide to future performance.

## Annual General Meeting

This year's AGM will take place on 30 October 2014 at the offices of Baillie Gifford & Co in Edinburgh at 3.30pm. The Managers will make a presentation and, along with the Directors, will answer any questions from shareholders. I hope to see as many of you as possible there.

## Outlook

Asian markets continue to make progress, with a particularly strong performance from India following the election. Stocks in many of the geographic areas in which the Company invests appear better value than in many developed markets and the Board is optimistic that the Managers can capitalise on the growth prospects in the region over the medium to long term through an unchanged strategy of selecting sound companies at attractive valuations.

Jean Matterson  
Chairman  
12 September 2014

## One Year Summary

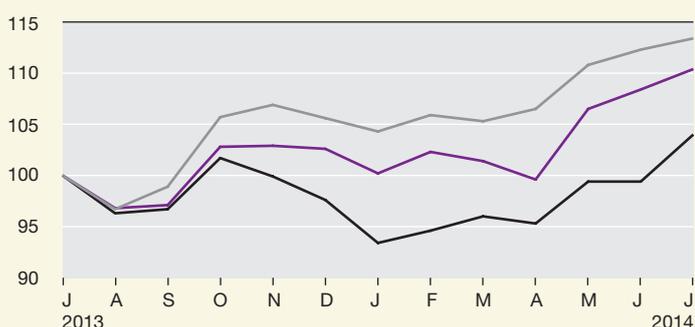
	31 July 2014	31 July 2013	% change
Total assets*	£145.1m	£134.6m	
Borrowing	£4.1m	–	
Shareholders' funds	£140.9m	£134.6m	
Net asset value per ordinary share (NAV)	200.95p	182.01p	10.4
Share price	177.75p	156.75p	13.4
MSCI All Country Asia ex Japan Index (in sterling terms)	354.6	341.0	4.0
Dividend proposed per ordinary share in respect of the financial year	1.40p	1.50p	(6.7)
Revenue earnings per ordinary share	1.40p	1.66p	(15.7)
Ongoing charges	1.01%	1.15%	
Discount	11.5%	13.9%	

Year to 31 July	2014	2014	2013	2013
<b>Year's high and low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
Share price	182.50p	147.50p	175.00p	143.75p
Net asset value	202.58p	171.82p	197.85p	166.86p
Discount	6.80%	15.0%	9.4%	15.1%

	31 July 2014	31 July 2013
<b>Net return per ordinary share</b>		
Revenue return	1.40p	1.66p
Capital return	18.32p	9.62p
<b>Total return</b>	<b>19.72p</b>	<b>11.28p</b>

## One Year Performance

(figures rebased to 100 at 31 July 2013)



Source: Thomson Reuters Datastream/Baillie Gifford & Co.  
Dividends are not reinvested.

— NAV (Cum Income)

— Share price

— Comparative index\*

\* MSCI All Country Asia ex Japan Index (in sterling terms).

\* Total assets less current liabilities, before deduction of borrowings.

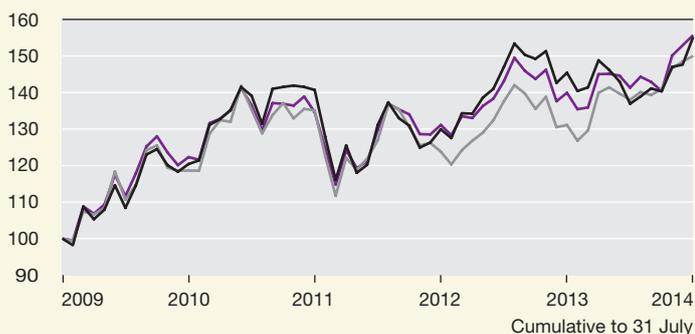
Past performance is not a guide to future performance.

## Five Year Summary

The following charts indicate how Pacific Horizon has performed relative to its comparative index\* and the relationship between share price and net asset value over the five year period to 31 July 2014.

### 5 Year Total Return Performance Share Price, Net Asset Value and Index

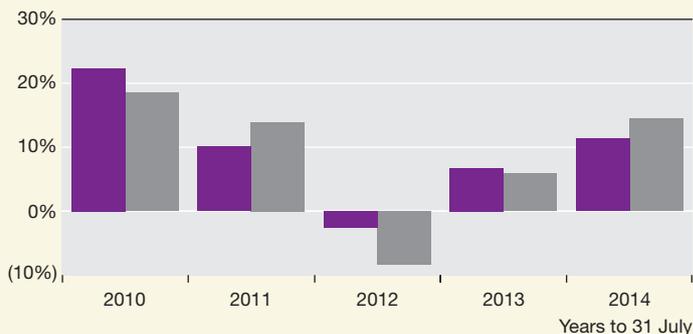
(figures rebased to 100 at 31 July 2009)



Source: Thomson Reuters Datastream/Baillie Gifford & Co. Dividends are reinvested.

- NAV total return
- Share price total return
- Comparative index total return\*

### Annual Share Price Total Return and NAV Total Return

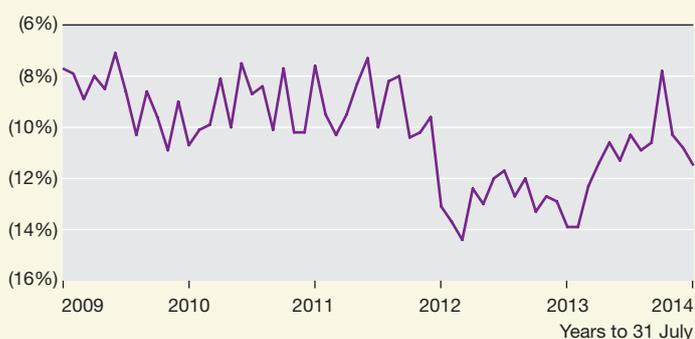


Source: Thomson Reuters Datastream/Baillie Gifford & Co. Dividends are reinvested.

- NAV total return
- Share price total return

### Discount to Net Asset Value

(figures plotted on a monthly basis)

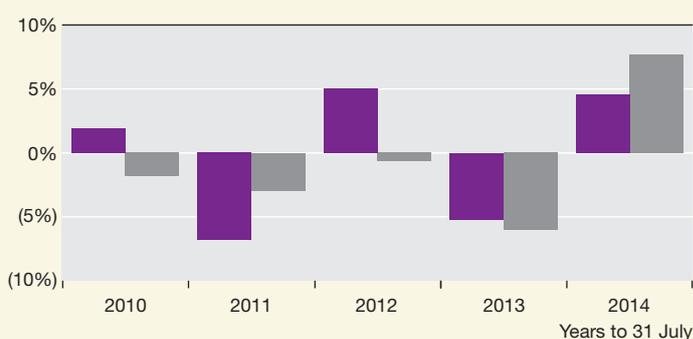


Source: Thomson Reuters Datastream/Baillie Gifford & Co.

— Pacific Horizon discount  
The discount is the difference between Pacific Horizon's quoted share price and its underlying net asset value.

### Relative Annual Share Price Total Return and NAV Total Return

(compared to the MSCI All Country Far East ex Japan Index total return (in sterling terms) for the years 2010 and 2011 and compared to the MSCI All Country Asia ex Japan Index for the years 2012 to 2014)



Source: Thomson Reuters Datastream/Baillie Gifford & Co. Dividends are reinvested.

- NAV total return compared to the total return on the comparative index
- Share price total return compared to the total return on the comparative index

\* On 1 August 2011 the Company changed its comparative index from the MSCI All Country Far East ex Japan Index (in sterling terms) to the MSCI All Country Asia ex Japan Index (in sterling terms). For the purposes of the above graphs the returns on both comparative indices for their respective periods have been linked to form a single comparative index.

Past performance is not a guide to future performance.

## Ten Year Record

### Capital

At 31 July	Total assets* £'000	Bank loans £'000	Shareholders' funds £'000	Net asset value per share p	Share price p	Premium/(discount) † %
2004	47,305	–	47,305	61.84	56.75	(8.2)
2005#	67,374	–	67,374	88.09	85.50	(2.9)
2006	88,971	7,581	81,390	106.41	101.25	(4.8)
2007	130,077	–	130,077	166.90	171.75	2.9
2008	105,168	–	105,168	134.34	129.25	(3.8)
2009	105,851	–	105,851	135.21	124.75	(7.7)
2010	127,939	–	127,939	163.42	146.00	(10.7)
2011	137,350	–	137,350	178.53	165.00	(7.6)
2012	129,097	–	129,097	172.01	149.50	(13.1)
2013	134,638	–	134,638	182.01	156.75	(13.9)
<b>2014</b>	<b>145,063</b>	<b>4,146</b>	<b>140,917</b>	<b>200.95</b>	<b>177.75</b>	<b>(11.5)</b>

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

† Premium/(discount) is the difference between Pacific Horizon's quoted share price and its underlying net asset value expressed as a percentage of net asset value.

# The figures prior to 2005 have not been restated for changes in accounting policies implemented in 2006.

### Revenue

Year to 31 July	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings per ordinary share ‡ p	Dividend per ordinary share net p	Ongoing charges ¶ %
2004	1,858	786	1.03	0.70	1.42
2005	2,384	1,123	1.47	1.10	1.32
2006	2,887	1,160	1.51	1.10	1.32
2007	3,031	1,124	1.45	1.10	1.26
2008	3,602	1,491	1.91	1.30	1.21
2009	3,579	1,915	2.44	1.80	1.31
2010	2,999	1,295	1.65	1.30	1.24
2011	3,441	1,546	1.98	1.50	1.22
2012	3,234	1,491	1.97	1.50	1.26
2013	2,967	1,242	1.66	1.50	1.15
<b>2014</b>	<b>2,550</b>	<b>1,019</b>	<b>1.40</b>	<b>1.40</b>	<b>1.01</b>

### Gearing Ratios

Gearing § %	Potential gearing ^ %
(1)	–
(1)	–
6	9
(1)	–
(5)	–
(2)	–
(2)	–
(1)	–
(2)	–
(1)	–
<b>2</b>	<b>3</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 35).

¶ Total operating costs divided by average net asset value (with debt at fair value).

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

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

### Cumulative Performance (taking 2004 as 100)

At 31 July	Net asset value per share	Net asset value total return**	Share price**	Share price total return**	Comparative Index †† (in sterling terms)**	Comparative Index †† (in sterling terms) total return**	Revenue earnings per ordinary share	Retail price index**
2004	100	100	100	100	100	100	100	100
2005	142	143	151	152	138	142	143	103
2006	172	174	178	183	147	156	147	106
2007	270	279	303	313	203	222	141	111
2008	217	224	228	237	177	199	185	115
2009	219	227	220	232	192	222	237	114
2010	264	280	257	275	225	268	160	120
2011	289	308	291	313	256	313	192	126
2012	278	299	263	287	230	289	191	130
2013	294	320	276	304	251	323	161	134
<b>2014</b>	<b>325</b>	<b>356</b>	<b>313</b>	<b>348</b>	<b>261</b>	<b>345</b>	<b>136</b>	<b>137</b>

#### Compound annual returns

5 year	8.2%	9.4%	7.3%	8.4%	6.3%	9.2%	(10.5%)	3.7%
10 year	12.5%	13.5%	12.1%	13.3%	10.1%	13.2%	3.1%	3.2%

\*\* Source: Thomson Reuters Datastream.

†† On 1 August 2011 the Company changed its comparative index from the MSCI All Country Far East ex Japan Index (in sterling terms) to the MSCI All Country Asia ex Japan Index (in sterling terms). For the purposes of the above tables the returns on both comparative indices for their respective periods have been linked to form a single comparative index.

Past performance is not a guide to future performance.

## Business Model and Review

### Business and Status

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and carries on business as an investment trust. Investment trusts are UK public listed companies and their shares are traded on the London Stock Exchange. They invest in a portfolio of assets in order to spread risk and are close ended, which means that they have a fixed number of shares in issue at any one time and the price of those shares is determined, like other listed shares, by supply and demand.

The Company has been approved as an investment trust by HM Revenue & Customs subject to the Company continuing to meet the eligibility conditions. The Company intends to conduct its affairs so as to enable it to comply with the ongoing requirements of Section 1158.

### Objective

The Company's objective is to invest in the Asia-Pacific region (excluding Japan) and in the Indian Sub-continent 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.

### Investment Policy

Pacific Horizon aims to achieve capital growth principally through investment in companies listed on the stock markets of the Asia-Pacific region (excluding Japan) and the Indian Sub-continent. The Company may also invest in companies based in the region and in investment funds specialising in the region or particular countries or sectors within it even if they are listed elsewhere. The maximum permitted investment in one company is 15% of gross assets.

The portfolio contains companies which the Managers have identified as offering the potential for long term capital appreciation, irrespective of whether they comprise part of any index. The portfolio is actively managed and will normally consist entirely of quoted equity securities although unlisted companies, fixed interest holdings or other non equity investments, may be held. The Company is also permitted to invest in other pooled vehicles (general, country and sector specific) that invest in the markets of the region.

In constructing the equity portfolio a spread of risk is created through diversification and the portfolio will typically consist of between 40 and 120 holdings. Although sector concentration and the thematic characteristics of the portfolio are carefully monitored, no maximum limits to stock or sector weights have been set by the Board except as imposed from time to time by banking covenants on borrowings.

The Company may use derivatives which will be principally, but not exclusively, for the purpose of reducing, transferring or eliminating investment risk in its investments. These typically take the form of index futures, index options and currency forward transactions.

The Company has a maximum approved equity gearing level of 50% of shareholders' funds but, in the absence of exceptional market conditions, equity gearing is typically less than 25% of shareholders' funds. Borrowings are invested in securities when it is considered that investment opportunities merit the Company taking a geared position. The Company is also permitted to be less than fully invested. Cash and equity gearing levels, and the extent of gearing, are discussed by the Board and Managers at every Board meeting.

### Performance

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives.

### Key Performance Indicators

The key performance indicators (KPIs) used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- the movement in net asset value per ordinary share;
- the movement in the share price;
- the premium/(discount);
- the movement in the comparative index (MSCI All Country Asia ex Japan Index (in sterling terms)); and
- the ongoing charges.

The one, five and ten year records for the KPIs can be found on pages 4, 5 and 6 respectively.

### Borrowings

The Company has a £20 million uncommitted revolving credit facility with the Bank of New York Mellon. At 31 July 2014 there were outstanding drawings of US\$7 million.

### Principal Risks

As explained on page 18 there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The principal risks associated with the Company are as follows:

**Market Risk** – The Company's assets consist mainly of listed securities and its principal risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks and how they are managed are contained in note 18 to the financial statements on pages 39 to 43.

**Regulatory Risk** – failure to comply with applicable legal and regulatory requirements such as the tax rules for investment companies, the UKLA Listing Rules and the Companies Act could lead to the Company being subject to tax on capital gains, suspension of the Company's Stock Exchange Listing, financial penalties or a qualified audit report. Baillie Gifford's Internal Audit and Compliance Departments provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes.

Major regulatory change could impose disproportionate compliance burdens on the Company. In such circumstances representation is made to ensure that the special circumstances of investment trusts are recognised.

**Operational Risk** – risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Managers' Business Risk and Internal Audit Departments provide regular reports to the Audit Committee. The Board also reviews the Managers' Report on Internal Controls and the reports by other key service providers are reviewed by the Managers on behalf of the Board. In addition, the Managers have a comprehensive business continuity plan which facilitates continued operations of the business in the event of a service disruption or major disaster.

**Discount Volatility** – the discount at which the Company's shares trade can widen. The Board monitors the level of discount and the Company has authority to buy back its own shares. In addition, the Board is seeking shareholders' approval at the forthcoming Annual General Meeting to renew the authority to implement tender offers.

**Gearing Risk** – the Company may borrow money for investment purposes. If the investments fall in value, any borrowings will magnify the extent of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings.

All borrowings require the prior approval of the Board and gearing levels are discussed by the Board and Managers at every meeting. The majority of the Company's investments are in quoted securities that are readily realisable.

