# Schroder
# AsiaPacific Fund plc

Report and Accounts to 30 September 2010

Schroders

# Investment Objective

**The Company's principal investment objective is to achieve capital growth through investment primarily in equities of companies located in the continent of Asia (excluding the Middle East and Japan), together with the Far Eastern countries bordering the Pacific Ocean (excluding Australasia), with the aim of achieving growth in excess of the MSCI All Countries Far East excluding Japan Index in Sterling Terms (Benchmark Index) over the longer term.**

# Directors

**The Hon. Rupert Carington***† (Aged 62) (Chairman)
was appointed as a director of the Company on 18 September 1995. He has run his own financial advisory business since leaving Morgan Grenfell, the merchant bank, in 1987 after a career of 17 years including a period as Chief Executive of the Hong Kong office. He has considerable experience of investment trust companies having been Chairman of the Korea Asia Fund for 10 years and Chairman of the Schroder Emerging Countries Fund for 7 years as well as a director of the Fleming Natural Resources Investment Trust. He sits on a number of corporate advisory boards including those of three Asian businesses.

**Robert Binyon***† (Aged 59)
was appointed as a director of the Company on 17 February 2000. Until March 2003, he was a Managing Director of CDC Capital Partners responsible for CDC's investments and operations in the Asia Pacific region. He continues to be based in the region and is a director on a number of funds and companies in Asia.

**Robert Boyle***† (Aged 62)
was appointed as a director of the Company on 26 November 2009. He is a Chartered Accountant and was a partner of PricewaterhouseCoopers LLP, where he was responsible for multi-national client accounts, specialising in the telecoms and media sectors: he was chairman of the PwC European Entertainment and Media Practice for twelve years and retired in 2006. He is a non-executive director, and chairman of the audit committee, of Maxis Berhad (in Malaysia), Witan Investment Trust PLC, Prosperity Voskhod Fund Ltd (an AIM listed company), Centaur Media plc and the Hampshire Partnership NHS Foundation Trust. He is also the independent member of the audit committee of the National Trust.

**The Rt. Hon. the Earl of Cromer***† (Aged 64)
was appointed as a director of the Company on 24 November 1995, and is Chairman of the Audit Committee and the Management Engagement Committee. He is a former director of Inchcape Pacific Ltd. in Hong Kong and worked in the Far East for 28 years. He is a director of London Asia Capital plc and is currently chairman of the JF China Region Fund Ltd. He is chairman of the Western Provident Association (WPA) and the Japan High Yield Property Fund Limited.

**Anthony Fenn***† (Aged 68)
was appointed as a director on 1 June 2005. He retired at the end of 2003 after 38 years as an Investment Executive with Sun Life Financial of Canada. He held various positions in the course of his career and was for the last 6 years Head of Investments, Asia. Before moving to Asia he was Chief Investment Officer for the UK and oversaw the setting up of Sun Life's investment management subsidiary there. He also has investment experience in Hong Kong, Japan, China, Indonesia, India, and the Philippines.

**Nicholas Smith***† (Aged 59)
was appointed as a Director of the Company on 28 May 2010. He joined the Jardine Fleming Group in 1986 in Hong Kong serving, from 1993, as Chief Financial Officer and as a member of the Executive Committee. After returning to the UK, Mr Smith became a director of Robert Fleming International Ltd in 1998 and the Director of Origination – Investment Banking serving until 2000. Mr Smith currently serves as Chairman of privately-held Ophir Energy plc and as a non-executive director of Asian Citrus Holdings Ltd, PLUS Markets Group plc, Sorbic International Ltd., and Japan Opportunities Fund II Limited.

* member of the Audit Committee and the Management Engagement Committee.
†member of the Nomination Committee.

# Advisers

**Investment Manager**
Schroder Investment Management Limited
31 Gresham Street, London EC2V 7QA

**Company Secretary and Registered Office**
Schroder Investment Management Limited
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Telephone: 020 7658 3206

**Bankers**
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60 London Wall, London EC2M 5TQ

**Custodian**
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Bournemouth BH7 7DB

**Independent Auditors**
PricewaterhouseCoopers LLP
Hay's Galleria, 1 Hay's Lane
London SE1 2RD

**Stockbrokers**
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The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

**Registrar**
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder Helpline: 0800 032 0641*
Website: www.shareview.co.uk

*Calls to this number are free of charge from landlines.

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# Financial Highlights

| | 30 September 2010 | 30 September 2009 | Change % |
|---|---|---|---|
| Total assets (£'000)* | **394,459** | 313,688 | 25.7 |
| Total borrowings (£'000) | **6,346** | 6,253 | |
| Shareholders' funds (£'000) | **388,113** | 307,435 | 26.2 |
| Ordinary shares in issue ('000) | **167,737** | 167,190 | |
| Subscription shares in issue ('000) | **32,890** | – | |
| Net asset value per ordinary share (undiluted) | **231.38p** | 183.88p | 25.8 |
| Net asset value per ordinary share (diluted) | **224.76p** | 183.88p | 22.2 |
| Ordinary share price | **203.75p** | 166.75p | 22.2 |
| Subscription share price | **12.75p** | – | |
| Ordinary share price discount | **9.35%** | 9.32% | |
| NAV total return** | **24.08%** | 38.67% | |
| MSCI All Countries Far East ex Japan | | | |
| Total Return Index – sterling terms*** | **20.93%** | 39.78% | |
| Total expense ratio**** | **0.88%** | 0.95% | |
| Market capitalisation (excluding subscription shares) (£'000) | **341,765** | 278,789 | 22.6 |

* Calculated in accordance with AIC guidance and comprises shareholders' funds plus borrowings used for investment purposes.

** Source: Morningstar (www.morningstar.co.uk)

*** Source: Thomson Financial Datastream.

**** Calculated in accordance with AIC guidance and expressed as a percentage of average monthly net assets. Expenses exclude finance costs and are net of tax relief (if tax relief is ignored the TER would be 1.22% (2009 1.32%)).

# Long Term Record

| As at 30 September | Total assets* £'000 | Shareholders' funds £'000 | Diluted NAV** pence | Undiluted NAV pence | Price of subscription shares pence | Price of ordinary shares pence | Ordinary share price discount % |
|---|---|---|---|---|---|---|---|
| 2010 | 394,459 | 388,113 | 224.76 | 231.38 | 12.75 | 203.75 | 9.35 |
| 2009 | 313,688 | 307,435 | 183.88 | 183.88 | – | 166.75 | 9.32 |
| 2008 | 263,593 | 224,321 | 134.17 | 134.17 | – | 113.00 | 15.78 |
| 2007 | 370,121 | 335,763 | 200.83 | 200.83 | – | 179.00 | 10.87 |
| 2006 | 254,786 | 233,372 | 139.59 | 139.59 | – | 124.75 | 10.63 |
| 2005 | 193,486 | 170,876 | 118.94 | 122.74 | – | 109.75 | 7.73 |
| 2004 | 144,577 | 125,235 | 89.97 | 89.97 | – | 84.25 | 6.36 |
| 2003 | 126,634 | 111,586 | 80.16 | 80.16 | – | 74.75 | 6.75 |
| 2002 | 98,671 | 85,953 | 61.75 | 61.75 | – | 56.00 | 9.31 |
| 2001 | 85,477 | 77,312 | 55.54 | 55.54 | – | 45.00 | 18.98 |

| For the year ended 30 September | Revenue return per ordinary share | Dividends per share | Actual gearing ratio# | Potential gearing ratio## |
|---|---|---|---|---|
| 2010 | 2.62p | 2.65p | 0.96 | 1.02 |
| 2009 | 2.67p | 2.65p | 0.99 | 1.02 |
| 2008 | 2.49p | 2.40p | 1.04 | 1.17 |
| 2007 | 1.49p | 1.50p | 1.07 | 1.10 |
| 2006 | 1.76p | 1.70p | 1.04 | 1.09 |
| 2005 | 1.97p | 1.90p | 1.02 | 1.13 |
| 2004 | 1.35p | 1.10p | 1.07 | 1.15 |
| 2003 | 0.79p | 0.75p | 1.12 | 1.13 |
| 2002 | 0.44p | 0.40p | 1.09 | 1.15 |
| 2001 | 0.26p | – | 1.00 | 1.11 |

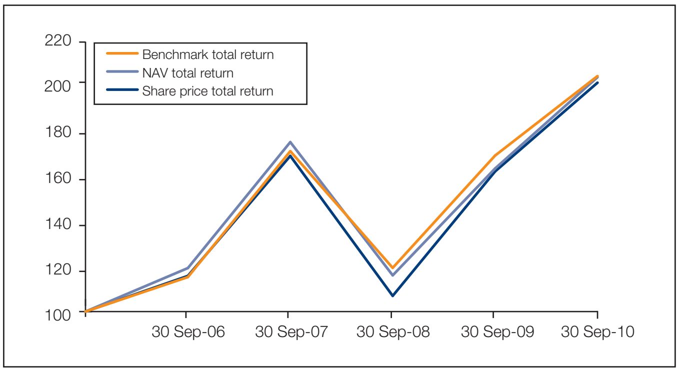
* Calculated in accordance with AIC guidance and comprises shareholders' funds plus borrowings used for investment purposes.
** From 2001 to 2005 dilution was due to warrants. From 2006 to 2009 there was no dilution. 2010 dilution was due to subscription shares.
# Total assets less cash and fixed interest assets divided by shareholders' funds.
## Total assets divided by shareholders' funds.

# Total Returns to 30 September 2010

| | Benchmark total return* % | NAV total return** % | Share price total return** % |
|---|---|---|---|
| 1 year | 20.93 | 24.08 | 24.58 |
| 2 years | 70.23 | 72.68 | 85.37 |
| 3 years | 19.27 | 15.50 | 18.04 |
| 4 years | 76.18 | 69.97 | 72.92 |
| 5 years | 102.70 | 102.22 | 99.82 |

* Source: Thomson Financial Datastream. The benchmark is the MSCI All Countries Far East ex-Japan Index Total Return in Sterling terms
** Source: Morningstar

# NAV/Benchmark/Share price performance over 5 years




Rebased to September 2005 = 100

# Chairman's Statement

## Investment Performance
I am pleased to report on another positive year for your Company. During the year under review, the Company's net asset value produced a total return of 24.1%, out-performing the Company's benchmark, the MSCI All Countries Far East excluding Japan index, which produced a total return of 20.9% over the same period. The Company's share price produced a total return of 24.6% over the year. These gains should be viewed in the context of the substantial returns during the previous year, when the Company's net asset value produced a total return of 38.7%.

Detailed comment on performance and investment policy may be found in the Investment Manager's Report.

## Final Dividend
The Directors recommend the payment of a final dividend of 2.65 pence per share for the year ended 30 September 2010, unchanged from the 2.65 pence per share paid in respect of the previous financial year. Net revenue for the year decreased slightly when compared to the previous year (2010: £4,394,000-2009: £4,469,000), but it should be stressed that the Company's investment objective aims to achieve capital growth, and income generation continues to play a secondary role. If the resolution proposed at the Annual General Meeting to pay a final dividend is passed, the dividend will be paid on 2 February 2011 to shareholders on the Register on 7 January 2011.

## Gearing
During the year, the Company's gearing facility remained at US$50 million and drawings were maintained at US$10 million. Net gearing at the beginning of the year was nil and remained marginal throughout the year under review. All of the borrowings were obtained via a revolving credit facility in order to provide flexibility and the facility was renewed on a secured basis in April 2010 in order to reduce costs. The Board continues to review the gearing position on a regular basis and believes that the ability to gear adds value over the long term.

## Change in Benchmark
The Board is proposing to change the Company's benchmark to the MSCI All Countries Asia ex Japan index with effect from the date of the 2011 Annual General Meeting on 31 January 2011. The main effect would be to include the Indian stock market in its benchmark.

The Company's benchmark since its inception in 1995 has been the MSCI All Countries Far East ex Japan index, an index chosen to reflect what was perceived to be the main investment opportunities in the Asia Pacific region. That index has been expanded since then, for example through the inclusion of Taiwan as it became more accessible to foreign investors. India remains outside the index. Following a recent review, the Board believes that India has become an important part of the investment opportunity in the Asia Pacific region, both in terms of economic scale and of stock market size, accessibility and choice. The Board therefore is proposing a change to a broader MSCI benchmark that includes India, the MSCI All Countries Asia ex Japan index. It believes that this index is consistent with its investment objective of "achieving capital growth through investment primarily in equities of companies located in the continent of Asia (excluding the Middle East and Japan) together with the Far Eastern countries bordering the Pacific Ocean (excluding Australia)" and does not represent a material change to either the Company's investment objective or policy.

As at the end of November 2010 India represented 11.0% of this index, with the other markets in the current benchmark correspondingly reduced. This gives the index slightly different risk and return characteristics from the current benchmark, but historical experience suggests that the differences could be relatively small. In the ten years to the end of November the current index returned 8.2% p.a. in Sterling while the proposed index returned 8.7% p.a: the monthly volatility of the returns was 22.7% p.a. and 22.8% p.a. respectively (all data with net income reinvested, to end November 2010 in Sterling, sourced from MSCI and Schroder Investment Management Limited, volatility as measured by the standard deviation of monthly returns).

The Company's investment policy has always permitted investment in regional markets outside the benchmark, and the portfolio has been invested in India for much of the last 15 years. At the end of November 5.4% of the portfolio was invested in Indian and Indian-related companies. While the Manager has no immediate intention of changing the scale and nature of the portfolio's holdings in India, the change in benchmark is likely to affect the amount invested in India over time.

## Continuation Vote
The Articles of Association contain provisions which require the Board to put to shareholders a resolution at the forthcoming Annual General Meeting that the Company continue as an investment trust for a further five years.

In considering its recommendation to shareholders, the Board has undertaken a review of the strategic position of the Company. This review considered the long-term performance of the Company; the services provided to the Company by its Investment Manager, Schroders; the appropriateness of the investment company structure as an investment vehicle; and the prospects for investment in Asia.

# Chairman's Statement

The Company's investment objective is to achieve capital growth with the aim of achieving outperformance of the benchmark, the MSCI All Countries Far East excluding Japan Index. Over the five years ended 30 September 2010, the benchmark produced a total return of 102.7% while the Company's net asset value produced a total return of 102.2%, and its share price a total return of 99.8%.

The Board appointed Old Broad Street Research, which performed a similar review in 2005, to undertake another external review of the Investment Manager and this was completed in November 2010. This review considered the Manager's investment philosophy; resources; investment process; controls around the trading undertaken by the Manager; portfolio construction; risk controls and performance. Based on the results of this review and its own assessment, the Board believes that the Manager remains well qualified and suitable both to manage the portfolio and to assist the Company in meeting its investment objective.

The Board considers that the Company is well established as an investment vehicle within its peer group and that its long-term investment objectives remain appropriate and the structure beneficial to shareholders. The Board believes that the Company can continue to meet its investment objectives given that the Asia-Pacific region will continue to provide opportunities for our Manager.

The Board unanimously recommends that the Company continue as an investment trust, and the Directors intend to vote their shares accordingly.

### Tender Offer

The Board maintains an ongoing dialogue with shareholders and is aware that one of the Company's larger shareholders believes that continuation votes should be accompanied by an event such as a partial tender offer. The Board, having consulted with its advisers, therefore intends to propose a tender offer for up to 15% of the Company's issued shares at a discount of 2% to formula asset value (being net asset value less the costs of the tender offer) on the calculation date, and tender offer proposals will be put to shareholders at a General Meeting expected to be held on 31 January 2011.

The record date for the tender offer will be the close of business on 23 December 2010. A document setting out the terms of the tender offer and seeking the necessary shareholder approvals will be sent to shareholders separately.

### Share buybacks and Discount Control

At the Company's last Annual General Meeting on 27 January 2010, the Company was given the authority to purchase up to 14.99% of its issued share capital and up to 14.99% of its issued subscription share capital for cancellation. The share buy-back facility is one of a number of tools that may be used to enhance shareholder value and to reduce discount volatility. The repurchase of subscription shares may also be required from time to time in order to ensure the orderly maintenance of the Company's share capital.

