

Daiwa Asset Management (Europe) Ltd

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2016

Registered No: 02045607

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Daiwa Asset Management (Europe) Ltd

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Daiwa Asset Management (Europe) Ltd

Corporate Information **For the year ended 31 March 2016**

Directors

S. Kawata	(Managing Director) (Appointed 22 April 2016)
Y. Higaki	(Appointed 30 October 2015)
Y. Okada	(Resigned 22 April 2016)
Y. Choi	(Resigned 28 September 2015)
D. Kubo	(Resigned 10 December 2015)
A. Kobayashi	
C. Kawazu	
T. Kitahara	(Resigned 10 December 2015)
N. Nishibayashi	(Appointed 10 December 2015)
Y. Sugibayashi	(Appointed 10 December 2015)

Company Secretary

S. Kawata

Registered Office

5th Floor
5 King William Street
London
EC4N 7AX

Immediate Parent Undertaking

Daiwa Asset Management Co. Ltd. (DAMCO)
GranTokyo North Tower 9-1
Marunouchi 1-chome
Chiyoda-ku
Tokyo 100-6753
Japan

Independent Auditors

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

Strategic report

For the year ended 31 March 2016

The directors present their strategic report of Daiwa Asset Management (Europe) Ltd (DAMEL) for the year ended 31 March 2016.

Review of business

The principal activity of the company is the provision of investment management services to fellow group undertakings and third parties and the provision of investment advice to its parent undertaking and to fellow group undertakings.

Result and performance

The Statement of Comprehensive Income for the year is set out on page 11. The company's operating profit for the year has decreased from £1,017,707 to £659,810. Turnover was down by £577,650, a decrease of 13.4% from previous year. The assets under management as at 31 March 2016 were £2.00 billion (2015: £2.70 billion).

Management fee income, which is mainly driven by the value of assets under management, decreased by 22.14% to £1.92 million, reflecting the cash outflow of managing funds and the appreciation of sterling against funds denominated in foreign currencies. Despite the difficult business environment, the company generated enough profit to maintain and to develop its operations.

Key performance indicators

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.

Principal risks and uncertainties

As common with other investment management businesses the main risks to the company's financial performance are the change in the level of assets under management and the control of expenses. The company is exposed to a range of financial risks including currency, liquidity, market and credit risks. The company's revenue is mainly earned from management and investment advisory fees, calculated on the basis of the values of Asset Under Management (AUM). The level of AUM may be impacted by underlying stock market and economic conditions and may result in loss of AUM through redemptions and market movements. Significant falls in AUM values can reduce fee income to our investment management business.

The company is committed to reviewing risks to its business on an on-going basis and the potential effects of market and industry changes. Risks are managed and monitored by the Managing Director and Director in consultation with the Compliance Officer to evaluate any immediate risks to the business and market risk exposure.

Strategic report

For the year ended 31 March 2016 (*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.

Market risk

DAMEL has no trading book positions, so the only market risk faced relates to fluctuations in revenue value due to currency rate movements (as certain income is payable in currencies other than sterling). These are not considered material to the company but any foreign currency income is converted to sterling as soon as received.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. While the risk of concentration of client base and lack of diversifications exists, the management and advisory fees due to the company is closely monitored so as to reduce risk of large exposures. Only negligible counterparty risk exists and this is quantifiable but not material.

Future developments

In the coming year DAMEL will continue to develop its business with DAMCO (Note 17), its parent company, and to generate new business where possible. The level of profitability will be dependent on investment returns and fluctuation in interest rates, which remain a source of significant uncertainty in light of recent market movements.

Approved by the Board and signed by order of the Board

河田 誠 司

S. Kawata

COMPANY SECRETARY

22 July 2016

Directors' report

For the year ended 31 March 2016

The directors present their report and the audited financial statements of the company for the year ended 31 March 2016.