**Political Risk** – although Pacific Horizon is an English Company, the Board is aware that the outcome of the Scottish Referendum Vote, which is unknown at the date this report was approved, introduces elements of political uncertainty which may have practical consequences; developments will be monitored closely and considered by the Board and Managers. The Referendum is only one of a variety of political risks facing the Company which are considered by the Board on a regular basis.

### **Employees, Human Rights and Community Issues**

The Board recognises the requirement to provide information about employees, human rights and community issues. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced, these requirements do not apply to the Company.

### **Gender Representation**

The Board comprises four Directors, two male and two female. The Company has no employees. The Board's policy on diversity is set out on page 17.

### **Environmental, Social and Governance Policy**

Details of the Company's policy on socially responsible investment can be found under Corporate Governance and Stewardship on page 20.

## Managers' Review

### Overview

The Company performed strongly over the last twelve months; net asset value increased by 10.4% in sterling terms whilst performance relative to the comparative index, which increased by 4.0%, was also good. Much of the outperformance occurred in the first half of the year, especially during November and December 2013. Consistent with our fundamental, bottom up investment style, it is individual investments within the portfolio rather than specific sector or geographic exposures that have driven enhanced returns for our shareholders.

In recent years, the Company's philosophy of securing investments in companies with good long term growth prospects has been out of favour. Investment in companies displaying 'earnings certainty' is seen as a particularly attractive safe haven at a time of global economic volatility. A good example of the consequences of this approach has been the outperformance of investments in the consumer staples sector – a low exposure for the Company – where companies showing healthy, albeit unexciting, growth have been re-rated as investors seek less perceived risk in an uncertain investment environment. In contrast, our approach to investment is very different; the corporate characteristics we look for include strong growth potential, sustainable competitive advantages, attractive financials and sensible management. In addition, we continue to target stocks with what we consider to be very significant long term opportunities for enhanced future profitability, where a wider range of positive potential outcomes may lead to current mispricing.

Evidence over the last twelve months suggests that the relative attraction of so-called safe haven 'steady earnings' stocks appears to be waning as the market realises that the macro-economic environment may not be as bad as previously thought. This is leading to a positive re-rating of many of the companies we hold. This move by the market to reconsider companies with greater potential for long term growth, notwithstanding a more volatile earnings outlook, comes at an opportune time, as many companies are exhibiting rapid earnings increases.

### Investment Background

The last twelve months have been volatile for Asian economies. China has gone through a significant slowdown in GDP growth, leading to a stalled economy in the first quarter of 2014, before the current rebound. In India, despite slowing GDP growth, the election of Narendra Modi was viewed positively by the markets and contributed to improving expectations on reform and the future growth of its economy. In the first half of last year, talk of tapering by the Federal Reserve led to a "temper tantrum" by stock markets and a strong sell-off of equities and currencies of the so-called "fragile-five", Indonesia, Turkey, Brazil, South Africa and India.

We expect the US economy to recover gradually but at a pace that does not elicit either a strong wage response or a significant tightening cycle. We note that the US current account deficit has continued to contract within this economic upcycle, an unusual event which may indicate an economic renaissance for the US, especially in the energy and manufacturing sectors. This would affect the rest of the world in two ways; firstly, a shrinkage of dollars available to facilitate global trade and, secondly, a deceleration of US imports. This may have been the cause of the

very weak export growth from Asia over the last twelve months; however, we are anticipating gradual improvement here. More importantly, from the perspective of our portfolio, we see the potential advent of a new global capital expenditure cycle, one both focused on technology investment rather than fixed assets and driven by the exponential growth in data usage due to smartphone penetration and the resultant changes in consumer behaviour.

Our technology holdings should be well-placed to benefit from such a development. Examples of our technology focussed holdings include the Taiwanese integrated circuit design company MediaTek, Chinese internet business Tencent, Indian IT services business Tech Mahindra and Taiwan Semiconductor Manufacturing (TSMC), a Taiwanese foundry which manufactures semiconductor chips.

The expected rate and composition of the economic growth of China has a significant impact on the investment environment for a large number of companies in our investment universe. Here, economic growth has slowed considerably and expectations are for this to continue for the next few years. The Chinese government has embarked on a reform drive that we believe will, in the medium term, have profound effects on the economy and region. It seems that China's recent approach to generating economic growth, one of moving underutilised assets into more efficient production processes, i.e. farm labourers into manufacturing workers, is having less of a positive impact. There is potential for a new model of growth to develop, one of commercial and industrial transformation based on R&D, creative industries and innovation. It appears that the Chinese government recognises the necessity of these changes, although the existence of large vested interests will make the move from a state-run asset heavy growth model to a private sector innovation growth model slow and difficult. Despite these issues, many companies will benefit from such a shift in emphasis. Historically, stock markets have tended to reward companies and economic systems where it is believed pro-market reforms are being implemented.

This transition from an investment-led to an innovation-led Chinese economy significantly influences our investment approach. The Company has limited holdings in the materials sector at present, driven by a belief that weakening investment spending from China will likely have a detrimental effect on the demand for commodities in general. We are cautious on the outlook for the high-end property and luxury retail sectors. These are areas that have benefited hugely from excess profits accruing to a narrow segment of society and current returns are unlikely to be sustained; we have seen weakness in these areas and expect more problems to come. Our preference is to invest in those areas likely to benefit from this economic shift, such as Sinopec and Towngas China in the gas industry, where State Owned Enterprise reform is already occurring, or those operating in the internet environment, such as Baidu, JD.com and Tencent.

Over the past year India has undergone the greatest change of perception in any country within our investment universe. In August 2013, the currency was in freefall as the market fretted about the deficits in the national budget and in foreign trade, and the failure of the political system to facilitate growth. Today, the

currency has appreciated mildly whilst the stock market is at an all-time high following the election of India's first pro-reform majority government since independence in 1947. Here, we believe the economic and political outlook is highly favourable for companies and stock investors, both from a cyclical, given the steep declines in growth over the last two years, and a longer-term perspective. Historically, the first three years of a new government in India have tended to be highly positive for stock market returns and we believe that the current improving economic environment is conducive for such a scenario.

We see the rise of mobile communications use in Asia as an enabler in breaking down previous barriers to entry for many companies, increasing competition and forcing all companies to have a digital strategy. Given the technology and export focus of Korean and Taiwanese industry, these former 'Tiger economies' are well placed to capitalise on the regional corporate need to upgrade technology systems. Companies that should be beneficiaries of this include SK Hynix, Advantech and Phison.

The other challenge we highlighted last year was investor euphoria surrounding some of the smaller emerging ASEAN markets; as a result, the Company has low investment exposure here. We remain resolute in our view that, in the absence of social and political reform, these economies are doing little more than storing up problems for the future. Foreign investment flows have added additional 'froth' to both debt and equity valuations which, in our view, makes the better performing companies, look expensive despite specific investment attractions. We believe these countries' credit cycles are over extended and they do not seemingly benefit from the innovation led growth, which is where we believe there are fundamental investment opportunities. The Company's exposure to these markets remains limited.

### Portfolio Review

Technology companies now account for over forty percent of the Company's investments by value, a function of the number of what we consider to be exciting opportunities for investment in this sector. Rather than being a homogenous group, the underlying companies benefit from a number of different commercial advantages. The largest single holding for the Company is Samsung Electronics, a company that has invested billions of dollars in successful innovation over many years. During the year we bought SK Hynix, the world's second largest producer of DRAM (memory chips) behind Samsung. Other globally competitive holdings include TSMC, the world's largest foundry business, and Hon Hai Precision Industries, the world's largest electronic manufacturing service provider. It is difficult to imagine a home anywhere in the developed world that does not contain at least one product that has passed through the facilities of one of these two companies.

A second group of technology companies comprise of the internet businesses Baidu, Tencent, JD.com, Naver, Sohu, Yukou, Just Dial and Jumei International Holdings. These make up the largest absolute industry weight within the portfolio at 16%. Internet holdings have been part of the portfolio for a number of years. In our view, each investment demonstrates a combination of strong growth potential, excellent business models and an entrepreneurial management approach.

A new addition to the technology holdings has been JD.com, the largest Chinese B2C retailer which also has one of the strongest logistics networks within the country. In India, we have bought into Just Dial, an internet local search engine which has the potential to dominate the online market for smaller and medium sized national enterprises. Another technology company in the top ten list of holdings is MediaTek. This business is benefiting from many of the same opportunities as Samsung Electronics and TSMC, particularly the global shift to mobile computing, although its focus is on lower end customers in developing markets.

The financial sector represents the Company's second largest position although we do not hold banks in a number of the larger countries – China, Korea and Taiwan – where we feel returns are likely to be challenged or depressed for many years. In line with our investment approach, holdings are focused on the merits of the individual companies, be it the turnaround potential that new management brings at Federal Bank or new holdings like ICICI, where we see the return of a structural growth story. Insurance is an altogether more exciting prospect for us; the Company holds significant positions in the Korean insurers Samsung Fire & Marine and Hyundai Marine & Fire and in China Life Insurance (Taiwan). These should all benefit from a number of fundamental social and economic changes in the coming years, such as demographics, increased financial sophistication, increasing wealth and consequent development of the insurance markets to provide mitigation for the increased risks to which a more wealthy society is exposed.

In the energy sector we sold our investment in Kunlun Energy, previously one of our largest holdings, as worries over Chinese anti-corruption investigations stymied the investment case and the shares were subsequently de-rated.

The overall shape of the portfolio has not changed greatly over the last year, although we have been increasing weightings in areas where we believe significant opportunities exist for investment outperformance, for instance in India. The largest country exposures are Hong Kong and China, followed by Korea and then Taiwan. The Company retains little exposure to the smaller ASEAN markets. By sector, aside from the largest two sectors discussed above, there have only been minor changes; excessive valuations amongst companies in the consumer sectors have led to further reductions in this part of the portfolio.

We have also bought our first significant holdings in the healthcare market, Naturalendo in Korea which produces a patented health drug recently launched in the US market, and a number of Korea biotech companies where we see significant potential. These investments represent a higher than normal level of volatility in both their share price and future revenue and profit generation potential; the risk of short-term losses is high. These holdings were funded using a small amount of gearing, for which we used our current borrowing facilities.

### Outlook

It is our view that there is significant potential for positive returns from our region over the coming years. Our focus remains on investment in individual stocks which will benefit from the economic, social and technological changes which are in evidence across the region. We believe that our philosophy, process and investment style will reward our shareholders over the medium to long term.

## Review of Investments

A review of the Company's ten largest investments as at 31 July 2014 is given below and on the following page.

### Tencent Holdings

Tencent hosts the largest online community in China offering its customers a wide range of services, from instant messaging to online games to social networking. The dynamics of the Chinese internet industry are very positive as Chinese consumers are increasingly adopting the internet as a preferred channel for media distribution. Penetration is low, but rising rapidly, and mobile broadband delivery is likely to be especially popular in a country which has enthusiastically embraced mobile devices. Tencent is well positioned to benefit from these trends and the increasing monetisation of its customer base over time.

Country	Hong Kong and China
Valuation	£9,039,000
% of total assets*	6.2%
(Valuation at 31 July 2013)	£3,947,000)

### Samsung Electronics

Samsung Electronics is one of the leading electronics companies in the world. Its principal products include memory chips for computers, LCD panels for computer monitors and TVs and mobile phones. With a strong balance sheet, valuable brand, scalable business model and stable management team, the company generates returns well in excess of its cost of capital.

Country	Korea
Valuation	£8,120,000
% of total assets*	5.6%
(Valuation at 31 July 2013)	£8,568,000)

### Taiwan Semiconductor Manufacturing ('TSMC')

TSMC is the largest foundry company in the world manufacturing semiconductor chips for some of the world's largest design companies. The company benefits from competitive advantages derived from technology leadership, scale and efficiency which enable it to lower costs faster than its competitors. TSMC operates in a cyclical industry, though its business model and the continued outsourcing of semiconductor manufacturing has enabled it to demonstrate that it can achieve good returns and growth through the cycle.

Country	Taiwan
Valuation	£6,712,000
% of total assets*	4.6%
(Valuation at 31 July 2013)	£6,858,000)

### Baidu

Baidu is the leading internet search platform in China. It benefits from a rapidly expanding internet community and customer base. The company is the clear leader in its market, with attractive financial characteristics and the ability to reinvest capital at very high incremental rates of return.

Country	Hong Kong and China
Valuation	£4,568,000
% of total assets*	3.1%
(Valuation at 31 July 2013)	£3,840,000)

### Tech Mahindra

Tech Mahindra is the original IT offshoring company that was set up between Mahindra & Mahindra in India and the UK fixed-line telecom incumbent BT. In 2009 it acquired a strategic stake in the troubled Indian player Satyam, which was fully integrated in 2013, and substantial scope for efficiencies now exists. IT outsourcing continues to benefit from strong growth, and Tech Mahindra's scale, combined with a focus on manufacturing and telecoms, allows the company to break into new accounts and to drive a level of growth well above market expectations.

Country	India
Valuation	£4,450,000
% of total assets*	3.1%
(Valuation at 31 July 2013)	£3,112,000)

### Hon Hai Precision Industries

Hon Hai Precision is the world's largest provider of electronic manufacturing services. It operates within a large and rapidly expanding market as mass electronic manufacturing is outsourced to lower cost areas of the world, such as China, where Hon Hai bases most of its facilities.

Country	Taiwan
Valuation	£4,129,000
% of total assets*	2.9%
(Valuation at 31 July 2013)	£1,977,000)

### MediaTek

MediaTek designs integrated circuit chips for a wide variety of electronic products. The bulk of revenues and profits are derived from mobile handset chips which are mainly sold to Chinese vendors. MediaTek enjoys a duopoly in the mid to low end Chinese handset market which is growing rapidly, especially given the adoption of 4G networks. Coupled with continued market share gains, the company should generate significant earnings growth.

Country	Taiwan
Valuation	£3,785,000
% of total assets*	2.6%
(Valuation at 31 July 2013)	£3,160,000)

\* Total assets less current liabilities, before deduction of borrowings.

## Naver

Naver is Korea's leading internet business with dominant market shares in search, maps, restaurant booking and other sites. It has comprehensively beaten competition such as Google, which we attribute in part to its entrepreneurial culture. Outside Korea, Line, Naver's instant messaging app originating in Japan, has seen enormous success throughout Asia with c.500 million users. Naver's ability to monetise the user base has been impressive and suggests the network could generate very significant cash flows over the coming years.

Country	Korea
Valuation	£3,664,000
% of total assets*	2.5%
(Valuation at 31 July 2013	£nil)

## Hyundai Glovis

Hyundai Glovis is a rapidly expanding part of the Hyundai Motor Group in which the founding family has a majority stake. It has three core business areas, namely domestic and international logistics for the Hyundai and Kia motor companies, sourcing from Korea for the overseas plants, and a used car auction business. These are highly cash generative and rapidly growing businesses which should generate strong returns for investors over time.

Country	Korea
Valuation	£3,636,000
% of total assets*	2.5%
(Valuation at 31 July 2013	£2,954,000)

## China Petroleum & Chemical Corporation

China Petroleum & Chemical Corporation, also known as Sinopec, is China's second largest state-owned oil company and Asia's largest refining, chemical and refined product marketing company. Sinopec has typically been better managed than most Chinese State Owned Enterprises (SOEs); its core assets make decent returns, while new projects such as shale gas could provide meaningful growth over the coming years. Coupled with improving returns as Sinopec leads the way in SOE reforms, returns to shareholders could be strong over the coming decade.

Country	Hong Kong and China
Valuation	£3,593,000
% of total assets*	2.5%
(Valuation at 31 July 2013	£2,490,000)

\* Total assets less current liabilities, before deduction of borrowings.

