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## Edinburgh Dragon Trust plc

Annual report and accounts

Year ended 31 August 2010



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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your Ordinary shares in Edinburgh Dragon Trust plc, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

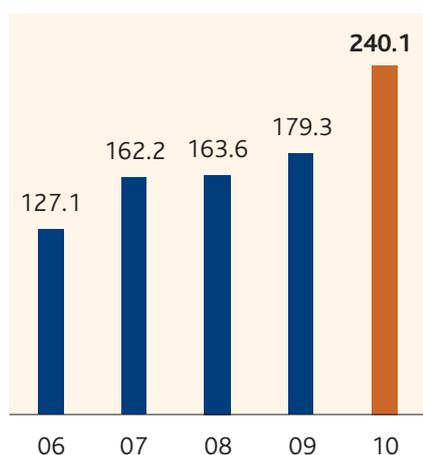
## Financial Highlights

	2010	2009
Share price total return <sup>A</sup>	<b>+32.0%</b>	+16.4%
Net asset value total return <sup>A</sup>	<b>+35.0%</b>	+11.1%
Benchmark total return <sup>A</sup> (in sterling terms)	<b>+24.2%</b>	+9.0%
Dividend per share	<b>1.90p</b>	1.61p

<sup>A</sup> Capital return plus dividends reinvested.

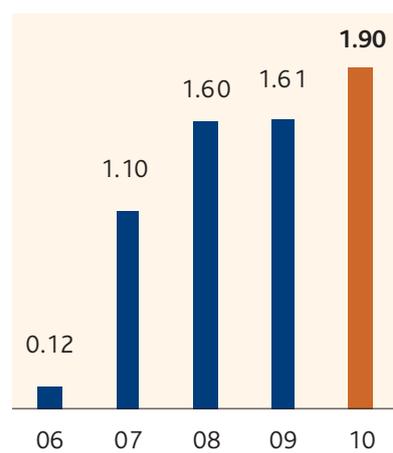
### Net asset value per share

At 31 August – pence



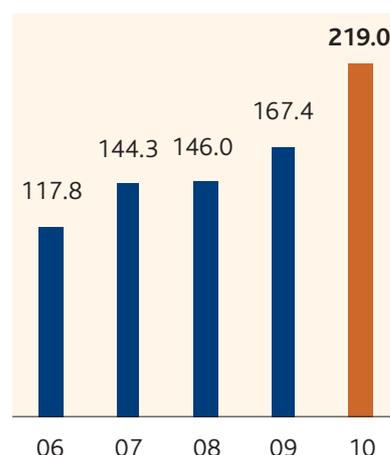
### Dividends per share

Year ended 31 August – pence



### Mid-market price per share

At 31 August – pence



## Financial Calendar

15 October 2010	Announcement of annual results for the year ended 31 August 2010
8 November 2010	Posting of annual report to shareholders
8 December 2010 (12 noon)	Annual General Meeting
10 December 2010	Payment of final dividend
April 2011	Announcement of half-yearly financial report for the six months ended 28 February 2011
May 2011	Posting of half-yearly report to shareholders

# Corporate Summary

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## The Company

The Company is an investment trust and its shares are listed on the London Stock Exchange. The Company is a member of the Association of Investment Companies.

## Investment Manager

Aberdeen Asset Managers Limited ("AAM Limited" or the "Manager"), a subsidiary of Aberdeen Asset Management PLC ("AAM").

## Capital Structure

At 31 August 2010 the Company had a capital structure comprising 196,311,219 fully paid Ordinary shares of 20p.

## Total Assets and Net Asset Value

The Company had total assets of £471.3 million and a net asset value of 240.1 pence per Ordinary share at 31 August 2010.

## Websites

[www.edinburghdragon.co.uk](http://www.edinburghdragon.co.uk)  
[www.aberdeen-asset.com](http://www.aberdeen-asset.com)

## Company Secretary

Aberdeen Asset Managers Limited  
40 Princes Street, Edinburgh EH2 2BY  
Email: [company.secretary@invtrusts.co.uk](mailto:company.secretary@invtrusts.co.uk)

## Customer Services

Freephone: 0500 00 00 40  
(open Monday – Friday, 9am – 5pm)

Email: [inv.trusts@aberdeen-asset.com](mailto:inv.trusts@aberdeen-asset.com)

## Principal Risk Factors

Investment in Far East securities or those of companies that derive significant revenue or profit from the Far East involves a greater degree of risk than that usually associated with investment in the securities in major securities markets. Further details of the risks are disclosed in the Business Review contained within the Directors' Report on pages 21 and 22.

## Duration

Shareholders are given the opportunity to vote on the continuation of the Company at every third Annual General Meeting. The next continuation vote will be held at the Annual General Meeting in December 2012.

## Share Dealing/ISA Status

Shares in Edinburgh Dragon Trust plc can be bought in the open market through a stockbroker. They can also be purchased through the Aberdeen savings scheme and are fully qualifying for inclusion within tax efficient ISA wrappers (see page 49.)

## Management Agreement

The Company has an agreement with AAM Limited for the provision of management and secretarial services (the "Management Agreement"), details of which are provided in the Directors' Report.