Dividends

An interim dividend of £5.75 per share totalling £2,875,000 was paid on 25 June 2014. The directors have not proposed a final dividend for the year ended 31 March 2016 (2015: nil). The total comprehensive income for the year of £532,887 (2015: £811,032) will be transferred to reserves.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements was listed on page 3.

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

Principal risks and uncertainties

These are disclosed in the Strategic report (see pages 4 - 5).

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

1. As far as each of them is aware, there is no information relevant to the audit of the company's financial statements for the year ended 31 March 2016 of which the auditors are unaware; and
2. The director has taken all steps that he/she sought to have been taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing 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 company 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;

Directors' report
For the year ended 31 March 2016 (*continued*)

Statement of directors' responsibilities (*continued*)

- 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, 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.

Approved by the Board and signed by order of the Board

河田 誠 司

S. Kawata
COMPANY SECRETARY

22 July 2016

Daiwa Asset Management (Europe) Ltd

Independent auditors' report to the members of Daiwa Asset Management (Europe) Ltd

Report on the financial statements

Our opinion

In our opinion, Daiwa Asset Management (Europe) Ltd's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 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.
-

What we have audited

The financial statements, included within the Daiwa Asset Management (Europe) Ltd Annual Report and Financial Statements for the year ended 31 March 2016 comprise:

- the Statement of Comprehensive Income for the year ended 31 March 2016;
- the Balance Sheet as at 31 March 2016;
- the Statement of Changes in Equity for the year ended 31 March 2016;
- the Statement of Cash Flows for the year ended 31 March 2016;
- the Notes to the financial statements for the year ended 31 March 2016, which include a summary of principal accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Daiwa Asset Management (Europe) Ltd

Independent auditors' report to the members of Daiwa Asset Management (Europe) Ltd (*continued*)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 6, 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) ("ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

Daiwa Asset Management (Europe) Ltd

Independent auditors' report to the members of Daiwa Asset Management (Europe) Ltd (*continued*)

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Caroline May (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 July 2016

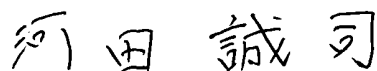
**Statement of Comprehensive Income
For the year ended 31 March 2016**

	<u>Note</u>	2016 £	2015 £
Turnover	3	3,720,551	4,298,201
Administrative expenses		(3,060,741)	(3,280,494)
Operating profit	4	<u>659,810</u>	<u>1,017,707</u>
Interest receivable and similar income	5	<u>11,251</u>	<u>9,538</u>
Profit on ordinary activities before taxation		671,061	1,027,245
Tax on profit on ordinary activities	6	(138,174)	(216,213)
Profit for the financial year		<u>532,887</u>	<u>811,032</u>
Other comprehensive income for the year		-	-
Total comprehensive income for the year		<u>532,887</u>	<u>811,032</u>

Balance Sheet
As at 31 March 2016

	<u>Note</u>	2016 £	2015 £
Fixed assets			
Tangible assets	8	14,739	22,628
Current assets			
Debtors	9,10	449,117	820,750
Cash at bank and in hand		3,224,677	2,641,169
		<u>3,673,794</u>	<u>3,461,919</u>
Creditors: amounts			
falling due within one year	11	(621,409)	(951,420)
Net current assets		<u>3,052,385</u>	<u>2,510,499</u>
Total assets less current liabilities		<u>3,067,124</u>	<u>2,533,127</u>
Capital and reserves			
Called up share capital	12	500,000	500,000
Retained earnings		2,564,353	2,031,466
Share-based payment reserve		2,771	1,661
Total equity		<u>3,067,124</u>	<u>2,533,127</u>

The financial statements on pages 11 to 28 were approved by the Board of Directors on 22 July 2016 and signed on its behalf by:



