

Daiwa Asset Management (Europe) Ltd

ANNUAL REPORT

For the year ended 31 March 2011

Registered No: 02045607

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Daiwa Asset Management (Europe) Ltd

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Daiwa Asset Management (Europe) Ltd

Directors and Officers

For the year ended 31 March 2011

Directors

J Murofushi	(Managing Director)
K Sekiguchi	
H Norishi	
O Yamashita	Resigned 7 th January 2011
T Katayanagi	Resigned 1 st September 2010
Y Hasegawa	Appointed 1 st September 2010
A Tahara	Appointed 7 th January 2011

Company Secretary

Y Choi

Registered Office

5th Floor
5 King William Street
London EC4N 7AX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

**Directors' report
For the year ended 31 March 2011**

The directors present their report and the audited financial statements for the year ended 31 March 2011

Principal activities, business review and future developments

The profit and loss account for the year is set out on page 7. The principal activity of the company is the provision of investment advice to its parent undertaking and to fellow group undertakings and for the provision of investment management services to fellow group undertakings and third parties. The company's operating profit for the year has increased from £678,380 to £1,444,092. Turnover was up by £1,502,985, an increase of 35% from previous year. This was due mainly to the 82.9% increase in fees earned from the provision of funds related administrative services to the group undertakings, an increase of 20.7% in fees earned from the management of third parties' funds, an increase of 30.7% in fees earned from the management of group related companies' funds and 19.3% increase in fees earned from the investment advice to its parent undertaking. The directors are satisfied with the results achieved and are optimistic for the future.

The company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

Dividends

An interim dividend of £7.2 per share was paid on 29th December 2010. The directors have not proposed a final dividend for the year ended 31st March 2011. The total distribution of dividends for the year ended 31st March 2011 was £3,600,000 (2010 Nil). The profit for the financial year of £1,129,001 will be transferred to reserves.

Directors

The directors of the company who held office during the year were listed on page 1.

None of the directors had any beneficial interest in the share capital of the company either at the beginning or end of the year.

Financial risk management

The company is exposed to financial risk through its fees receivable from investment fund management and advisory fees payable to fund advisors. The most important components of this financial risk are currency risk and liquidity risk. The company manages these risks by matching its assets to the liabilities arising from investment fund management, by maintaining bank accounts in foreign currencies.

Directors' report**For the year ended 31 March 2011 (*continued*)****Currency risk**

The company is exposed to currency risk in respect of fees receivable from investment fund management and advisory fees payable in currencies other than sterling. The most significant currencies to which the company is exposed are the US and Australian dollars. The company seeks to mitigate such risks by maintaining bank accounts in foreign currencies to match the foreign currency-denominated liabilities, principally commission payable.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of cash available to meet such obligations which should be in place to cover anticipated liabilities and unexpected levels of demand.

Charitable and political donations

No donations were made for political purposes during the year (2010: Nil). A charitable donation of £550 (2010: Nil) was made to the Charity Appeal for the Japan Earthquake Relief Fund during the year.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the company's Annual General Meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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,
- 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.

Directors' report
For the year ended 31 March 2011 (*continued*)

Each director in office at the date the directors' report is approved confirms that

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the Board

Y. Choi
COMPANY SECRETARY

24th June 2011

A handwritten signature in black ink, consisting of a stylized 'Y' followed by a horizontal line and a vertical stroke.

Daiwa Asset Management (Europe) Ltd

Independent auditors' report to the members of Daiwa Asset Management (Europe) Ltd for the year ended 31 March 2011

We have audited the financial statements of Daiwa Asset Management (Europe) Ltd for the year ended 31 March 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. 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).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 3 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 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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.