The Directors review the terms of the Management Agreement on a regular basis and have confirmed that, due to the investment skills, experience of the Manager and its long-term relative performance, in their opinion the continuing appointment of Aberdeen Asset Managers Limited, on the terms agreed, is in the interests of shareholders as a whole.

# Investment Objective and Policy

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## Investment Objective

The investment objective of the Company is to achieve long-term capital growth through investment in the Far East. Investments are made in stock markets in the region, with the exception of Japan and Australasia, principally in large companies. When appropriate, the Company will utilise gearing to maximise long term returns.

## Benchmark

The Company's benchmark index is the MSCI All Country Asia (ex Japan) Index.

## Investment Policy

The Company's assets are invested in a diversified portfolio of securities in quoted companies spread across a range of industries and economies in the Asia Pacific region, excluding Japan. The shares that make up the portfolio are selected from companies that have quality management and whose shares are considered to be under-priced. The Company invests in a diversified range of sectors and countries. Investments are not limited as to market capitalisation, sector or country weightings within the region.

The Company's policy is to invest no more than 15% of gross assets in other listed investment companies (including listed investment trusts).

The Company complies with Sections 1158 -1159 of the Corporation Tax Act 2010 and does not invest more than 15% of its assets in the shares of any one company.

When appropriate the Company will utilise gearing to maximise long-term returns, which is subject to a maximum gearing level of 20% imposed by the Board.

The Company does not currently utilise derivatives but keeps this under review.

## Achieving the Investment Policy

The Directors are responsible for determining the investment policy and the investment objective of the Company. Day-to-day management of the Company's assets has been delegated to the Manager who invests in a diversified range of companies throughout the Asia Pacific investment region in accordance with the investment policy. The Manager follows a bottom-up investment process based on a disciplined evaluation of companies through direct visits by its fund managers. Stock selection is the major source of added value. No stock is bought without the Manager having first met management. The Manager estimates a company's worth in two stages, quality then price. Quality is defined by reference to management, business focus, the balance sheet and corporate governance. Price is calculated by reference to key financial ratios, the market, the peer group and business

prospects. Good stock-picking is key in constructing a diversified portfolio of companies with top-down investment approach and benchmark weightings being secondary factors. The Manager is authorised to invest up to 15% of the Company's gross assets in any single stock, calculated at the time an investment is made.

A detailed description of the investment process and risk controls employed by the Manager is disclosed on page 11. A comprehensive analysis of the Company's portfolio by country and by sector is disclosed on pages 13 to 17, including a description of the ten largest investments, the full investment portfolio by value, sector/geographical analysis and currency/market performance. At 31 August 2010, the Company's portfolio consisted of 44 holdings.

The Board is responsible for determining the gearing policy for the Company and has set a maximum gearing limit of 20%. Gearing is used selectively to leverage the Company's portfolio in order to enhance returns where and to the extent this is considered appropriate to do so. At 31 August 2010, the Company's gearing was nil.

As at 31 August 2010, the Company had no holdings in other listed investment companies (including listed investment trusts).

# Results

## Financial Highlights

	31 August 2010	31 August 2009	% change
<b>Performance</b>			
Equity shareholders' funds (£'000)	471,324	414,074	+13.8 <sup>A</sup>
MSCI AC Asia (ex Japan) Index (in sterling terms; capital return basis)	583.85	481.71	+21.2
Net asset value per share (including net revenue) (p)	240.09	179.29	+33.9
Share price (p)	219.00	167.40	+30.8
Revenue return per share (p)	2.62	2.31	
Total return per share (p)	62.11	17.31	
<b>Gearing</b>			
Maximum potential gearing (%)	8.5 <sup>B</sup>	9.7 <sup>B</sup>	
Actual gearing (%)	nil	nil	
<b>Discount</b>			
Level of discount at which the shares trade (%)	8.8	6.6	
<b>Total expense ratio (TER)</b>			
– as % of average total assets less current liabilities	1.28	1.31	
– as % of average shareholders' funds	1.28	1.36	

<sup>A</sup> The comparison of equity shareholders' funds was affected by the Tender Offer, when 15% of the Company's assets were distributed in cash to shareholders.

<sup>B</sup> Based on £40 million facility available.

## Year's Highs/Lows

	High	Low
Share price (p)	219.4	160.5
Net asset value (p)	240.2	178.9
Discount (%)	13.1	3.4

## Performance (total return)

	1 year return %	3 year return %	5 year return %
Share price	+32.0	+56.6	+122.7
Net asset value	+35.0	+52.2	+127.2
MSCI AC Asia (ex Japan) Index (in sterling terms)	+24.2	+23.5	+105.5

## Dividends

	Rate	xd date	Record date	Payment date
Proposed final 2010	1.90p	10 November 2010	12 November 2010	10 December 2010
Final 2009	1.61p	11 November 2009	13 November 2009	11 December 2009

# Chairman's Statement

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**Allan McKenzie**  
Chairman

## Highlights

- **Net Asset Value Total Return +35.0% compared to a benchmark return of 24.2%**
- **Share Price Total Return +32.0%**

## Background

I am pleased to report that during the 12 months to 31 August 2010, your Company delivered a strong performance. The net asset value per share at the financial year end was 240.1p (2009 -179.3p), a rise of 35.0% on a total return basis, compared with a gain in the benchmark, the MSCI AC Asia ex Japan Index, of 24.2% in sterling terms. The share price rose by 30.8% to 219.0p, reflecting a slight widening in the discount from 6.6% to 8.8%.