The Board does not believe that it is necessarily in the best interests of shareholders as a whole to adopt a rigid discount control mechanism that seeks to target a defined maximum discount level regardless of market conditions. Instead the Board continues to follow a more flexible strategy that takes into account the level of discount at which the Company's peer group trades as well as the absolute level of its own discount and prevailing market conditions. Over the last year, the longer term target maximum discount level has been approximately 10% and the Board will continue to target this level but will review it quarterly and will amend the target in line with market conditions as necessary. In this context the Board, together with its broker, monitors the discount at which the shares trade to the fully diluted capital only net asset value which currently stands at 5.9% (as at 13 December 2010) and which has averaged 8.3% over the year ended 30 September 2010. This compares to the peer group average over the same period of 8.3%.

As a consequence and in line with this strategy the Directors have not utilised the authority given to them and no purchases were made for cancellation during the year ended 30 September 2010. The Board continues to consider whether purchases of both the ordinary and subscription shares should be made on a regular basis, and therefore proposes that these authorities be renewed at the forthcoming Annual General Meeting.

### Issue of Subscription Shares

During the year under review, a total of 547,475 subscription shares were converted into ordinary shares, and a further 3,674,104 subscription shares have been converted into ordinary shares at the 30 September 2010 conversion date, at the original subscription price of 191 pence. The next opportunity to convert subscription shares into ordinary shares, at 208p per share, is on 31 December 2010.

# Chairman's Statement

## Composition of the Board

At the Annual General Meeting held in January 2010, the Board announced its refreshment policy in order to clarify its future intentions in this regard and indicated that, during 2010 and to coincide with the continuation vote early in 2011, the Board would amend its composition so that long-serving Directors did not constitute the majority of the Board. As part of that planned refreshment policy, the Board is pleased to announce the appointment of a new Director of the Company, Mr Nicholas Smith, with effect from 28 May 2010.

Mr Smith, aged 58, is a Chartered Accountant. He joined the Jardine Fleming Group in 1986 in Hong Kong serving, from 1993, as Chief Financial Officer and as a member of the Executive Committee. After returning to the UK, Mr Smith became a director of Robert Fleming International Ltd in 1998 and the Director of Origination - Investment Banking serving until 2000. Mr Smith currently serves as Chairman of privately-held Ophir Energy plc and as a non-executive director of Asian Citrus Holdings Ltd, PLUS Markets Group plc, Sorbic International Ltd., and Japan Opportunities Fund II Limited.

In accordance with the Company's Articles of Association, a resolution to elect Mr Smith will be proposed at the Annual General Meeting to be held on 31 January 2011.

Also as part of the refreshment of the Board, Mr Jan Kingzett, nominated by Schroders to represent the Investment Manager, resigned as a Director of the Company with effect from 28 May 2010. Following this change, there will not be a representative of the Investment Manager on the Board. In addition, Lord Cromer, who has served on the Board since 1995, will not seek re-election at the Annual General Meeting.

The Directors extend their gratitude for the invaluable contributions that Lord Cromer and Mr Kingzett have made to the success of the Company over the past decade and a half.

## Registrar Services

A number of shareholders have commented on issues they have encountered when dealing with Equiniti, in particular with regards to excessive telephone costs and the level of service of their call centres. During the year, we undertook a comprehensive review of the services provided by our Registrar and put the business out for tender.

Following the conclusion of this tender process, we are re-appointing Equiniti as Registrar but have taken steps to ensure that Equiniti's call centre staff are adequately briefed to answer questions from investors and that Equiniti have implemented better controls over their handling of written correspondence.

In order to reduce costs for individuals, Equiniti has also introduced a free helpline number to replace the existing premium rate numbers. The new Equiniti helpline number is **0800 032 0641**.

Schroders are reviewing administration arrangements for the Schroder Investment Trust Dealing Service and they will be writing to all the participants in that scheme once arrangements have been finalised.

## Annual General Meeting

The Annual General Meeting will be held on Monday 31 January 2011 and shareholders are encouraged to attend. As in previous years, Matthew Dobbs, on behalf of the Investment Manager, will give a presentation on the prospects for Asia and the Company's investment strategy.

## Outlook

During a difficult time for investors in Europe and the United States, the Asian markets have performed very well. Most regional governments have current account surpluses and strong foreign exchange reserves and at the same time their banking systems appear healthy. As a result there has been good economic growth and corporate earnings are strong.

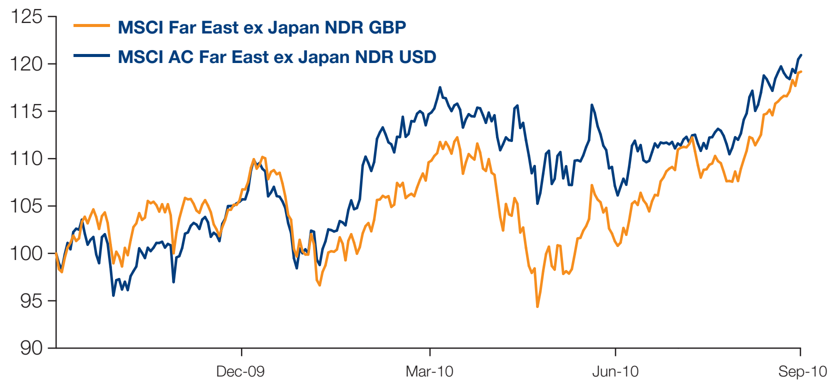
The Company's Continuation Vote is an excellent opportunity to reflect on the outlook for the next five years. In making its recommendation to continue the life of the Company, your Board believes that although there are certainly major challenges caused by the low growth in the West and rising inflationary pressures in the region, economies in Asia will continue to prosper with regional investment and consumption being the principal drivers of growth.

**The Hon Rupert Carington**
Chairman
16 December 2010

# Investment Manager's Review

Over the twelve months to the end of September 2010, the regional markets, as measured by the MSCI All Countries Far East ex Japan index, rose 20.9% in sterling terms. Although returns were more modest than those registered in the previous fiscal period, it marks the second year running when regional markets have outperformed other major equity markets by a significant margin.

**Performance of the MSCI AC Far East ex Japan Net Dividends Reinvested Index in GBP and USD – 30 September 2009 to 30 September 2010**

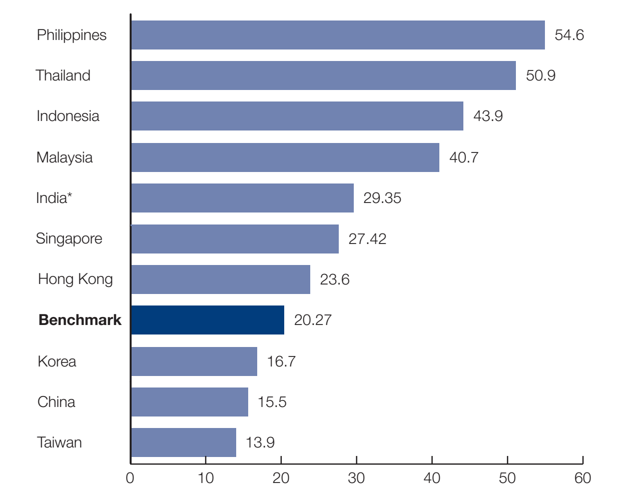



Source: Factset.
Please note that the index values have been rebased to 100 at the start of the period covered.

Against a backdrop of continued low interest rates and easy monetary conditions, global investors have been attracted to areas of the world perceived as offering genuine growth and attractive returns. Asia, along with emerging markets more broadly, have been the prime beneficiaries. With growth in the developed world remaining below trend and showing signs of fading late in the period, the focus has been upon sectors and countries most sensitive to domestic factors. In this context, emerging ASEAN markets have generated the best returns, enhanced by significant currency strength, particularly the Indonesian rupiah and the Philippine peso.

Given the state of key export markets, the more trade dependent markets (for example Taiwan and Korea) and sectors (information technology) made more limited progress, and almost stalled in the second half. This was on the completion of inventory re-building and a number of temporary stimulus measures in the West (auto scrapping schemes, support for first time house buyers) were either phased out or cut back.

**Country returns of the MSCI AC Far East ex Japan Net Dividends Reinvested Index in GBP – 30 September 2009 to 30 September 2010**




Source: Factset. * India is not a component of the index.

Chinese equities have also performed relatively poorly, registering the lowest return of any regional market in the second half. Following the massive fiscal and monetary stimulus seen in 2009, the authorities signalled clearly their intention to rein in excessive credit growth and property speculation (primarily in the major Eastern cities) and to dampen local government infrastructure spending. Concern over rising inflation also triggered a number of direct policy measures which have impacted sentiment and returns, notably in the power and energy sectors. Along with these Government policy measures, heavy equity supply was a further factor depressing the Shanghai A share market, where some stocks fell to significant discounts relative to the equivalent H shares in Hong Kong.

## Performance and Portfolio Activity

It has been a strong period for the Company's relative performance. The main contribution has come from stock selection, with notable successes in China, Hong Kong, Singapore, the Philippines and Indonesia. The only significant areas of shortfall have been Korea and Taiwan. There has been a more modest positive contribution from country allocation, with the Indian positions performing well, and added value from the overweightings in the

# Investment Manager's Review

Philippines and Indonesia and the underweighting in Korea. A slight offset came from the nil weight in Malaysia which outperformed the benchmark index (though not other emerging ASEAN markets where we preferred to have exposure).

It has been an active period in terms of stock activity, but overall sector and country changes in the portfolio have been modest. Cash has risen with net sales particularly in Thailand and Korea, partly offset by additions to Hong Kong/China, Singapore and Indonesia.

## Outlook and Policy

Regional markets have rallied strongly in the last few months, primarily in response to rumours, and subsequent confirmation, of a further round of monetary easing by the US Federal Reserve. This has been echoed elsewhere in Japan, the United Kingdom, and by inference in Europe in the sense that the fragility of some peripheral markets is bound to restrain the naturally hawkish instincts of the European Central Bank.

Following the rally, regional valuations are not as cheap relative to their history as is the case with some Western markets. Furthermore, domestic issues are likely to engender a degree of market volatility in the next few months. Fuelled by commodity prices, inflationary pressures are building round the region, not least in China, and we expect further upward pressure on interest rates and/or measures to discourage capital inflows. Meanwhile, the prospect of only moderate growth in the developed world will weigh on the fortunes of the region's key export sectors.

However, in an uncertain world, Asia continues to have attractions as the only region in the world that continued to grow through the global financial crisis. The region's financial strengths remain impressive including high foreign exchange reserves, low debt, current account surpluses, strong fiscal positions and generally undervalued currencies. The current inflation issues may well prove temporary, and given generally loose global monetary conditions in prospect, we believe regional assets and markets will be well supported on a twelve month view.

### Country Weights – Schroder AsiaPacific Fund vs MSCI AC Far East ex Japan Index

| | Net Asset Value Weightings (%) | | Benchmark Index Weight (%) |
|---|---|---|---|
| **Market** | **30-Sep-09** | **30-Sep-10** | **30-Sep-10** |
| Hong Kong & China | 33.4 | 36.7 | 41.4 |
| Korea | 20.1 | 12.9 | 21.5 |
| Taiwan | 16.7 | 15.8 | 17.0 |
| Singapore | 13.7 | 14.1 | 8.0 |
| Malaysia | 0.0 | 0.0 | 4.7 |
| Indonesia | 2.4 | 4.3 | 3.9 |
| Thailand | 4.5 | 0.0 | 2.7 |
| Australia | 1.1 | 2.3 | 0.0 |
| India | 4.7 | 5.7 | 0.0 |
| Philippines | 2.3 | 4.0 | 0.8 |
| USA | 0.0 | 0.5 | 0.0 |
| Vietnam | 0.3 | 0.3 | 0.0 |
| Other net assets | 0.8 | 3.4 | 0.0 |
| **Total** | **100.0** | **100.0** | **100.0** |

Source: Schroders

**Schroder Investment Management Limited**
16 December 2010

# Investment Portfolio

## As at 30 September 2010

| Company | Industrial Classification | Activity | Market value of Holding £'000 | % of Shareholders' Funds |
|---|---|---|---|---|
| Jardine Strategic Holdings | General Industrials | Hotels and shops | 24,040 | 6.19 |
| Samsung Electronics | Technology Hardware & Equipment | Memory semiconductors | 17,555 | 4.52 |
| Swire Pacific 'A' | General Industrials | Hong Kong holding company | 15,896 | 4.10 |
| Jardine Matheson | General Industrials | Property and retailing | 15,068 | 3.88 |
| Taiwan Semiconductor Manufacturing | Technology Hardware & Equipment | Semiconductor products | 11,894 | 3.07 |
| Fortune Real Estate Investment Trust | Real Estate Investment Trust | Malls in Hong Kong | 10,646 | 2.74 |
| Hon Hai Precision Industries | Electronic & Electrical Equipment | Electronic products | 10,467 | 2.70 |
| Ping An Insurance | Life Insurance | Insurance service providers in China | 9,905 | 2.55 |
| Niko Resources | Oil & Gas Producers | Indian based oil and gas producer | 9,561 | 2.46 |
| GS Engineering & Construction | Construction & Materials | Construction company | 9,550 | 2.46 |
| Hyundai Motor Company | Automobiles & Parts | Cars, trucks and commercial vehicles | 8,402 | 2.16 |
| Chunghwa Telecom | Telecommunications | Taiwanese telecommunications | 8,258 | 2.13 |
| Bank of Communications | Banks | Banking | 8,203 | 2.11 |
| Hang Seng Bank | Banks | Banking | 7,862 | 2.03 |
| Acer Inc | Technology Hardware & Equipment | Computers and related parts | 7,422 | 1.91 |
| Industrial & Commercial Bank of China | Banks | Chinese bank | 7,248 | 1.87 |
| Sun Hung Kai Properties | Real Estate | Property | 7,010 | 1.81 |
| China Taiping Insurance | Non-Life Insurance | Hong Kong insurance | 6,864 | 1.77 |
| China Vanke | Real Estate & Investment Services | Property development company | 6,534 | 1.68 |
| Semirara Mining | Mining | Coal in the Philippines | 6,240 | 1.61 |
| **Twenty Largest Investments** | | | **208,625** | **53.75** |
| Shinhan Financial Group | Banks | Financial services | 6,093 | 1.57 |
| E-House China | Real Estate | Property | 5,985 | 1.54 |
| AU Optronics | Technology Hardware & Equipment | Plasma display panels | 5,980 | 1.54 |
| Cairn India P-Note 24/10/2012 | Oil & Gas Producers | Indian based oil & gas producer | 5,826 | 1.50 |
| Telekomunikasi Indonesia | Fixed Line Telecommunications | Largest provider of Indonesian telecoms | 5,609 | 1.45 |
| KGI Securities | Financial Services | Pan-Asian financial services | 5,604 | 1.44 |
| ICICI Bank | Banks | Indian bank | 5,589 | 1.44 |
| Far Eastern New Century | Personal Goods | Textile products | 4,539 | 1.17 |
| Semen Gresik (Persero) | Construction & Materials | Cement | 4,497 | 1.16 |
| Yuexiu Property Company | Real Estate | Property | 4,219 | 1.09 |
| Sino Forest | Forestry & Paper | Forestry in China | 4,032 | 1.04 |
| Tiger Airways | Travel & Leisure | Airline in Asia and Australasia | 4,013 | 1.03 |
| Techtronic Industries | Household Goods | Electrical and electronic products | 3,898 | 1.01 |
| China National Buildings | Construction & Materials | Building materials | 3,872 | 1.00 |
| Yum Brands | Travel & Leisure | Restaurants | 3,857 | 0.99 |
| Siliconware Precision | Technology Hardware & Equipment | Semiconductors | 3,855 | 0.99 |
| Holcim Philippines | Construction & Materials | Philippines cement producer | 3,827 | 0.99 |
| Amcor | General Industrials | Packaging | 3,822 | 0.99 |
| China Construction Bank | Banks | Chinese bank | 3,780 | 0.97 |
| Security Bank | Banks | Philippines bank | 3,697 | 0.95 |
| Ascendas Real Estate Investment Trust | Real Estate Investment Trust | Singapore based REIT | 3,655 | 0.94 |
| Parkson Retail Group | General Retailers | Department stores in China | 3,629 | 0.94 |