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 March 2011 and of its profit and cash flows 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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in 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

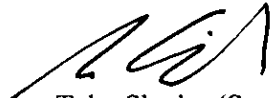
We have nothing to report in respect of the following matters where the Companies Act 2006 requires

Daiwa Asset Management (Europe) Ltd

Independent auditors' report to the members of Daiwa Asset Management (Europe) Ltd for the year ended 31 March 2011 (continued)

us 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 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



Toby Skailes (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24 June 2011

Daiwa Asset Management (Europe) Ltd

Profit and loss account For the year ended 31 March 2011

	<u>Notes</u>	2011 £	2010 £
Turnover	3	5,796,788	4,293,803
Administrative expenses		(4,352,696)	(3,615,423)
Operating profit	4	1,444,092	678,380
Exceptional item	5	81,000	-
Interest receivable and similar income	6	14,678	12,326
Profit on ordinary activities before taxation		1,539,770	690,706
Taxation on profit on ordinary activities	7	(410,769)	(195,258)
Profit on ordinary activities after taxation		1,129,001	495,448

The results above are all derived from continuing operations

There is no difference between the profits on ordinary activities before taxation and the profits for the current and preceding financial year stated above and their historical cost equivalents

There are no recognised gains and losses for the current and preceding financial year other than those included in the profit and loss account above and therefore no statement of total recognised gains and losses has been prepared

Daiwa Asset Management (Europe) Ltd

Balance Sheet As at 31 March 2011

	<u>Notes</u>	2011 £	2010 £
Fixed assets			
Tangible fixed assets	9	11,679	26,325
Investments	10	-	-
		<u>11,679</u>	<u>26,325</u>
Current assets			
Deferred tax asset	11	5,470	3,970
Debtors	11	731,096	694,081
Investment	12	-	3,497,964
Cash at bank		2,459,212	1,328,844
		<u>3,195,778</u>	<u>5,524,859</u>
Creditors: amounts			
falling due within one year	13	786,587	659,315
		<u>2,409,191</u>	<u>4,865,544</u>
Net current assets			
		<u>2,420,870</u>	<u>4,891,869</u>
Total assets less current liabilities			
		<u>2,420,870</u>	<u>4,891,869</u>
Capital and reserves			
Called up share capital	14	500,000	500,000
Profit and loss account	15	1,920,870	4,391,869
		<u>2,420,870</u>	<u>4,891,869</u>
Total shareholders' funds	16		
		<u>2,420,870</u>	<u>4,891,869</u>

The financial statements on pages 7 to 19 were approved by the Board of Directors on 24th June 2011 and were signed on its behalf by



J. Murofushi
MANAGING DIRECTOR

Daiwa Asset Management (Europe) Ltd

Cash flow statement

For the year ended 31 March 2011

	<u>Notes</u>	2011 £	2010 £
Net cash inflow from operating activities	17	1,493,093	594,806
Return on investments and servicing of finance			
Interest received		2,813	1,373
Income from investment		11,865	10,953
Taxation			
UK corporation tax paid		(267,560)	(118,593)
Payment of group relief		(49,140)	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,223)	(3,563)
Receipt from disposal of investment		81,000	-
Equity dividends paid		(3,600,000)	-
Management of liquid resources			
Sale / (Purchase) of short-term investment		3,497,964	(3,497,964)
Increase / (Decrease) in cash	18	<u>1,168,812</u>	<u>(3,012,988)</u>

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements **For the year ended 31 March 2011 (*continued*)**

1 Principal Accounting Policies

Basis of accounting

The financial statements have been prepared on the going-concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and all applicable accounting standards in the United Kingdom (UK GAAP) which have been consistently applied. The principal accounting policies are set out below.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Provision is made for depreciation to write off the cost, less estimated residual value, in equal annual instalments over their estimated useful lives as follows:

Leasehold improvements	Period of the lease
Furniture and office equipment	2-5 years

Investments

The deposit for golf club membership is amortized over its useful life of ten years. Other fixed asset investments are stated at cost less any provision for a permanent diminution in value. Current asset investments are stated at the lower of cost and net realisable value.