Asia's financial markets, underpinned by strong fundamentals, all rose by double digits, led by Thailand, Indonesia and Malaysia. Although the short-term economic outlook appears more clouded of late, the long-term outlook for Asia remains upbeat, as regional economies continue to decouple from the West.

## Overview

Asian equities rose despite recurring fears that the global economic recovery might stall as stimulus measures were withdrawn. In May, markets fell to their lowest point in 10 months, as risk aversion triggered a sell-off. Sentiment was hurt by renewed fears of a debt crisis in Europe, while China's monetary tightening threatened to jeopardise Asia's recovery.

Underpinning the markets' rise was the resilience of Asian economies. In 2009, Asia grew 5.8% despite contractions in key economies such as Singapore and Taiwan. This year, the consensus forecast is for the region (excluding Japan) to grow by 8.6%, its fastest pace of expansion in 20 years. Driving the recovery are two key factors. First, low debt levels have allowed regional governments to implement large fiscal stimulus in the face of weak demand in key Western markets. Second, Asian exports rebounded strongly, driven by intra-regional trade. China has provided a more structural source of demand, as it steps into its new role as the next engine of global growth. The mainland, which overtook Japan as the world's second largest economy in the second quarter, is providing the growth impetus for the industrialised economies of Taiwan and Korea, as well as resource-based ones such as Indonesia. Notably, China's trade with Southeast Asia rose by 54.7% in the first half of 2010 alone.

The remarkable expansion, however, came with a price. Inflationary pressures, which had been a problem before the credit crisis began, started to build again, particularly in China and India. Part of the upward pressure on consumer prices was due to disruptions in the food supply, which may be short-lived, but rising wages, particularly in China, signal the start of a structural shift. Rising property prices caused further problems for policymakers in the mainland, as well as in Hong Kong and Singapore. While India has raised benchmark interest rates to contain price increases, China

used other measures, such as raising the amount of capital lenders were required to hold in reserve, along with stricter rules for property purchases.

Against this backdrop, your Company posted a good performance though it should be noted that sterling weakness against most Asian currencies accounted for 9.4% of these returns, in part reflecting the strength of the region's economies relative to that of the UK. Notable among the holdings that contributed most to Edinburgh Dragon's outperformance were Jardine Strategic, Unilever Indonesia and India's Housing Development Finance Corp, companies whose businesses are aligned with the structural rise of the wealth of Asia's middle class.

It should also be noted that the Indian market outperformed China's by a significant margin over the period, despite the latter's higher growth trajectory. Though some of this can be attributed to China's tighter monetary stance, India's more market-driven economy enables its companies to more effectively translate top line growth into sustainable growth at the bottom line.

### Discount

The Board monitors closely the discount level of the Company's shares and has in place a buyback mechanism whereby the Manager is authorised to buy back shares within certain limits. In December 2009, the Company announced a Tender Offer for up to 15% of the Ordinary shares of the Company at a discount of 3 per cent. to Formula Asset Value. As a result some 34,643,156 Ordinary shares were bought back at the Repurchase Price of 197.2794 pence per share and subsequently cancelled.

Following the implementation of the Tender Offer, the Company had 196,311,219 shares in issue. There were no further buy-backs of shares during the financial year and there have been no buy-backs subsequent to the year end.

The Board believes the authority to buy-back shares for cancellation should remain in place and, accordingly, a resolution to renew the authority to buy-back shares for cancellation will be proposed at this year's Annual General Meeting.

### Gearing

During the year the Company had a gearing facility in place via a £40 million multi-currency loan facility with the Royal Bank of Scotland. No drawdowns were made on the facility during the financial year and this facility expired at the end of September 2010. The Board is supportive of gearing and further gearing options are currently under consideration, including the possibility of extending the Company's capital

base and expects to report on progress at the Annual General Meeting on 8 December 2010.

### Revenue Account

The revenue return per share was 2.62p, compared to 2.31p in the previous year. The Board recommends the payment of a final dividend of 1.90p per Ordinary share which, if approved by shareholders at the Annual General Meeting, will be paid on 10 December 2010.

### The Board

In line with Edinburgh Dragon's strong commitment to its corporate governance responsibilities, the Board regularly reviews its performance and structure to ensure it has the correct mix of relevant skills and experience for the good conduct of the Company's business. As part of this process the Board was pleased to appoint Iain McLaren, a former senior partner of KPMG, as a non-executive director of the Company on 6 September 2010. Iain will stand for election at the Annual General Meeting. After many years of valuable service to the Board of Edinburgh Dragon, Peter Tyrrie will be stepping down as a director. The Board joins me in thanking Peter for his valuable contribution to the success of the Company over many years.

The coming years will see an ongoing refreshment of the Board as highlighted in the 2009 annual report.

In accordance with the corporate governance procedures endorsed by the Board, all Directors who have attained more than nine years' service will retire from the Board and submit themselves for re-election on an annual basis. Messrs Frame and Watt will retire and be proposed for re-election at the Annual General Meeting. In accordance with the Company's Articles of Association, Mr Lowrie will retire from the Board and will offer himself for re-election at the Annual General Meeting. The Board recommends that shareholders vote in favour of the re-election of these Directors at the Annual General Meeting.