S. Kawata
MANAGING DIRECTOR

22 July 2016

**Statement of Changes in Equity
For the year ended 31 March 2016**

	Called up Share capital £	Retained earnings £	Share-based payment reserve £	Total Equity £
Balance at 1 April 2014	500,000	4,095,434	770	4,596,204
Dividends (Note 7)	-	(2,875,000)	-	(2,875,000)
Profit and total comprehensive income for the year	-	811,032	891	811,923
Balance at 31 March 2015	500,000	2,031,466	1,661	2,533,127
Balance at 1 April 2015	500,000	2,031,466	1,661	2,533,127
Profit and total comprehensive income for the year	-	532,887	1,110	533,997
Balance at 31 March 2016	500,000	2,564,353	2,771	3,067,124

Statement of Cash Flows
For the year ended 31 March 2016

	<u>Note</u>	2016 £	2015 (restated) £
Net cash from operating activities	13	228,531	610,736
Taxation paid		(167,373)	(233,726)
Taxation recovered		511,099	507,946
Net cash generated from operating activities		<u>572,257</u>	<u>884,956</u>
Cash flow from investing activities			
Interest received	5	11,251	9,538
Purchase of tangible assets		-	(12,724)
Net cash generated from / (used in) investing activities		<u>11,251</u>	<u>(3,186)</u>
Cash flow from financing activities			
Dividends paid	7	-	(2,875,000)
Net cash used in financing activities		<u>-</u>	<u>(2,875,000)</u>
Net increase / (decrease) in cash and cash equivalents		583,508	(1,993,230)
Cash and cash equivalents at the beginning of the year		2,641,169	4,634,399
Cash and cash equivalents at the end of the year		<u>3,224,677</u>	<u>2,641,169</u>
Cash and cash equivalents consists of:			
Cash at bank and in hand		3,224,677	2,641,169
Cash and cash equivalents		<u>3,224,677</u>	<u>2,641,169</u>

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements For the year ended 31 March 2016

1 Principal Accounting Policies

Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102), and with the Companies Act 2006. The financial statements have been prepared on the historical basis which have been consistently applied. The principal accounting policies are set out below.

This is the first year in which the financial statements have been prepared under FRS 102 (Note 18). The date of transition was 1 April 2014.

After reviewing the company’s forecasts and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing the financial statements.

Tangible assets

Tangible 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

Interest income

Interest income is taken into account in the Statement of Comprehensive Income on an accruals 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 accruals basis.

Administrative expenses

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

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

1 Principal Accounting Policies (*continued*)

Taxation

The charge of taxation is based on the results for the year adjusted for disallowable and non-taxable 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 pounds 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.

Share-based payments to employees

Daiwa Securities Group Inc. (the company's ultimate parent) engages in equity settled share-based payment transactions in respect of services received from certain employees of the company. The fair value of the services received is measured by reference to the fair value of the share options granted on the date of the grant. The cost of the employee services received in respect of the share options granted is recognised in the profit and loss account over the period that the services are received, which is the vesting period. The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. In respect of vesting conditions related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met.

Restatement of Statement of Cash Flows and Notes to the statement of cash flows (Note 13)

The net cash from operating activities amount has been re-presented in 2015. In 2016 the tax recovered from UK taxation authorities and subsequent payments made to fellow subsidiaries for group relief were grossed up and accordingly the 2015 amount has been re-presented to be comparable.

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

2 Directors' emoluments and employee information

	2016 £	2015 £
Aggregate emoluments	490,963	495,712
	2016 £	2015 £
Highest paid director Aggregate emoluments	283,595	283,285

The highest paid director received one share option in 2016 (2015: one). No share option was exercised in 2016 (2015: none).

Three directors were based in the UK (2015: two). All the other directors were based overseas and received no emoluments for services to the company during the current or previous year.

The monthly average number of employees, including the executive directors, in the UK during the year was 15 (2015: 15). Staff costs (including directors) were as follows:

	2016 £	2015 £
Share-based charges	1,110	891
Wages and salaries	1,555,845	1,576,548
Social security costs	101,306	94,890
Other pension costs	79,479	78,477
	1,737,740	1,750,806

The company operates a defined contribution pension scheme through Aegeon Scottish Equitable plc. Contributions to the scheme are charged to the Statement of Comprehensive Income when payable. No directors were members of the company's pension scheme.