Investment and interest income

Investment and interest income are taken into account in the profit and loss account on an accrual basis.

Turnover

Turnover comprises amounts invoiced and receivable for the provision of investment advice and funds related administrative services to its parent company and fellow group undertakings and for the provision of investment management services to fellow group undertakings and third parties and are recognised on an accrual basis.

Administrative expenses

Administrative expenses comprise of staff costs and other overheads generated by conducting business and are taken into account on an accrual basis.

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2011 (*continued*)

Taxation

The charge of taxation is based on the results for the year adjusted for disallowable items

Deferred taxation is provided in full on all timing differences at the rate at which it is expected that the tax liability or benefits will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currencies

Transactions denominated in foreign currencies are translated into pound sterling at the rates of exchange prevailing at the time of the transactions. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date with the exception of non-monetary items which are maintained at historical rates. Exchange gains or losses are taken to the profit and loss account.

Operating leases

All operating leases and the annual rentals are charged to operating profit on a straight line basis over the lease term.

2 Directors' emoluments and employee information

	2011 £	2010 £
Aggregate emoluments	301,552	252,331

	2011 £	2010 £
Highest paid director		
Aggregate emoluments	301,552	252,331

All the other directors were based overseas and received no emoluments for services to the company during the last or current year.

The average number of employees, including the executive director, in the UK during the year was 22 (2010: 19). Staff costs were as follows:

	2011 £	2010 £
Wages and salaries	2,016,731	1,553,072
Social security costs	113,923	107,361
Pension costs	92,761	86,397
	2,223,415	1,746,830

The company operates a defined contribution pension scheme through Aegeon Scottish Equitable plc. Contributions to the scheme are charged to the profit and loss account when payable.

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2011 (*continued*)

3 Turnover

Turnover comprises income from the following

	2011 £	2010 £
Income from investment advice to the parent undertaking	1,343,280	1,126,126
Income from provision of funds related administrative services to the group undertakings	1,128,967	617,370
Income from funds managed for group related companies	3,203,741	2,450,195
Income from funds managed for third parties	120,800	100,112
	<u>5,796,788</u>	<u>4,293,803</u>

4 Operating profit

	2011 £	2010 £
Operating profit is stated after the following charges		
Auditors' remuneration		
Audit services	23,000	22,000
Non-audit services	32,900	-
Depreciation of tangible assets	15,869	18,971
Operating lease rentals for office equipment	2,396	2,443
Operating lease rentals for property	69,513	69,513
Wages and salaries	2,223,415	1,746,830

5 Exceptional item

	2011 £	2010 £
Profit on disposal of investment (Note 10)	<u>81,000</u>	<u>-</u>

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements For the year ended 31 March 2011 (*continued*)

6 Interest receivable and similar income

	2011 £	2010 £
Interest on commercial paper	11,865	10,953
Interest receivable on cash deposits	2,813	1,373
	<u>14,678</u>	<u>12,326</u>

The interest on commercial paper represents interest accrued from the purchase and subsequent maturity of commercial paper held during the year

7 Taxation on profit on ordinary activities

(a) Analysis of charge in the year

	2011 £	2010 £
Current tax		
UK corporation tax at 28% (2010 28%)	412,269	196,560
Total current tax (Note 7b)	<u>412,269</u>	<u>196,560</u>
Deferred tax		
Origination and reversal of timing differences	(1,500)	(1,302)
Taxation on profit on ordinary activities	<u>410,769</u>	<u>195,258</u>

(b) Factors affecting the tax charge for the year

The tax assessed for the year is based on the standard rate of corporation tax in the UK at 28% (2010 28%) Any differences are explained below

	2011 £	2010 £
Profit on ordinary activities before taxation	<u>1,539,770</u>	<u>690,706</u>

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2011 (*continued*)