### Ongoing management of the Company

As announced in the interim report, the Board agreed a succession plan with the Manager following the departure of Peter Hames which resulted in the appointment of Andrew Gillan as the named manager and Adrian Lim as his deputy. Both Andrew and Adrian have been with Aberdeen in the Far East region for nine years and have considerable experience of the region and working with investment trusts.

The Board recognises the proven strength of Aberdeen's collective, team-based, investment approach over many years and many market cycles. Extensive and regular company contact is at the heart of their investment process. They never invest in a company without having first met the

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management. Company visits are rotated among the Asian equity investment management team of over 30 investment professionals, led by Hugh Young.

### AIFM Directive

We continue to monitor developments closely with regard to the above proposed piece of European legislation (sometimes wrongly called the "Hedge Fund Directive"). It was feared that this may have a significant impact upon the way that investment trusts operate. There has been much lobbying on behalf of the industry, led by the Association of Investment Companies, and I am hopeful that the major causes of concern are now understood by the legislators and that changes in the final draft will reflect them. It is too early to be complacent, however, and we await the much delayed decision from Europe.

### Annual General Meeting

The venue and format of this year's Annual General Meeting has been changed from previous years. The meeting will be held at Aberdeen's London office on Wednesday 8 December at 12.00 noon followed by a lunch for shareholders. This will give shareholders the opportunity to meet the Directors and Manager after the formal AGM business has concluded and we welcome all shareholders to attend. Going forward the intention is to rotate the AGM between Edinburgh and London in successive years.

### Outlook

Looking ahead, Asian stockmarkets are likely to remain volatile in the short term. This is because fund flows into Asia remain very much linked to what is happening in Western financial markets, despite the significant strides Asian economies have made to decouple from developed ones.

Nevertheless, the region still faces several challenges. Inflationary pressures are rising in tandem with the fast pace of economic growth. Governments and their central banks may be forced to shift away from exchange rate-based policies, under which monetary policy is effectively imported from major developed world trading partners, to policies which better reflect the strong economic realities in their own countries. In particular, China's policy-induced slowdown may prove to be a drag on the entire region, as trade links with the mainland have grown substantially as demand from the more traditional export markets in the West has waned. Furthermore, countries in the region continue to link their currencies to Western currencies to varying degrees, even as their growth paths diverge.

That said, Asia is not encumbered by the same structural problems as the debt-laden developed world. After a decade of austerity, large reserves of foreign exchange and solid fiscal foundations give policymakers a panoply of options,

among them the ability to extend stimulus measures further in the event that the global economic recovery stalls. Despite the run-up in equity markets, your Manager believes that valuations in Asia are still reasonable and remains comfortable with the Company's existing holdings. As such, Edinburgh Dragon will continue to seek out and invest in companies that will profit from Asia's domestic-oriented growth.

For Edinburgh Dragon Trust plc  
**Allan McKenzie**  
Chairman

14 October 2010

# Manager's Review

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## Overview

Asian equities rose strongly in the year under review as corporate earnings rebounded, aided by low interest rates and fiscal stimulus. Thailand was the best performing market as it shrugged off violent protests in Bangkok between government forces and the "red shirts" to gain 56.1% in sterling terms. Indonesia was next, thanks to its large, domestically-orientated economy that was mostly shielded from ongoing external uncertainties.

At the outset of the period, economic conditions across Asia were improving quickly. The region's sizable foreign reserves and healthy fiscal positions helped governments execute generous and effective stimulus packages. In particular, China's own massive US\$585 billion package, combined with a big expansion in bank credit, drove demand higher for its neighbours' commodities and other products. As such, the export-orientated economies of Singapore, Hong Kong and Taiwan, which had contracted sharply in 2008 and early 2009, rebounded quickly.

The rapid economic improvement, however, gave rise to concerns of overheating. Beijing applied the brakes in two sectors that had helped propel the recovery, ordering a clampdown on property speculation and bank lending to local government investment vehicles. Elsewhere, Malaysia and India were the most aggressive in raising interest rates – three times each since the beginning of the calendar year – while South Korea, Taiwan and Thailand lifted policy rates at least once. This stood in contrast to the West, where interest rates were kept at record lows as economies struggled with high unemployment and consumer debt.

Regional currencies, as measured by the Bloomberg-JPMorgan Asia Currency Index, rose to a two-year high in the second quarter, driven by a pick-up in fund inflows. China's move to increase the flexibility of its exchange rate against the US dollar in June (although viewed as largely political) further buoyed hopes that currencies would rise significantly over the next few years.

## Performance Attribution Analysis

The portfolio's net asset value rose 35.0% on a total return basis during the 12 months to 31 August 2010, compared with a rise in its benchmark of 24.2%. Asset allocation, stock selection and the currency effect all contributed positively to relative performance.

Our positioning in Hong Kong, China and Sri Lanka contributed the most to relative performance. In Hong Kong, our stock holdings were beneficiaries of robust growth in China. Jardine Strategic's tender offer to repurchase its own shares, along with upbeat full-year results, boosted its share price. Both Hang Lung Group and Hang Lung Properties,

which have significant exposure to the mainland, rose as investors focused on the growing rental income from its premium shopping malls.