3 Turnover

Turnover comprises income from the following:

	2016 £	2015 £
Income from funds managed for group related companies	1,922,415	2,469,079
Income from investment advice to the parent undertaking	1,567,592	1,530,505
Income from provision of funds related administrative services to the group undertakings	230,544	298,617
	3,720,551	4,298,201

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

4 Operating profit

	2016	2015
Operating profit is stated after the following charges:	£	£
Fee payable to the company's auditor for the audit of the company's financial statements	27,665	23,300
Fee payable to the company's auditor for other services:		
Audit-related assurance services	4,000	4,000
Depreciation of tangible assets	7,889	6,208
Operating lease rentals for plant and machinery	1,695	2,263
Operating lease rentals for office	75,450	75,450
Staff costs	1,737,740	1,750,806
	<u>1,854,439</u>	<u>1,862,027</u>

5 Interest receivable and similar income

	2016	2015
	£	£
Interest receivable on cash deposits	8,087	6,273
Other interest	3,164	3,265
	<u>11,251</u>	<u>9,538</u>

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

6 Tax on profit on ordinary activities

(a) Tax expense included in profit or loss

	2016 £	2015 £
Current tax		
UK Corporation tax on profits for the year at 20% (2015: 21%)	136,253	214,293
Adjustment in respect of prior periods	-	(1,637)
Total current tax	136,253	212,656
Deferred tax		
Origination of timing differences (Note 10)	1,921	3,557
Tax on profit on ordinary activities	138,174	216,213

(b) Reconciliation of tax charge

The tax assessed for the year is higher (2015: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2016 of 20% (2015: 21%), The differences are explained below:

	2016 £	2015 £
Profit on ordinary activities before tax	671,061	1,027,245
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK 20% (2015: 21%)	134,212	215,721
Effects of:		
Depreciation in excess of capital allowances	1,203	(1,848)
Expenses not deductible for tax purposes	838	905
Holiday pay accrual	-	(485)
Tax charge for the year	136,253	214,293

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

6 Tax on profit on ordinary activities (*continued*)

(c) Tax rate change

During the year the standard rate of corporation tax in the UK changed from 21% to 20%. Accordingly, the company's profits for the year are taxed at an effective rate of 20%. Following the Summer Budget 2015, there will be further reduction in the main rate of corporation tax to 19% for the year starting 1 April 2017, 2018 and 2019. At Budget 2016, the government announced a further reduction to the corporation tax main rate for the year starting 1 April 2020 setting the rate at 17%.

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 Holdings Limited (DCAH), Daiwa Capital Markets Europe Limited (DCM), and Daiwa Corporate Advisory Limited (DCA).

The tax payable for the year amounting to £136,253 (2015: £214,293) will be settled through group relief from fellow subsidiaries for which payments of £136,253 (2015: £214,293) will be made to fellow subsidiaries.

7 Dividends

Amounts paid as distributions to shareholders of the company in the year were as follows:

	2016 £	2015 £
Interim of £5.75 per share paid on 25 June 2014.	-	2,875,000

The directors have not proposed a final dividend for the year ended 31 March 2016 (2015: nil).

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

8 Tangible assets	Short leasehold building improvements	Furniture and office equipment	TOTAL
Cost	£	£	£
At 1 April 2015	18,240	85,718	103,958
Additions	-	-	-
At 31 March 2016	18,240	85,718	103,958
Accumulated depreciation			
At 1 April 2015	(5,776)	(75,554)	(81,330)
Charge for year	(3,648)	(4,241)	(7,889)
At 31 March 2016	(9,424)	(79,795)	(89,219)
Net book value			
At 31 March 2016	8,816	5,923	14,739
At 31 March 2015	12,464	10,164	22,628