	2011 £	2010 £
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK 28% (2010 28%)	431,136	193,398
Effects of:		
Depreciation in excess of Capital allowances	2,450	2,250
Expenses not deductible for tax purposes	1,363	912
Group relief claimed in respect of prior period	(49,140)	-
Payment for group relief	49,140	-
Profit on disposal of investment	(22,680)	-
Current tax charge for the year (Note 7a)	412,269	196,560
Effective rate	28%	28%

It has been agreed that companies within the Daiwa Securities Group (DSG) will pay each other for tax losses surrendered. The DSG consists of Daiwa Assets Management (Europe) Ltd, Daiwa Corporate Advisory Partners Limited, Daiwa Capital Markets Europe Limited, Daiwa Fund Asset Services Ltd, Daiwa Securities Trust and Banking (Europe) Plc and DC Advisory Partners Limited.

8 Dividends

	2011 £	2010 £
Interim of £7.2 per share paid on 29th December 2010	3,600,000	-

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2011 (*continued*)

9 Tangible fixed assets	Short leasehold building improvements	Furniture and office equipment	TOTAL
Cost	£	£	£
At 31 March 2010	44,902	114,989	159,891
Additions	-	1,223	1,223
At 31 March 2011	44,902	116,212	161,114
Depreciation			
At 31 March 2010	33,881	99,685	133,566
Charge for year	3,391	12,478	15,869
At 31 March 2011	37,272	112,163	149,435
Net book value			
At 31 March 2011	7,630	4,049	11,679
At 31 March 2010	11,021	15,304	26,325
10 Investments		2011	2010
Golf club membership			
Cost		£	£
At 31 March 2010		81,000	81,000
Disposal		(81,000)	-
At 31 March 2011		-	81,000
Amortization			
At 31 March 2010		81,000	81,000
Disposal		(81,000)	-
At 31 March 2011		-	-

The company resigned as a member of the golf club and a refund of the deposit was received on 29 December 2010

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2011 (*continued*)

11 Debtors

	2011 £	2010 £
Amount falling due within one year		
Fees receivable	-	65,368
Amounts due from group undertakings	613,183	545,402
Other debtors	65,638	35,906
Prepayments	52,275	47,405
	<u>731,096</u>	<u>694,081</u>

Amounts due from group undertakings are unsecured, interest free and repayable on demand

The deferred tax asset represents timing differences between capital allowances and depreciation

	2011 £	2010 £
At 31 March 2010	3,970	2,668
Movement in year	1,500	1,302
At 31 March 2011	<u>5,470</u>	<u>3,970</u>

12 Investment

	2011 £	2010 £
Short - term commercial paper	-	3,497,964

The market value of these securities was not materially different from their carrying amount

13 Creditors: amounts falling due within one year

	2011 £	2010 £
Corporation tax	220,129	124,560
Other taxation and social security	31,883	21,899
Creditors and accruals	355,137	357,003
Bank overdraft	-	38,444
Amounts payable to group undertakings	179,438	117,409
	<u>786,587</u>	<u>659,315</u>

Amounts payable to group undertakings are unsecured, interest free and payable on demand

Daiwa Asset Management (Europe) Ltd
Notes to the financial statements
For the year ended 31 March 2011 (*continued*)

14 Called-up share capital

	2011	2010
	£	£
Authorized 1,000,000 (2010 1,000,000) ordinary shares of £1 each	1,000,000	1,000,000
Allotted, called-up and fully paid 500,000 (2010 500,000) ordinary shares of £1 each	500,000	500,000

15 Profit and loss account

	2011	2010
	£	£
Balance at beginning of year	4,391,869	3,896,421
Profit on ordinary activities after taxation	1,129,001	495,448
Dividends (Note 8)	(3,600,000)	-
Balance at end of year	1,920,870	4,391,869

16 Reconciliation of movements in shareholders' funds

	2011	2010
	£	£
Opening shareholder's funds	4,891,869	4,396,421
Profit on ordinary activities after taxation	1,129,001	495,448
Dividends (Note 8)	(3,600,000)	-
Closing shareholder's funds	2,420,870	4,891,869