The underweight to China boosted relative returns, as the market lagged amid government cooling measures. Stock selection, which was also positive, was driven mainly by CNOOC, the country's largest offshore oil and gas exploration company, as it was bolstered by record first-half production and earnings growth. Your Manager remains cautious about China. There is a disparity between the economy, which continues its inexorable rise, and the stockmarket, where cashflows do not always end up in the hands of shareholders. Many of the larger state-run enterprises, including the banks, have to balance shareholders' interests with the country's socio-economic goals. While we have a small number of Chinese companies in our portfolio at present, our Hong Kong holdings provide a more effective exposure to the mainland. We plan to increase our investments in China over time as we find well-managed and attractively-priced companies with proven track records.

Our investments to Sri Lanka also boosted performance, as the market rose more than 80% over the period on the back of hopes that the end of the 25-year-long civil war would usher in a new era of stability. Tourism has been the clear beneficiary so far, having risen steadily since June last year with John Keells and its portfolio of hotels, ports and retail leading the rally. Similarly, DFCC Bank's share price doubled. The lender managed to post steady results despite the heavy tax burden on the sector.

The portfolio's overweight in South-east Asia also contributed considerably to relative performance. In Thailand, positive asset allocation outweighed negative stock selection; PTT Exploration and Production failed to keep pace with the rising market after the September 2009 oil spill incident at Montara. Conversely, in the Philippines, Ayala Land's expansion into mid-range residential property and into second-tier cities paid off, while Jakarta-listed Unilever Indonesia's share price was underpinned by steady revenue growth, complemented by margin expansion from lower raw material costs. The portfolio also has exposure to Indonesia's long-term growth prospects via Hong Kong-listed Jardine Strategic, which owns conglomerate Astra International, in addition to Singapore's Oversea-Chinese Banking Corp and United Overseas Bank, which have local subsidiaries in the archipelago.

From a sector perspective, our large exposure to financials aided performance. In addition to DFCC Bank and Ayala Land, which have been mentioned above, CIMB Group also rose in response to the success of its South-east Asian expansion strategy with Indonesia now accounting for 20% of its

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profits. Other notable performers in the sector included Indian mortgage provider HDFC and Malaysia's Public Bank.

On the flip side, India's Grasim Industries was the year's biggest laggard on fears of overcapacity and fierce competition in the cement sector, although the share price reversed some of the poor performance towards the period-end.

### Portfolio Activity

Turning to portfolio activity, your Manager divested Singapore-listed conglomerate Fraser and Neave; Hong Kong retailer Giordano; and Singapore-listed SATS, shares of which the Company had received as an in specie distribution from Singapore Airlines. These were sold for company-specific factors. Also sold were automation services provider ABB India, after its parent made an attractive open offer and Indian gas transportation company GAIL, following the sharp-run up in its share price.

Against this, we initiated a position in Li & Fung, a leading trading company with an excellent track record of growth and a top-tier client base. We also topped up a number of existing holdings whose stock prices we felt had lagged underlying business performance. As we already hold several of the best companies in Asia, adding them to the portfolio at attractive valuations remains an important part of our investment process.

### Gearing

As highlighted in the Chairman's statement the Company did not drawdown on the £40 million loan facility during the year. This facility expired at the end of September 2010 and further gearing options are currently under consideration.

### Outlook

Asia has survived the financial crisis remarkably well, but growth rates are likely to slow for the remainder of this year because of China's tightening measures and continued weakness in the West. In the US, unemployment remains high and house prices are still depressed. The Eurozone faces sovereign debt risks, while reducing public spending to trim burgeoning budget deficits will only slow the process of economic recovery.

In view of these global uncertainties, Asian policymakers may be reluctant to tighten policy further. Real interest rates are likely to remain negative in several countries, most evidently in India, where food price inflation has stayed above 20% year-on-year for most of the period under review.

Despite these headwinds, your Manager is upbeat on Asia's growth prospects. Current valuations offer good value for the long-term investor as both economic growth and domestic consumption are picking up. Most crucially, corporate earnings have recovered and the balance sheets of our companies are in good shape, placing them in excellent position to benefit from the growth of the region.

### Aberdeen Asset Management Asia Limited\*

14 October 2010

\* on behalf of Aberdeen Asset Managers Limited  
Both companies are subsidiaries of Aberdeen Asset Management PLC.

# Information about the Manager

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Aberdeen Asset Management Asia Limited ("AAM Asia") is responsible for the Asian portfolios of all clients managed within the Aberdeen Group. AAM Asia is based in Singapore and is a wholly-owned subsidiary and the Asia Pacific headquarters of Aberdeen Asset Management PLC (the "Aberdeen Group"), a publicly-quoted company on the London Exchange.

AAM Asia have been the Aberdeen Group's principal managers of Asia-Pacific assets since 1992, and had over 343 staff across the region at 31 August 2010. Total funds in the region, which are also managed from Bangkok, Hong Kong, Kuala Lumpur and Sydney are over £48.5 billion as at 31 August 2010.

The Aberdeen Group has its headquarters in Aberdeen with over 31 offices in 24 countries including Bangkok, Edinburgh, Hong Kong, Kuala Lumpur, London, Philadelphia, Singapore and Sydney.