## List of Investments as at 31 July 2014

Name	Country	Business	2014 Value £'000	2014 % of total assets *
Tencent Holdings	HK/China	Internet business	9,039	6.2
Samsung Electronics	Korea	Electronics company	8,120	5.6
Taiwan Semiconductor Manufacturing	Taiwan	Semiconductor manufacturer	6,712	4.6
Baidu	HK/China	Internet search provider	4,568	3.1
Tech Mahindra	India	IT services provider	4,450	3.1
Hon Hai Precision Industries	Taiwan	Electronic manufacturing services company	4,129	2.9
MediaTek	Taiwan	Integrated circuit design house	3,785	2.6
Naver	Korea	Internet company	3,664	2.5
Hyundai Glovis	Korea	Logistics company	3,636	2.5
China Petroleum & Chemical Corporation	HK/China	Integrated oil and gas producer	3,593	2.5
Hiwin Technologies	Taiwan	Automation equipment manufacturer	2,904	2.0
Reliance Industries	India	Oil and gas exploration and production	2,854	2.0
SK Hynix	Korea	Electronic component and device manufacturer	2,779	1.9
Federal Bank	India	Commercial bank	2,703	1.9
CNOOC	HK/China	Oil and gas exploration and production	2,632	1.8
Samsung Fire & Marine	Korea	Non-life insurance provider	2,600	1.8
Airtac International Group	Taiwan	Automation equipment manufacturer	2,575	1.8
China Life Insurance (Taiwan)	Taiwan	Life insurance provider	2,528	1.7
Haier Electronics Group	HK/China	Washing machine and water heater manufacturer	2,520	1.7
Advantech	Taiwan	Computer manufacturer	2,451	1.7
Hyundai Marine and Fire Insurance	Korea	Non-life insurance provider	2,451	1.7
Towngas China	HK/China	Gas distributor	2,401	1.7
Hyundai Mobis	Korea	Automotive parts producer	2,307	1.6
Mahindra & Mahindra	India	Conglomerate	2,285	1.6
ASM Pacific Technology	HK/China	Semiconductor equipment manufacturer	2,279	1.6
HCL Technologies	India	IT services provider	2,234	1.5
JD.com	HK/China	Largest online direct sales company in China	2,162	1.5
Galaxy Entertainment Group	HK/China	Casino operator	2,159	1.5
Just Dial	India	Offers a search engine to users throughout India	2,036	1.4
Mindtree	India	IT services provider	1,942	1.3
Singapore Exchange	Singapore	Stock exchange	1,840	1.3
M1	Singapore	Wireless telecommunications provider	1,802	1.2
Dragon Capital Vietnam Enterprise Investments	Vietnam	Vietnam investment fund	1,793	1.2
Geely Automobile	HK/China	Automobile manufacturer	1,787	1.2
GCL-Poly Energy Holdings	HK/China	Renewable energy equipment	1,782	1.2
Naturalendo Tech	Korea	Biotech company specialising in R&D	1,648	1.1
Daewoo International	Korea	General trading company	1,548	1.1
Orion Corp	Korea	Consumer conglomerate	1,542	1.1
SK Telecom	Korea	Telecoms operator	1,528	1.1
Hong Kong Exchanges and Clearing	HK/China	Stock exchange	1,514	1.0
ICICI Bank	India	Retail and corporate bank	1,493	1.0
Singapore Airport Terminal	Singapore	Transportation services	1,383	0.9
Phison Electronics	Taiwan	Semiconductor products	1,285	0.9
Hengan International Group	HK/China	Personal hygiene products	1,275	0.9
Hyundai Wia	Korea	Machinery producer	1,257	0.9
Interpark	Korea	Internet-based shopping mall	1,217	0.8
Nagacorp	HK/China	Hotels, restaurants and leisure	1,200	0.8
E-Mart	Korea	General retailer	1,119	0.8

Name	Country	Business	2014 Value £'000	2014 % of total assets *
Sohu.com	HK/China	Chinese internet portal operator	1,098	0.8
Sesa Sterlite	India	Iron ore miner	1,033	0.7
Hyundai Mipo Dockyard	Korea	Shipbuilder	1,015	0.7
Bangkok Bank	Thailand	Commercial bank	1,004	0.7
United Overseas Bank	Singapore	Commercial bank	983	0.7
Hindalco Industries	India	Integrated aluminium manufacturer	972	0.7
Crystalgenomics	Korea	Biotechnology services in South Korea	950	0.6
Express Transindo Utama	Indonesia	Taxi operator	918	0.6
Sembcorp Marine	Singapore	Shipbuilder	847	0.6
Youku Inc	HK/China	Internet television company	830	0.6
Asustek Computer	Taiwan	Computer manufacturer	790	0.5
Genexine	Korea	Biopharmaceuticals	785	0.5
Mermaid Maritime	Thailand	Oil equipment and services	780	0.5
Theragen Etex	Korea	Pharmaceutical business	709	0.5
Kunlun Energy Company	HK/China	Energy business	701	0.5
Green Cross Cell	Korea	Electric component manufacturer	681	0.5
Pharmicell	Korea	Biopharmaceutical business	586	0.4
CapitaMall Trust	Singapore	Real estate investment trust	560	0.4
Bioneer	Korea	Biotechnology business	423	0.3
Jumei International Holdings	HK/China	Online retailer of beauty products	222	0.2
Elec and Eltek International	Singapore	Circuit board manufacturer	162	0.1
Container Corporation of India	India	Transportation services	115	0.1
<b>Total Investments</b>			<b>143,675</b>	<b>99.0</b>
Net Current Assets			1,388	1.0
<b>Total Assets*</b>			<b>145,063</b>	<b>100.0</b>

HK/China denotes Hong Kong and China.

Details of the ten largest investments are given on pages 11 and 12 along with comparative valuations.

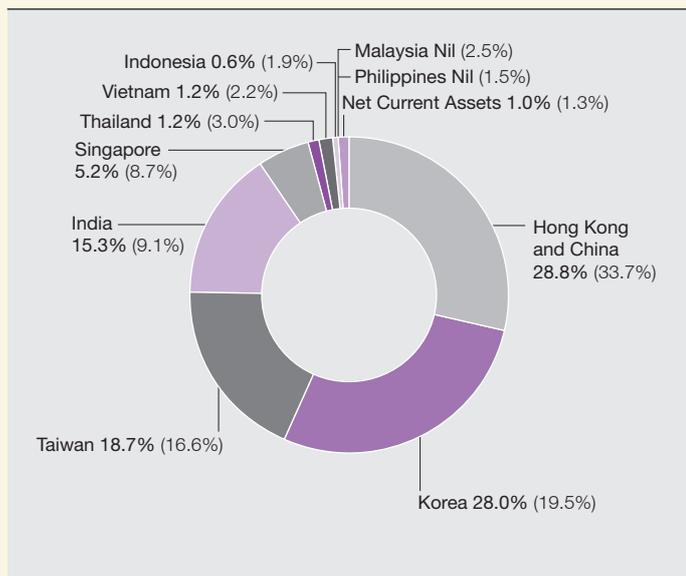
\* Total assets less current liabilities, before deduction of borrowings.

The Strategic Report which includes pages 2 to 15 was approved by the Board of Directors and signed on its behalf on 12 September 2014.

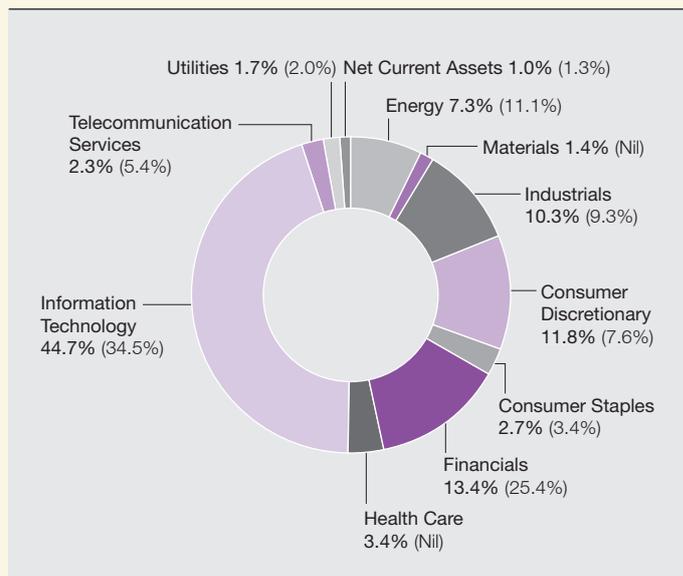
Jean Matterson  
Chairman

## Distribution of Portfolio

### Geographical 2014 (2013)



### Sectoral 2014 (2013)



### Overlap with MSCI All Country Asia ex Japan Index (in sterling terms)



Source: Baillie Gifford & Co.

### Turnover

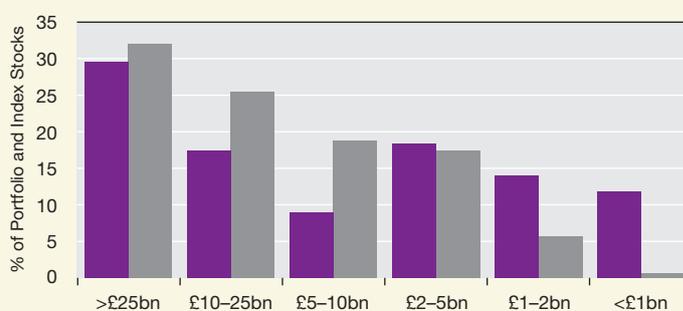
Rolling 12 months turnover over 5 years



Source: Baillie Gifford & Co.

### Size Splits (Market Capitalisation of Investments)

As at 31 July 2014



Source: Baillie Gifford & Co.

■ Pacific Horizon  
■ MSCI All Country Asia ex Japan

## Directors and Managers

### Directors

#### Jean Matterson

Jean Matterson was appointed a Director in 2003 and became Chairman of the Board on 25 October 2010, she is also Chairman of the Nomination Committee. 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, and is a director of BlackRock Throgmorton Trust PLC.

#### Edward Creasy

Edward Creasy was appointed a Director in 2010. He is Chairman of the Audit Committee and is the Senior Independent Director. He is the former chief executive officer of Kiln plc, a non-life insurer quoted on the London Stock Exchange until purchased by Tokio Marine Nichido Fire Insurance Co in March 2008. Until January 2011 he was chairman of Kiln Group and chairman of RJ Kiln & Co. Limited. He is a director of W.R. Berkley Insurance (Europe), Ltd, and Charles Taylor PLC and deputy chairman of W.R. Berkley Syndicate Management and is also a member of Lloyd's of London's Supervisory and Review Committee.

#### Douglas McDougall OBE

Douglas McDougall was appointed a Director in 1992. He is chairman of The Scottish Investment Trust plc, The Independent Investment Trust PLC and The European Investment Trust plc. He 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 Companies.

#### Elisabeth Scott

Elisabeth Scott was appointed a Director in 2011. She was managing director and country head of Schroder Investment Management (Hong Kong) Limited from 2005 to 2008 and chair of the Hong Kong Investment Funds Association from 2005 to 2007. She worked in the Hong Kong asset management industry from 1992 to 2008. She is a director of Fidelity China Special Situations PLC and Dunedin Income Growth Investment Trust PLC.

All of the Directors are members of the Nomination Committee and with the exception of Mr DCP McDougall, all are members of the Audit Committee.

### Managers and Secretaries

In order to comply with the Alternative Investment Fund Managers Directive, the Company has appointed Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, as its Alternative Investment Fund Manager and Company Secretary with effect from 1 July 2014. The investment management agreement with Baillie Gifford & Co has been terminated and the Company has entered into a new agreement with Baillie Gifford & Co Limited. The management fee and notice period are unchanged under these new arrangements. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co; therefore the Company's portfolio continues to be managed by Baillie Gifford & Co. Baillie Gifford & Co is an investment management firm formed in 1927 out of the legal firm Baillie & Gifford, WS, which had been involved in investment management since 1908.

Baillie Gifford is one of the largest investment trust managers in the UK and currently manages seven 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 totalled around £107 billion at 31 July 2014. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 40 partners and a staff of around 800.

The manager of Pacific Horizon's portfolio is Ewan Markson-Brown who took over as portfolio manager from Mike Gush on 18 March 2014. Ewan joined Baillie Gifford in September 2013 where he has specific responsibility for covering the Korean and ASEAN markets. Roderick Snell was appointed as deputy manager on 10 September 2013. Roderick has been a member of the Emerging Markets team at Baillie Gifford since 2008, with a focus on Asia Pacific.

Baillie Gifford & Co Limited and Baillie Gifford & Co are both authorised and regulated by the Financial Conduct Authority.

## Directors' Report

The Directors present their Report together with the financial statements of the Company for the year to 31 July 2014.

### Corporate Governance

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the 2012 UK Corporate Governance Code (the 'Code'), which can be found at [www.frc.org.uk](http://www.frc.org.uk), and the relevant principles of the Association of Investment Companies Code of Corporate Governance (the 'AIC Code') were applied throughout the financial year. The AIC Code provides a framework of best practice for investment companies and can be found at [www.theaic.co.uk](http://www.theaic.co.uk).

### Compliance

The Board confirms that the Company has complied throughout the year under review with the relevant provisions of the Code and the recommendations of the AIC Code.

### The Board

The Board has overall responsibility for the Company's affairs. It has a number of matters formally reserved for its approval including strategy, investment policy, currency hedging, gearing, treasury matters, dividend and corporate governance policy. A strategy session is held annually. The Board also reviews the financial statements, investment transactions, revenue budgets and performance of the Company. 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 comprises four Directors all of whom are non-executive and independent. The Chairman, Miss JGK Matterson is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. Mr EG Creasy is the Senior Independent Director.

The executive responsibility for investment management has been delegated to the Company's Alternative Investment Fund Manager ("AIFM"), Baillie Gifford & Co Limited, and, in the context of a Board comprising only non-executive Directors, there is no chief executive officer.

The Directors believe that the Board has a balance of skills and experience that enable it to provide effective strategic leadership and proper governance of the Company. Information about the Directors, including their relevant experience, can be found on page 16.

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

### Appointments

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for inspection on request.

Under the provisions of the Company's Articles of Association, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. Directors are required to submit themselves for re-election at least once every three years. Directors who have served for more than nine years or who are directors of another investment trust managed by Baillie Gifford offer themselves for re-election annually.

Appointments to the Board are made on merit with due regard for the benefits of diversity including gender. The priority in appointing new directors is to identify the candidate with the best range of skills and experience to complement existing directors. The Board therefore does not consider it appropriate to set diversity targets.

The names of Directors retiring and offering themselves for re-election together with the reasons why the Board supports the re-elections are set out on page 21.

### Independence of Directors

All the Directors are considered by the Board to be independent of the Managers and free of any business or other relationship that could interfere with the exercise of their independent judgement.

The Directors recognise the importance of succession planning for company boards and review the Board composition annually. The Board is of the view that length of service will not necessarily compromise the independence or contribution of Directors of an investment trust company, where continuity and experience can be a benefit to the Board. The Board concurs with the view expressed in the AIC Code that long serving Directors should not be prevented from being considered independent.

Miss JGK Matterson, having served on the Board for more than nine years and Mr DCP McDougall, having served on the Board for more than nine years and being a director of The Monks Investment Trust PLC, which is also managed by Baillie Gifford, offer themselves for re-election annually. Following formal performance evaluation, the Board has concluded that Miss JGK Matterson and Mr DCP McDougall continue to be independent in character and judgement and their skills and extensive financial services experience add significantly to the strength of the Board.

The Board believes that none of the other commitments of Miss JGK Matterson and Mr DCP McDougall, as set out on page 16 of this report, interfere with the discharge of their duties to the Company and the Board is satisfied they are capable of devoting sufficient time to the Company.

### Meetings

There is an annual cycle of Board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, marketing, revenue budgets, dividend policy and communication with shareholders. The Board considers that it meets sufficiently regularly to discharge its duties effectively. The table below shows the attendance record for the Board and Committee Meetings held during the year. The Annual General Meeting was attended by all Directors.

### Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
<b>Number of meetings</b>	<b>6</b>	<b>2</b>	<b>1</b>
JGK Matterson	6	2	1
EG Creasy	6	2	1
DCP McDougall*	6	–	1
EC Scott	6	2	1

\* Mr DCP McDougall is not a member of the Audit Committee.