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements For the year ended 31 March 2011 (*continued*)

17 Reconciliation of operating profit to net cash inflow from operating activities

	2011 £	2010 £
Operating profit	1,444,092	678,380
Depreciation of tangible fixed assets	15,869	18,971
(Increase) in debtors	(37,015)	(253,881)
Increase in creditors	70,147	151,336
Net cash inflow from operating activities	<u>1,493,093</u>	<u>594,806</u>

18 Reconciliation of net cash inflow to movement in net funds

	2011 £	2010 £
Net funds at beginning of year	1,290,400	4,314,423
Increase / (Decrease) in cash in the year	1,130,368	(3,012,988)
Decrease / (Increase) in bank overdraft (Note 13)	38,444	(11,035)
Net funds at end of year	<u>2,459,212</u>	<u>1,290,400</u>

19 Operating lease commitments

At 31 March 2011 the company had annual commitments under non-cancellable operating leases as follows

	2011		2010	
	Property £	Others £	Property £	Others £
Expiring within one year	-	-	-	2,396
Expiring within two and five year inclusive	69,513	2,396	69,513	-

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2011 (*continued*)

20 Related party transactions

As disclosed in Note 3, the company earned investment advisory fees of £1,343,280 (2010 £1,126,126) during the year from its immediate parent undertaking, Daiwa Asset Management Company Limited ('DAMCO'). At the balance sheet date, the amount due from DAMCO was £167,131 (2010 £23,200) (Note 11). The company also earned administrative fees of £1,128,967 (2010 £617,370) from the provision of funds related administrative services to its group undertakings and management fees of £3,203,741 (2010 £2,450,195) from the management of funds for group related companies. At the balance sheet date, the amount due from its group undertakings was £256,074 (2010 £231,471). During the year, advisory fee of £674,424 (2010 £557,578) was payable by Daiwa Asset Management (Europe) Ltd ('DAMEL') to DAMCO. At the balance sheet date, the amount outstanding was £61,171 (2010 £117,409) (Note 13).

In addition, the company reimbursed Daiwa Capital Markets Europe Ltd ('DCM') for administration expenses incurred on behalf of the company. During the year an amount of £1,465,225 (2010 £1,289,347) was payable by DAMEL to DCM. At the year-end, the amount outstanding was £69,007 (2010 £Nil) (Note 13). On 1st May 2005, the company renewed the lease agreement on its London premises within the DCM building in King William Street. The lease agreement does not have a fixed renewal date and can be terminated by either party within a 12-month notice period. The annual rent payable to DCM was £69,513 (2010 £69,513) (Note 19).

On 25th June 2009, the company entered into an annual renewable agreement with DCM for DCM to provide supporting services for personnel, facilities, technology and business continuity. The total amount payable was £62,837 (2010 £44,768).

21 Parent undertakings

The company's ultimate parent undertaking and controlling entity is Daiwa Securities Group Inc., which is incorporated in Japan and is required to prepare and publish consolidated financial statements. The company's immediate parent undertaking is DAMCO, which is incorporated in Japan.

22 Pillar 3 disclosures

The company has made its Pillar 3 disclosures per the FSA requirements on pages 20 – 24. This information is unaudited and for disclosure purpose only. The independent auditors' report on pages 5 – 6 does not apply to pages 20 – 24.