Worldwide, the Aberdeen Group manages a combined £168.8 billion in assets (as at 31 August 2010) for a range of clients, including individuals and institutions, through mutual and segregated funds. The Aberdeen Group manages over 52 investment companies and other closed-ended funds representing £11.1 billion under management. They adhere closely to the Group's investment style which is that of fundamental investors, with an emphasis on company visits and original research.

## The Investment Team Senior Managers



### **Hugh Young**

#### **Managing Director**

BA in Politics from Exeter University. Started investment career in 1980. In charge of AAM Asia's Far East funds since 1985.



### **Andrew Gillan**

#### **Senior Investment Manager**

MA Joint Honours in French and European History from University of Edinburgh. Joined Aberdeen in September 2000 and transferred to AAM Asia in November 2001.



### **Adrian Lim**

#### **Senior Investment Manager**

Chartered Financial Analyst, B.Acc from Nanyang Technological University (Singapore). Joined Aberdeen in 2000. Previously he was an associate director at Arthur Andersen advising clients on mergers and acquisitions in South East Asia.



### **Flavia Cheong**

#### **Investment Director**

Masters in Economics from University of Auckland. Previously with Investment Company of the People's Republic of China and Development Bank of Singapore. Started investment career in 1987. Joined AAM Asia in 1996.



### **Chou Chong**

#### **Investment Director**

Chartered Financial Analyst and Double Masters in Accounting & Finance and Information Systems from the London School of Economics. Joined AAM Asia in 1994.



### **Christopher Wong**

#### **Senior Investment Manager**

BA in Accounting and Finance from Heriot-Watt University, and a Fellow of the Chartered Certified Accountants (FCCA) and a CFA Charterholder. Previously, he was an associate director at Andersen Corporate Finance advising clients on mergers and acquisitions in South East Asia.

# Manager's Review - The Investment Process

## Philosophy and Style

Our investment philosophy is that markets are not always efficient. We believe that superior investment returns are therefore attainable by identifying good companies which are cheap in terms of the fundamentals that in our opinion drive share prices over the long term. We undertake substantial due diligence before initiating any investment including company visits in order to assure ourselves of the quality of the prospective investment. We are then careful not to pay too high a price when making the investment. Subsequent to that investment we then keep in close touch with the company, aiming to meet management at least twice a year. Given our long-term fundamental investment philosophy, one would not expect much change in the companies in which we invest. We do, however, take opportunities offered to us by what we see as anomalous price movements within stock markets to either top up or top slice positions, which typically accounts for the bulk of the activity within the portfolio during the year under review.

AAM Asia is based in Singapore. Founded in 1992, the office is run by Hugh Young, the founding managing director who oversees a team of portfolio managers in Singapore who act as generalists, cross-covering the region. In addition, AAM

Asia has offices in Kuala Lumpur, Hong Kong, Sydney, Taipei, Tokyo and Bangkok.

## Risk Controls

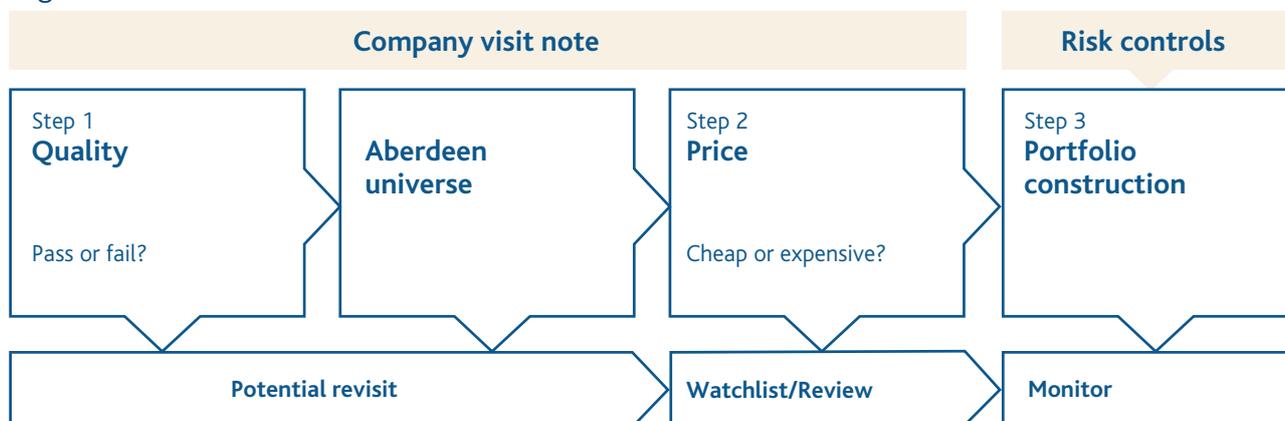
We seek to minimise risk by our in-depth research. We do not view divergence from a benchmark as risk – we view investment in poorly run expensive companies that we do not understand as risk. In fact where risk parameters are expressed in benchmark relative terms, asset – including sector – allocation constitutes a significant constraint on stock selection. Hence diversification of stocks provides our main control.

Aberdeen's performance and investment risk unit independently monitors portfolio positions, and reports monthly. As well as attributing performance it also produces statistical analysis, which is used by the Manager primarily to check the portfolio is behaving as expected, not as a predictive tool.