# Investment Portfolio

## As at 30 September 2010

| Company | Industrial Classification | Activity | Market value of Holding £'000 | % of Shareholders' Funds |
|---|---|---|---|---|
| Sembcorp Marine | Commercial Vehicles and Trucks | Ship building | 3,612 | 0.93 |
| Adaro Energy | Mining | A coal mining company | 3,589 | 0.93 |
| NHN Corp | Software & Computer Services | Internet | 3,568 | 0.92 |
| China Steel | Industrial Metals | Taiwan manufacturer of steel | 3,528 | 0.91 |
| Shanghai Industrial Holding | General Industrials | Conglomerate | 3,491 | 0.90 |
| DBS Group | Banks | Singapore bank | 3,468 | 0.89 |
| Jardine Cycle & Carriage | General Retailers | Distributes motor vehicles | 3,375 | 0.87 |
| Crown | Travel & Leisure | Entertainment group in Australia | 3,213 | 0.83 |
| Charm Communications | Media | Television advertising in China | 3,002 | 0.77 |
| Franshion Properties China | Real Estate Investment Services | Real estate in China | 2,963 | 0.76 |
| Samsung Fire & Marine | Non-Life Insurance | Korea's biggest general insurer | 2,905 | 0.75 |
| Hang Lung Group | Real Estate & Investment Services | Property | 2,869 | 0.74 |
| Vtech Holdings | Technology Hardware & Equipment | Consumer electronic products | 2,537 | 0.65 |
| China High Precision Automation | Industrial Engineering | Industrial equipment | 2,434 | 0.63 |
| LG Electronics preference | Leisure Goods | Korean electrical goods | 2,187 | 0.56 |
| Bank Mandiri | Banks | Indonesian bank | 2,102 | 0.54 |
| Trina Solar | Alternative Energy | Solar powered products | 1,969 | 0.51 |
| Bukit Sembawang Estates | Real Estate | Singapore property | 1,927 | 0.50 |
| Beijing Enterprise | General Industrials | Chinese conglomerate | 1,874 | 0.48 |
| Iluka Resources | Mining | Mineral sands and titanium minerals | 1,869 | 0.48 |
| Aboitiz Equity Ventures | General Industrials | Philippine conglomerate | 1,762 | 0.45 |
| Midland Realty Holdings | Real Estate & Investment Services | Property | 1,444 | 0.37 |
| Ping An Insurance (warrants) | Life Insurance | Insurance in China | 1,410 | 0.36 |
| HKG Hang Seng Index Put March 2011* | Option | Traded put option which expires 30 March 2011 | 1,118 | 0.29 |
| Shriram (warrants) | Financial Services | Hire purchase finance for trucks | 1,090 | 0.28 |
| Vietnam Enterprise Investments | Equity Investment Instruments | Vietnam investment holding company | 1,077 | 0.28 |
| Cheuk Nang Holdings | Real Estate & Investment Services | Properties in Hong Kong, China and Malaysia | 1,029 | 0.27 |
| Joyou | Construction & Materials | Sanitary ware in China | 856 | 0.22 |
| Indofood CBP Sukses Makmur TBK | Food Producers | Food products | 788 | 0.20 |
| Kaisa Group | Real Estate & Investment Services | Real estate | 481 | 0.12 |
| Modern Photo Film | Leisure Goods | Photographic business in Indonesia | 289 | 0.08 |
| Cheuk Nang Holdings (warrants) | Real Estate & Investment Services | Properties in Hong Kong, China and Malaysia | 21 | 0.01 |
| Peace Mark Holdings | Household Goods | Timepieces | – | – |
| **Total investments** | | | **376,350** | **96.97** |
| **Other net assets** | | | **11,763** | **3.03** |
| **Total equity shareholders' funds** | | | **388,113** | **100.00** |

*With the exception of these investments (whose designations are shown above), all investments were equity investments as at 30 September 2010.

At 30 September 2009 the twenty largest investments represented 54.99% of shareholders' funds.

# Report of the Directors

## Business Review

### Company's Business

The Company carries on business as an investment trust and is an investment company within the meaning of section 833 of the Companies Act 2006. In order to continue to obtain exemption from capital gains tax, the Company has conducted itself with a view to being an approved investment trust for the purposes of Section 1158 of the United Kingom Corporation Tax Act 2010. The last accounting period for which the Company has been treated as approved by HMRC is for the year ended 30 September 2009 and the Company has subsequently directed its affairs so as to enable it to continue to qualify for such approval. The Company is not a close company for taxation purposes.

### Investment Objective

The principal investment objective of the Company is to achieve capital growth through investment primarily in equities of companies located in the continent of Asia (excluding the Middle East and Japan), together with the Far Eastern countries bordering the Pacific Ocean (excluding Australasia), with the aim of achieving growth in excess of the MSCI All Countries Far East excluding Japan Index in Sterling terms over the longer term.

With effect from the date of the 2011 Annual General Meeting, the benchmark Index will change to the MSCI All Countries Asia ex. Japan Index. Further details may be found in the Chairman's Statement on pages 4 to 6.

### Investment Strategy

The Board has delegated management of the Company's portfolio to Schroder Investment Management Limited (the "Manager" and/or "Schroders"). The Manager manages the portfolio with the aim of helping the Company to achieve its investment objective. Details of the Manager's strategy, and other factors that have affected performance during the year, are set out in the Investment Manager's Review on pages 7 and 8.

### Investment Policy

The Company principally invests in a diversified portfolio of companies located in the continent of Asia (excluding the Middle East and Japan) (for the purposes of this paragraph the "region"). Such countries include Hong Kong/China, Singapore, Taiwan, Malaysia, South Korea, Thailand, India, The Philippines, Indonesia, Pakistan, Vietnam and Sri Lanka and may include other countries in the region that permit foreign investors to participate in investing in equities, such as in their stock markets or other such investments in the future. Investments may be made in companies listed on the stock markets of countries located in the region and/or listed elsewhere but controlled from within the region and/or with a material exposure to the region.

The portfolio is predominantly invested in equities, but may also be invested in other financial instruments such as put options on indices and equities in the region. The Company may invest up to 5% of its assets in securities which are not listed on any stock exchange but would normally not make such an investment except where the Manager expects that the securities will shortly become listed on a stock exchange. In order to maximise potential returns, gearing may be employed by the Company from time to time. Where appropriate the Directors may authorise the hedging of the Company's currency exposure. While the Articles limit the amount of gearing the Company may have to a maximum of the Company's adjusted capital and reserves, Directors do not anticipate net effective gearing levels in excess of 20% of shareholders' funds.

### Resources

The Company has no employees; its investments are managed by Schroders, which also acts as Company Secretary and provides accounting and administration services to the Company. The principal terms of the Investment Management Agreement are set out on page 15.

### Spread of Investment Risk

Risk in relation to the Company's investments is spread as a result of the Manager monitoring the Company's portfolio with a view to ensuring that the portfolio retains an appropriate balance to meet the Company's investment objective. The Board has imposed a number of restrictions on investment by the Manager. The key restrictions imposed on the Manager are that: a) no more than 15% of the Company's total net assets, at the date of acquisition, may be invested in any one single company; b) no more than 10% of the Company's total net assets, at the date of acquisition, may be invested in other listed investment companies unless such companies have a stated investment policy not to invest more than 15% of their gross assets in other listed companies; c) no more than 15%

# Report of the Directors

of the Company's total net assets may be invested in open-ended funds and; d) no more than 25% of the Company's total net assets may be invested in the aggregate of unlisted investments and holdings representing 20% or more of the equity capital of any company. The Investment Portfolio on pages 9 and 10 demonstrates that, as at 30 September 2010, the Manager held 78 investments spread over several countries and in a range of industry sectors. The largest investment, Jardine Strategic Holdings, represented 6.19% of shareholders' funds at 30 September 2010. At the year end, the Company did not hold any unlisted investments, and did not hold open-ended funds. The Company had an interest amounting to 3.68% of shareholders' funds in REITs, which are closed ended investment companies. The Board therefore believes that the objective of spreading risk has been achieved in this way.

### Performance

An outline of performance, market background, investment activity and portfolio strategy during the year under review, as well as outlook, is provided in the Chairman's Statement on pages 4 to 6 and the Investment Manager's Review on pages 7 and 8.

### Gearing

The Company utilises a credit facility, currently in the amount of US$50 million (30 September 2009: US$50 million), which increases the funds available for investment through borrowing ("gearing"). The Company's gearing continues to operate within pre-agreed limits and Directors do not anticipate net effective gearing levels in excess of 20% of shareholders' funds.

### Measuring Success – Key Performance Indicators

The Board has adopted long-term key performance indicators ("KPIs") which assist it in measuring the development and success of the Company's business. The KPIs focus on the following areas: the measurement of the success of the Company's investment objective of providing growth in excess of the benchmark Index; the management of the discount; and the rate of expenses incurred by shareholders in the running of the Company.

#### Investment Performance

In order to measure the Company's investment performance, quarterly reports, including commentary on its view of markets, the impact of stock selection decisions and other attribution analysis, portfolio activity and strategy and outlook for the portfolio and the markets are provided by the Manager and form the basis of discussions at every board meeting. On a regular basis, the Board also reviews the investment processes of the Manager and considers reports from its broker on the perception of shareholders and the market on the Manager's performance and the Company's strategy.

For the year ended 30 September 2010, the Company produced a total return on net asset value of 24.1% compared to a total return of 20.9% for the benchmark. A chart showing the Company's five-year performance against the benchmark to 30 September 2010 can be found on page 3 of this Report. Country distribution can be found in the Investment Manager's Review on pages 7 and 8.

#### Discount Management

The shares of the Company generally trade at a discount to net asset value and the management of this discount is a key factor for the Board. The Board has therefore adopted a second KPI, which measures the success of the Board's strategy to limit volatility in the discount.

As the discount is a function of the balance between the supply and demand for the Company's shares, a principal objective for the Board is to ensure that, through Schroders' marketing team and the Company's stockbrokers, potential shareholders and their advisers continue to be kept informed of the Company's progress and the ways they can invest in it.

Share buy-backs are a more direct way of managing the discount. The discount of the Company's share price to its underlying net asset value and the discounts of peer group companies are monitored on a daily basis. The Board considers the use of its share buy-back authority on a regular basis and has adopted guidelines which outline circumstances in which the Company is prepared to buy back shares. Although these guidelines are reviewed and updated on a regular basis no shares were purchased for cancellation during the year ended 30 September 2010 (2009: Nil).

At 30 September 2010, the Company's share price stood at a discount of 9.35% to net asset value. During the year under review the discount averaged 8.3%.

# Report of the Directors

### Control of Total Expenses

One of the advantages of closed ended vehicles is their relatively low running costs compared with other investment vehicles.

The Board has adopted a third KPI which assists it in keeping the total expense ratio ("TER") of the Company under review.

An analysis of the Company's costs, including management fees, directors' fees and general expenses, is submitted to each Board meeting. The Management Engagement Committee, comprised entirely of independent directors, considers the terms of the management agreement with the Manager, including fees, on an annual basis. Services (including costs) provided by most other providers including bankers, auditors, insurance providers and printers are also reviewed annually.

The TER for the Company for the year to 30 September 2010 (calculated in accordance with AIC guidance as total annualised net operating expenses after tax divided by average net assets during the year) was 0.88% (2009: 0.95%).

## Principal Risks and Uncertainties

The Board has adopted a matrix of key risks which affect its business and a robust framework of internal control which is designed to monitor those risks to enable the Directors to mitigate them as far as possible. A full analysis of the Directors' system of internal control and its monitoring system is set out in the Corporate Governance Statement. The principal risks are considered to be as follows:

### Financial Risk

The Company is exposed to the effect of market fluctuations due to the nature of its business. A significant fall in regional equity markets would have an adverse impact on the market value of the Company's underlying investments. The Board considers the portfolio's risk profile at each Board meeting and discusses with the Manager appropriate strategies to mitigate any negative impact of substantial changes in markets.

The Company invests in underlying assets which are denominated in a range of currencies and therefore has an exposure to changes in the exchange rate between Sterling and other currencies, which has the potential to have a significant effect on returns. While the Directors consider the Company's hedging policy on a regular basis, the Company did not engage in currency hedging to reduce the risk of currency fluctuations and the volatility of returns which might result from such currency exposure during the year ended 30 September 2010.

The Company may invest in put options on indices and equities in the region, to protect part of the capital value of the assets against market falls.

The Company utilises a credit facility, currently in the amount of US$50 million, which increases the funds available for investment through borrowing ("gearing"). Therefore, in falling markets, any reduction in the net asset value and, by implication, the consequent share price movement is amplified by the gearing. The Directors keep the Company's gearing under constant review and impose strict restrictions on borrowings to mitigate this risk.

A full analysis of the financial risks facing the Company is set out in note 21 on pages 37 to 42.

### Strategic Risk

Over time investment vehicles and asset classes can become out of favour with investors or may fail to meet their investment objectives. This may be reflected in a wide discount of the shares to underlying asset value. Directors periodically review whether the Company's investment remit remains appropriate and continually monitor the success of the Company in meeting its stated objectives. Further details may be found under "Investment Performance" and "Discount Management" above.

### Accounting, Legal and Regulatory Risk

In order to continue to qualify as an investment trust, the Company must comply with the requirements of Section 1158 of the United Kingdom Corporation Tax Act 2010. Should the Company not comply with these requirements, it might lose investment trust status and capital gains within the Company's portfolio could, as a result, be subject to Capital Gains Tax.

Breaches of the UK Listing Rules, the Companies Acts or other regulations with which the Company is required to comply, could lead to a number of detrimental outcomes and damage the Company's reputation. Breaches of controls by service providers, including the Manager, could also lead to reputational damage or loss.

The Board's system of internal control seeks to mitigate the potential impact of these risks and it also relies on its Manager and other advisers to assist it in ensuring continued compliance.

# Report of the Directors

The Directors submit their Report and audited Accounts of the Company for the year ended 30 September 2010.

### Revenue and Earnings

The net revenue return for the year after expenses, interest and taxation was £4,394,000 (2009: £4,469,000), equivalent to a return of 2.62 pence per share (2009: 2.67 pence per share) and the Directors recommend the payment of a final dividend for the year ended 30 September 2010 of 2.65 pence per share (2009: 2.65 pence per share), payable on 2 February 2011 to shareholders on the Register on 7 January 2011, subject to approval by shareholders at the Annual General Meeting.

### Directors and their Interests

The Directors of the Company and their biographical details can be found on the inside front cover of this Report. All Directors held office throughout the year under review with the exception of Mr Robert Boyle and Mr Nicholas Smith, who were appointed as Directors on 26 November 2009 and 28 May 2010 respectively.

In accordance with the Articles of Association, Mr Smith will seek election at the forthcoming Annual General Meeting, this being the first Annual General Meeting since his appointment during the year. Full biographical details for Mr Smith may be found in the Chairman's Statement on pages 4 to 6 and on the inside front cover of this Report.

In accordance with the Company's Articles of Association and the Company's policy on tenure, The Hon. Rupert Carington, Mr Robert Binyon and Mr Anthony Fenn retire, and, being eligible, offer themselves for re-election. The Rt. Hon. the Earl of Cromer is retiring at the Annual General Meeting and is not seeking re-election. The Board has assessed the independence of all Directors. The Hon. Rupert Carington and Mr Binyon are considered to be independent in character and judgement, notwithstanding that they have served on the Board for more than nine years.

The Board supports the election of Mr Smith and the re-elections of The Hon. Rupert Carington, Mr Binyon and Mr Fenn, as it considers that each of these Directors continues to demonstrate commitment to his role and provides a valuable contribution to the deliberations of the Board. It therefore recommends that shareholders vote in favour of their election or re-election.