### Nomination Committee

The Nomination Committee consists of all the non-executive Directors and the Chairman of the Board is Chairman of the Committee. The Committee meets at least annually and at such other times as may be required. The Committee has written terms of reference that include reviewing the Board, identifying and nominating new candidates for appointment to the Board, Board appraisal, succession planning and training. The Committee also considers whether Directors should be recommended for re-election by shareholders. The Committee is responsible for considering Directors' potential conflicts of interest and for making recommendations to the Board on whether or not potential conflicts should be authorised. The Committee's terms of reference are available on request from the Company and are on the Company's page of the Managers' website:

[www.pacifichorizon.co.uk](http://www.pacifichorizon.co.uk).

### Performance Evaluation

An appraisal of the Chairman, each Director and a performance evaluation and review of the Board as a whole and of the Committees was carried out during the year. After inviting each Director and the Chairman to consider and respond to an evaluation questionnaire, the performance of each Director was appraised by the Chairman and the Chairman's appraisal was led by Mr EG Creasy, the Senior Independent Director.

The appraisals and evaluations considered, amongst other criteria, the balance of skills of the Board, training and development requirements, the contribution of individual Directors and the overall effectiveness of the Board and the Committees. Following this process it was concluded that the performance of each Director, the Chairman, the Board and the Committees continues to be effective and each Director and the Chairman remain committed to the Company.

A review of the Chairman's and other Directors' commitments was carried out and the Board is satisfied that they are capable of devoting sufficient time to the Company. There were no significant changes to the Chairman's other commitments during the year.

### Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee. Briefings were provided during the year on industry and regulatory matters. Directors receive other relevant training as necessary.

### Remuneration

As all the Directors are non-executive there is no requirement for a separate Remuneration Committee. Directors' fees are considered by the Board as a whole within the limits approved by shareholders. The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 24 and 25.

### Internal Controls and Risk Management

The Directors acknowledge their responsibility for the Company's risk management and internal controls systems and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the guidance "Internal Control: Revised Guidance for Directors on the Combined Code".

The practical measures in relation to the design, implementation and maintenance of control policies and procedures to safeguard the Company's assets and to manage its affairs properly, including the maintenance of effective operational and compliance controls have been delegated to the Managers and Secretary.

The Board oversees both the functions delegated to the Managers and Secretaries and, with effect from 1 July 2014, the controls managed by the AIFM in accordance with the Alternative Investment Fund Managers Directive (as detailed below). Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's Business Risk Department provide the Board with regular reports on their monitoring programmes. The reporting procedures for these departments are defined and formalised within a service level agreement. Baillie Gifford & Co conducts an annual review of its system of internal controls which is documented within an internal controls report which complies with ISAE 3402 and Technical Release AAF 01/06 – Assurance Reports on Internal Controls of Service Organisations made available to Third Parties. This report is independently reviewed by Baillie Gifford & Co's auditors and a copy is submitted to the Audit Committee.

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 Mellon SA/NV as independent custodian of the Company's investments. The Custodian prepares a report on its internal controls which is independently reviewed by KPMG LLP.

A report identifying the material risks faced by the Company and the key controls employed to manage these risks is reviewed by the Audit Committee.

These procedures ensure that consideration is given regularly to the nature and extent of 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 these risks.

The Directors confirm that they have reviewed the effectiveness of the Company's risk management and internal controls systems and they have procedures in place to review their effectiveness on a regular basis. No significant weaknesses were identified in the year under review and up to the date of this Report.

The Board confirms that these procedures have been in place throughout the Company's financial year and continue to be in place up to the date of approval of this Report.

With effect from 1 July 2014, the Company entered into arrangements to comply with the Alternative Fund Managers Directive. The Company appointed BNY Mellon Trust & Depositary (UK) Limited as its Depositary and Baillie Gifford & Co Limited as its AIFM.

The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements. The Depositary has delegated the custody function to The Bank of New York Mellon SA/NV ("the Custodian").

The AIFM has established a permanent risk management function to ensure that effective risk management policies and procedures are in place and to monitor compliance with risk limits. The AIFM has a risk policy which covers the risks associated with the management of the portfolio, and the adequacy and effectiveness of this policy is reviewed and approved at least annually. This review includes the risk management processes and systems and limits for each risk area.

The risk limits, which are set by the AIFM and approved by the Board, take into account the objectives, strategy and risk profile of the portfolio. These limits, including leverage (see note 19 on page 43), are monitored and the sensitivity of the portfolio to key risks is undertaken periodically as appropriate to ascertain the impact of changes in key variables to the AIF. Exceptions from limits monitoring and stress testing are escalated to the AIFM along with remedial measures being taken.

### **Accountability and Audit**

The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are set out on pages 26 to 28.

### **Going Concern**

In accordance with the Financial Reporting Council's guidance on going concern and liquidity risk the Directors have undertaken a rigorous review of the Company's ability to continue as a going concern. The Company's principal risks are market related and include market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 18 to the financial statements.

The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. The Board approves borrowing and gearing limits and reviews regularly the amounts of any borrowing and the level of gearing as well as compliance with borrowing covenants. In accordance with the Company's Articles of Association, shareholders have the right to vote on the continuation of the Company every five years, the next vote being in 2016. After making enquiries and considering the future prospects of the Company and notwithstanding the above, the financial statements 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.

### **Audit Committee Report**

The Audit Committee consists of all the Directors except Mr DCP McDougall. The members of the Committee consider that they have the requisite financial skills and experience to fulfil the responsibilities of the Committee. Mr EG Creasy is Chairman of the Audit Committee. The Committee's authority and duties are clearly defined within its written terms of reference which are available on request from the Company Secretary and are on the Company's page of the Managers' website at [www.pacifichorizon.co.uk](http://www.pacifichorizon.co.uk).

The terms of reference are reviewed annually and were updated during the year to ensure best practice and compliance with the 2012 UK Corporate Governance Code.

The Committee's effectiveness is reviewed on an annual basis as part of the Board's performance evaluation process.

At least once a year the Committee meets with the external Auditors without any representative of the Managers being present.

### **Main Activities of the Committee**

The Committee met twice during the year and Ernst & Young LLP, the external Auditor, attended one of these meetings. The Managers' Internal Audit and Compliance Departments provided reports on their monitoring programmes for these meetings.

The matters considered, monitored and reviewed by the Committee during the course of the year included the following:

- the preliminary results announcement and the annual and half-yearly reports;
- the Company's accounting policies and practices;
- the regulatory changes impacting the Company;
- the fairness, balance and understandability of the Annual Report and Financial Statements and advise the Board whether it provided the information necessary for shareholders to assess the Company's performance, business model and strategy;
- the effectiveness of the Company's internal control environment;
- reappointment, remuneration and engagement letter of the external Auditors;
- the policy on the engagement of the external Auditors to supply non-audit services;
- the independence, objectivity and effectiveness of the external Auditors;
- the need for the Company to have its own internal audit function;
- internal controls reports received from the Managers and custodians; and
- the arrangements in place within Baillie Gifford & Co whereby their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

### **Internal Audit**

The Committee continues to believe that the compliance and internal control systems and the internal audit function in place within the Investment Managers provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

### **Financial Reporting**

The Committee considers that the most significant issues likely to affect the financial statements are the existence and valuation of investments, as they represent 99.0% of total assets.

The Managers reconciled the portfolio holdings at 31 July 2014 to confirmations from the Company's custodian. The investments are in quoted securities and market prices are readily available from independent external pricing sources. The Committee

reviewed the Managers' Report on Internal Controls which details the controls in place regarding recording and pricing of investments and the reconciliation of investment holdings to third party data.

The Managers confirmed to the Committee that they were not aware of any material misstatements in the context of the Financial Statements as a whole.

The Committee reviewed the effectiveness of the Company's risk management and internal controls systems as described on page 18. No significant weaknesses were identified in the year under review.

### **External Auditor**

To fulfil its responsibility regarding the independence of the external Auditors, the Committee reviewed:

- the audit plan for the current year;
- a report from the Auditors describing their arrangements to manage auditor independence and received confirmation of their independence; and
- the extent of non-audit services provided by the external Auditors. Non-audit fees for the year to 31 July 2014 were £12,750 and related to taxation and procedural services in connection with the tender offer implemented during the year. The Committee does not believe that this has impaired the Auditors' independence.

To assess the effectiveness of the external Auditors, the Committee reviewed and considered:

- the Auditors' fulfilment of the agreed audit plan;
- responses to the ICAS Annual Audit Assessment Questionnaire;
- feedback from the Secretaries on the performance of the audit team; and
- the Audit Quality Inspection Report from the FRC.

To fulfil its responsibility for oversight of the external audit process the Committee considered and reviewed:

- the Auditors' engagement letter;
- the Auditors' proposed audit strategy;
- the audit fee; and
- a report from the Auditors on the conclusion of the audit.

Ernst & Young LLP are engaged as the Company's Auditors. The audit partners responsible for the audit are rotated at least every five years in accordance with professional and regulatory standards in order to protect independence and objectivity and to provide fresh challenge to the business. The current lead audit partner, Mr Amarjit Singh, has been in place for two years and will continue as partner until the conclusion of the 2017 audit.

Ernst & Young LLP have confirmed that they believe they are independent within the meaning of regulatory and professional requirements and that the objectivity of the audit partner and staff is not impaired.

Having carried out the review described above, the Committee is satisfied that the Auditor remains independent and effective and as such, has not considered it necessary to conduct a tender process for the appointment of its Auditor at this stage. The

Board is aware that the European Parliament has adopted a directive which will introduce reforms to the statutory audits of EU listed companies, including the mandatory rotation of audit firms. The Board will consider the impact of the reforms once they are introduced into UK law.

There are no contractual obligations restricting the Committee's choice of external auditor.

### **Relations with Shareholders**

The Board places great importance on communication with shareholders. The Company's Managers meet regularly with shareholders and report shareholders' views to the Board. The Chairman and Directors also attend some shareholder presentations in London and Edinburgh with the Managers, as well as maintaining open lines of communication with market participants and investors in the Company, separate of Manager involvement, in order to ascertain views on corporate matters. The Chairman is available to meet with shareholders as appropriate. Shareholders wishing to communicate with any members of the Board may do so by writing to them at the Secretaries' address on the back cover or through the Company's corporate broker, JP Morgan Cazenove.

The Company's Annual General Meeting provides a forum for communication with all shareholders. The level of proxies lodged for each resolution is announced at the Meeting and is published on the Company's page of the Managers' website [www.pacifichorizon.co.uk](http://www.pacifichorizon.co.uk) subsequent to the meeting. The notice period for the Annual General Meeting is at least twenty working days. Shareholders and potential investors may obtain up-to-date information on the Company from the Managers' website.

### **Corporate Governance and Stewardship**

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

The Company believes that it is in the shareholders' interests to consider environmental, social and governance ('ESG') factors when selecting and retaining investments and have asked the Managers to take these issues into account as long as the investment objectives are not compromised. The Managers do not exclude companies from their investment universe purely on the grounds of ESG factors but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems, and enabling the Managers to consider how ESG factors could impact long term investment returns. The Managers' statement of compliance with the UK Stewardship code can be found on the Managers' website at [www.baillieghifford.com](http://www.baillieghifford.com). The Managers' policy has been reviewed and endorsed by the Board.

The Managers are signatories of the United Nations Principles for Responsible Investment.

### **Greenhouse Gas Emissions**

All of the Company's activities are outsourced to third parties. The Company therefore has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

### Conflicts of Interest

Each Director submits a list of potential conflicts of interest to the Nomination Committee on an annual basis. The Committee considers these carefully, taking into account the circumstances surrounding them, and makes a recommendation to the Board on whether or not the potential conflicts should be authorised. Board authorisation is for a period of one year.

Having considered the lists of potential conflicts there were no situations which gave rise to a direct or indirect interest of a Director which conflicted with interests of the Company.

### Bribery Act

The Company has a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly. The Managers also adopt a zero tolerance approach and have policies and procedures in place to prevent bribery.

### Investment Managers

The function of a management engagement committee is fulfilled by those members of the Board who are also members of the Audit Committee (the 'Qualifying Directors').

An Investment Management Agreement between the Company and Baillie Gifford & Co Limited 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 Qualifying Directors. The Managers may terminate the Management Agreement on six months' notice and the Company may terminate on three months' notice. Compensation fees would only be payable in respect of the notice period if termination were to occur sooner. The Board is of the view that calculating the fee with reference to performance would be unlikely to exert a positive influence on performance. Details of the fees paid are shown on page 34.

The Board considers the Company's investment management and secretarial arrangements on an ongoing basis and a formal review is conducted by the Qualifying Directors annually. The following topics, amongst others are considered in the review: the quality of the personnel assigned to handle the Company's affairs; the investment process and the results achieved to date; and the administrative services provided by the Secretaries. Following the most recent review, it is the opinion of the Directors that the continuing appointment of Baillie Gifford & Co Limited as Managers, on the terms agreed, is in the interests of shareholders as a whole due to the strength of the investment management team, the Managers' commitment to the investment trust sector and the quality of the secretarial and administrative functions.

### Directors

Information about the Directors, including their relevant experience, can be found on page 16.

Miss JGK Matterson, having served for more than nine years and Mr DCP McDougall, having served for more than nine years and being a director of another investment trust managed by Baillie Gifford, are subject to annual re-election and will therefore be retiring at the Annual General Meeting and will offer themselves for re-election.

Ms EC Scott, having served for three years since she was elected by shareholders, will be retiring at the Annual General Meeting and offering herself for re-election.

Following formal performance evaluation, the performance of Miss JGK Matterson, Mr DCP McDougall and Ms EC Scott are considered to be effective and they remain committed to the Company. Their contribution to the Board is greatly valued and the Board recommends their re-election to shareholders.

### Director Indemnification and Insurance

The Company has entered into deeds of indemnity in favour of each of its Directors. The deeds cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the Director is convicted or civil proceedings brought by the Company in which judgement is given against him/her. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person.

The Company also maintains Directors' and Officers' liability insurance.

### Dividends

The Board recommends a final dividend of 1.40p per ordinary share.

If approved, the recommended final dividend on the ordinary shares will be paid on 5 November 2014 to shareholders on the register at the close of business on 10 October 2014. The ex-dividend date is 9 October 2014. The Company's Registrar offers a Dividend Reinvestment Plan (see page 47) and the final date for election for this dividend is 15 October 2014.

### Share Capital

#### Capital Structure

The Company's capital structure consists of 70,126,152 ordinary shares of 10p each (2013 – 73,972,002 ordinary shares).

There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the shares.

#### Dividends

The ordinary shares carry a right to receive dividends. Interim dividends are determined by the Directors, whereas the proposed final dividend is subject to shareholder approval.

#### Capital Entitlement

On winding up, after meeting the liabilities of the Company, the surplus assets will be paid to ordinary shareholders in proportion to their shareholdings.

#### Voting

Each ordinary shareholder present in person or by proxy is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.

Information on the deadlines for proxy appointments can be found on pages 45 and 46.

## Major Interests in the Company's Shares

Name	Ordinary 10p shares held at 31 July 2014	% of issue
A & OT Investments Limited (direct)	11,809,654	16.8
City of London Investment Management Company Limited (indirect)	10,396,540	14.8
1607 Capital Partners, LLC (direct)	3,973,585	5.7
Rathbone Brothers Plc (indirect)	3,277,346	4.7
Investec Wealth & Investment Limited (indirect)	2,983,075	4.3
Legal & General Group Plc (L&G) (direct)	2,484,328	3.5

The above information had been intimated to the Company as at 31 July 2014. There have been no changes intimated up to 10 September 2014.

## Share Issuance

At present, the Directors have authority under Section 551 of the Companies Act 2006 to issue ordinary shares up to an aggregate nominal amount of £739,720. This authority, which was conferred on them at the Annual General Meeting of the Company on 29 October 2013, is due to expire at the conclusion of the Annual General Meeting of the Company on 30 October 2014. Resolution No. 10 seeks to renew the Directors' general authority to allot shares up to an aggregate nominal amount of £7,012,615, being 10% of the Company's ordinary shares in issue at the date of this report. Resolution No. 11 seeks to renew the power to allot shares for cash on a non-pre-emptive basis also up to an aggregate nominal amount of £7,012,615. The Company does not hold any shares in treasury. Further issues of shares will only be made at a premium to the net asset value per share. The authority contained in Resolution No. 10 and the power granted by Resolution No. 11 will continue until the conclusion of the Company's next Annual General Meeting after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, if earlier.