## Aberdeen Asset Management Asia Limited\*

\* on behalf of Aberdeen Asset Managers Limited

## Regional Teams



# Performance

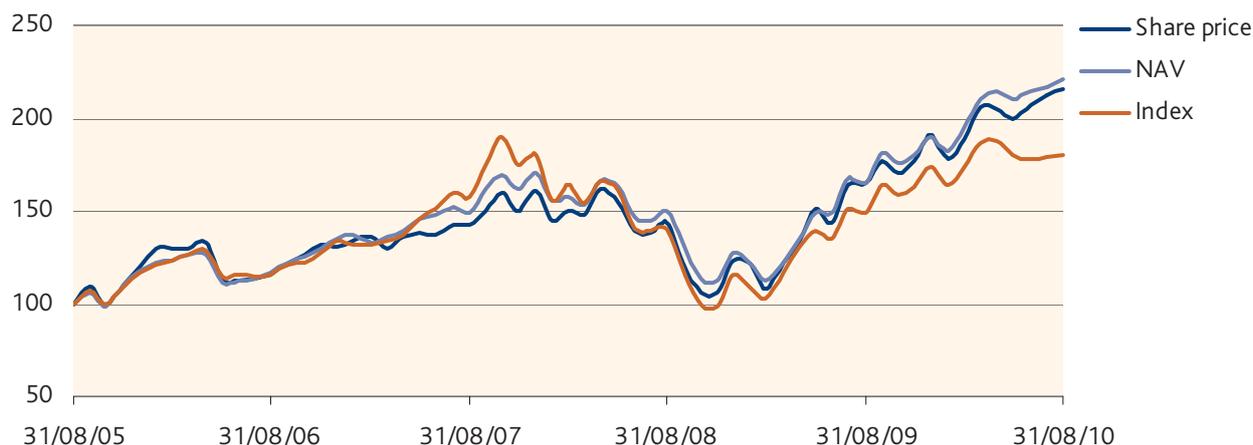
## Share Price Premium/(Discount) to NAV

Five years to 31 August 2010



## Capital Return of NAV and Share Price vs MSCI All Country Asia (ex Japan) Index

Five years to 31 August 2010 (rebased to 100 at 31 August 2005)



## Ten Year Financial Record

Year ended 31 August	Equity shareholders' interest £'000	Net asset value per Ordinary share p	Revenue return per Ordinary share p	Ordinary share price p	Share price discount %	Expenses as a % of average shareholders' funds
2001	165,196	72.80	(0.24)	57.75	20.7	1.3
2002	158,707	69.95	(0.49)	57.75	17.4	1.4
2003	193,590	85.35	(0.52)	72.25	15.3	1.2
2004 (restated)	190,450	83.93	0.04	70.00	16.8	1.4
2005 (restated)	258,094	108.73	1.50	101.50	6.6	1.4
2006	301,553	127.06	1.41	117.75	7.3	1.3
2007	384,521	162.18	1.84	144.25	10.8	1.3
2008	377,787	163.58	2.35	146.00	10.5	1.3
2009	414,074	179.29	2.31	167.40	6.6	1.4
2010	471,324	240.09	2.62	219.00	8.8	1.3

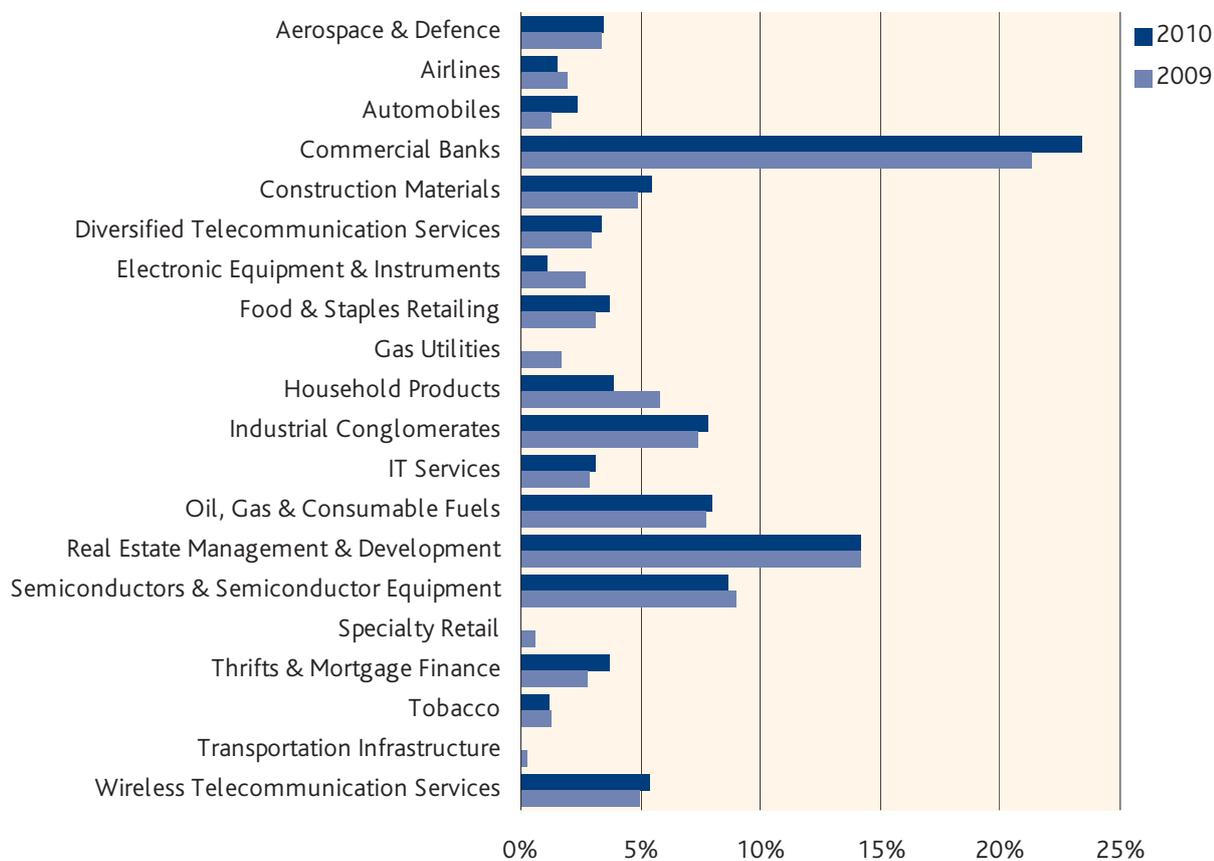
Note: The 2004 and 2005 net asset value and equity shareholder's interest figures have been restated to reflect the changes in accounting policies.