Daiwa Asset Management (Europe) Ltd

Appendix to the financial statements (Unaudited) For the year ended 31 March 2011

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Daiwa Asset Management (Europe) Ltd

Appendix to the financial statements (Unaudited) For the year ended 31 March 2011

1 BACKGROUND

This Pillar 3 Disclosure has been prepared by DAIWA ASSET MANAGEMENT (EUROPE) Ltd ['DAMEL']

- Its purpose is to address the FSA requirement for FSA-authorized investment firms, building societies and banks to publicly disclose key information about risk exposure and risk management processes. This disclosure is placed as an unaudited appendix to the annual accounts for the year ending 31st March 2011.
- It complements the first two components of the Capital Requirements Directive (CRD), which is part of the Basel II capital adequacy framework requiring firms to change the way they calculate and justify the amount of capital they hold to mitigate their business risks. In it, Pillar 1 covers a firm's minimum capital requirements to conduct its designated business, Pillar 2 forms a documentation of the internal processes whereby all the firm's risks are assessed and mitigated by additional capital as required (stated in a firm's ICAAP document i.e. Internal Capital Adequacy Assessment Process), and is available for regulatory review and supervision purposes.
- This document has been prepared in accordance with the requirements of Chapter 11 of the UK Financial Services Authority (FSA) Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) and is endorsed by DAMEL's senior management. Unless otherwise stated, all figures are as of the current financial year-end.

DAMEL is the UK subsidiary of Daiwa Asset Management Co. Ltd, Tokyo 'DAMCO'. It is 100% owned by its Tokyo parent company. There are a number of other global subsidiaries of equal status, but this Pillar 3 Disclosure covers the activities and scope of the UK-regulated entity only. DAMCO itself is part of the wider Daiwa Securities Group Inc., Tokyo, one of the largest financial groups in Japan.

DAMEL's main regulated activities are the provision of investment advice to its parent entity in Tokyo, mainly in equity, but also in fixed income, the provision of investment management services in fixed income, commodities and equity funds mainly to fellow group undertakings, and the provision of execution and administration trading services mainly to group clients. DAMEL is a UK registered company and its financial regulator is the UK Financial Services Authority, and its external auditors are PricewaterhouseCoopers LLP.

2. RISK PROFILE

DAMEL is a part of a large and stable Japanese securities and banking group and is the direct subsidiary of a conservatively managed Japanese asset management business, and shares its parents low risk appetite. Risks are managed and monitored both in London and Tokyo on a regular basis in conformity with regulatory requirements in both locations.

DAMEL undertakes regular, i.e. annual, internal risk assessments of its overall operation, in accordance with UK FSA requirements, and also prepares an ICAAP document on an annual basis. DAMEL undertakes no proprietary trading, therefore all the risks to be assessed fall within the category of the NON-TRADING BOOK. The findings from these risk analysis and capital adequacy assessment processes are that

Daiwa Asset Management (Europe) Ltd

Appendix to the financial statements (Unaudited) For the year ended 31 March 2011

- DAMEL's key risks are largely business and operational, though these are considered to lie within acceptable limits, and well mitigated
- DAMEL is subject to a limited degree of credit, market and liquidity risk
- DAMEL holds capital well in excess of its Pillar 1 and Pillar 2 requirements
- DAMEL has sufficient controls in place for a business of this size and scope to mitigate and manage assessed risks, and to monitor new risks

BUSINESS & OPERATIONAL RISK

BUSINESS RISK DAMEL has a low risk appetite both viz its own capital, and also with any portfolios it manages, a reflection of its Japanese parent's similar strategy. There is a lack of over concentration into any one area of business, which mitigates risk. Distribution is still almost entirely on the Japanese side, which is itself mitigated by stability of Japanese market. For the company as a whole, organic growth is envisaged now, after a recent period of expansion. MAIN BUSINESS RISKS are related to the AUM (level of assets under management) and the fee income generated from advice and investment management. Assets still increasing due to increased business, despite economic downturn.

OPERATIONAL RISK Defined as risk of loss from inadequate or failed internal processes – both people and systems. There is no record of major loss resulting from operational failure. Checks and balances are in place and risks to funds are monitored by the Risk Management Department of DAMCO (the parent) in Tokyo. There is cross training and staff backup or doubling up for all key operational elements.

CREDIT & MARKET RISK

CREDIT RISK – DAMEL has limited credit exposures in respect of management and advisory fees – these are already drawn monthly and bimonthly in respect of Gaika management fees to reduce risk of large exposures here. No real counterparty risk, and the risks are quantifiable but not material.