The Directors envisage using the authority and the power, which will be conferred by Resolutions No. 10 and 11 at times when the share price stands at a premium to net asset value. This would be asset enhancing and improve liquidity in the Company's shares. The Directors will not make any issue of new ordinary shares to investors unless they consider it advantageous to the Company to do so, and no issue of ordinary shares will be made pursuant to the authorisation in Resolution No. 10 which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

Resolution No. 10 is an Ordinary Resolution and requires only a simple majority; Resolution No. 11 is proposed as a Special Resolution and will not be passed unless 75% of those voting are in favour.

## Market Purchases of Own Shares

During the year to 31 July 2014 the Company bought back 155,000 ordinary shares (nominal value £15,500) on the London Stock Exchange for cancellation. The total consideration for these shares was £255,000. Between 1 August 2014 and the date of this report no further shares have been bought back.

The shares in question were purchased at a price (after allowing for costs) below the net asset value and subsequently cancelled, thereby reducing the issued share capital (see note 12 on page 38).

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 2015. Shares which are bought back will not be held in treasury and will be cancelled.

Under the Listing Rules of the UK Listing Authority of the Financial Conduct Authority, the maximum price that may be paid on the exercise of the authority must not exceed the higher of:

- (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
- (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange.

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. 12, in the Notice of Annual General Meeting.

The principal reasons for share buy backs are:

- (i) 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; and
- (ii) to enhance net asset value for continuing shareholders by purchasing shares at a discount to the prevailing net asset value.

## Conditional Tender Offers

At the 2013 Annual General Meeting, the Company obtained shareholders' approval to implement, at the Board's discretion, a bi-annual tender offer for up to 5% of the Company's shares in respect of the six month periods to 31 January and 31 July 2014. The Board implemented a 5% tender offer in April in respect of the period to 31 January 2014, buying back 3,690,850 ordinary shares (nominal value £369,000) at a total cost of £6,711,000. The Board has decided to implement a 5% tender offer in respect of the period to 31 July 2014, applicable to shareholders on the register on 13 August 2014. Details of how to tender your shares in respect of this 5% tender offer are contained within the Circular accompanying this Report.

The Directors are seeking shareholders' approval at the forthcoming Annual General Meeting to renew the Board's authority to implement two tender offers, for the six month periods to 31 January and 31 July 2015. The Board expects that this will strengthen its ability to manage the discount to net asset value at which the Company's ordinary shares may trade from time to time.

Subject to certain limitations set out below, the Directors intend to invite shareholders to tender for purchase for cash all or part of their holdings of shares. The price at which shares will be

purchased will be an amount equal to the realisation value of the assets attributable to the shares tendered as at the close of business on the relevant tender offer calculation date, subject to a discount of 2% and less the direct costs and expenses of effecting the tender offer.

The Board will consider implementing a tender offer if the Company's ordinary shares trade at an average daily discount of more than 9% relative to the fair value cum income NAV over the six month periods to 31 January and 31 July 2015 (or the preceding business day). It is the Directors' current intention that each six monthly tender offer will be restricted to a maximum of 5% in aggregate of the shares in issue as at the relevant tender offer calculation date (excluding any shares held in treasury).

Shares tendered in excess of the limit set by the Directors in respect of a particular tender offer will be scaled back pro rata in proportion to the excess amount tendered. Implementation of tender offers will be subject to prior shareholder approval, by way of a special resolution, at each Annual General Meeting.

In order to implement the tender offers, a market maker selected by the Board will, as principal, purchase at the tender price (calculated on the basis described above) the shares tendered and, following completion of these purchases, will sell the relevant shares on to the Company at the same price by way of an on-market transaction. The shares will subsequently be bought back by the Company from the market maker at the same price and cancelled.

The tender offers will be conducted in accordance with the UKLA's Listing Rules and the rules of the London Stock Exchange. Investors should note that the operation of the regular tender offers is subject to the Directors' discretion. In addition, in accordance with the Companies Act, shares may only be purchased by the Company out of the proceeds of a fresh issue of shares made for the purpose of repurchase or out of distributable profits.

Therefore, in addition to the authority that is being sought by the Company under Resolution 12 to purchase its own shares of 10 pence each (as explained in more detail on page 22), Special Resolution 13 grants the Board the authority to implement two tender offers for the six month periods ending 31 January 2015 and 31 July 2015 and to repurchase up to a maximum of 5% of the Company's issued share capital as at 31 January 2015 and 31 July 2015 (as appropriate).

If Resolution 13 is passed such authority will expire at the conclusion of the Company's next Annual General Meeting in 2015 unless renewed prior to that date. It is expected that a further special resolution will be proposed at the AGM in 2016 in respect of the tender offer dates on 31 January 2016 and 31 July 2016.

If such tender offers are implemented, a separate circular and tender form will be sent to shareholders following the relevant six month period to 31 January 2015 and 31 July 2015, which will set out the full terms and conditions of the tender offer and the procedure for tendering shares.

### Articles of Association

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders.

### Disclosure of Information to Auditor

The Directors confirm that so far as each of the Directors is aware there is no relevant audit information of which the Company's Auditor is unaware and the Directors have taken all the steps that they might reasonably be expected to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

### Independent Auditor

The Auditor, Ernst & Young LLP, is willing to continue in office and in accordance with Section 489 and Section 491(1) of the Companies Act 2006 resolutions concerning their re-appointment and remuneration will be submitted to the Annual General Meeting.

### Post Balance Sheet Events

The Directors confirm that there have been no post-Balance Sheet events up to 12 September 2014.

### Recommendation

The Directors unanimously recommend you to vote in favour of the resolutions to be proposed at the Annual General Meeting as it is their view that the resolutions are in the best interest of shareholders as a whole.

By order of the Board  
Jean Matterson  
Chairman  
12 September 2014

## Directors' Remuneration Report

This report has been prepared in accordance with the requirements of the Companies Act 2006.

### Statement by the Chairman

The requirements regarding the content of the Directors' Remuneration Report and its approval by shareholders have recently changed. Resolutions will be proposed at the forthcoming Annual General Meeting for the approval of the Directors' Remuneration Policy and the Annual Report on Remuneration as set out below. Thereafter, shareholders will be asked to approve the Annual Report on Remuneration each year and the Directors' Remuneration Policy every three years or sooner if an alteration to the policy is proposed.

The Board reviewed the level of fees during the year and it was agreed that, with effect from 1 August 2014, the Chairman's fee would increase from £23,000 to £30,000, the Directors' fees would increase from £17,000 to £20,000 and the additional fee for the Audit Committee Chairman would remain unchanged at £2,500 per annum. The fees were last increased on 1 August 2010.

### Directors' Remuneration Policy

An ordinary resolution for the approval of the Remuneration Policy will be put to the members at the forthcoming Annual General Meeting. If approved by shareholders, the Directors' Remuneration Policy will be effective immediately upon the passing of the resolution.

The Board is composed wholly of non-executive Directors, none of whom has a service contract with the Company. There is no separate Remuneration Committee and the Board as a whole considers changes to Directors' fees from time to time. Baillie Gifford & Co Limited, the Company Secretary, provides comparative information when the Board considers the level of 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. The Board believes that the fees paid to the Directors should 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. Any views expressed by shareholders on the fees being paid to Directors will be taken into consideration by the Board when reviewing the Board's policy on remuneration.

The fees for the non-executive Directors are payable six monthly in arrears and are determined within the limit set out in the Company's Articles of Association which is currently £150,000 per annum in aggregate. Any change to this limit requires shareholder approval. Non-executive Directors are not eligible for any other remuneration or benefits apart from the reimbursement of allowable expenses. There are no performance conditions relating to Directors' fees and there are no long-term incentive schemes or pension schemes. No compensation is payable on loss of office.

The fees payable to Directors in respect of the year ended 31 July 2014 and the expected fees payable in respect of the year ending 31 July 2015 are set out in the table below. The fees payable to the Directors in the subsequent financial periods will be determined following an annual review of the Directors' fees.

	Expected fees for year ending 31 July 2015 £	Fees as at 31 July 2014 £
Chairman's fee	30,000	23,000
Non-executive Director fee	20,000	17,000
Additional fee for the Chairman of the Audit Committee	2,500	2,500
Total aggregate annual fees that can be paid to the Directors in any year under the Directors' Remuneration Policy, as set out in the Company's Articles of Association	150,000	150,000

### Annual Report on Remuneration

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 in this report. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the Independent Auditor's Report on pages 27 and 28.

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

The Directors who served during the year received the following remuneration in the form of fees. This represents the entire remuneration paid to the Directors.

Name	2014 £	2013 £
<b>Directors who served during the year</b>		
JGK Matterson (Chairman)	23,000	23,000
EG Creasy (Chairman of Audit Committee)	19,500	19,500
DCP McDougall	17,000	17,000
EC Scott	17,000	17,000
	<b>76,500</b>	<b>76,500</b>

The Directors at the end of the year under review and their interests in the Company are as shown in the following table. There have been no changes intimated in the Directors' interests up to 10 September 2014.

### Directors' Interests (audited)

Name	Nature of interest	Ordinary 10p shares held at 31 July 2014	Ordinary 10p shares held at 1 August 2013
JGK Matterson	Beneficial	156,588	155,906
EG Creasy	Beneficial	16,400	16,400
DCP McDougall	Beneficial	823,853	823,853
EC Scott	Beneficial	6,103	6,103

### Statement of Voting at Annual General Meeting

At the last Annual General Meeting, of the proxy votes received in respect of the Directors' Remuneration Report, 99.4% were in favour, 0.5% were against and votes withheld were 0.1%.

### Relative Importance of Spend on Pay

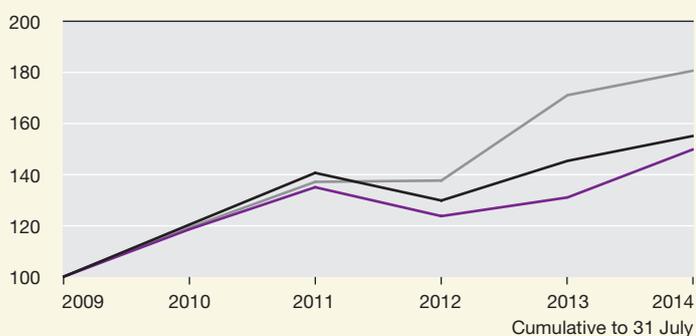
As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders.

### Company Performance

The graph below compares, for the five financial years ended 31 July 2014, 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. The Company's comparative index is provided for information purposes only.

### Performance Graph

Pacific Horizon's Share Price, FTSE All-Share Index and Comparative Index\* (figures based to 100 at 31 July 2009)



Source: Thomson Reuters Datastream.

All figures are total return (assuming all dividends reinvested).

— Pacific Horizon share price

— FTSE All-Share

— Comparative index\*

\* Comparative index: On 1 August 2011 the Company changed its comparative index from the MSCI All Country Far East ex Japan Index (in sterling terms) to the MSCI All Country Asia ex Japan Index (in sterling terms). For the purposes of the above graph the returns on both comparative indices for their respective periods have been linked to form a single comparative index.

Past performance is not a guide to future performance.

### Approval

The Directors' Remuneration Report on pages 24 and 25 was approved by the Board of Directors and signed on its behalf on 12 September 2014.

By order of the Board  
Jean Matterson  
Chairman

## Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable laws and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, a Directors' Remuneration Report and a Corporate Governance Statement that comply with that law and those regulations.

The Directors have delegated responsibility to the Managers for the maintenance and integrity of the Company's page of the Managers' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The work carried out by the Auditor does not involve any consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Each of the Directors, whose names and functions are listed within the Directors and Managers section confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) give a true and fair view of the assets, liabilities, financial position and net return of the Company;
- the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board  
Jean Matterson  
Chairman  
12 September 2014

### Notes

The following notes relate to financial statements published on a website and are not included in the printed version of the Annual Report and Financial Statements:

- The maintenance and integrity of the Baillie Gifford & Co website is the responsibility of Baillie Gifford & Co; the work carried out by the auditor does not involve consideration of these matters and accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditor's Report

## to the members of Pacific Horizon Investment Trust PLC

We have audited the financial statements of Pacific Horizon Investment Trust PLC ("the Company") for the year ended 31 July 2014 which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, Cash Flow Statement and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Company's annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 July 2014 and of its net return for the year then ended;
  - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Our Assessment of Risks of Material Misstatement

We have identified the following risk of material misstatement that had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team:

- valuation, existence and ownership of the investment portfolio.

### Our Application of Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of misstatements on the audit and of uncorrected misstatements, if any, on financial statements and in forming our audit opinion.

We determined materiality for the Company to be £1.4 million which is 1% of the total equity of the Company. This materiality calculation provided a basis for completing our risk assessment procedures; identifying and assessing the risk of material misstatement in the financial statements; and determining the nature, timing and extent of our audit procedures.

On the basis of our risk assessment, together with our assessment of the Company's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75% of materiality, namely £1.1 million. Our objective in adopting this performance materiality was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

We have agreed with the Audit Committee to report any audit differences in excess of £0.1 million as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds.

### An Overview of the Scope of our Audit

Our response to the risk identified above was as follows:

- We agreed the year end prices for all quoted investments to an independent source. Furthermore, we agreed the legal title of all investment holdings to a confirmation obtained directly from the custodian.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 19 in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Amarjit Singh (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP  
Statutory Auditor, London  
12 September 2014

## Income Statement

For the year ended 31 July

	Notes	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Gains on investments	9	–	13,723	<b>13,723</b>	–	7,229	<b>7,229</b>
Currency losses	13	–	(388)	<b>(388)</b>	–	(51)	<b>(51)</b>
Income	2	2,550	–	<b>2,550</b>	2,967	–	<b>2,967</b>
Investment management fee	3	(1,029)	–	<b>(1,029)</b>	(1,246)	–	<b>(1,246)</b>
Other administrative expenses	4	(342)	–	<b>(342)</b>	(314)	–	<b>(314)</b>
<b>Net return before finance costs and taxation</b>		<b>1,179</b>	<b>13,335</b>	<b>14,514</b>	<b>1,407</b>	<b>7,178</b>	<b>8,585</b>
<b>Net return on ordinary activities before taxation</b>		<b>1,173</b>	<b>13,335</b>	<b>14,508</b>	<b>1,407</b>	<b>7,178</b>	<b>8,585</b>
Tax on ordinary activities	6	(154)	–	<b>(154)</b>	(165)	–	<b>(165)</b>
<b>Finance costs of borrowing</b>	5	<b>(6)</b>	<b>–</b>	<b>(6)</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net return on ordinary activities after taxation</b>		<b>1,019</b>	<b>13,335</b>	<b>14,354</b>	<b>1,242</b>	<b>7,178</b>	<b>8,420</b>
<b>Net return per ordinary share</b>	8	<b>1.40p</b>	<b>18.32p</b>	<b>19.72p</b>	<b>1.66p</b>	<b>9.62p</b>	<b>11.28p</b>

The total 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. No operations were acquired or discontinued during the year. A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes on pages 33 to 43 are an integral part of the financial statements.