The Directors' interests in the Company's share capital at the beginning and end of the financial year ended 30 September 2010, all of which were beneficial, were as follows:

| Director | Ordinary shares of 10p each at 30 September 2010 | Ordinary shares of 10p each at 1 October 2009 | Subscription shares of 1p each at 30 September 2010 | Subscription shares of 1p each at 13 October 2009† |
|---|---|---|---|---|
| The Hon. Rupert Carington | **94,960** | 95,800 | – | 19,160 |
| Robert Binyon | **48,000** | 40,000 | – | 8,000 |
| Robert Boyle* | **15,000** | N/A | – | – |
| The Rt. Hon. the Earl of Cromer | **–** | 75,000 | – | 15,000 |
| Anthony Fenn | **12,000** | 10,000 | – | 2,000 |
| Jan Kingzett** | **N/A** | 12,000 | N/A | 2,400 |
| Nicholas Smith*** | **10,000** | N/A | – | – |

†Subscription shares issued on 13 October 2009.
*Robert Boyle was appointed as a Director of the Company on 26 November 2009.
**Jan Kingzett resigned as a Director of the Company on 28 May 2010.
***Nicholas Smith was appointed as a Director of the Company on 28 May 2010.

There have been no other changes in the above holdings between the end of the financial year and the date of this report.

As at the date of this Report, the Company had 171,411,341 ordinary shares of 10p each and 29,216,076 subscription shares of 1p each in issue. No shares were held in treasury and the subscription shares carry no voting rights. Accordingly, the total number of voting rights in the Company at the date of this Report is 171,411,341. Full details of the Company's share capital are set out in note 15 on page 35.

# Report of the Directors

### Substantial Share Interests

As at the date of this Report, the Company has received notifications in accordance with the FSA's Disclosure and Transparency Rule 5.1.2R of the following interests in 3% or more of the voting rights attaching to the Company's issued share capital:

| | Number of Ordinary shares | Percentage of total voting rights |
|---|---|---|
| City of London Investment Management Limited | 49,927,999 | 29.13 |
| Rensburg Sheppards Investment Management | 13,331,700 | 7.78 |
| Legal & General | 6,620,167 | 3.86 |

### Investment Manager

Following their annual review, the Directors consider the continuing appointment of the Investment Manager on the terms of the existing investment management agreement to be in the best interests of the Company. Schroders provides the Company with considerable investment management resource and experience, thereby enhancing the ability of the Company to achieve its investment objective.

Schroder Investment Management Limited provides investment management, accounting and secretarial services to the Company.

The investment management agreement can be terminated by either party on 12 months' notice or on immediate notice in the event of certain breaches or the insolvency of either party. The Investment Manager is entitled to a fee at a rate of 1.00% per annum on assets up to and including £100 million, of 0.95% per annum on assets between £100 million and £300 million, 0.90% per annum on assets between £300 and £400 million and of 0.85% per annum on assets above £400 million, payable quarterly in arrears and calculated by reference to the value of the Company's assets under management (net of current liabilities other than short term borrowings) at the end of the preceding quarter. The Manager's periodic charge, in respect of Schroder funds in which the Company invests, are rebated to the Company so that no double charging occurs. No investments in Schroders funds were held during the year ended 30 September 2010.

During the year ended 30 September 2010, Schroder Investment Management Limited was entitled to receive a fee of £81,000 per annum (plus VAT) for corporate secretarial services provided to the Company (30 September 2009: £77,000 (plus VAT)). The fee continues to be subject to annual adjustment in line with changes in the Retail Price Index.

The Investment Manager is authorised and regulated by the Financial Services Authority (FSA).

### Policy for the Payment of Creditors

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant markets in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. There were no outstanding trade creditors, other than purchases for future settlement, at 30 September 2010 (2009: Nil).

### Corporate Social and Environmental Policy

As an investment trust, the Company has no direct social or environmental responsibilities; its policy is focused on ensuring that its portfolio is properly managed and invested. The Company has however adopted an environmental policy, details of which are set out in the Corporate Governance Statement on page 22.

### Statement of Directors' Responsibilities and Going Concern

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

Company law requires the Directors to prepare accounts for each financial year. Under that law they have elected to prepare the accounts 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

# Report of the Directors

accounts 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 accounts, 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 accounts respectively; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the accounts as the assets of the Company consist predominantly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

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 accounts and the Remuneration Report 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.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are set out on the inside front cover of this Report, confirms that, to the best of their knowledge:

- the accounts, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and net return of the Company; and
- the Report of the Directors 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.

### Corporate Governance Statement

The Company's Corporate Governance Statement is set out on pages 19 to 22 and forms part of this Report of the Directors.

### Independent Auditors

The Company's Auditors, PricewaterhouseCoopers LLP, have expressed their willingness to remain in office and resolutions to re-appoint them as auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

The Audit Committee remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP and therefore has not considered it necessary to require an independent tender process. The auditors are required to rotate the audit partner every five years and this is the third year that the current audit partner has been in place.

The Audit Committee has adopted a policy on the engagement of the auditors to supply non-audit services to the Company. The Auditors did not supply any non-audit services during the year under review (2009: Nil).

### Provision of Information to the Auditors

The Directors at the date of approval of this report confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's Auditors are unaware; and each 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.

# Report of the Directors

## Annual General Meeting ("AGM")

**The following information is important and requires your immediate attention. If you are in any doubt about the action you should take, you should consult an independent financial adviser, authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your ordinary shares in the Company, please forward this document with its accompanying form of proxy at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.**

The AGM will be held on Monday, 31 January 2011 at 11.30 a.m. The formal notice of the AGM is set out on page 43.

## Special Business to be proposed at the AGM

Resolutions relating to the following items of special business will be proposed at the AGM.

## Resolution 10 – Continuation vote (ordinary resolution)

In accordance with the Company's Articles of Association, the Directors are required to put forward a proposal for the continuation of the Company to shareholders at five yearly intervals. The Board considers that the long term investment objectives of the Company remain appropriate and that the current Investment Manager is well placed to deliver superior returns over the longer term. An ordinary resolution will therefore be proposed at the AGM to agree that the Company should continue as an investment trust for a further five year period.

## Resolution 11 – Authority to make market purchases of the Company's own ordinary shares (special resolution)

At the AGM held on 27 January 2010, the Company was granted authority to make market purchases of up to 25,061,745 ordinary shares for cancellation. No shares have been bought back under this authority, which will expire at the forthcoming AGM.

The Directors believe it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy back its ordinary shares in the market as they keep under review the share price discount to net asset value and the purchase of ordinary shares. A special resolution will be proposed at the forthcoming AGM to give the Company authority to make market purchases of up to 14.99% of the ordinary shares in issue on 16 December 2010. The Directors will exercise this authority only if the Directors consider that any purchase would be for the benefit of the Company and its Shareholders, taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled. The authority to be given at the 2011 AGM will lapse on a date falling 18 months following the date of passing of the resolution unless renewed or revoked earlier.

The maximum purchase price that may be paid for an ordinary share will not be more than the greater of 5% above the average of the middle market values of the shares, as taken from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase and the higher of the price of the last independent trade in the shares and the highest then current independent bid for the shares on the London Stock Exchange. The minimum price will be 10p, being the nominal value per ordinary share.

## Resolution 12 – Authority to make market purchases of the Company's own subscription shares (special resolution)

At the AGM held on 27 January 2010, the Company was granted authority to make market purchases of up to 14.99% of the subscription shares of 1p each for cancellation. No subscription shares have been bought back under this authority.

The Directors believe it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy back its subscription shares in the market. A special resolution will be proposed at the forthcoming AGM to give the Company authority to make market purchases of up to 14.99% of the subscription shares in issue on 16 December 2010. The Directors will exercise this authority only if the Directors consider that the purchase would be for the benefit of the Company and its shareholders taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled. The authority to be given at the 2011 AGM will lapse on a date falling 18 months following the date of passing of the resolution unless renewed or revoked earlier.

The maximum purchase price that may be paid for a subscription share will not be more than the greater of 5% above the average of the middle market values of the shares, as taken from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase and the higher of the price of the last independent trade in the shares and the highest then current independent bid for the shares on the London Stock Exchange. The minimum price will be 1p, being the nominal value per subscription share.

## Recommendation

The Board considers that the resolutions relating to the above items of special business are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommends to shareholders that they vote in favour of the above resolutions and the other resolutions to be proposed at the forthcoming AGM, as they intend to do in respect of their own beneficial holdings.

By Order of the Board
Schroder Investment Management Limited
Company Secretary

16 December 2010

# Remuneration Report

The determination of the Directors' fees is a matter dealt with by the Management Engagement Committee and the Board.

The Company's Articles of Association currently limit the aggregate fees payable to the Board of Directors to a total of £150,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and time committed to the Company's affairs. The Directors' fees are reviewed annually by the Board. During the year ended 30 September 2010, the Chairman was entitled to receive a fee of £21,000 per annum, and the other members of the Board were entitled to receive fees of £16,000 per annum. There have been no changes in these fees since 1 October 2006. An external review of fees paid to Directors will be included as part of an external evaluation of Board performance in 2011.

Additional fees are also paid for membership of each of the Audit, Management Engagement and Nomination Committees. The committee fees are payable to members of each committee for their contributions to the deliberations of such committees. Members of the Audit Committee each receive an additional fee of £2,000 per annum and members of the Management Engagement and Nomination Committees each receive an additional £1,000 per annum.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to any of them. No element of Directors' remuneration is performance-related.

The Board believes that the principles of Provision B of the Combined Code relating to remuneration do not apply to the Company, except as outlined above, as the Company has no executive Directors.

No Director has a service contract with the Company, however, Directors have a letter of appointment with the Company under which they are entitled to one month's notice in the event of termination. The Directors' terms of appointment are available for inspection at the Company's Registered Office address during normal business hours and at the Annual General Meeting.

All Directors are appointed for an initial term covering the period from the date of their appointment until the first AGM thereafter, at which they are required to stand for election in accordance with the Articles of Association. Thereafter, Directors retire by rotation at least every three years and, as required by the Company's policy on tenure. The Chairman meets with each Director before such Director is proposed for re-election and, subject to the evaluation of performance carried out each year, the Board agrees whether it is appropriate for such Directors to seek an additional term.

When recommending whether an individual Director should seek re-election, the Board will take into account the provisions of the Combined Code, including the merits of refreshing the Board and its Committees.

### Performance Graph

A graph showing the Company's share price total return compared with the MSCI All Countries Far East ex Japan Index, over the last five years, is set out on page 3.

### Directors' Remuneration Report for the year ended 30 September 2010

The following amounts were paid by the Company to the Directors for services as non-executive Directors:

| Director | **For the year ended 30 September 2010 Fees for services to the Company £** | For the year ended 30 September 2009 Fees for services to the Company £ |
|---|---|---|
| The Hon. Rupert Carington | **25,000** | 25,000 |
| Robert Binyon | **20,000** | 20,000 |
| Robert Boyle* | **16,831** | N/A |
| The Rt. Hon. The Earl of Cromer | **20,000** | 20,000 |
| Anthony Fenn | **20,000** | 20,000 |
| Jan Kingzett** | **11,201** | 17,000 |
| Nicholas Smith*** | **6,863** | N/A |
| | **119,895** | 102,000 |

*Mr Boyle was appointed as a Director on 26 November 2009.
**Mr Kingzett resigned as a Director on 28 May 2010.
***Mr Smith was appointed as a Director on 28 May 2010.

The information in the above table has been audited (see the Independent Auditors' Report on pages 23 and 24).

By Order of the Board
Schroder Investment Management Limited
Company Secretary
16 December 2010

# Corporate Governance

The Board is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be appropriate for an investment trust in order to comply with the principles of the Combined Code. The Financial Reporting Council published a revised version of the Combined Code in 2008. The disclosures in this Statement therefore relate to the requirements of the 2008 Combined Code (the "Code"). The Code is published by the FSA and is available to download from www.fsa.gov.uk.

The Board has noted the publication of the UK Corporate Governance Code in May 2010, which applies to financial years beginning on or after 29 June 2010 and is considering the Company's governance framework.

### Compliance Statement

The UK Listing Authority requires all UK listed companies to disclose how they have complied with the provisions of the Code. This Corporate Governance Statement, together with the Statement of Directors' Responsibilities and Going Concern set out on pages 15 and 16, indicates how the Company has complied with the principles of good governance of the Code and its requirements on Internal Control.

The Board considers that the Company has, throughout the year under review, complied with the best practice provisions in Section 1 of the Code, save in respect of the appointment of a Senior Independent Director, where departure from the Code is considered appropriate given the Company's position as an investment trust. The Board has considered whether a Senior Independent Director should be appointed. As the Board comprises entirely non-executive Directors, the appointment of a Senior Independent Director is not considered necessary. However, the Chairman of the Audit Committee leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns which cannot be resolved through discussion with the Chairman.

### Application of the Code's Principles

### Role of the Chairman

The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role and setting its agenda.

### Role of the Board

The Board determines and monitors the Company's investment objectives and policy, and considers the future strategic direction of the Company. Matters specifically reserved for decision by the Board have been adopted. The Board is responsible for presenting a balanced and understandable assessment of the Company's position and, where appropriate, future prospects in annual and half-yearly reports and other forms of public reporting. It monitors and reviews the shareholder base of the Company, marketing and shareholder communication strategies, and evaluates the performance of all service providers, with input from its Committees where appropriate. A procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company, where appropriate. The Directors have access to the advice and services of the corporate Company Secretary through its appointed representative, who is responsible to the Board, inter alia, for ensuring that Board procedures are followed, and that applicable rules and regulations are complied with.

### Composition and Independence

The Board currently consists of six non-executive Directors. Profiles of each of the Directors, including their age and length of service, may be found on the inside front cover of this Report. The Board considers each of the Chairman, Mr Robert Binyon, Mr Robert Boyle, The Rt. Hon. the Earl of Cromer, Mr Anthony Fenn and Mr Nicholas Smith to be independent of the Company's Investment Manager. The Rt. Hon. the Earl of Cromer is not seeking re-election at the forthcoming AGM. The independence of each Director is considered on a continuing basis.

The Board has no executive Directors and has not appointed a Chief Executive Officer as it has contractually delegated responsibility for the management of the Company's investment portfolio, the arrangement of custodial services and the provision of accounting and company secretarial services.

The Board is satisfied that, following the retirement of The Rt. Hon. the Earl of Cromer at the forthcoming Annual General Meeting ("AGM") it is of sufficient size with an appropriate balance of skills and experience, and that no individual or group of individuals is, or has been, in a position to dominate decision making.

### Board Committees

The Board has delegated certain responsibilities and functions to Committees. Terms of Reference for each of these Committees are available on the Company's website at www.schroderasiapacificfund.com. Details of membership of the Committees at 30 September 2010 may be found on the inside front cover of this report and information regarding attendance at Committee meetings during the year under review may be found on page 21.

# Corporate Governance

### Audit Committee

The role of the Audit Committee is to ensure that the Company maintains the highest standards of integrity in financial reporting and internal control. The Board considers each member of the Committee to be independent. The Board also considers that members of the Committee have competence in accounting.

To discharge its duties, the Committee met on two occasions during the year ended 30 September 2010 and considered the annual and half-yearly report and accounts, the external Auditors' year-end report and management letters, the effectiveness of the audit process, the independence and objectivity of the external Auditor and internal controls operating within the management company and custodian.

### Management Engagement Committee

The role of the Committee is to review the terms of the management contract with the Investment Manager. In addition, the Committee reviews Directors' fees and makes recommendations to the Board in this regard. The Board considers each member of the Committee to be independent.

To discharge its duties, the Committee met on one occasion during the year ended 30 September 2010 and considered the performance and suitability of the Investment Manager, the terms and conditions of the management contract and the fees paid to Directors.

### Nomination Committee

The role of the Committee is to consider and make recommendations to the Board on its composition and balance of skills and experience, and on individual appointments, to lead the process and make recommendations to the Board. The Board considers each member of the Committee to be independent.

Before the appointment of a new Director, the Nomination Committee will prepare a description of the role and capabilities required for a particular appointment, having evaluated the balance of skills, knowledge and experience of the Board. When considering whether to replace a Director, the Company's policy on tenure is also taken into account. In light of this evaluation, the Nomination Committee will consider a range of candidates sourced either from recommendation from within the Company or by using external consultants.

The Nomination Committee will assess potential candidates on merit against a range of criteria including experience, knowledge, professional skills and personal qualities as well as independence, if this is required for the role. Candidates' ability to commit sufficient time to the business of the Company is also key, particularly in respect of the appointment of the Chairman. The Chairman of the Nomination Committee is primarily responsible for interviewing suitable candidates and a recommendation will be made to the Board for final approval.