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

9 Debtors

	<u>Note</u>	2016 £	2015 £
Amounts falling due within one year			
Amounts owed by group undertakings		242,370	238,549
Other debtors		57,223	54,121
Deferred tax	10	743	2,664
Corporation tax recoverable		80,000	423,726
Prepayments and accrued income		68,781	101,690
		<u>449,117</u>	<u>820,750</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

10 Deferred tax

The deferred tax asset movement in the year was as follows:

	2016 £	2015 £
Balance at beginning of year	2,664	6,221
Timing differences between capital allowances and depreciation	284	(2,982)
Timing difference on Share-based payment	222	187
Holiday pay accrual	(2,427)	(762)
Balance at end of year	<u>743</u>	<u>2,664</u>

11 Creditors: amounts falling due within one year

	2016 £	2015 £
Trade creditors	6,248	18,952
Amounts owed to group undertakings	331,389	638,673
Other creditors including taxation and social security	59,843	33,585
Accruals and deferred income	223,929	260,210
	<u>621,409</u>	<u>951,420</u>

Amounts owed 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 2016 (*continued*)

12 Called up share capital

	2016 £	2015 £
Allotted, called-up and fully paid: 500,000 (2015: 500,000) ordinary shares of £1 each	500,000	500,000

13 Notes to the statement of cash flows

	2016 £	2015 (restated) £
Profit for the financial year	532,887	811,032
Tax on profit on ordinary activities	138,174	216,213
Interest received	(11,251)	(9,538)
Operating profit	659,810	1,017,707
Depreciation of tangible assets	7,889	6,208
Share-based payments	1,110	891
Decrease in debtors	25,986	59,899
Decrease in creditors	(466,264)	(473,969)
Cash flow from operating activities	228,531	610,736

14 Operating lease commitments

At 31 March the company had the following future minimum lease payments under non-cancellable operating leases as follows:

	2016 £	2015 £
Not later than one year	76,618	77,713
Later than one year and not later than five years	75,742	77,713
Later than five years	-	-

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

15 Related party transactions

As disclosed in Note 3, the company earned management fees from the management of funds for group related companies and administrative fees from the provision of funds related administrative services to its group undertakings. The company also earned investment advisory fees from its immediate parent undertaking, Daiwa Asset Management Co. Ltd. (DAMCO). Transactions entered into, and trading balances outstanding as at 31 March 2016, were as follows:

Related parties		Income from related parties		Expenses payable to related parties		Amounts owed by related parties		Amounts owed to related parties	
		Year ended 31 March 2016	Year ended 31 March 2015	Year ended 31 March 2016	Year ended 31 March 2015	Year ended 31 March 2016	Year ended 31 March 2015	Year ended 31 March 2016	Year ended 31 March 2015
		£	£	£	£	£	£	£	£
Group undertakings	Management of funds	1,922,415	2,469,079	-	-	147,172	195,069	-	-
DAMCO	Advisory fees	1,567,592	1,530,505	470,547	592,012	95,183	43,480	72,372	68,591
	Staff costs	-	-	187,817	217,171	-	-	-	-
Group undertakings	Funds related administrative services	230,544	298,617	-	-	-	-	-	-
DCM	Reimbursement of administration expenses	-	-	556,126	572,909	-	-	-	-
	Staff costs	-	-	877,460	815,791	-	-	122,765	58,983
	Group relief	-	-	-	-	-	-	136,253	172,142
DCAH	Group relief	-	-	-	-	-	-	-	308,119
DCA	Group relief	-	-	-	-	-	-	-	30,838

DAMEL has a lease agreement for premises with DCM. The lease 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 £75,450 (2015: £75,450) (Note 14).

The company has an annual renewable agreement with DCM for DCM to provide supporting services for personnel, facilities, technology and business continuity. The total amount payable was £41,823 (2015: £99,866).