## Balance Sheet

As at 31 July

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
<b>Fixed assets</b>					
Investments held at fair value through profit or loss	9		143,675		132,831
<b>Current assets</b>					
Debtors	10	431		554	
Cash and short term deposits	16/18	1,274		1,573	
			1,705		2,127
<b>Creditors</b>					
Amounts falling due within one year	11	(4,463)		(320)	
<b>Net current (liabilities)/assets</b>			(2,758)		1,807
<b>Total net assets</b>			<b>140,917</b>		<b>134,638</b>
<b>Capital and reserves</b>					
Called up share capital	12		7,013		7,397
Share premium	13		3,166		3,166
Special distributable reserve	13		–		6,499
Capital redemption reserve	13		18,780		18,396
Capital reserve	13		106,437		93,569
Revenue reserve	13		5,521		5,611
<b>Shareholders' funds</b>			<b>140,917</b>		<b>134,638</b>
<b>Net asset value per ordinary share</b>			<b>200.95p</b>		<b>182.01p</b>

The Financial Statements of Pacific Horizon Investment Trust PLC (Company Registration number 02342193) were approved and authorised for issue by the Board and signed on 12 September 2014.

Jean Matterson  
Chairman

The accompanying notes on pages 33 to 43 are an integral part of the financial statements.

## Reconciliation of Movements in Shareholders' Funds

### For the year ended 31 July 2014

	Notes	Called up share capital £'000	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 August 2013		7,397	3,166	6,499	18,396	93,569	5,611	<b>134,638</b>
Net return on ordinary activities after taxation		–	–	–	–	13,335	1,019	<b>14,354</b>
Shares purchased for cancellation	12	(384)	–	(6,499)	384	(467)	–	<b>(6,966)</b>
Dividends paid during the year	7	–	–	–	–	–	(1,109)	<b>(1,109)</b>
<b>Shareholders' funds at 31 July 2014</b>		<b>7,013</b>	<b>3,166</b>	<b>–</b>	<b>18,780</b>	<b>106,437</b>	<b>5,521</b>	<b>140,917</b>

### For the year ended 31 July 2013

	Notes	Called up share capital £'000	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 August 2012		7,505	3,166	8,252	18,288	86,391	5,495	<b>129,097</b>
Net return on ordinary activities after taxation		–	–	–	–	7,178	1,242	<b>8,420</b>
Shares purchased for cancellation	12	(108)	–	(1,753)	108	–	–	<b>(1,753)</b>
Dividends paid during the year	7	–	–	–	–	–	(1,126)	<b>(1,126)</b>
<b>Shareholders' funds at 31 July 2013</b>		<b>7,397</b>	<b>3,166</b>	<b>6,499</b>	<b>18,396</b>	<b>93,569</b>	<b>5,611</b>	<b>134,638</b>

The accompanying notes on pages 33 to 43 are an integral part of the financial statements.

## Cash Flow Statement

For the year ended 31 July

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
<b>Net cash inflow from operating activities</b>	15		889		1,218
<b>Financial investment</b>					
Acquisitions of investments		(38,780)		(28,464)	
Disposals of investments		41,909		29,688	
<b>Net cash inflow from financial investment</b>			3,129		1,224
<b>Equity dividend paid</b>	7		(1,109)		(1,126)
<b>Net cash inflow before financing</b>			2,909		1,316
<b>Financing</b>					
Shares bought back	12	(6,966)		(1,753)	
Bank loans drawn down		4,124		–	
<b>Net cash outflow from financing</b>			(2,842)		(1,753)
<b>Increase/(decrease) in cash</b>	16		<b>67</b>		<b>(437)</b>
<b>Reconciliation of net cash flow to movement in net (debt)/funds</b>					
Increase/(decrease) in cash in the year	16		67		(437)
Translation difference	16		(366)		(51)
Increase in bank loans	16		(4,124)		–
Exchange movement on bank loans	16		(22)		–
<b>Movement in net (debt)/funds in the year</b>			(4,445)		(488)
<b>Net funds at 1 August</b>			1,573		2,061
<b>Net (debt)/funds at 31 July</b>			<b>(2,872)</b>		<b>1,573</b>

The accompanying notes on pages 33 to 43 are an integral part of the financial statements.

# Notes to the Financial Statements

## 1 Principal Accounting Policies

The financial statements for the year to 31 July 2014 have been prepared on the basis consistent with the accounting policies set out in the Company's Annual Financial Statements at 31 July 2013.

### (a) Basis of Accounting

The financial statements are prepared on the assumption that approval as an investment trust will continue to be granted.

The financial statements have been prepared in accordance with The Companies Act 2006, applicable UK accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in January 2009).

In order to better reflect the activities of the trust and in accordance with guidance issued by the AIC, supplementary information which analyses the profit and loss account between items of a revenue and capital nature has been presented in the Income Statement.

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when it becomes a party to the contractual provisions of the instrument.

The Directors consider the Company's functional currency to be sterling as the Company's shareholders are predominantly based in the UK and the Company is subject to the UK's regulatory environment.

### (b) Investments

Investment purchases and sales are recognised on a trade date basis. Gains and losses on investments are recognised in the Income Statement as capital items.

Investments are designated as held at fair value through profit or loss on initial recognition and are measured at subsequent reporting dates at fair value. The fair value of listed security investments is bid price or, in the case of FTSE 100 constituents and holdings on certain recognised overseas exchanges, last traded price. The fair value of unlisted security investments uses valuation techniques, determined by the Directors, based upon latest dealing prices, stockbroker valuations, net asset values and other information, as appropriate in line with the relevant principles of the International Private Equity and Venture Capital Valuation Guidelines.

The Managers monitor the investment portfolio on a fair value basis and use the fair value basis for investments in making investment decisions and monitoring financial performance.

### (c) Derivatives

The Company may use derivatives for the purpose of efficient portfolio management (including reducing, transferring or eliminating risk in its investments and protection against currency risk) and to achieve capital growth.

Such instruments are recognised on the date of the contract that creates the Company's obligation to pay or receive cash flows and are measured as financial assets or liabilities at fair value through profit or loss at subsequent reporting dates, while the relevant contracts remain open. The fair value is determined by reference to the open market value of the contract.

Where the investment rationale for the use of derivatives is to hedge specific risks pertaining to the Company's portfolio composition, hedge accounting will only be adopted where the derivative instrument relates specifically to a single item, or group of items, of equal and opposite financial exposure, and where the derivative instrument has been explicitly designated as a hedge of such item(s) at the date of initial recognition. In all other circumstances changes in the fair value of derivative instruments are recognised immediately in the Income Statement as capital or revenue as appropriate.

### (d) 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 using the effective interest rate basis.
- (iii) Unfranked investment income includes the taxes deducted at source.
- (iv) Underwriting commission and interest receivable on deposits are recognised on an accruals basis.
- (v) If scrip dividends are taken in lieu of dividends in cash, the net amount of the cash dividend declared is credited to the revenue column of the Income Statement. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in the capital column of the Income Statement.

### (e) Expenses

All expenses are accounted for on an accruals basis and are charged through the revenue column of the Income Statement except where they relate directly to the acquisition or disposal of an investment (transaction costs), in which case they are taken to the Income Statement as a capital item.

### (f) Finance Costs

Finance costs are accounted for on an accruals basis on an effective interest rate basis and are charged through the revenue column of the Income Statement.

### (g) Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted at the reporting date.

Deferred taxation 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.

### (h) 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 Income Statement as capital or revenue as appropriate.

### (i) Capital Reserve

Gains and losses on disposal of investments, changes in the fair value of investments held and realised and unrealised exchange differences of a capital nature are dealt with in this reserve after being recognised in the Income Statement. Purchases of the Company's own shares for cancellation may be funded from this reserve and can also be funded from the special distributable reserve.

### (j) Single Segment Reporting

The Company is engaged in a single segment of business, being investment business, consequently no business segmental analysis is provided.

**2 Income**

	2014 £'000	2013 £'000
<b>Income from financial assets designated at fair value through profit or loss</b>		
Listed overseas dividends	2,550	2,967
<b>Total income</b>	<b>2,550</b>	<b>2,967</b>

**3 Investment Management Fee**

	2014 £'000	2013 £'000
<b>Investment management fee</b>	<b>1,029</b>	<b>1,246</b>

In order to comply with the Alternative Investment Fund Managers Directive, with effect from 1 July 2014 the Company has terminated its investment management agreement with Baillie Gifford & Co and has appointed Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, as its Alternative Investment Fund Manager and Company Secretary. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co. The notice periods and management fee are unchanged under these new arrangements. The Managers may terminate the Management Agreement on six months' notice and the Company may terminate on three months' notice. With effect from 1 April 2013, the annual management fee was reduced from a flat rate of 1% of net assets to a rate of 0.95% on the first £50m of net assets and 0.65% on the balance. Management fees are calculated on a quarterly basis.

**4 Other Administrative Expenses**

	2014 £'000	2013 £'000
General administrative expenses	247	219
Directors' fees	77	77
Auditor's remuneration for audit services	18	18
	<b>342</b>	<b>314</b>

In the year ended 31 July 2014 the Company incurred non-audit fees of £12,750 (2013 – £nil) in respect of taxation and procedural services in connection with the tender offer implemented during the year. As such costs relate to the repurchase of the Company's own shares, they are capital in nature and are included within the cost of shares purchased for cancellation of £6,966,000 detailed in note 13 on page 38. There were no other non-audit fees in the year to 31 July 2014 or 31 July 2013.

**5 Finance Costs of Borrowings**

	2014 £'000	2013 £'000
Bank loans	6	–

## 6 Tax on Ordinary Activities

	2014 £'000	2013 £'000
<b>Analysis of charge in the year</b>		
Overseas taxation	154	165
<b>Factors affecting the tax charge for the year</b>		
The tax assessed for the year is lower (2013 – lower) than the average standard rate of corporation tax in the UK of 22.33% (2013 – 23.67%)		
The differences are explained below:		
Total return on ordinary activities before taxation	14,508	8,585
Net return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 22.33% (2013 – 23.67%)	3,240	2,032
Capital gains not taxable	(2,978)	(1,699)
Overseas dividends not taxable	(547)	(663)
Taxable expenses in the year not utilised	285	330
Overseas tax	154	165
Current revenue tax charge for the year	154	165

As an investment trust, the Company's capital gains are not taxable.

At 31 July 2014 the Company had a potential deferred tax asset of £1,420,000 (2013 – £1,339,000) in respect of taxable losses which are available to be carried forward and offset against future taxable profits. A deferred tax asset has not been provided on these losses as it is considered unlikely that the Company will make suitable taxable revenue profits in excess of deductible expenses in future periods. The potential deferred tax asset has been calculated using a corporation tax rate of 20% (2013 – 23%).

## 7 Ordinary Dividends

	2014	2013	2014 £'000	2013 £'000
<b>Amounts recognised as distributions in the period:</b>				
Previous year's final (paid 4 November 2013)	1.50p	1.50p	1,109	1,126

We also set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Section 1158 of the Corporation Tax Act 2010 are considered. The revenue for the year available for distribution by way of dividend is £1,019,000 (2013 – £1,242,000).

	2014	2013	2014 £'000	2013 £'000
<b>Amounts paid and proposed in respect of the financial year:</b>				
Proposed final dividend per ordinary share (payable 5 November 2014)	1.40p	1.50p	982	1,110

## 8 Net Return per Ordinary Share

	2014 Revenue	2014 Capital	2014 Total	2013 Revenue	2013 Capital	2013 Total
Net return on ordinary activities after taxation	1.40p	18.32p	19.72p	1.66p	9.62p	11.28p

Revenue return per ordinary share is based on the net revenue return on ordinary activities after taxation of £1,019,000 (2013 – £1,242,000) and on 72,777,640 (2013 – 74,625,072) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Capital return per ordinary share is based on the net capital gain for the financial year of £13,335,000 (2013 – net capital gain of £7,178,000) and on 72,777,640 (2013 – 74,625,072) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Total return per ordinary share is based on the total gain for the financial year of £14,354,000 (2013 – total gain of £8,420,000) and on 72,777,640 (2013 – 74,625,072) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

There are no dilutive or potentially dilutive shares in issue.

## 9 Fixed Assets – Investments

As at 31 July 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	143,675	–	–	<b>143,675</b>
Total financial asset investments	<b>143,675</b>	–	–	<b>143,675</b>

As at 31 July 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	131,292	1,516	–	<b>132,808</b>
Unlisted equities	–	–	23	<b>23</b>
Total financial asset investments	<b>131,292</b>	<b>1,516</b>	<b>23</b>	<b>132,831</b>

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with Financial Reporting Standard 29 'Financial Instruments: Disclosures', the preceding tables provide an analysis of these investments based on the fair value hierarchy described below.

### Fair Value Hierarchy

The fair value hierarchy used to analyse the fair values of financial assets is described below. The levels are determined by the lowest (that is the least reliable or least independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

**Level 1** – investments with quoted prices in an active market;

**Level 2** – investments whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

**Level 3** – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data.

	Listed overseas £'000	Unlisted* £'000	Total £'000
Cost of investments at 1 August 2013	93,004	5	<b>93,009</b>
Investment holding gains and losses at 1 August 2013	39,804	18	<b>39,822</b>
Fair value of investments at 1 August 2013	132,808	23	<b>132,831</b>
Movements in year:			
Purchases at cost	38,780	–	<b>38,780</b>
Sales – proceeds	(41,659)	–	<b>(41,659)</b>
– gains on sales	5,698	–	<b>5,698</b>
Changes in investment holding gains and losses	8,048	(23)	<b>8,025</b>
Fair value of investments at 31 July 2014	<b>143,675</b>	–	<b>143,675</b>
Cost of investments at 31 July 2014	95,823	5	<b>95,828</b>
Investment holding gains and losses at 31 July 2014	47,852	(5)	<b>47,847</b>
Fair value of investments at 31 July 2014	<b>143,675</b>	–	<b>143,675</b>

\*The unlisted investment, Philtown Properties (formerly Philippine Townships), which is valued at £nil at 31 July 2014, arose from a distribution by its parent RFM Corporation.

The Company incurred transaction costs on purchases of £65,000 (2013 – £69,000) and on sales of £97,000 (2013 – £71,000), being £162,000 (2013 – £140,000) in total.

## 9 Fixed Assets – Investments (continued)

### Fair Value Hierarchy (continued)

The following tables show a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

For the year to 31 July 2014	Value at 1 August 2013 £'000	Purchases £'000	Sales proceeds £'000	Gains/(losses) on sales £'000	Holding gains/(losses) £'000	Value at 31 July 2014 £'000
Unlisted equity	23	–	–	–	(23)	–

For the year to 31 July 2013	Value at 1 August 2012 £'000	Purchases £'000	Sales proceeds £'000	Gains/(losses) on sales £'000	Holding gains/(losses) £'000	Value at 31 July 2013 £'000
	23	–	–	–	–	23

The gains and losses included in the above tables have all been recognised in the Income Statement on page 29.

	2014 £'000	2013 £'000
<b>Net gains on investments designated at fair value through profit or loss on initial recognition</b>		
Gains on sales	5,698	4,378
Changes in investment holding gains and losses	8,025	2,851
	<b>13,723</b>	<b>7,229</b>

In respect of the sales made during the year a net gain of £9,377,000 (2013 – net gain of £4,631,000) was included in investment holding gains and losses at the previous year end.

## 10 Debtors

	2014 £'000	2013 £'000
<b>Amounts falling due within one year:</b>		
Income accrued (net of withholding taxes)	408	269
Sales for subsequent settlement	–	175
Distribution of capital for subsequent settlement	–	75
Other debtors and prepayments	23	35
	<b>431</b>	<b>554</b>

The carrying amount of debtors is a reasonable approximation of fair value. There were no debtors that were past due or impaired at 31 July 2014 or 31 July 2013.

## 11 Creditors – Amounts falling due within one year

	2014 £'000	2013 £'000
Bank loan	4,146	–
Other creditors and accruals	317	320
	<b>4,463</b>	<b>320</b>

The Company has a £20 million one year uncommitted, unsecured floating rate revolving credit facility with the Bank of New York Mellon. During the year the Company drew down US\$7 million under the facility at a rate of 1.5326%, maturing on 23 September 2014. It is anticipated that the loan will be rolled over on maturity. The main covenant relating to the loan is that borrowings should not exceed 20% of the Company's net assets value. There were no breaches in the loan covenants during the year.

Included in other creditors and accruals is £266,000 (2013 – £256,000) in respect of the investment management fee.

None of the above creditors at 31 July 2014 or 31 July 2013 are financial liabilities designated at fair value through profit or loss.