To discharge its duties, the Committee met twice during the year under review and considered succession, planning, Board composition and future requirements in this regard, various candidates and arranged for such candidates to be interviewed and for recommendation.

The Committee considered the appointment of a non-executive Director during the year under review. The Committee did not believe that it was necessary to approach an external search consultancy or use open advertising in the recruitment of this Director, as the calibre of candidates found from sources within the Company was sufficiently high.

### Tenure

The Board has adopted a policy on tenure that is considered appropriate for an investment company. The Board does not believe that length of service, by itself, leads to a close relationship with the Investment Manager or necessarily affects a Director's independence of character or judgement. Therefore, the independence of Directors is assessed on a case by case basis. In order to give shareholders the opportunity to endorse this policy, and in accordance with the provisions of the Code, any Director who has served for more than nine years will be subject to annual re-election by shareholders.

### Induction and Training

The Board has adopted a full, formal and tailored induction programme for new Directors, which is administered by the Company Secretary. Directors are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and its internal controls. Regulatory and legislative changes affecting Directors' responsibilities are advised to the Board as they arise along with changes to best practice. Advisers to the Company also prepare reports for the Board from time to time. In addition, Directors attend relevant seminars and events to allow them to continually refresh their skills and knowledge and keep up with changes within the investment trust industry.

# Corporate Governance

### Board Evaluation

The Board has adopted a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. The evaluation takes place in two stages. First, the evaluation of individual Directors is led by the Chairman, and the evaluation of the Chairman's performance is led by the Chairman of the Audit Committee. Secondly, the Board evaluates its own performance and that of its Committees. The Directors meet at least once a year without the Chairman present and the Chairman of the Audit Committee chairs this meeting.

Evaluation is conducted utilising a questionnaire combined with one to one meetings if appropriate. The Board has developed criteria for use at the evaluation, which focuses on the individual contribution to the Board and its Committees made by each Director and the responsibilities, composition and agenda of the Committees and of the Board itself.

A review of Board composition and balance, including succession planning for appointments to the Board, is included as part of the annual performance evaluation.

Following publication of the UK Corporate Governance Code in May 2010, the Board will undertake an external evaluation of its performance in 2011. The evaluation will also include an external review of fees paid to Directors.

### Meetings and Attendance

The Board meets at least four times each year and, in addition, meets specifically to discuss strategy once each year. Additional meetings are also arranged as required and regular contact between Directors, the Investment Manager and the Company Secretary is maintained throughout the year. Representatives of the Investment Manager and Company Secretary attend each meeting and other advisers also attend when requested to do so by the Board. Attendance at the four scheduled Board meetings and at Committee meetings held during the year under review was as follows.

| Director | Board | Audit Committee | Nomination Committee | Management Engagement Committee |
|---|---|---|---|---|
| The Hon. Rupert Carington | 4/4 | 2/2 | 2/2 | 1/1 |
| Robert Binyon | 4/4 | 2/2 | 2/2 | 1/1 |
| Robert Boyle* | 4/4 | 2/2 | 2/2 | 1/1 |
| The Rt. Hon. the Earl of Cromer | 4/4 | 2/2 | 2/2 | 1/1 |
| Anthony Fenn | 4/4 | 2/2 | 2/2 | 1/1 |
| Jan Kingzett** | 2/2 | N/A | 2/2 | N/A |
| Nicholas Smith*** | 1/1 | N/A | N/A | N/A |

* Mr Boyle was appointed as a Director on 26 November 2009.
** Mr Kingzett resigned as a Director on 28 May 2010.
*** Mr Smith was appointed as a Director on 28 May 2010.

### Information Flows

The Chairman ensures that all Directors receive, in a timely manner, relevant management, regulatory and financial information and are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. Accordingly, the Board receives and considers regular reports from the Investment Manager and ad hoc reports and information as required.

### Directors' and Officers' Liability Insurance

During the year, the Company maintained insurance cover for its Directors and Officers under a Directors' and Officers' liability insurance policy.

### Directors' Indemnities

The Company provides a Deed of Indemnity to each Director to the extent permitted by United Kingdom law whereby the Company is able to indemnify such Director against any liability incurred in proceedings in which the Director is successful, and for costs in defending a claim brought against the Director for breach of duty where the Director acted honestly and reasonably.

### Conflicts of Interest

The Board has approved a policy on Directors' conflicts of interest. Under this policy, the Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and approval. The Board may impose restrictions or refuse to authorise such conflicts if deemed appropriate.

# Corporate Governance

### Major Shareholders
Details of the Company's major shareholders are set out in the Report of the Directors on page 15.

### Relations with Shareholders
The Board believes that the maintenance of good relations with both institutional and retail shareholders is important for the long-term prospects of the Company. It has since its launch, sought engagement with investors. The Chairman, and other Directors where appropriate, discuss governance and strategy with major shareholders and the Chairman ensures communication of shareholders' views to the Board. The Board receives feedback on the views of shareholders from its corporate broker and the Investment Manager.

The Board believes that the AGM provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Annual Report is, when possible, sent to shareholders at least 20 business days before the AGM. The AGM is typically attended by all Directors and proceedings include a presentation by the Investment Manager. There is an opportunity for individual shareholders to question the Chairmen of the Board, Audit and Management Engagement Committees at the AGM. Details of proxy votes received in respect of each resolution are made available to shareholders at the Meeting and on the Company's website as soon as practicable after the meeting.

The Board believes that the Company's policy of reporting to shareholders as soon as possible after the Company's year end, and holding the earliest possible AGM, is valuable. The Notice of Meeting on page 43 sets out the business of the AGM.

### Environmental Policy
The Company's primary investment objective is to achieve optimal financial returns for shareholders, within established risk parameters and regulatory constraints. Provided that this objective is not compromised in the process the Board does, however, believe that it is also possible to develop a framework that, in the interests of our shareholders, allows a broader range of considerations, including environmental and social issues, to be taken into account when selecting and retaining investments. The investment process therefore contains a review of research into the environmental, social and ethical stance of companies. Where potential financial or reputational risks are identified, their materiality is assessed and given due consideration by the Manager when selecting or retaining investments.

### Exercise of Voting Rights and the UK Stewardship Code
The Company has delegated responsibility for voting to Schroders, which votes in accordance with its corporate governance policy. A copy of this policy is available on the Company's website. The Board has noted the recent implementation of the UK Stewardship Code, which it considers to be an important tool in shareholder engagement. Schroders' compliance with the principles of the UK Stewardship Code is reported on its website, www.schroders.com.

### Internal Control
The Code requires the Board to conduct at least annually a review of the adequacy of the Company's systems of internal control and report to shareholders that it has done so. The Board has undertaken a full review of all the aspects of the Turnbull Guidance as revised in October 2005 (the "Turnbull Guidance"), under which the Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has approved a detailed Risk Map identifying significant strategic, investment-related, operational and service provider-related risks and has adopted an enhanced monitoring system to ensure that risk management and all aspects of internal control are considered on a regular basis, and fully reviewed at least annually.

The Board believes that the key risks identified and the implementation of a continuing system to identify, evaluate and manage these risks are based upon and relevant to the Company's business as an investment trust. Risk assessment, which has been in place throughout the financial year and up to the date of this report, includes consideration of the scope and quality of the systems of internal control, including any whistleblowing policies where appropriate, adopted by the Investment Manager and other major service providers, and ensures regular communication of the results of monitoring by third parties to the Board, the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition. No significant control failings or weaknesses were identified during the course of the year and up to the date of this report, from the Board's on-going risk assessment.

Although the Board believes that it has a robust framework of internal control in place this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk.

The Company does not have an internal audit function as it employs no staff and delegates to third parties most of its operations. The Board will continue to monitor its system of internal control and will continue to take steps to embed the system of internal control and risk management into the operations of the Company. In doing so, the Audit Committee will review at least annually whether a function equivalent to an internal audit is needed.

# Independent Auditors' Report

### To the members of Schroder AsiaPacific Fund plc

We have audited the accounts of Schroder AsiaPacific Fund plc for the year ended 30 September 2010 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Net Cash Flow to Movement in Net Funds 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 Statement of Directors' Responsibilities set out on pages 15 and 16, the Directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit the accounts 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 opinion, has been prepared for and only for the Company's members as a body in accordance with Chapter 3, 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 accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts 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 accounts.

### Opinion on accounts

In our opinion the accounts:

- give a true and fair view of the state of the Company's affairs as at 30 September 2010 and of its net return 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 matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Report of the Directors for the financial year for which the accounts are prepared is consistent with the accounts; and
- the information given in the Corporate Governance Statement set out on page 22 with respect to internal control and risk management systems and about share capital structures is consistent with the accounts.

# Independent Auditors' Report

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

We have nothing to report in respect of the following:

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 accounts and the part of the 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; or
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on pages 15 and 16, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, London,
United Kingdom

16 December 2010

# Income Statement

| | Note | For the year ended 30 September 2010 Revenue £'000 | Capital £'000 | Total £'000 | For the year ended 30 September 2009 Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Gains on investments held at fair value | 2 | – | 79,797 | 79,797 | – | 85,787 | 85,787 |
| Other currency gains/(losses) | 3 | – | 141 | 141 | – | (3,129) | (3,129) |
| Income | 4 | 9,730 | – | 9,730 | 8,898 | – | 8,898 |
| Investment management fee | 5 | (3,310) | – | (3,310) | (2,321) | – | (2,321) |
| Administrative expenses | 6 | (840) | – | (840) | (649) | – | (649) |
| **Net return before finance costs and taxation** | | 5,580 | 79,938 | 85,518 | 5,928 | 82,658 | 88,586 |
| Interest payable and similar charges | 7 | (139) | – | (139) | (431) | – | (431) |
| **Net return on ordinary activities before taxation** | | 5,441 | 79,938 | 85,379 | 5,497 | 82,658 | 88,155 |
| Taxation on ordinary activities | 8 | (1,047) | – | (1,047) | (1,028) | – | (1,028) |
| **Net return after taxation attributable to equity shareholders** | | 4,394 | 79,938 | 84,332 | 4,469 | 82,658 | 87,127 |
| **Net return per ordinary share** | 10 | 2.62p | 47.75p | 50.37p | 2.67p | 49.44p | 52.11p |

The Total column of this statement is the Income Statement of the Company. The Revenue and Capital columns are both provided in accordance with guidance issued by the Association of Investment Companies. The Company has no recognised gains or losses other than those disclosed in the Income Statement and the Reconciliation of Movements in Shareholders' Funds. Accordingly no Statement of Total Recognised Gains and Losses is presented.

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

The notes on pages 29 to 42 form an integral part of these accounts.

# Reconciliation of Movements in Shareholders' Funds

| | Note | Called-up Share capital £'000 | Capital redemption reserve £'000 | Share premium £'000 | Share purchase reserve £'000 | Warrant exercise reserve £'000 | Capital reserves £'000 | Revenue reserve* £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 30 September 2008 | | 16,719 | 81 | 25,199 | 110,529 | 8,704 | 58,505 | 4,584 | 224,321 |
| Net return from operating activities | | – | – | – | – | – | 82,658 | 4,469 | 87,127 |
| Dividend paid in respect of the year ended 30 September 2008 | 9 | – | – | – | – | – | – | (4,013) | (4,013) |
| At 30 September 2009 | | 16,719 | 81 | 25,199 | 110,529 | 8,704 | 141,163 | 5,040 | 307,435 |
| Balance at 30 September 2009 | | 16,719 | 81 | 25,199 | 110,529 | 8,704 | 141,163 | 5,040 | 307,435 |
| Net return from operating activities | | – | – | – | – | – | 79,938 | 4,394 | 84,332 |
| Dividend paid in respect of the year ended 30 September 2009 | 9 | – | – | – | – | – | – | (4,431) | (4,431) |
| Bonus issue of subscription shares | | 334 | – | (334) | – | – | – | – | – |
| Subscription shares issue costs | | – | – | (270) | – | – | – | – | (270) |
| Issue of ordinary shares on exercise of subscription shares | | 50 | – | 997 | – | – | – | – | 1,047 |
| **At 30 September 2010** | | **17,103** | **81** | **25,592** | **110,529** | **8,704** | **221,101** | **5,003** | **388,113** |

* The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

The notes on pages 29 to 42 form an integral part of these accounts.

# Balance Sheet

| | Note | At 30 September 2010 £'000 | At 30 September 2009 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments held at fair value through profit or loss | 11 | **376,350** | 308,698 |
| **Current assets** | | | |
| Debtors | 13 | **1,377** | 1,790 |
| Cash at bank and short-term deposits | 19 | **20,648** | 8,563 |
| | | **22,025** | 10,353 |
| **Current liabilities** | | | |
| Creditors – amounts falling due within one year | 14 | **(10,262)** | (11,616) |
| **Net current assets/(liabilities)** | | **11,763** | (1,263) |
| **Net Assets** | | **388,113** | 307,435 |
| **Capital and reserves** | | | |
| Called-up share capital | 15 | **17,103** | 16,719 |
| Capital redemption reserve | 16 | **81** | 81 |
| Share premium | 16 | **25,592** | 25,199 |
| Share purchase reserve | 16 | **110,529** | 110,529 |
| Warrant exercise reserve | 16 | **8,704** | 8,704 |
| Capital reserve | 16 | **221,101** | 141,163 |
| Revenue reserve | 16 | **5,003** | 5,040 |
| **Equity shareholders' funds** | | **388,113** | 307,435 |
| **Net asset value per ordinary share (undiluted)** | 17 | **231.38p** | 183.88p |
| **Net asset value per ordinary share (diluted)** | 17 | **224.76p** | 183.88p |

These accounts were approved and authorised for issue by the Board of Directors on 16 December 2010 and signed on behalf of the Board by:

**Rupert Carington**
Chairman

The notes on pages 29 to 42 form an integral part of these accounts.

Registered in England and Wales.
Company Number: 3104981

# Cash Flow Statement

| | Note | For the year ended 30 September 2010 £'000 | For the year ended 30 September 2009 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Dividends and interest received from investments | | **8,828** | 8,891 |
| Interest received on deposits | | **35** | 201 |
| Stock lending fee income | | **57** | 90 |
| Investment management fee paid | | **(3,153)** | (2,150) |
| Administrative expenses paid | | **(901)** | (648) |
| **Net cash inflow from operating activities** | **18** | **4,866** | 6,384 |
| **Servicing of finance** | | | |
| Interest paid | | **(150)** | (644) |
| **Net cash outflow from servicing of finance** | | **(150)** | (644) |
| **Taxation** | | | |
| UK tax paid | | **–** | (1,321) |
| Overseas tax paid | | **(1,045)** | (517) |
| **Total tax paid** | | **(1,045)** | (1,838) |
| **Investment activities** | | | |
| Purchase of investments | | **(331,689)** | (299,301) |
| Disposal of investments | | **343,523** | 313,811 |
| **Net cash inflow from investment activities** | | **11,834** | 14,510 |
| **Equity dividends paid** | | | |
| Ordinary shares | | **(4,431)** | (4,013) |
| **Net cash inflow before financing** | | **11,074** | 14,399 |
| **Financing** | | | |
| Issue of ordinary shares on conversion of subscription shares | | **1,047** | – |
| Subscription shares issue costs | | **(270)** | – |
| Bank loan repaid | | **–** | (39,201) |
| **Net cash inflow/(outflow) from financing** | | **777** | (39,201) |
| **Net cash inflow/(outflow)** | | **11,851** | (24,802) |

## Reconciliation of Net Cash Flow to Movement in Net Funds

| | Note | For the year ended 30 September 2010 £'000 | For the year ended 30 September 2009 £'000 |
|---|---|---|---|
| Net cash inflow/(outflow) | | **11,851** | (24,802) |
| Movement in borrowings | | **–** | 39,201 |
| Movement in net funds resulting from cash flows | | **11,851** | 14,399 |
| Net funds/(debt) at 1 October | | **2,310** | (8,960) |
| Realised exchange gains/(losses) on loan and other currency balances | | **234** | (2,865) |
| Unrealised exchange losses on the loan facility | | **(93)** | (264) |
| **Net funds at 30 September** | **19** | **14,302** | 2,310 |

The notes on pages 29 to 42 form an integral part of these accounts.