Other debtors (Note 9) includes loans to two directors. The loans are unsecured and are repayable on demand. The following is a summary of the transactions with the company:

	2016	2015
	H. Higaki	Y. Choi
	£	£
Balance of loan at beginning of year	-	1,224
Loan advanced	5,345	-
Interest charge at 0% / 3% per annum	-	14
Repayments	-	(1,238)
Balance at end of year	5,345	-

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

16 Share-based payments

The company's ultimate parent company, Daiwa Securities Group Inc., operates a share scheme of which certain employees seconded to the company from Japan are members.

The "Daiwa Securities Group Inc. Head office New Stock Reservation Rights" scheme was introduced in September 2004, and is open to certain selected employees of the Daiwa Securities Group. Under the plan the employees were granted share options over Daiwa Securities Group Inc. shares.

The fair value of the equity-settled share based payments to employees is determined at the date of the grant using a Black and Scholes option pricing model and is expensed on a straight line basis over the vesting period based on the company's estimate of options that will eventually vest. The weighted average fair value of options granted in the year was £694 (¥113,200) (2015: £1,045 (¥188,600)) and the total charge for the year was £1,110 (2015: £891).

17 Ultimate parent undertakings and controlling party

The company's ultimate parent undertaking and controlling party 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 Daiwa Asset Management Co. Ltd. (DAMCO), which is incorporated in Japan. Consolidated financial statements of Daiwa Securities Group Inc., can be obtained from the company at GranTokyo North Tower 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6751, Japan.

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

18 Transition to FRS 102

This is the first year that the company has presented its results under FRS 102. The date of transition to FRS 102 was 1 April 2014. The last financial statements under old UK GAAP were for the year ended 31 March 2015. Below are the presentational and disclosure changes made to the financial statements to comply with FRS 102 requirement:

- The Profit and Loss account previously prepared under old UK GAAP has been presented as a single Statement of Comprehensive Income.
- Under Section 20 of FRS 102 the total future minimum lease payments under non-cancellable operating leases should be disclosed rather than the payments committed to be made during the next financial year as required under old UK GAAP. In addition, an analysis is not required showing separately the commitments in respect of leases of land and buildings and other operating leases (Note 14). More detail disclosure is required regarding which year the future minimum future lease payments would be made in.
- A Statement of Changes in Equity has been included, which was not previously required under old UK GAAP.

The comparative prior year amounts have been restated as follows:

Reconciliation of Equity:

1 April 2014 (Date of transition to FRS 102)

	Note	UK GAAP £	Effect of transition to FRS 102 £	FRS 102 (restated) £
Fixed Assets				
Tangible assets	A	16,112	-	16,112
Current Assets				
Debtors		1,152,206	-	1,152,206
Deferred tax asset	B	3,032	3,189	6,221
Cash at bank		4,634,399	-	4,634,399
		5,789,637	3,189	5,792,826
Creditors				
Amounts falling due within one year	A	(1,198,868)	(13,866)	(1,212,734)
Net Current Assets		4,590,769	(10,677)	4,580,092
Total Assets Less Current Liabilities		4,606,881	(10,677)	4,596,204
Capital and Reserves				
Called up share capital		500,000	-	500,000
Share-based payment reserve		497	273	770
Retained earnings		4,106,384	(10,950)	4,095,434
		4,606,881	(10,677)	4,596,204

The Deferred tax asset is now included in Debtors but shown here separately for the effect of transition.

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

Reconciliation of Equity: 31 March 2015

	Note	UK GAAP £	Effect of transition to FRS 102 £	FRS 102 (restated) £
Fixed Assets				
Tangible assets		22,628	-	22,628
Current Assets				
Debtors		818,086	-	818,086
Deferred tax asset	B	237	2,427	2,664
Cash at bank		2,641,169	-	2,641,169
		3,459,492	2,427	3,461,919
Creditors				
Amounts falling due within one year	A	(939,864)	(11,556)	(951,420)
Net Current Assets		2,519,628	(9,129)	2,510,499
Total Assets Less Current Liabilities		2,542,256	(9,129)	2,533,127
Net Assets		2,542,256	(9,129)	2,533,127
Capital and Reserves				
Called up share capital		500,000	-	500,000
Retained earnings		2,040,595	(9,129)	2,031,466
Share-based payment reserve		1,661	-	1,661
		2,542,256	(9,129)	2,533,127

The Deferred tax asset is now included in Debtors but shown here separately for the effect of transition.