## 12 Called Up Share Capital

	2014 Number	2014 £'000	2013 Number	2013 £'000
Allotted, called up and fully paid ordinary shares of 10p each	<b>70,126,152</b>	<b>7,013</b>	<b>73,972,002</b>	<b>7,397</b>

The Company has authority to buy back up to 14.99% of its shares on an ad hoc basis and to implement bi-annual tender offers for up to 5% of its shares in the event that the discount averaged more than 9% during the six month periods to 31 January and 31 July 2014. The Board implemented a 5% tender offer in April in respect of the tender period to 31 January 2014. Through the exercise of both of these authorities the Company bought back a total of 3,845,850 (2013 – 1,080,000) ordinary shares at a total cost of £6,966,000 (2013 – £1,753,000) during the year. The nominal value of these shares was £384,000 and represented 5.2% of the issued share capital at 31 July 2013. At 31 July 2014 the Company had authority to buy back a further 10,910,168 ordinary shares.

The Company also has authority to allot shares under Section 551 of the Companies Act 2006. In the years to 31 July 2014 and 31 July 2013 no shares were issued.

## 13 Capital and Reserves

	Called up share capital £'000	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
At 1 August 2013	7,397	3,166	6,499	18,396	93,569	5,611	<b>134,638</b>
Net gains on sales of investments	–	–	–	–	5,698	–	<b>5,698</b>
Changes in investment holding gains and losses	–	–	–	–	8,025	–	<b>8,025</b>
Exchange differences on bank loan	–	–	–	–	(22)	–	<b>(22)</b>
Other exchange differences	–	–	–	–	(366)	–	<b>(366)</b>
Shares purchased for cancellation	(384)	–	(6,499)	384	(467)	–	<b>(6,966)</b>
Revenue return on ordinary activities after taxation	–	–	–	–	–	1,019	<b>1,019</b>
Dividends paid during the year	–	–	–	–	–	(1,109)	<b>(1,109)</b>
At 31 July 2014	<b>7,013</b>	<b>3,166</b>	<b>–</b>	<b>18,780</b>	<b>106,437</b>	<b>5,521</b>	<b>140,917</b>

The capital reserve includes investments holding gains of £47,847,000 (2013 – £39,822,000) as disclosed in note 9.

The revenue reserve may be distributed by way of dividend.

## 14 Net Asset Value per Ordinary Share

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

	2014 Net asset value per share	2013 Net asset value per share	2014 Net assets attributable £'000	2013 Net assets attributable £'000
Ordinary shares	<b>200.95p</b>	<b>182.01p</b>	<b>140,917</b>	<b>134,638</b>

The movements during the year of the assets attributable to the ordinary shares are shown in note 13.

Net asset value per ordinary share is based on the net assets as shown above and 70,126,152 (2013 – 73,972,002) ordinary shares, being the number of ordinary shares in issue at each date.

## 15 Reconciliation of Net Return before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

	2014 £'000	2013 £'000
Net return on ordinary activities before finance costs and taxation	14,514	8,585
Gains on investments	(13,723)	(7,229)
Currency losses	388	51
(Increase)/decrease in accrued income	(157)	39
Decrease/(increase) in other debtors	12	(17)
Decrease in creditors	(9)	(48)
Overseas tax suffered	(136)	(163)
Net cash inflow from operating activities	<b>889</b>	<b>1,218</b>

## 16 Analysis of Change in Net (Debt)/Funds

	At 1 August 2013 £'000	Cash flows £'000	Translation difference £'000	At 31 July 2014 £'000
Cash at bank and in hand	1,573	67	(366)	<b>1,274</b>
Loans due within one year	–	(4,124)	(22)	<b>(4,146)</b>
	<b>1,573</b>	<b>(4,057)</b>	<b>(388)</b>	<b>(2,872)</b>

## 17 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 24. 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 412 of the Companies Act 2006.

## 18 Financial Instruments

As an Investment Trust, the Company invests in equities and makes other investments so as to achieve its investment objective of maximising capital appreciation from a focused and actively managed portfolio of investments from the Asia-Pacific region including the Indian Sub-continent. In pursuing its investment objective, the Company is exposed to various types of risk that are associated with the financial instruments and markets in which it invests.

These risks are categorised here as market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The Board monitors closely the Company's exposures to these risks but does so in order to reduce the likelihood of a permanent loss of capital rather than to minimise short term volatility. Risk provides the potential for both losses and gains. In assessing risk, the Board encourages the Managers to exploit the opportunities that risk affords.

The risk management policies and procedures outlined in this note have not changed substantially from the previous accounting period.

### Market Risk

The fair value or future cash flows of a financial instrument or other investment held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. The Board of Directors reviews and agrees policies for managing these risks and the Company's Investment Managers both assess the exposure to market risk when making individual investment decisions and monitor the overall level of market risk across the investment portfolio on an ongoing basis.

Details of the Company's investment portfolios are shown in note 9. The Company may, from time to time, enter into derivative transactions to hedge specific market, currency or interest rate risk. During the years to 31 July 2013 and 31 July 2014 no such transactions were entered into.

The Company's Managers may not enter into derivative transactions without the prior approval of the Board.

### Currency Risk

The majority of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and that in which it reports its results). Consequently, movements in exchange rates may affect the sterling value of those items.

The Investment Managers monitor the Company's exposure to foreign currencies and report to the Board on a regular basis. The Investment Managers assess the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. However, the country in which a company is listed is not necessarily where it earns its profits. The movement in exchange rates on overseas earnings may have a more significant impact upon a company's valuation than a simple translation of the currency in which the company is quoted.

Foreign currency borrowings can limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments.

**18 Financial Instruments (continued)****Currency risk (continued)**

Exposure to currency risk through asset allocation, which is calculated by reference to the currency in which the asset or liability is quoted, is shown below.

At 31 July 2014	Investments £'000	Cash and deposits £'000	Loans £'000	Other debtors and creditors* £'000	Net exposure £'000
Korean won	40,565	–	–	7	<b>40,572</b>
Hong Kong dollar	32,882	756	–	–	<b>33,638</b>
Taiwan dollar	27,159	166	–	284	<b>27,609</b>
Indian rupee	22,117	–	–	73	<b>22,190</b>
Singapore dollar	8,195	–	–	44	<b>8,239</b>
US dollar	10,835	335	(4,146)	(6)	<b>7,018</b>
Thai bhat	1,004	–	–	–	<b>1,004</b>
Indonesian rupiah	918	–	–	–	<b>918</b>
Other overseas currencies	–	–	–	–	<b>–</b>
Total exposure to currency risk	143,675	1,257	(4,146)	402	<b>141,188</b>
Sterling	–	17	–	(288)	<b>(271)</b>
	<b>143,675</b>	<b>1,274</b>	<b>(4,146)</b>	<b>114</b>	<b>140,917</b>

\* Includes net non-monetary assets of £13,000.

At 31 July 2013	Investments £'000	Cash and deposits £'000	Loans £'000	Other debtors and creditors* £'000	Net exposure £'000
Korean won	26,192	–	–	3	<b>26,195</b>
Hong Kong dollar	41,448	1,193	–	62	<b>42,703</b>
Taiwan dollar	22,488	200	–	166	<b>22,854</b>
Indian rupee	11,745	6	–	64	<b>11,815</b>
Singapore dollar	12,118	–	–	79	<b>12,197</b>
US dollar	7,144	105	–	–	<b>7,249</b>
Thai bhat	3,325	–	–	157	<b>3,482</b>
Indonesian rupiah	2,477	2	–	8	<b>2,487</b>
Other overseas currencies	5,894	–	–	–	<b>5,894</b>
Total exposure to currency risk	132,831	1,506	–	539	<b>134,876</b>
Sterling	–	67	–	(305)	<b>(238)</b>
	<b>132,831</b>	<b>1,573</b>	<b>–</b>	<b>234</b>	<b>134,638</b>

\* Includes net non-monetary assets of £9,000.

## 18 Financial Instruments (continued)

### Currency Risk Sensitivity

At 31 July 2014, if sterling had strengthened by 5% in relation to all currencies, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown below. A 5% weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts. The analysis is performed on the same basis for 2013.

	2014 £'000	2013 £'000
Korean won	2,029	1,310
Hong Kong dollar	1,682	2,135
Taiwan dollar	1,380	1,143
Indian rupee	1,110	591
Singapore dollar	412	610
US dollar	351	362
Thai bhat	50	174
Indonesian rupiah	46	124
Other overseas currencies	–	295
	<b>7,060</b>	<b>6,744</b>

### Interest Rate Risk

Interest rate movements may affect directly:

- the fair value of any investments in fixed interest rate securities;
- the level of income receivable on cash deposits;
- the fair value of any fixed-rate borrowings; and
- the interest payable on any variable rate borrowings.

Interest rate movements may also impact upon the market value of investments outwith fixed income securities. The effect of interest rate movements upon the earnings of a company may have a significant impact upon the valuation of that company's equity. The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and when entering borrowing agreements. The Board reviews on a regular basis the amount of investments in cash and fixed income securities and the income receivable on cash deposits, floating rate notes and other similar investments.

The Company may finance part of its activities through borrowings at approved levels. The amount of any such borrowings and the approved levels are monitored and reviewed regularly by the Board. Movements in interest rates, to the extent that they affect the market value of the Company's fixed rate borrowings, may also affect the amount by which the Company's share price is at a discount or a premium to the net asset value (assuming that the Company's share price is unaffected by movements in interest rates).

The interest rate risk profile of the Company's financial assets and liabilities at 31 July is shown below.

### Financial Assets

The Company's interest rate risk exposure on its financial assets at 31 July 2014 amounted to £1,274,000 (2013 – £1,573,000), comprising of its cash and short term deposits.

The cash deposits generally comprise call or short term money market deposits of less than one month which are repayable on demand. The benchmark rate which determines the interest payments received on cash balances is the bank base rate.

**18 Financial Instruments (continued)****Financial Liabilities**

The interest rate risk profile of the Company's financial liabilities and the maturity profile of the undiscounted future cash flows in respect of the Company's contractual financial liabilities at 31 July are shown below.

**Interest Rate Risk Profile**

	2014 £'000	2013 £'000
Floating rate bank loan – US\$ denominated	4,146	–

**Maturity Profile**

	2014 Within 1 year £'000	2013 Within 1 year £'000
Repayment of loans	4,146	–
Interest on loans	16	–
	4,162	–

**Interest Rate Risk Sensitivity**

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date and with the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates.

An increase of 100 basis points in interest rates, with all other variables being held constant, would have decreased the Company's total net assets and total return on ordinary activities for the year ended 31 July 2014 by £29,000 (2013 – increase of £16,000). This is mainly due to the Company's exposure to interest rates on its floating rate bank loan and cash balances. A decrease of 100 basis points would have had an equal but opposite effect.

**Other Price Risk**

Changes in market prices other than those arising from interest rate risk or currency risk may also affect the value of the Company's net assets. The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Managers. The Board meets regularly and at each meeting reviews investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies. The portfolio does not seek to reproduce the index. Investments are selected based upon the merit of individual companies and therefore performance may well diverge from the comparative index.

**Other Price Risk Sensitivity**

Fixed asset investments are valued at bid prices which equate to their fair value. A full list of the Company's investments is given on pages 13 and 14. In addition, a geographical analysis of the portfolio and an analysis of the investment portfolio by broad industrial or commercial sector are contained in the Strategic Report.

102.0% (2013 – 98.6%) of the Company's net assets are invested in quoted equities. A 5% (2013 – 5%) increase in quoted equity valuations at 31 July 2014 would have increased total assets and total return on ordinary activities by £7,184,000 (2013 – £6,640,000). A decrease of 5% would have had an equal but opposite effect.

**Liquidity Risk**

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Board provides guidance to the Investment Managers as to the maximum exposure to any one holding and to the maximum aggregate exposure to substantial holdings.

The Company has the power to take out borrowings, which give it access to additional funding when required. The Company's current borrowing facility is detailed in note 11 and the maturity profile of its borrowings are set out above. Under the terms of the borrowing facility, borrowings are repayable on demand at their current carrying value.

## 18 Financial Instruments (continued)

### Credit Risk

This is the risk that a failure of a counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

This risk is managed as follows:

- Where the Investment Managers make an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question.
- The Company's listed investments are held on its behalf by the Company's custodian, The Bank of New York Mellon SA/NV (acting as agent). Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Investment Managers monitor the Company's risk by reviewing the custodian's internal control reports and reporting its findings to the Board.
- Investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the Investment Managers. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations before any transfer of cash or securities away from the Company is completed.
- The creditworthiness of the counterparty to transactions involving derivatives, structured notes and other arrangements, wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest, are subject to rigorous assessment by the Investment Managers.
- Cash is only held at banks that have been identified by the Managers as reputable and of high credit quality.

### Credit Risk Exposure

The exposure to credit risk at 31 July was:

	2014 £'000	2013 £'000
Cash and short term deposits	1,274	1,573
Debtors and prepayments	431	554
	<b>1,705</b>	<b>2,127</b>

The maximum exposure in cash during the year was £8,148,000 (2013 – £3,467,000) and the minimum £230,000 (2013 – £25,000). None of the Company's financial assets are past due or impaired (2013 – none).

### Fair Value of Financial Assets and Financial Liabilities

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet. Short term borrowings have a fair value equal to par.

### Capital Management

The capital of the Company is its share capital and reserves as set out in note 13 together with its borrowings (see note 11). The objective of the Company is to invest in the Asia-Pacific region (excluding Japan) and in the Indian Sub-continent in order to achieve capital growth. The Company's investment policy is set out on page 7. In pursuit of the Company's objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern and details of the related risks and how they are managed are set out on page 19. The Company has the ability to buy back its shares (see pages 22 and 23) and changes to the share capital during the year are set out in note 12. The Company does not have any externally imposed capital requirements other than the covenants on its loan which are detailed in note 11.

## 19 Alternative Investment Fund Managers (AIFM) Directive

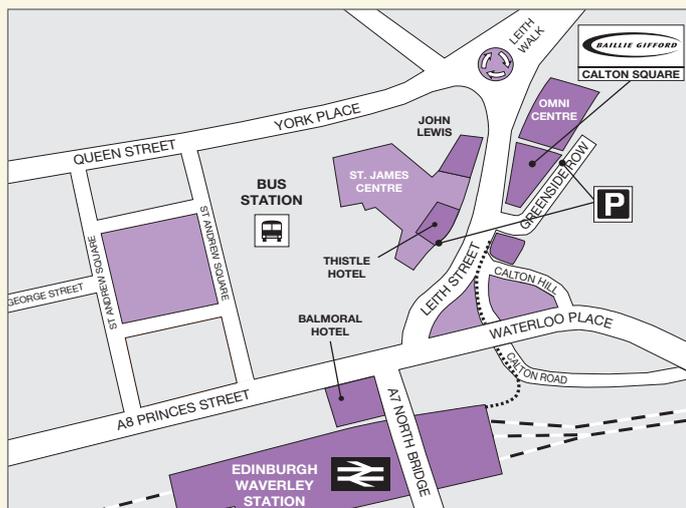
In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Baillie Gifford & Co Limited, is required to be made available to investors. In accordance with the Directive, the AIFM's remuneration policy is available from Baillie Gifford & Co Limited on request (see contact details on the back cover) and the numerical remuneration disclosures in respect of the AIFM's first relevant reporting period (year ended 31 March 2016) will be made available in due course.

The Company's maximum and actual leverage (see Glossary of Terms on page 51) levels at 31 July 2014 are shown below:

### Leverage Exposure

	Gross method	Commitment method
Maximum limit	2.50:1	2.00:1
Actual	1.03:1	1.03:1

## Notice of Annual General Meeting



The Annual General Meeting of the Company will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Thursday, 30 October 2014 at 3.30pm.

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

Baillie Gifford may record your call.