# Notes to the Accounts

## 1 Accounting Policies

The principal accounting policies have been applied consistently throughout the year ended 30 September 2010, are unchanged from 2009 and are set out below. There has been an amendment to FRS29 in respect of fair value disclosures and the details are disclosed in note 21(6) on page 42.

### a Basis of Preparation

The accounts have been prepared on a going concern basis under the historical cost convention, modified to include the revaluation of investments and in accordance with the Companies Act 2006, applicable UK Accounting Standards and with the Statement of Recommended Practice ('SORP') for "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in January 2009 by the Association of Investment Companies (AIC).

### b Presentation of Income Statement

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend.

### c Income

Dividends receivable from equity shares are taken to the revenue return on an ex-dividend basis, except where in the opinion of the Directors, the dividend is capital in nature in which case it is taken to the capital return. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised as revenue. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in the capital reserve.

Interest receivable from bank deposits, stock lending income (net of agents' fees and commissions) and other income is recognised on an accruals basis.

### d Expenses and interest payable

All expenses, including the investment management fee and interest payable are accounted for on an accruals basis.

Expenses are charged through the revenue return except those expenses incidental to the acquisition or disposal of investments which are charged to the capital return. This allocation is in accordance with the Board's expected long-term split of returns in the form of capital and revenue profits respectively.

### e Investments

All investments, including derivative instruments, are classified as held at fair value through profit or loss.

They are initially recognised on the trade date and measured, then and subsequently, at fair value.

Fair value, of listed investments and derivative instruments is based on their quoted bid value at the close of business on the relevant date. Changes in fair value are included in the Income Statement as a capital item and are not distributable by way of a dividend.

### f Foreign exchange

The Company is a UK listed company within a predominately UK shareholder base. The results and financial position of the Company are expressed in sterling, which is the functional and presentational currency of the Company.

Transactions denominated in foreign currencies are calculated in sterling at the rate of exchange ruling as at the date of such transactions. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at balance sheet date, and the resulting gains or losses are taken to the capital return.

### g Taxation

Deferred tax is provided in full, using the liability method, on all taxable and deductible timing differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured, without discounting, at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be utilised.

Due to the Company's status as an investment trust company, and the intention to continue to meet the conditions required by Section 1158 of the UK Corporation Taxes Act 2010 to obtain approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation of investments, or current tax on any capital gains on the disposal of investments.

### h Dividends payable

Under FRS21 final dividends should not be accrued in the financial statements unless they have been approved by shareholders before the Balance Sheet date.

Dividends payable to equity shareholders are recognised in the Reconciliation of Movements in Shareholders' Funds when they have been approved by shareholders in the case of a final dividend and become a liability of the Company.

### i Called up share capital

Represents the nominal value of authorised and allocated, called-up and fully paid shares.

### j Capital Redemption Reseve

Represents the capital transfer of the nominal value of shares cancelled following the redemption or purchase of own shares.

# Notes to the Accounts

### k Share Premium
Represents the amount by which the fair value of the consideration received exceeds the nominal value of shares issued.

### l Share Purchase Reserve
The cost of repurchasing ordinary shares including related stamp duty and transaction costs are taken directly to share purchase reserve and dealt with in the Reconciliation of Movements in Shareholders' Funds. Share repurchase transactions are accounted for on a trade date basis. The nominal value of ordinary share capital repurchased and cancelled is transferred out of called-up share capital and into the capital redemption reserve.

### m Warrant exercise reserve
The premium arising on issue of shares where there are warrants attached was apportioned between shares and warrants as part of shareholders' funds on the basis of the market values of the shares and warrants as on the first day of dealing. The warrant element was referred to as the warrant reserve.

On exercise of these warrants, the premium relating to the warrants exercised is transferred from warrant reserve to a warrant exercise reserve, a non-distributable reserve.

### n Capital reserve
The following are accounted for in the capital reserve:
– gains and losses on the realisation of investments
– investment holding gains and losses
– realised exchange differences of a capital nature
– unrealised exchange differences of a capital nature
– other capital charges and credits charged to this account in accordance with the above policies

### o Financial instruments
Cash at bank and in hand comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Other debtors and creditors including purchases and sales awaiting settlement do not carry any interest, are short-term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

### p Derivative financial instruments
The Company's activities expose it primarily to the financial risks of changes in market prices and foreign exchange rates. The Company may enter into certain derivative transactions for the purpose of providing against falls in the capital value of holdings. The Company does not use derivative contracts for speculative purposes. The use of financial derivatives is subject to the Company's investment policy as approved by shareholders and their implementation is closely monitored by the Manager and the Board. The use of financial derivatives by the Company does not qualify for hedge accounting.

## 2 Gains on investments held at fair value

| | **For the year ended 30 September 2010 £'000** | For the year ended 30 September 2009 £'000 |
|---|---|---|
| Net gain/(loss) on disposal of investments at historic cost | **51,133** | (7,590) |
| Less fair value adjustments in earlier years | **(20,184)** | 35,853 |
| Gains based on carrying value at previous balance sheet date | **30,949** | 28,263 |
| Investment holding gains during the year | **48,848** | 57,524 |
| | **79,797** | 85,787 |

## 3 Other currency gains/(losses)

| | **For the year ended 30 September 2010 £'000** | For the year ended 30 September 2009 £'000 |
|---|---|---|
| Realised exchange gains on currency balances | **234** | 3,053 |
| Realised exchange losses on the loan facility | **–** | (5,918) |
| Unrealised exchange losses on the loan facility | **(93)** | (264) |
| | **141** | (3,129) |

# Notes to the Accounts

## 4 Income

| | For the year ended 30 September 2010 £'000 | For the year ended 30 September 2009 £'000 |
|---|---|---|
| Income from investments: | | |
| Overseas dividends | **9,205** | 8,420 |
| UK franked dividend income | **173** | 95 |
| Interest from overseas bonds | **–** | (126) |
| Stock dividends | **252** | 270 |
| Bank deposit interest | **43** | 149 |
| Stock lending fee income (note 12) | **57** | 89 |
| Other income | **–** | 1 |
| | **9,730** | 8,898 |

## 5 Investment management fee

| | For the year ended 30 September 2010 £'000 | For the year ended 30 September 2009 £'000 |
|---|---|---|
| Management fee | **3,310** | 2,321 |

Under the terms of the Management Agreement, the Manager is entitled to receive a basic management fee of 1.00% per annum on assets up to and including £100 million, of 0.95% on assets between £100 and £300 million, 0.90% on assets between £300 and £400 million and 0.85% on assets above £400 million, payable quarterly in arrears.

## 6 Administrative expenses

| | For the year ended 30 September 2010 £'000 | For the year ended 30 September 2009 £'000 |
|---|---|---|
| General expenses | **621** | 453 |
| Directors' fees | **120** | 102 |
| Secretarial fee | **81** | 77 |
| Auditors' remuneration: | | |
| – Fees payable to the Company's auditor for the audit of the Company's annual accounts | **18** | 17 |
| | **840** | 649 |

## 7 Interest payable and similar charges

| | For the year ended 30 September 2010 £'000 | For the year ended 30 September 2009 £'000 |
|---|---|---|
| Bank loan interest payable | **133** | 426 |
| Bank overdraft interest payable | **2** | 5 |
| HMRC interest paid | **4** | – |
| | **139** | 431 |

# Notes to the Accounts

## 8 Taxation

### (a) Analysis of charge in the year

| | For the year ended 30 September 2010 £'000 | For the year ended 30 September 2009 £'000 |
|---|---|---|
| Corporation tax | – | 665 |
| Relief for overseas taxation | – | (445) |
| | – | 220 |
| Overseas taxation | 1,063 | 948 |
| Total current taxation (note 8(b)) | 1,063 | 1,168 |
| Movement in deferred tax provision (note 8(c)) | (16) | (140) |
| Tax charge on ordinary activities | 1,047 | 1,028 |

### (b) Factors affecting tax charge for the year

No provision has been made for taxation on any realised gains on investments as the Company has conducted itself so as to achieve investment trust status under Section 1158 of the UK Corporation Taxes Act 2010.

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 28%; (2009: 28%).

Overseas dividends are not subject to tax from 1 July 2009, as a result of changes enacted within the Finance Act 2009.

Approved investment trust companies are exempt from tax on capital gains within the Company.

The differences are explained below:

| | For the year ended 30 September 2010 | | | For the year ended 30 September 2009 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Return on ordinary activities before tax | 5,441 | 79,938 | 85,379 | 5,497 | 82,658 | 88,155 |
| Return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%) | 1,523 | 22,383 | 23,906 | 1,539 | 23,144 | 24,683 |
| Effects of: | | | | | | |
| Capital returns on investments | – | (22,343) | (22,343) | – | (24,020) | (24,020) |
| Exchange gains | – | (40) | (40) | – | 876 | 876 |
| Irrecoverable overseas tax | 1,063 | – | 1,063 | 503 | – | 503 |
| Tax relief on overseas tax suffered | (9) | – | (9) | – | – | – |
| Income not subject to corporation tax | (2,381) | – | (2,381) | (1,047) | – | (1,047) |
| Income taxed on a receipts basis | 16 | – | 16 | 176 | – | 176 |
| Expenses not deductible for tax purposes | 2 | – | 2 | (3) | – | (3) |
| Current year expenses not utilised | 849 | – | 849 | – | – | – |
| Total current taxation | 1,063 | – | 1,063 | 1,168 | – | 1,168 |

### (c) Provision for deferred tax

| | For the year ended 30 September 2010 £'000 | For the year ended 30 September 2009 £'000 |
|---|---|---|
| Income taxable in different periods | (16) | (176) |
| Relief for overseas taxation | – | 36 |
| | (16) | (140) |
| Provision at start of the year | 16 | 156 |
| Movement in deferred tax provision for the year | (16) | (140) |
| Provision at the end of the year | – | 16 |

The Company has not recognised a deferred tax asset in respect of unutilised management expenses of £759,000 (2009: £1,006,000) and non-trading deficits of £90,000 (2009: £nil). It is unlikely that these amounts will be utilised in future accounting periods unless the investment policy of the Company or the tax treatment is changed.

# Notes to the Accounts

## 9 Dividends

| | For the year ended 30 September 2010 £'000 | For the year ended 30 September 2009 £'000 |
|---|---|---|
| Amounts recognised as distributions in the period | | |
| Final Dividend of prior year of 2.65p (2008: 2.40p) | **4,431** | 4,013 |

The dividend of 2.65p (2009: 2.40p) is based on 167,189,762 (2008: 167,189,762) ordinary shares in issue.

The total dividend payable in respect of the financial year which is the basis of the requirements of Section 1158 of the UK Corporation Taxes Act 2010 are considered, is set out below:

| | For the year ended 30 September 2010 £'000 | For the year ended 30 September 2009 £'000 |
|---|---|---|
| Final Dividend 2.65p (2009 : 2.65p) | **4,542** | 4,431 |

The proposed dividend for the year is based on 171,411,341 (2009 : 167,189,762) ordinary shares in issue.

## 10 Return per ordinary share

| | For the year ended 30 September 2010 | For the year ended 30 September 2009 |
|---|---|---|
| Revenue (£'000) | **4,394** | 4,469 |
| Capital (£'000) | **79,938** | 82,658 |
| Total (£'000) | **84,332** | 87,127 |
| Weighted average number of shares | **167,398,156** | 167,189,762 |
| Revenue | **2.62p** | 2.67p |
| Capital | **47.75p** | 49.44p |
| Total | **50.37p** | 52.11p |

The Company has subscription shares in issue which are convertible into ordinary shares, at the end of each calendar quarter until 31 December 2012. The subscription shares were issued on 13 October 2009. As at 30 September 2010, there was no dilution of the earnings per ordinary share in respect of the conversion rights attaching to the subscription shares (see note 16).

## 11 Investments held at fair value through profit or loss

| | At 30 September 2010 £'000 | At 30 September 2009 £'000 |
|---|---|---|
| Movements of investments held as fixed assets: | | |
| Book cost brought forward | **257,872** | 278,272 |
| Acquisitions at cost | **330,422** | 302,300 |
| Proceeds of disposals | **(342,567)** | (315,110) |
| Net gains/(losses) on disposals | **51,133** | (7,590) |
| Book cost at 30 September | **296,860** | 257,872 |
| Unrealised investment holding gains | **79,490** | 50,826 |
| Valuation of investments at 30 September | **376,350** | 308,698 |

All investments are listed on a recognised stock exchange, with the exception of the derivative instruments held.

# Notes to the Accounts

The following transaction costs, including stamp duty and broker commissions were incurred during the year:

| | **For the year ended 30 September 2010** | For the year ended 30 September 2009 |
|---|---|---|
| On acquisitions | **758** | 636 |
| On disposals | **1,004** | 987 |
| | **1,762** | 1,623 |

## 12 Stock lending

| | **At 30 September 2010 £'000** | At 30 September 2009 £'000 |
|---|---|---|
| Aggregate value of securities on loan at year end | **11,929** | 589 |
| Maximum aggregate value of securities on loan during the year | **23,250** | 20,696 |
| Fee income from stock lending during the year (note 3) | **57** | 89 |

The Company carries out stock lending activities, and is entitled to income earned from these activities net of bank and agent fees amounting to £14,000 (2009: £21,000) which was deducted by JPMorgan Chase Bank.

At 30 September 2010 the Company held £12,750,000 (2009: £6,216,000) as collateral (AAA rated bonds), the value of which exceeded the value of the securities on loan by 6% (2009: 12%).

## 13 Debtors

| | **At 30 September 2010 £'000** | At 30 September 2009 £'000 |
|---|---|---|
| Amounts receivable within one year: | | |
| Sales for future settlement | **408** | 1,364 |
| Accrued income | **843** | 374 |
| Other debtors | **32** | 22 |
| Overseas tax recoverable | **59** | – |
| Corporation tax recoverable | **35** | 30 |
| | **1,377** | 1,790 |

## 14 Creditors

| | **At 30 September 2010 £'000** | At 30 September 2009 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Bank loan | **6,346** | 6,253 |
| Purchases for future settlement | **2,821** | 4,340 |
| Accrued expenses & other creditors | **1,095** | 1,007 |
| Deferred tax | **–** | 16 |
| | **10,262** | 11,616 |

The Company has a credit facility of US$50 million (2009: US$50 million) with ING Bank N.V.

As at 30 September 2010 US$10 million (2009: US$10 million) was drawn down. This facility has a revolving 364 day term, is chargeable at a floating rate linked to LIBOR plus a margin, and is secured on the assets of the Company.

# Notes to the Accounts

## 15 Called-up share capital

| | At 30 September 2010 £'000 | At 30 September 2009 £'000 |
|---|---|---|
| Authorised: | | |
| 246,656,204 (2009: 250,000,000) ordinary shares of 10p each | **24,666** | 25,000 |
| 33,437,960 (2009: nil) subscription shares of 1p each | **334** | – |
| Allotted, Called-up and Fully paid: | | |
| Ordinary shares of 10p each | | |
| Opening balance of 167,189,762 | **16,719** | 16,719 |
| Issue of 547,475 ordinary shares on exercise of subscription shares (2009: nil) | **55** | – |
| Closing balance of 167,737,237 (2009: 167,189,762) ordinary shares of 10p | **16,774** | 16,719 |
| Subscription shares of 1p each: | | |
| Bonus issue of 33,437,655 subscription shares | **334** | – |
| Exercise of 547,475 subscription shares into ordinary | **(5)** | – |
| Closing balance of 32,890,180 (2009: nil) | **329** | – |
| Total share capital | **17,103** | 16,719 |

The subscription shares were issued as a bonus issue to the ordinary shareholders on 13 October 2009 on the basis of one subscription share for every five ordinary shares. Each subscription share confers the right (but not the obligation) to subscribe for one ordinary share on each 31 December, 31 March, 30 June and 30 September until 31 December 2012 when the rights under the subscription shares will lapse.

The conversion prices have been determined as follows:

(a) If exercised between and including 31 December 2009 and 30 September 2010, 191 pence.

(b) If exercised between and including 31 December 2010 and 30 September 2011, 208 pence.

(c) If exercised between and including 31 December 2011 and 31 December 2012, 245 pence.

Subsequent to the year end, on 8 October 2010, a further 3,674,104 ordinary shares were issued following the exercise of conversion rights of subscription shareholders. Following this there are 171,411,341 ordinary shares and 29,216,076 subscription shares in issue.