MARKET RISK – as DAMEL has no trading book positions, therefore the only market risk faced is in relation to the fluctuations in revenue value due to currency rate movements (as certain amounts payable are denominated in currencies other than sterling, namely AUD, NZD, JPY, USD, CAD, and Euro). These are not considered material to the firm.

LIQUIDITY RISK

This is defined as the risk that a firm though solvent either does not have sufficient financial resources to meet its obligations as they fall due or that it can only secure such resources at excessive cost. DAMEL has always ensured that it has sufficient cash to cover its payment.

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obligations DAMEL adopts the deduction of illiquid assets approach to calculating its capital requirement

OTHER RISKS

No other significant risks are associated with DAMEL's business – including interest rate risk, securitization risk, pension obligation risk The firm uses a regulatory consultant to assist in maintaining compliance with UK regulatory requirements, therefore there is no material regulatory risk

3. RISK MANAGEMENT / MITIGATION

Risks are managed and monitored both in London and Tokyo on a regular basis in conformity with regulatory requirements in both locations DAMEL has established a risk management process to ensure it has sufficient systems and controls in place to identify, monitor and manage risks arising in the business In London, where staff now number 22, risk is managed and monitored by senior management with the compliance and finance officers, on at least a monthly basis, or more depending on the area of risk Management accounts, which are reviewed monthly by the firm's accounting advisor, demonstrate the continuing capital adequacy of the firm's regulatory capital Appropriate action is taken where additional risks are identified or where remedial action is required in respect of any identified gap in the firms' mitigating controls The firm uses a regulatory consultant to assist in maintaining compliance with developing UK regulatory requirements The specific risks identified above are managed and mitigated as follows

Business and Operational Risk Mitigation This is achieved through diversification of business operations, the main income generators are based on developed and liquid markets and include short term instruments in Gaika MMF Operationally there exist double systems, both in London and Tokyo, covering operational monitoring including regular risk management and review There exists cross training of key personnel to ensure cover if absent Organic business growth is currently envisaged, and the company is conservatively managed

Credit and Market Risk Mitigation the large exposure potential on fee income is managed by monthly fee payments for Gaika MMF DAMEL holds no trading book positions, therefore no risk there – foreign currency fluctuations which could affect the value of its revenues are mitigated by converting these into sterling as soon as they are received DAMEL holds Regular monthly balance sheet reviews

Liquidity Risk Mitigation DAMEL maintains large enough cash balances at all times The firm holds capital far in excess of Pillar 1 and Pillar 2 requirements Accounts are checked on a monthly basis

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4. CAPITAL ADEQUACY / RESOURCES

As of 31st March 2011, DAMEL held regulatory capital resources of £2,342,050 comprising of Tier 1 capital, less a deduction of £78,820 for illiquid assets. DAMEL held capital reserves equivalent to 302.97% of its capital resources requirement in 2011. DAMEL uses the **Fixed Overheads Requirement [FOR]** to calculate its Pillar 1 capital requirements [which is taken as the higher of its base capital requirement of €50k, or the sum of its credit and market risks, or the **FOR**] (which was calculated at £773k in 2011, i.e. annual expenses net of variable costs deducted, and comprising 302.97% of its capital resources requirement, itemized in the firm's ICAAP). The firm monitors expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made. This is monitored regularly (monthly) by senior management. DAMEL also uses stress testing to ensure that it has clear calculations for envisaging worst case scenarios. Information on capital adequacy is provided to the Regulator on a timely and regular basis by way of the online FSA019 and FSA003 returns.

5. SUMMARY

DAMEL holds capital well in excess of its requirements to manage its business and mitigate its risks. It has in place required systems and controls to manage and monitor existing risks and to monitor new and developing risks. It is tightly controlled by its parent entity and well capitalized by the same entity.