Reconciliation of Profit for the year ended 31 March 2015

	Note	UK GAAP £	Effect of transition to FRS 102 £	FRS 102 (restated) £
Turnover		4,298,201		4,298,201
Administrative expenses	A	(3,282,804)	(2,310)	(3,280,494)
Operating profit		1,015,397	2,310	1,017,707
Interest receivable and similar income		9,538	-	9,538
Profit on ordinary activities before taxation		1,024,935	2,310	1,027,245
Tax on profit on ordinary activities	B	(215,451)	(762)	(216,213)
Profit for the financial year		809,484	1,548	811,032

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Notes to the financial statements

For the year ended 31 March 2016 (*continued*)

A Holiday pay accrual

FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. Prior to the adoption of FRS 102, the company did not make provision for holiday pay earned but not taken before the year end. Consequently, an additional accrual of £13,866 on transition to FRS 102 has been made to reflect this. The provision at 31 March 2015 had decreased to £11,556 and the decrease in provision of £2,310 has been charged to profit and loss in the year ended 31 March 2015.

B Deferred tax

Deferred tax of £3,189 has been recognised at 23% on the liability recognised on transition at 1 April 2014. In the year ended 31 March 2015, the company has recognised a charge of £485 in the profit and loss account in respect of the reduction of the holiday pay accrual.

The impact on deferred tax as a result of the adjustments above and the subsequent effect of the change in tax rates was to increase the deferred tax asset at 1 April 2014 by £3,189, increase the profit and loss account charge by £762 for the year ended 31 March 2015. The deferred tax asset at 31 March 2015 was increased by £2,427.

19 Pillar 3 disclosures

The company has made its Pillar 3 disclosures per the FCA requirements on pages 29 – 32. This information is unaudited and for disclosure purpose only. The independent auditors' report on pages 8 – 10 does not apply to pages 29 – 32.

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Appendix to the financial statements (Unaudited) For the year ended 31 March 2016

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Appendix to the financial statements (Unaudited) For the year ended 31 March 2016

1. Overview

This Appendix contains the Pillar 3 disclosure requirements, as contained in the Capital Requirements Directive (CRD) and laid out in Chapter 11 of FCA BIPRU sourcebook.

The CRD III consists of three pillars:

- Pillar 1: determines the minimum amount of capital required for credit, market and operational risks.
- Pillar 2: requires a firm and its regulatory supervisor to determine whether additional capital should be held to offset risks within the business not sufficiently covered by Pillar 1 capital.
- Pillar 3 : requires a firm to disclose details of their risks, capital and risk management process

In accordance with the requirements of Pillar 3, this unaudited appendix is intended to disclose information relating to Daiwa Asset Management (Europe) Ltd (DAMEL), for the year ending 31 March 2016. DAMEL is authorised and regulated by the Financial Conduct Authority (FCA) in the UK.

DAMEL is the UK subsidiary of Daiwa Asset Management Co. Ltd. (DAMCO). It is 100% owned by its Tokyo parent company. DAMCO itself is part of the wider Daiwa Securities Group Inc., Tokyo, one of the largest financial groups in Japan. As DAMCO is based outside of the EU, DAMEL does not consolidate its financial reporting with DAMCO for FCA purposes.

2. Risk Management Framework

DAMEL's key risks are largely business and operational. In order to control such risks DAMEL undertakes a regular internal risk assessment of its overall operation and also prepares an Internal Capital Adequacy Assessment Process (ICAAP) document on an annual basis. Risks are monitored both in London and Tokyo on a regular basis in conformity with regulatory requirements in both locations.