## 16 Reserves

| | Capital redemption reserve £'000 | Share Premium £'000 | Share purchase reserve £'000 | Warrant exercise reserve £'000 | Capital reserve gains and (losses) £'000 | Capital reserve holding gains and (losses) £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|---|---|
| Balance brought forward 1 October 2009 | 81 | 25,199 | 110,529 | 8,704 | 91,043 | 50,120 | 5,040 |
| Gains on disposal of investments | – | – | – | – | 30,949 | – | – |
| Net change in investment holding gains | – | – | – | – | – | 48,848 | – |
| Transfer on disposal of investments | – | – | – | – | 20,184 | (20,184) | – |
| Realised exchange gains on currency balances | – | – | – | – | 234 | – | – |
| Unrealised exchange losses on loan facility | – | – | – | – | – | (93) | |
| Dividends paid | – | – | – | – | – | – | (4,431) |
| Net revenue return for the year | – | – | – | – | – | – | 4,394 |
| Bonus issue of subscription shares | – | (334) | – | – | – | – | – |
| Subscription shares issue costs | – | (270) | – | – | – | – | – |
| Issue of ordinary shares on exercise of subscription shares | – | 997 | – | – | – | – | – |
| **Balanced carried forward 30 September 2010** | **81** | **25,592** | **110,529** | **8,704** | **142,410** | **78,691** | **5,003** |

# Notes to the Accounts

## 17 Net asset value per ordinary share

| | At 30 September 2010 £'000 | At 30 September 2009 £'000 |
|---|---|---|
| Undiluted: | | |
| Net assets attributable to ordinary shareholders (£'000) | **388,113** | 307,435 |
| Ordinary Shares in issue at end of period | **167,737,237** | 167,189,762 |
| Net asset value per ordinary share (undiluted) | **231.38p** | 183.88p |
| Diluted: | | |
| Net assets attributable to ordinary shareholders (£'000) | **450,933** | 307,435 |
| Ordinary Shares in issue at end of period if subscription shares converted | **200,627,417** | 167,189,762 |
| Net asset value per ordinary share (diluted) | **224.76p** | 183.88p |

The diluted net asset value per ordinary share has been calculated on the assumption that the 32,890,180 subscription shares in issue at 30 September 2010 are fully converted at 191 pence per share resulting in a total number of ordinary shares issue of 200,627,417.

## 18 Reconciliation of return before finance costs and taxation to net cash inflow from operating activities

| | For the year ended 30 September 2010 | For the year ended 30 September 2009 |
|---|---|---|
| Net return before finance costs and taxation | **85,518** | 88,586 |
| Stock dividends | **(252)** | (270) |
| Gains on investments held at fair value | **(79,797)** | (85,787) |
| Other currency (gains)/losses | **(141)** | 3,129 |
| (Increase)/decrease in accrued income (gross) | **(557)** | 553 |
| Increase in prepayments and other debtors | **(10)** | (2) |
| Increase in accrued expenses (excl. interest) | **105** | 175 |
| Net cash inflow from operating activities | **4,866** | 6,384 |

## 19 Analysis of changes in funds

| | At 30 September 2009 £'000 | Cash flow £'000 | Movement in borrowings £'000 | Exchange gain/(loss) £'000 | At 30 September 2010 £'000 |
|---|---|---|---|---|---|
| Cash at bank & short-term deposits | 8,563 | 11,851 | – | 234 | **20,648** |
| Net cash at 30 September | 8,563 | 11,851 | – | 234 | **20,648** |
| Bank loan | (6,253) | – | – | (93) | **(6,346)** |
| Net funds at 30 September | 2,310 | 11,851 | – | 141 | **14,302** |

## 20 Related party transactions

The Company has appointed Schroder Investment Management Limited (SIM), a wholly owned subsidiary of Schroders plc, to provide investment management, accounting, secretarial and administration services.

Details of the management and secretarial fee arrangements for these services are given in the Report of the Directors on page 15.

The total management fee payable under this agreement to SIM in respect of the year ended 30 September 2010 was £3,310,000 (2009: £2,321,000), of which £889,000 (2009: £733,000) was outstanding at the year end. The total secretarial fee (excluding VAT) payable to SIM in respect of the year ended 30 September 2010 was £81,000 (2009: £77,000), of which £22,000 (2009: £19,000) was outstanding at the year end.

Current account facilities were provided during the year by Schroder & Co Limited (a wholly owned subsidiary of Schroders plc) on an arm's length basis. At 30 September 2010, the balance held at Schroder & Co was £496,000 (2009: £496,000) and the interest receivable at the year end was £nil (2009: £7,000).

In addition to the above services, SIM also provided investment trust dealing services during the year. The total cost to the Company of these services, payable to Equiniti Limited, for the year ended 30 September 2010 was £5,000 (2009: £nil), of which £nil (2009: £nil) was outstanding at the year end.

# Notes to the Accounts

## 21 Financial Instruments

### Risk management policies and procedures

The Company's investment objective is to achieve capital growth through investment primarily in equities of companies located in the continent of Asia (excluding the Middle East and Japan), together with the Far Eastern countries bordering the Pacific Ocean (excluding Australasia), with the aim of achieving growth in excess of the MSCI all Countries Far East excluding Japan Index in Sterling over the longer term.

In addition, the Company holds cash and short-term deposits and various items such as debtors and creditors that arise directly from its operations. The financial instruments held by the Company are generally liquid. The Company's assets and liabilities are all stated at fair value.

The holding of securities, investing activities and associated financing undertaken pursuant to this objective involves certain inherent risks. Events may occur that would result in either a reduction in the Company's net assets or a reduction of revenue profits available for dividend.

As an investment trust, the Company invests in securities for the long term. Accordingly it is, and has been throughout the year under review, the Company's policy that no short-term trading in investments or other financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are market risk, liquidity risk and credit risk. The Board reviews and agrees a policy for managing this risk, as summarised below. These policies have remained unchanged throughout the current and preceding year.

### 1. Market Risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – price risk, currency risk and interest rate risk.

The Company's investment manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

### a. Price Risk

The Company is an investment company and its performance is dependent on the valuation of its investments. Consequently price risk is the most significant risk that the Company is exposed to. A detailed breakdown of the investment portfolio is given on pages 9 and 10. Investments are valued in accordance with the Company's accounting policies as stated in note 1. Uncertainty arises as a result of future changes in the market prices of the Company's investments and the effect changes in exchange rates may have on the sterling value of these investments.

#### Management of the risk

In order to manage this risk the Directors meet regularly with the Manager to compare the performance of the portfolio against market indices and comparable investment trusts. The Company does not generally hedge against the effect of changes in the underlying prices of the investments as it is believed that the costs associated with such a process would result in an unacceptable reduction in the prospects for capital growth.

At the the year end, the Company's portfolio included a derivative instrument: a Put option on the Hang Seng Index with a "strike level" of 20200 and expiry date of 30 March 2011. The Put was purchased to provide a level of protection should the Hong Kong stock market suffer a sustained fall. If the Put continues to be held and the level of the Hang Seng Index is below the strike level on the expiry date, the Company will benefit from cash payments based on the difference between the strike levels and the Index at expiry. However, the Put will expire worthless if the Index is above the contracted level on the expiry date. This is a tradeable security.

#### Price risk exposure

The Company's exposure to other changes in market prices at 30 September on its quoted investments was as follows:

| | **At 30 September 2010 £'000** | At 30 September 2009 £'000 |
|---|---|---|
| Fixed asset investments at fair value through profit or loss | **376,350** | 308,698 |

#### Concentration of exposure to price risk

The portfolio is invested in many different industry sectors within a variety of countries, which significantly spreads the risk of individual investments performing poorly and reduces the concentration of exposure. The classification of investments is provided on pages 8 and 9.

#### Price risk sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and the net assets to an increase or decrease of 20% (2009: 20%) in the fair values of the Company's investments. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's investments at each balance sheet date, with all other variables held constant.

| | **At 30 September 2010** | | At 30 September 2009 | |
|---|---|---|---|---|
| | **Increase in fair value £'000** | **Decrease in fair value £'000** | Increase in fair value £'000 | Decrease in fair value £'000 |
| Effect on revenue return | **(715)** | **715** | (587) | 587 |
| Effect on capital return | **75,270** | **(75,270)** | 61,740 | (61,740) |
| Effect on total return and on net assets | **74,555** | **(74,555)** | 61,153 | (61,153) |

# Notes to the Accounts

## b. Currency Risk

The Company is exposed to foreign currency risk through its investment in securities listed on overseas stock markets. Both the amount and the currency split of the financial instruments are expected to fluctuate as cash flow payments and receipts are made on a regular basis in currencies other than sterling.

### Management of the risk

The Investment Manager monitors the Company's exposure to foreign currencies on a daily basis, and reports to the board on a regular basis. It is the policy of the Company to consider entering into forward foreign exchange contracts, in addition to foreign currency loans, to hedge against foreign currency movements affecting the value of the investment portfolio. At 30 September 2010 and at 30 September 2009 the Company had no forward foreign exchange contracts in place.

### Foreign currency exposure

The fair values of the Company's monetary assets that have foreign currency exposure at 30 September 2010 are shown below.

Where the Company's investments (which are not monetary assets) are priced in foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

### a) Financial assets

| | At 30 September 2010 | | | At 30 September 2009 | | |
|---|---|---|---|---|---|---|
| | Fixed asset investments at fair value through profit or loss £'000 | Current assets £'000 | Total £'000 | Fixed asset investments at fair value through profit or loss £'000 | Current assets £'000 | Total £'000 |
| Australian Dollar | 8,904 | 3,062 | 11,966 | 3,549 | 111 | 3,660 |
| Canadian Dollar | 13,593 | 5 | 13,598 | 7,548 | 2 | 7,550 |
| Chinese Yuan | – | 106 | 106 | – | – | – |
| Euro | 856 | 410 | 1,266 | – | – | – |
| Hong Kong Dollar | 119,827 | 294 | 120,121 | 93,816 | 3,129 | 96,945 |
| Indonesian Rupiah | 16,873 | 161 | 17,034 | 7,303 | 2,328 | 9,631 |
| Indian Rupee | 5,589 | – | 5,589 | – | – | – |
| Philippine Peso | 15,526 | – | 15,526 | 7,030 | – | 7,030 |
| Singapore Dollar | 20,050 | 2,564 | 22,614 | 24,684 | 150 | 24,834 |
| South Korean Won | 50,260 | – | 50,260 | 62,640 | – | 62,640 |
| Taiwan Dollar | 47,685 | 263 | 47,948 | 40,407 | 1,348 | 41,755 |
| Thai Baht | – | – | – | 14,052 | – | 14,052 |
| United States Dollar | 77,186 | 6,125 | 83,311 | 47,669 | 146 | 47,815 |
| | 376,350 | 12,990 | 389,340 | 308,698 | 7,214 | 315,912 |

### b) Financial liabilities

The Company's financial liabilities comprise bank loans, overdraft balances and other payables. Details of the Company's credit facilities are disclosed in note 14.

The foreign currency exposure of these financial liabilities was as follows:

| | At 30 September 2010 | | | At 30 September 2009 | | |
|---|---|---|---|---|---|---|
| | Loan facility £'000 | Short-term payables £'000 | Total £'000 | Loan facility £'000 | Short-term payables £'000 | Total £'000 |
| Hong Kong Dollar | – | (1,671) | (1,671) | – | (4,340) | (4,340) |
| Indonesian Rupiah | – | (788) | (788) | – | – | – |
| United States Dollar | (6,346) | (22) | (6,368) | (6,253) | (51) | (6,304) |
| | (6,346) | (2,481) | (8,827) | (6,253) | (4,391) | (10,644) |

### Foreign currency sensitivity

From the currency exposure table above, the following analysis illustrates the sensitivity of the profit after taxation for the year and the equity in regard to the Company's monetary financial assets and financial liabilities.

It is not possible to forecast how much exchange rates might move in the next year, but based on the movements in the major currencies above in the last two years. It appears reasonably possible that rates could change as noted below.

# Notes to the Accounts

Assumed exchange rate movements:

Sterling/Hong Kong dollar +/- 10% (2009: 10%)

Sterling/South Korean won +/- 10% (2009: 10%)

Sterling/Taiwan dollar +/- 10% (2009: 10%)

Sterling/Singapore dollar +/- 10% (2009: 10%)

Sterling/Philippine peso +/- 10% (2009: 10%)

Sterling/United States dollar +/- 10% (2009: 10%)

Sterling/Indonesian Rupiah +/- 10% (2009: 10%)

If Sterling had weakened against the exposure currencies shown, with all other variables held constant, this would have had the following effect:

| | **At 30 September 2010** | | | At 30 September 2009 | | |
|---|---|---|---|---|---|---|
| | **Effect on revenue return £'000** | **Effect on capital return £'000** | **Total return and net assets £'000** | Effect on revenue return £'000 | Effect on capital return £'000 | Total return and net assets £'000 |
| Hong Kong Dollar | **16** | **11,829** | **11,845** | 9 | 9,252 | 9,261 |
| Indonesian Rupiah | **–** | **2,184** | **2,184** | – | 963 | 963 |
| South Korean Won | **–** | **5,026** | **5,026** | – | 6,264 | 6,264 |
| Taiwan Dollar | **28** | **4,767** | **4,795** | – | 4,176 | 4,176 |
| Singapore Dollar | **3** | **2,258** | **2,261** | 6 | 2,478 | 2,484 |
| Philippine Peso | **–** | **1,553** | **1,553** | – | 703 | 703 |
| United States Dollar | **14** | **7,681** | **7,695** | 15 | 4,137 | 4,152 |
| | **61** | **35,298** | **35,359** | 30 | 27,973 | 28,003 |

If Sterling had strengthened against the exposure currencies shown, with all other variables held constant, this would have had the following effect:

| | **At 30 September 2010** | | | At 30 September 2009 | | |
|---|---|---|---|---|---|---|
| | **Effect on revenue return £'000** | **Effect on capital return £'000** | **Total return and net assets £'000** | Effect on revenue return £'000 | Effect on capital return £'000 | Total return and net assets £'000 |
| Hong Kong Dollar | **(16)** | **(11,829)** | **(11,845)** | (9) | (9,252) | (9,261) |
| Indonesian Rupiah | **–** | **(2,184)** | **(2,184)** | – | (963) | (963) |
| South Korean Won | **–** | **(5,026)** | **(5,026)** | – | (6,264) | (6,264) |
| Taiwan Dollar | **(28)** | **(4,767)** | **(4,795)** | – | (4,176) | (4,176) |
| Singapore Dollar | **(3)** | **(2,258)** | **(2,261)** | (6) | (2,478) | (2,484) |
| Philippine Peso | **–** | **(1,553)** | **(1,553)** | – | (703) | (703) |
| United States Dollar | **(14)** | **(7,681)** | **(7,695)** | (15) | (4,137) | (4,152) |
| | **(61)** | **(35,298)** | **(35,359)** | (30) | (27,973) | (28,003) |

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the currency risk management process used to meet the Company's objectives.

### c. Interest Rate Risk

Although the majority of the Company's financial assets are equity investments, which pay dividends, not interest, interest is earned on any cash balances and paid on any overdrawn or loan balance.

Interest rate changes will also have an impact in the valuation of investments, although this forms part of price risk, which has already been considered separately above.

The Company has a credit facility of US$50 million (2009: US$50 million) with ING Bank N.V. As at 30 September 2010 US$10 million (2009: US$10 million) was drawn down. This facility has a revolving 364 day term, is chargeable at a floating rate linked to LIBOR, and is secured.

### Management of the risk

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 borrowing under the credit facility. The level of gearing is reviewed by the Board on a regular basis.

The Company, generally, does not hold significant cash balances, with short-term borrowings being used when required.

Derivative contracts are not used to hedge against the exposure to interest rate risk.