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 Thursday, 30 October 2014 at 3.30pm for the following purposes:

### Ordinary Business

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

1. To receive and adopt the Annual Report and Financial Statements of the Company for the financial year ended 31 July 2014, together with the Reports of the Directors and of the Independent Auditor thereon.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Annual Report on Remuneration for the financial year ended 31 July 2014.
4. To declare a final dividend of 1.40p per ordinary share.
5. To re-elect Miss JGK Matterson as a Director.
6. To re-elect Mr DCP McDougall as a Director.
7. To re-elect Ms EC Scott as a Director.
8. To reappoint Ernst & Young LLP as Independent Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which the financial statements are laid before the Company.
9. To authorise the Directors to determine the remuneration of the Independent Auditor of the Company.
10. THAT, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ('Securities') provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £7,012,615, such authority to expire at the conclusion of the next Annual General Meeting of the

Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

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

11. THAT, subject to the passing of resolution number 10 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered, pursuant to Section 570 of the Companies Act 2006 (the 'Act'), to allot equity securities (as defined in Section 560 of the Act), including the grant of rights to subscribe for, or to convert securities into ordinary shares held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority given by resolution number 10 above as if Section 561(1) of the Act did not apply to any such allotment of equity securities, provided that this power:
  - (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and
  - (b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £7,012,615 being approximately 10% of the nominal value of the issued share capital of the Company, as at 10 September 2014.

12. THAT, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid ordinary shares of 10 pence each in the capital of the Company ('ordinary shares'), provided that:

- (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 10,511,910, or, if less, the number representing approximately 14.99% of the issued ordinary share capital of the Company on the date on which this resolution is passed;
- (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 10 pence;
- (c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:
  - (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
  - (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and
- (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in respect of the financial year ending 31 July 2015, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

13. THAT, in addition to the authority given to the Company to purchase its own ordinary shares of 10 pence each (the 'Shares') pursuant to resolution 12 above and in accordance with the terms and conditions of the tender offers for the six month periods ended 31 January 2015 and 31 July 2015 (together the 'Tender Offers') which will be set out in a circular to be sent to Shareholders by the Company relating to the relevant Tender Offer (the 'Circular'), the Company be and is hereby authorised for the purpose of section 701 of the Companies Act 2006 (the '2006 Act') to make market purchases (within the meaning of section 693(4) of the 2006 Act) of its issued Shares provided that:

- (a) the maximum number of Shares hereby authorised to be purchased pursuant to each Tender Offer is 5% of the Shares in issue as at 31 January 2015 (excluding any Shares held in treasury) or 31 July 2015 (excluding Shares held in treasury) as appropriate;

- (b) the price which shall be paid for a Share shall be the relevant Tender Price as defined in the Circular (which in each case shall be both the maximum and the minimum price for the purposes of section 701 of the 2006 Act); and
- (c) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company in 2015 (unless such authority is renewed prior to such time) save that the Company may, prior to such expiry, enter into a contract to purchase Shares which will or may be completed or executed wholly or partly after such expiry.

By order of the Board  
Baillie Gifford & Co Limited  
Managers and Secretaries  
29 September 2014

#### Notes

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the financial statements and proxy form) to communicate with the Company for any purpose other than those expressly stated.
2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY or [www.eproxyappointment.com](http://www.eproxyappointment.com) no later than two days (excluding non-working days) before the time of the meeting or any adjourned meeting.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/or by logging on to the website [www.euroclear.com/CREST](http://www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

4. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID 3RA50) no later than two days (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
5. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
6. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. The return of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.
8. Shareholders participating in the Baillie Gifford Investment Trust Share Plan, Children's Savings Plan or the Baillie Gifford Investment Trust ISA who wish to vote and/or attend the meeting must complete and return the enclosed reply-paid Form of Direction.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than two days (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
10. Any person to whom this notice is sent or who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
11. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.
12. The members of the Company may require the Company to publish, on its website, (without payment) a statement (which is also passed to the Auditor) setting out any matter relating to the audit of the Company's accounts, including the Auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at Calton Square, 1 Greenside Row, Edinburgh EH1 3AN.
13. Information regarding the AGM, including information required by Section 311A of the Companies Act 2006, is available from the Company's page of the Managers' website at [www.pacifichorizon.co.uk](http://www.pacifichorizon.co.uk).
14. Members have the right to ask questions at the meeting in accordance with Section 319A of the Companies Act 2006.
15. As at 10 September 2014 (being the last practicable day prior to the publication of this notice) the Company's issued share capital consisted of 70,126,152 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 10 September 2014 were 70,126,152 votes.
16. Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his proxy will need to ensure that both he/she and his/her proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
17. No Director has a contract of service with the Company.

## Further Shareholder Information

### 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; and
- the Company is free from capital gains tax on capital profits realised within its portfolio although investors are still liable for capital gains tax on profits when selling their investment.

### 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 page 48 for details). If you are interested in investing directly in Pacific Horizon, you can do so online. There are a number of companies offering real time online dealing services.

### Sources of Further Information on the Company

The price of shares is quoted daily in the Financial Times (under 'Investment Companies') and can also be found on the Company's page of the Managers' website at [www.pacifichorizon.co.uk](http://www.pacifichorizon.co.uk), Trustnet at [www.trustnet.co.uk](http://www.trustnet.co.uk) and on other financial websites. Monthly factsheets are also available on the Baillie Gifford website. These are available from Baillie Gifford on request.

### Pacific Horizon Share Identifiers

ISIN GB0006667470

Sedol 0666747

Ticker PHI

### Key Dates

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

### Capital Gains Tax

For Capital Gains Tax purposes, the cost 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 Reuters 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 707 1229. This helpline also offers an automated self-service functionality (available 24 hours a day, 7 days a week) which allows you to:

- hear the latest share price;
- confirm your current share holding balance;

- confirm your payment history; and
- order Change of Address, Dividend Bank Mandate and Stock Transfer forms.

You can also check your holding on the Registrars' website at [www.investorcentre.co.uk](http://www.investorcentre.co.uk). They also offer a free, secure share management website service which allows you to:

- view your share portfolio and see the latest market price of your shares;
- calculate the total market price of each shareholding;
- view price histories and trading graphs;
- register to receive communications from the Company, including the Annual Reports, in electronic format;
- update bank mandates and change address details; and
- use online dealing services.

To take advantage of this service, please log in at [www.investorcentre.co.uk](http://www.investorcentre.co.uk) and enter your Shareholder Reference Number and Company Code (this information can be found on the last dividend voucher or your share certificate).

### Dividend Reinvestment Plan

Computershare operates a Dividend Reinvestment Plan which can be used to buy additional shares instead of receiving your dividend via cheque or into your bank account. For further information log in to [www.investorcentre.co.uk](http://www.investorcentre.co.uk) and follow the instructions or telephone 0870 707 1694.

### Electronic Proxy Voting

If you hold stock in your own name you can choose to vote by returning proxies electronically at [www.eproxyappointment.com](http://www.eproxyappointment.com). If you have any questions about this service please contact Computershare on 0870 707 1229.

### CREST Proxy Voting

If you are a user of the CREST system (including a CREST Personal Member), you may appoint one or more proxies or give an instruction to a proxy by having an appropriate CREST message transmitted. For further information please refer to the CREST Manual.

### Analysis of Shareholders at 31 July

	2014 Number of shares held	2014 %	2013 Number of shares held	2013 %
Institutions	36,903,728	52.6	39,524,197	53.4
Intermediaries	21,048,259	30.0	22,690,003	30.7
Individuals	2,212,742	3.2	2,503,994	3.4
Baillie Gifford Share Plan/ISA	9,767,460	13.9	8,973,247	12.1
Marketmakers	193,963	0.3	280,561	0.4
	<b>70,126,152</b>	<b>100.0</b>	<b>73,972,002</b>	<b>100.0</b>

## Cost-effective Ways to Buy and Hold Shares in Pacific Horizon

Baillie Gifford Savings Management Limited offers a number of plans that enable you to buy and hold shares of Pacific Horizon cost-efficiently. Purchases and sales are normally subject to a dealing price spread and Government stamp duty of 0.5% is payable on purchases.

### The Baillie Gifford Investment Trust Share Plan

- No initial charge
- No annual wrapper charge
- Normally cheaper than dealing through a stockbroker
- Invest a lump sum from £250 or monthly from just £30
- No maximum investment limits
- Stop and start saving at any time with no charge
- Twice weekly dealing (usually Tuesday and Friday)
- A withdrawal charge of just £22

### The Baillie Gifford Investment Trust ISA

- Tax-efficient investment
- No set-up charge
- Flat rate annual management charge currently of £32.50 + VAT
- Lump sum investment from £2,000 currently up to a maximum of £15,000 each tax year
- Save monthly from £100
- A withdrawal charge of just £22

### ISA Transfers

- Transfer existing ISAs from other plan managers into the Baillie Gifford ISA
- Consolidate your plans into a managed global investment
- Minimum transfer value £2,000

### The Baillie Gifford Children's Savings Plan

- An excellent way for parents, grandparents or other adults to invest for a child
- No initial charge
- No annual wrapper charge
- The option of a designated account or a bare trust in favour of the child
- Flexible investment options: lump sum from £100 or monthly saving from just £25
- A withdrawal charge of just £22

### Online Management Service

You can also open and manage your Share Plan, Children's Savings Plan\* and/or ISA online, through our secure Online Management Service (OMS) which can be accessed through the Baillie Gifford website at [www.bailliegifford.com/oms](http://www.bailliegifford.com/oms). As well as being able to view the details of your plan online, the service also allows you to:

- obtain current valuations;
- make lump sum investments, except where there is more than one holder;

- sell part or all of your holdings, except where there is more than one holder;
- switch between investment trusts, except where there is more than one holder; and
- update certain personal details e.g. address and telephone number.

\*Please note that a bare trust cannot be opened via OMS. A bare trust application form must be completed. Certain restrictions apply for accounts where there is more than one holder.

### Further information

If you would like more information on any of the plans described, please contact the Baillie Gifford Client Relations Team (see contact details on page 50).

### Risks

- Past performance is not a guide to future performance.
- Pacific Horizon is a listed UK Company. The value of its shares, and any income from them, can fall as well as rise and investors may not get back the amount invested.
- Pacific Horizon invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.
- Pacific Horizon invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.
- Pacific Horizon can borrow money to make further investments (sometimes known as 'gearing'). The risk is that when this money is repaid by the Company, the value of the investments may not be enough to cover the borrowing and interest costs, and the Company will make a loss. If the Company's investments fall in value, any invested borrowings will increase the amount of this loss.
- Pacific Horizon can buy back its own shares and has discretion to implement a tender offer for up to five percent of its shares on a six monthly basis. The risks from borrowing, referred to above, are increased when the Company buys back and cancels its shares.
- Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Company might receive upon their sale.
- Pacific Horizon can make use of derivatives which may impact on its performance. Currently the Company does not make use of derivatives.
- The aim of Pacific Horizon is to achieve capital growth. You should not expect a significant, or steady, annual income from the Company.
- Shareholders in Pacific Horizon have the right to vote every five years, on whether to continue Pacific Horizon, or wind it up. If the shareholders decide to wind the Company up, the assets will be sold and you will receive a cash sum in relation to your shareholding. The next vote will be held at the Annual General Meeting in 2016.

- Baillie Gifford Savings Management Limited is a Scottish Company. The outcome of the Scottish Referendum vote on 18 September 2014, which is unknown at the date this report was approved, introduces elements of political uncertainty which may have practical consequences.
- You should note that tax rates and reliefs may change at any time and their value depends on your circumstances.

Details of other risks that apply to investment in these savings vehicles are contained in the product brochures.

Pacific Horizon Investment Trust PLC is a UK public listed company and as such complies with the requirements of the UK Listing Authority. It is not authorised and regulated by the Financial Conduct Authority.

Baillie Gifford Savings Management Limited (BGSM) is the manager of The Baillie Gifford Investment Trust Share Plan, The Baillie Gifford Children's Savings Plan and The Baillie Gifford Investment Trust ISA. BGSM is wholly owned by Baillie Gifford & Co. Both BGSM and Baillie Gifford & Co are authorised and regulated by the Financial Conduct Authority and both are based at Calton Square, 1 Greenside Row, Edinburgh EH1 3AN.

The staff of Baillie Gifford & Co and the Directors of Pacific Horizon may hold shares in Pacific Horizon and may buy or sell shares from time to time.

## Communicating with Shareholders

### Trust Magazine

*Trust* is the Baillie Gifford investment trust magazine which is published three times a year. It provides an insight to our investment approach by including interviews with our fund managers, as well as containing investment trust news, investment features and articles about the trusts managed by Baillie Gifford, including Pacific Horizon. *Trust* plays an important role in helping to explain our products so that readers can really understand them. For a copy of *Trust*, please contact the Baillie Gifford Client Relations Team (see contact details opposite).

An online version of *Trust* can be found at [www.bgtrustonline.com](http://www.bgtrustonline.com).

### Pacific Horizon on the Web

Up-to-date information about Pacific Horizon, recent portfolio information and performance figures, can be found on the Company's page of the Managers' website at [www.pacifichorizon.co.uk](http://www.pacifichorizon.co.uk).

If you are interested in investing directly in Pacific Horizon you can do so online. There are a number of companies offering real time online dealing services.

### Suggestions and Questions

Any suggestions on how communications with shareholders can be improved are welcomed, so please contact the Baillie Gifford Client Relations Team and give them your suggestions. They will also be very happy to answer questions that you may have, either about Pacific Horizon or the plans described on page 48.

### Literature in Alternative Formats

It is possible to provide copies of the literature in alternative formats, such as large print or on audio tape. Please contact the Baillie Gifford Client Relations Team for more information.

### Client Relations Team Contact Details

You can contact the Baillie Gifford Client Relations Team by telephone, email, fax or post:

**Telephone:** 0800 917 2112

Your call may be recorded for training or monitoring purposes.

**Email:** [trustenquiries@bailliegifford.com](mailto:trustenquiries@bailliegifford.com)

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

**Fax:** 0131 275 3955

### Client Relations Team

Baillie Gifford Savings Management Limited  
Calton Square  
1 Greenside Row  
Edinburgh EH1 3AN

**Please note that Baillie Gifford is not permitted to give financial advice. If you would like advice or if you have any questions about the suitability of any of these plans for you, please ask an authorised intermediary.**

## Glossary of Terms

### Total Assets

Total assets less current liabilities, before deduction of all borrowings.

### Net Asset Value

Net Asset Value (NAV) is the value of total assets less liabilities (including borrowings). The NAV per share is calculated by dividing this amount by the number of ordinary shares in issue.

### Discount/Premium

As stockmarkets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

### Total Return

The total return is the return to shareholders after reinvesting the net dividend on the date that the share price goes up.

### Ongoing Charges Ratio

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value (with debt at fair value).

### Gearing

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gearing represents borrowings at par less cash and cash equivalents expressed as a percentage of shareholders' funds.

Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds.

Equity gearing is the Company's borrowings adjusted for cash and bonds expressed as a percentage of shareholders' funds.

### Leverage

For the purposes of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

## Directors

Chairman:  
JGK Matterson

EG Creasy  
DCP McDougall OBE  
EC Scott

## Registered Office

Computershare  
Investor Services PLC  
2nd Floor  
Vintners' Place  
68 Upper Thames Street  
London  
EC4V 3BJ

## Managers and Secretaries

Baillie Gifford & Co Limited  
Calton Square  
1 Greenside Row  
Edinburgh  
EH1 3AN  
Tel: 0131 275 2000  
[www.bailliegifford.com](http://www.bailliegifford.com)

## Registrar

Computershare  
Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol  
BS99 6ZZ  
Tel: 0870 707 1229

## Broker

JP Morgan Cazenove  
25 Bank Street  
Canary Wharf  
London  
E14 5JP

## Independent Auditor

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

## Company Details

[www.pacifichorizon.co.uk](http://www.pacifichorizon.co.uk)  
Company Registration  
No. 02342193  
ISIN GB0006667470  
Sedol 0666747  
Ticker PHI

## Further Information

Client Relations Team  
Baillie Gifford Savings  
Management Limited  
Calton Square  
1 Greenside Row  
Edinburgh EH1 3AN  
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Email:  
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