DAMEL undertakes no proprietary trading, therefore all the risks to be assessed fall within the category of the NON-TRADING BOOK. Risk is managed and monitored by the Managing Director and Director (who also acts as Company Secretary) in consultation with the Compliance Officer. Risk Assessments and the ICAAP are compiled by the Compliance Officer in collaboration with senior management and the finance consultant (where necessary) and reported to the Board of Directors on an annual basis. Where additional risks or remedial action are identified, appropriate action is taken by senior management to rectify the issue.

3. Business & Operational Risk

Business

DAMEL maintains a low risk appetite both with its own capital and also with any portfolios it manages. Distribution of funds takes place solely in Japan, which additionally benefits from the stability of the Japanese market. One of DAMEL's key risks relates to a potential or realised significant fall in assets under management which could lead to a fall in income. Assets currently under management decreased from the previous year-end but remain stable and sufficient to maintain DAMEL's operation. Stress tests performed on DAMEL's largest funds under management indicate that a decline in AUM of its largest funds at 25% and 50% thresholds would not affect DAMEL's operations detrimentally.

Daiwa Asset Management (Europe) Ltd

Appendix to the financial statements (Unaudited) For the year ended 31 March 2016

Operational

The main area of risk is potential reputational and financial loss incurred from a failed internal control or procedure. There is no historical record of major loss resulting from an operational failure within DAMEL. Checks and controls are in place and reviewed as part of the internal risk assessment. Fund risk parameters and investment guidelines are monitored by the DAMCO's Risk Management function in Tokyo. Additionally there is staff back up or doubling up for all key operational elements.

Credit Risk

There is limited risk exposure in respect of management and advisory fees, as these are already drawn monthly and bi-monthly in respect of GaikaMMF management fees, so as to reduce risk of large exposures. Only negligible counterparty risk exists and this is quantifiable, but not material.

Market Risk

DAMEL has no trading book positions, so the only market risk faced relates to fluctuations in revenue value due to currency rate movements (as certain income is payable in currencies other than sterling). These are not considered material to the firm but any foreign currency income is converted to sterling as soon as received.

Liquidity Risk

DAMEL continues to maintain high levels of liquidity (far in excess of Pillar 1 and 2 requirements) to ensure it can meet its financial obligations.

4. Capital Adequacy/Resources

As of 31 March 2016, DAMEL held regulatory capital resources of £2,987,000 comprising of Tier 1 capital, less a deduction of £80,000 for illiquid assets. DAMEL held capital reserves equivalent to 493.72% of its capital resources requirement in 2016. 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 £605,000 in 2016, i.e. annual expenses net of variable costs deducted and comprising 493.72% of its capital resources requirement, itemised 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 is required. This is monitored regularly by senior management. DAMEL also uses stress testing to ensure it has clear calculations for envisaging worst case scenarios. Information on capital adequacy is provided to the regulator on a regular basis by way of online returns.

5. Remuneration Code

The following disclosures are made in compliance with BIPRU 11.5.18-21.

Owing to the size of DAMEL and based on a proportionate approach, a specific Remuneration Committee has not been set up. The remuneration policy is based on FCA BIPRU remuneration principles, with the Board of Directors assuming the role of a Remuneration Committee, giving final approval to the remuneration policy, remuneration policy statement and individual remuneration packages for FCA remuneration code staff. DAMEL's FCA remuneration code staff includes executive management and the Compliance Officer.

For the 2015/6 year, DAMEL identified two 'Code Staff', who each received a variable remuneration payment, but based on the FCA's principles of proportionality, these payments were not subject to any restrictions in how the payments were made. Additionally, no sign-on bonuses (golden handshakes) or severance payments are ever made to 'Code Staff'.

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In general terms, when determining total remuneration, senior managers assess whether staff have contributed to some or all of the following: performance against objectives and strategic goals, risk and compliance behaviour, operational efficiency and appropriate management of costs.

It is DAMEL's intention that the total remuneration of each of its employees rewards good performance and the contribution made by each employee to the overall success, whilst also taking into account the overall profitability of the company and its risk structure.