# Notes to the Accounts

## Interest rate exposure

The exposure, at 30 September, of financial assets and liabilities to interest rate risk is shown by reference to:

– floating interest rates (i.e. giving cash flow interest rate risk) – when the rate is due to be re-set;
– fixed interest rates (i.e. giving fair value interest rate risk) – when the financial instrument is due for repayment.

| | **At 30 September 2010** | | | At 30 September 2009 | | |
|---|---|---|---|---|---|---|
| | **Within one year £'000** | **More than one year £'000** | **Total £'000** | Within one year £'000 | More than one year £'000 | Total £'000 |
| Exposure to floating interest rates: | | | | | | |
| Cash at bank and short-term deposits | **20,648** | **–** | **20,648** | 8,563 | – | 8,563 |
| Creditors: amounts falling due within one year | | | | | | |
| – Bank loan | **(6,346)** | **–** | **(6,346)** | (6,253) | – | (6,253) |
| Total exposure to interest rates | **14,302** | **–** | **14,302** | 2,310 | – | 2,310 |

The exposures disclosed above are all within one year and at floating rates. There has been no exposure to long-term or fixed interest rates during the year.

The above year end amounts are generally representative of the exposure to interest rates during the year. Although the level of cash held may change, the level of loan drawn down has remained constant throughout the year. This is not necessarily indicative of the exposure to interest rates in the year ahead, since the level of borrowings and/or cash held during the year will be affected by the strategy being followed in response to the Board's and Manager's perception of market prospects and the investment opportunities available at any one time.

## Interest rate sensitivity

The following table illustrates the sensitivity of the revenue and capital return for the year and net assets to an increase or decrease of 0.50% (2009: 0.50%) in interest rates with regard to the Company's monetary financial assets and 0.50% (2009: 0.50%) with regard to the Company's monetary liabilities, which are subject to interest rate risk.

This level of change is considered to be reasonably possible based on observation of current market conditions.

The sensitivity analysis is based on the Company's monetary financial instruments held at each balance sheet date, with all other variables held constant.

| | **At 30 September 2010** | | At 30 September 2009 | |
|---|---|---|---|---|
| | **Increase in rate £'000** | **Decrease in rate £'000** | Increase in rate £'000 | Decrease in rate £'000 |
| Effect on revenue return | **72** | **(72)** | 12 | (12) |
| Effect on capital return | **–** | **–** | – | – |
| Effect on total return and on net assets | **72** | **(72)** | 12 | (12) |

In the opinion of the Directors, the above sensitivity analyses may not be representative of the year as a whole, since the level of exposure may change frequently throughout the year.

### 2. Liquidity Risk

Liquidity risk is the possibility of failure of the Company to realise sufficient assets to meet its financial liabilities.

## Management of the risk

The Company's assets mainly comprise readily realisable securities which may be sold to meet funding requirements as necessary.

## Liquidity risk exposure

A summary of the Company's financial liabilities is provided below in Section 5 to this note.

### 3. Credit Risk

Credit risk is the exposure to loss from the failure of a counterparty to deliver securities or cash for acquisitions or disposals of investments or to repay deposits.

## Management of the risk

This risk is not considered significant. The Company manages credit risk by entering into deals only with brokers pre-approved by a credit committee of SIM.

These arrangements were in place throughout the current year and the prior year.

# Notes to the Accounts

## Credit risk exposure

The exposure to credit risk at the year end comprised:

| | At 30 September 2010 £'000 | At 30 September 2009 £'000 |
|---|---|---|
| Balances due from brokers | **408** | 1,364 |
| Accrued income | **843** | 374 |
| Cash at bank | **20,648** | 8,563 |
| | **21,899** | 10,301 |

All of the above financial assets are current, their fair values are considered to be the same as the values shown and the likelihood of a material credit default is considered to be low.

### 4. Fair Values of Financial Assets and Financial Liabilities

The Company's financial instruments are stated at their fair values at the year end. The fair value of shares and securities is based on last traded market prices. Borrowings under the loan facility are short term in nature and hence do not have a value materially different from their capital repayment amount.

### 5. Summary of Financial Assets and Financial Liabilities by Category

The carrying amounts of the Company's financial assets and financial liabilities as recognised at the balance sheet date of the reporting periods under review are categorised as follows:

| **Financial Assets** | At 30 September 2010 £'000 | At 30 September 2009 £'000 |
|---|---|---|
| Financial assets at fair value through profit or loss: | | |
| Fixed asset investments – designated as such on initial recognition | **376,350** | 308,698 |
| Loans and receivables: | | |
| Current assets: | | |
| Debtors (due to brokers, dividends receivable and accrued income) | **1,377** | 1,790 |
| Cash at bank and short-term deposits | **20,648** | 8,563 |
| | **22,025** | 10,353 |

| **Financial Liabilities** | At 30 September 2010 £'000 | At 30 September 2009 £'000 |
|---|---|---|
| Creditors: amounts falling due within one year | | |
| Borrowings under the currency credit facility | **6,346** | 6,253 |
| Due to brokers | **2,821** | 4,340 |
| Accruals | **1,095** | 1,007 |
| Deferred taxation | **–** | 16 |
| | **10,262** | 11,616 |

# Notes to the Accounts

## 6. Fair Value Hierarchy

The Company adopted the amendments to FRS29 'Financial Instruments: Disclosures' effective for periods beginning on or after 1 January 2009. These amendments require an entity to classify fair value measurements using a fair value hierachy that reflects the significance of these inputs used in making the measurments. The fair value hierachy shall have the following levels:

Level 1 – valued using quoted prices in active markets for identical assets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierachy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset as follows:

Financial aasets at liabilities measured at fair value are grouped into the fair value hierachy at 30 September 2010 as follows:

| | Note | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | | |
| Quoted equities | a | 375,232 | – | – | 375,232 |
| Open derivative contract | b | – | 1,118 | – | 1,118 |
| Net fair value | | 375,232 | 1,118 | – | 376,350 |

### a. Quoted equities

The fair value of the Company's investments in quoted equities have been determined by reference to their quoted bid prices at the reporting date. Quoted equities included in Level 1 are actively traded on recognised stock exchanges.

### b. Open derivative contract

The fair value of the Company's investments in derivatives have been determined by reference to their quoted bid prices at the reporting date. The derivative is a tradable security.

## 7. Capital management policies and procedures

The Company's capital is represented by its net assets, which are managed to achieve the Company's investment objective, set out on the inside front cover.

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

(i) the planned level of gearing through the Company's loan facility;

(ii) the need to buy back or issue equity shares;

(iii) the determination of dividend payments; and

(iv) the loan covenant does not exceed 30% of adjusted net asset value.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

The Company is subject to externally imposed capital requirements through the Companies Act 2006, with respect to its status as a public company.

In addition, with respect to the obligation and ability to pay dividends, the Company must comply with the provisions of Section 1158 of the UK Corporation Taxes Act 2010 and the Companies Act 2006 respectively.

These provisions are unchanged since the previous year and the Company has complied with them.

# Notice of Meeting

Notice is hereby given that the Annual General Meeting of Schroder AsiaPacific Fund plc will be held at 11.30 a.m. on Monday 31 January 2011 at 31 Gresham Street, London EC2V 7QA, to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 10 will be proposed as Ordinary Resolutions and resolutions 11 and 12 will be proposed as Special Resolutions:

1. To receive the Report of the Directors and the audited Accounts for the year ended 30 September 2010.
2. To approve a final dividend of 2.65p per share for the financial year ended 30 September 2010.
3. To approve the Remuneration Report for the year ended 30 September 2010.
4. To elect Mr Nicholas Smith as a Director of the Company.
5. To re-elect The Hon. Rupert Carington as a Director of the Company.
6. To re-elect Mr Robert Binyon as a Director of the Company.
7. To re-elect Mr Anthony Fenn as a Director of the Company.
8. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company.
9. To authorise the Directors to determine the remuneration of PricewaterhouseCoopers LLP as Auditors of the Company.
10. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:
    "That in accordance with the Articles of Association, the Company should continue as an investment trust for a further five year period".
11. To consider and, if thought fit, to pass the following resolution as a special resolution:
    "That the Company be and is hereby generally and unconditionally authorised in accordance with section 693 of the Companies Act 2006 (the "Act"), to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 10p each in the capital of the Company ("Shares"), at whatever discount the prevailing market price represents to the prevailing net asset value per share provided that:

(a) the maximum number of shares hereby authorised to be purchased shall be 25,694,560, representing 14.99% of the issued share capital as at 16 December 2010;
(b) the minimum price which may be paid for a share is 10p;
(c) the maximum price which may be paid for a share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is purchased and (ii) the higher of the price of the last independent trade in the shares of that class and the highest then current independent bid for the shares of that class on the London Stock Exchange;
(d) purchases may only be made pursuant to this authority if the shares are (at the date of the proposed purchase) trading on the London Stock Exchange at a discount to net asset value;
(e) the authority hereby conferred shall expire on the date falling 18 months following the date of the passing of the resolution unless the authority is renewed at the Company's Annual General Meeting in 2012 or at any other general meeting prior to such time; and
(f) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract."

12. To consider and, if thought fit, to pass the following resolution as a special resolution:
    "That in addition to any existing authority granted to the Company at any General Meeting held before the passing of this resolution, the Company be generally and, subject as hereinafter appears, unconditionally authorised in accordance with section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of its issued subscription shares, provided that:

(a) the maximum number of subscription shares hereby authorised to be purchased shall be 4,379,489 representing 14.99% of the issued subscription share capital as at 16 December 2010;
(b) the minimum price which may be paid for a subscription share is 1p;
(c) the maximum price which may be paid for a subscription share will not exceed the higher of (i) 5% above the average of the middle market quotations (as derived from the Official List) for the five consecutive dealing days ending on the dealing day immediately preceding the date on which the purchase is made and (ii) the higher of the price quoted for (a) the last independent trade of, or (b) the highest current independent bid for, any number of subscription shares on the trading venue where the purchase is carried out;
(d) the authority hereby conferred shall expire on the date falling 18 months following the date of the passing of the resolution unless the authority is renewed at the Company's Annual General Meeting in 2012 or at any other general meeting prior to such time;
and
(e) the Company may make a contract to purchase subscription shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of subscription shares pursuant to any such contract notwithstanding such expiry."

By Order of the Board
Schroder Investment Management Limited
Company Secretary

Registered Office:
31 Gresham Street
London EC2V 7QA

Registered Number: 3104981
16 December 2010

# Explanatory Notes to the Notice of Meeting

1. Ordinary shareholders are entitled to attend and vote at the meeting and to appoint one or more proxies, who need not be a shareholder, as their proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the meeting.

   A proxy form is attached. If you wish to appoint a person other than the Chairman as your proxy, please insert the name of your chosen proxy holder in the space provided at the top of the form. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account). Additional proxy forms can be obtained by contacting the Company's Registrars, Equiniti Limited, on 0800 032 0641, or you may photocopy the attached proxy form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. Completion and return of a form of proxy will not preclude a member from attending the Annual General Meeting and voting in person.

   On a vote by show of hands, every ordinary shareholder who is present in person has one vote and every duly appointed proxy who is present has one vote. On a poll vote, every ordinary shareholder who is present in person or by way of a proxy has one vote for every share of which he/she is a holder.

   The "Vote Withheld" option on the proxy form is provided to enable you to abstain on any particular resolution. However it should be noted that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

   A proxy form must be signed and dated by the shareholder or his or her attorney duly authorised in writing. In the case of joint holdings, any one holder may sign this form. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder and for this purpose seniority will be determined by the order in which the names appear on the Register of Members in respect of the joint holding. To be valid, proxy form(s) must be completed and returned to the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6RE, in the enclosed envelope together with any power of attorney or other authority under which it is signed or a copy of such authority certified notarially, to arrive no later than 48 hours before the time fixed for the meeting, or an adjourned meeting. Shareholders may also appoint a proxy to vote on the resolutions being put to the meeting electronically at http://www.sharevote.co.uk. Shareholders who are not registered to vote electronically, will need to enter the Voting ID and Shareholder Reference ID set out in their personalised proxy form. Alternatively, shareholders who have already registered with Equiniti's Shareview service can appoint a proxy by logging onto their portfolio at www.shareview.co.uk and clicking on "Company Meetings". The on-screen instructions give details on how to complete the appointment process. Please note that to be valid, your proxy instructions must be received by Equiniti no later than 11.30 a.m. on Saturday, 29 January 2011. If you have any difficulties with online voting, you should contact the shareholder helpline on 0800 032 0641.

   If an ordinary shareholder submits more than one valid proxy appointment, the appointment received last before the latest time for receipt of proxies will take precedence.

   Shareholders may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents to communicate with the Company for any purposes other than expressly stated.

   Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of procedures on corporate representatives.

2. Any person to whom this notice is sent 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 or her and the shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

   The statement of the rights of ordinary shareholders in relation to the appointment of proxies in note 1 above does not apply to Nominated Persons. The rights described in that note can only be exercised by ordinary shareholders of the Company.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of members of the Company at 6.00 p.m. on 29 January 2011, or 11.30 a.m. two days prior to the date of an adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 11.30 a.m. on 29 January 2011 shall be disregarded in determining the right of any person to attend and vote at the meeting.

4. 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. The CREST manual can be viewed at www.euroclear.com/CREST. A CREST message appointing a proxy (a "CREST proxy instruction") regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction previously given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time for receipt of proxy appointments.

5. Copies of the terms of appointment of the non-executive Directors and a statement of all transactions of each Director and of his family interests in the shares of the Company, will be available for inspection by any member of the Company at the registered office of the Company during normal business hours on any weekday (English public holidays excepted) and at the Annual General Meeting by any attendee, for at least 15 minutes prior to, and during, the Annual General Meeting. None of the Directors has a contract of service with the Company.

6. The biographies of the Directors offering themselves for election or re-election are set out on the inside front cover of the Company's Annual Report and Accounts for the year ended 30 September 2010.

7. As at 16 December 2010, 171,411,341 ordinary shares of 10 pence each and 29,216,076 subscription shares of 1p each were in issue (no shares were held in treasury). The subscription shares carry no voting rights, therefore the total number of voting rights of the Company as at 16 December 2010 was 171,411,341.

8. A copy of this Notice of meeting, which includes details of shareholder voting rights, together with any other information as required under Section 311A of the Companies Act 2006, is available to download from the website, www.schroderasiapacificfund.com.

9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the Annual General Meeting any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

# Company Summary and Shareholder Information

## The Company

Schroder AsiaPacific Fund plc was established in 1995. It is an independent investment trust whose shares are listed on the London Stock Exchange. As at 16 December 2010, the Company had 171,411,341 ordinary shares of 10p each and 29,216,076 subscription shares of 1p each in issue (no shares were held in treasury). The Company's assets are managed and it is administered by Schroders. The Company has, since its launch, measured its performance against the MSCI All Countries Far East ex Japan Index in Sterling terms. The Company measures its performance on a total return basis.

It is not intended that the Company should have a limited life, but the Directors consider it desirable that the shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, the Articles of Association of the Company contain provisions requiring the Directors to put a proposal for the continuation of the Company to shareholders at the forthcoming Annual General Meeting of the Company and thereafter at five yearly intervals.

## Website and Price Information

The Company has a dedicated website, which may be found at www.schroderasiapacificfund.com. The website has been designed to be utilised as the Company's primary method of electronic communication with shareholders. It contains details of the Company's share price (subject to a delay of 15 minutes) and copies of Report and Accounts and other documents published by the Company as well as information on the Directors, Terms of Reference of Committees and other governance arrangements. In addition, the site contains links to announcements made by the Company to the market, Equiniti's shareview service and Schroders' website. There is also a section entitled "How to Invest" which provides details of the Schroder ISA.

The Company releases its Net Asset Value on both a cum and ex income basis to the market on a daily basis.

Share price information may also be found in the Financial Times and on Schroders' website at www.schroders.co.uk/its.

## Registrar Services

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to shareholdings, including a change of address or other amendment should be directed to Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. The helpline telephone number of Equiniti Registrars is 0800 032 0641. Calls to this number are free of charge from landlines.

Equiniti maintain a web-based enquiry service for shareholders. Currently the "Shareview" site (address below) contains information available on public registers.

Shareholders will be invited to enter their name, shareholder reference (account number) and post code and will be able to view information on their own holding. Visit www.shareview.co.uk for more details.

## Association of Investment Companies

The Company is a member of the Association of Investment Companies. Further information on this association can be found on its website, www.theaic.co.uk.

www.schroderasiapacificfund.com

Schroders