## Changes in Asset Distributions

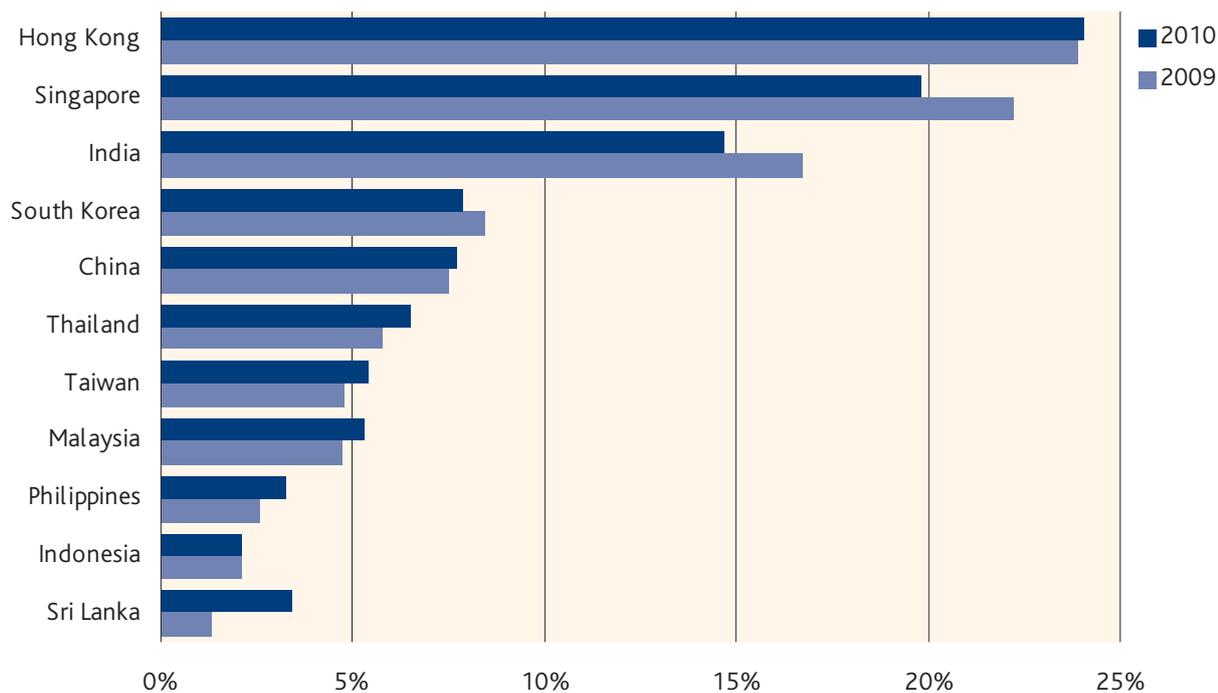
Country	Value at 31 August 2009 £'000	Purchases £'000	Sales proceeds £'000	Appreciation £'000	Value at 31 August 2010 £'000
China	30,809	2,461	3,322	5,985	35,933
Hong Kong	98,143	2,820	18,709	30,257	112,511
India	68,685	6,273	25,066	18,795	68,687
Indonesia	8,564	–	5,130	6,324	9,758
Malaysia	19,282	683	3,826	8,580	24,719
Philippines	10,552	1,259	1,775	5,208	15,244
Singapore	91,320	7,797	27,297	20,956	92,776
South Korea	34,608	2,553	7,396	6,911	36,676
Sri Lanka	5,378	2,454	–	8,042	15,874
Taiwan	19,689	4,920	2,762	3,441	25,288
Thailand	23,743	1,884	5,041	9,824	30,410
<b>Total investments</b>	<b>410,773</b>	<b>33,104</b>	<b>100,324</b>	<b>124,323</b>	<b>467,876</b>
Net current assets	3,301	–	–	147	3,448
<b>Net assets</b>	<b>414,074</b>	<b>33,104</b>	<b>100,324</b>	<b>124,470</b>	<b>471,324</b>

# Sector/Geographical Analysis

## Sector Breakdown

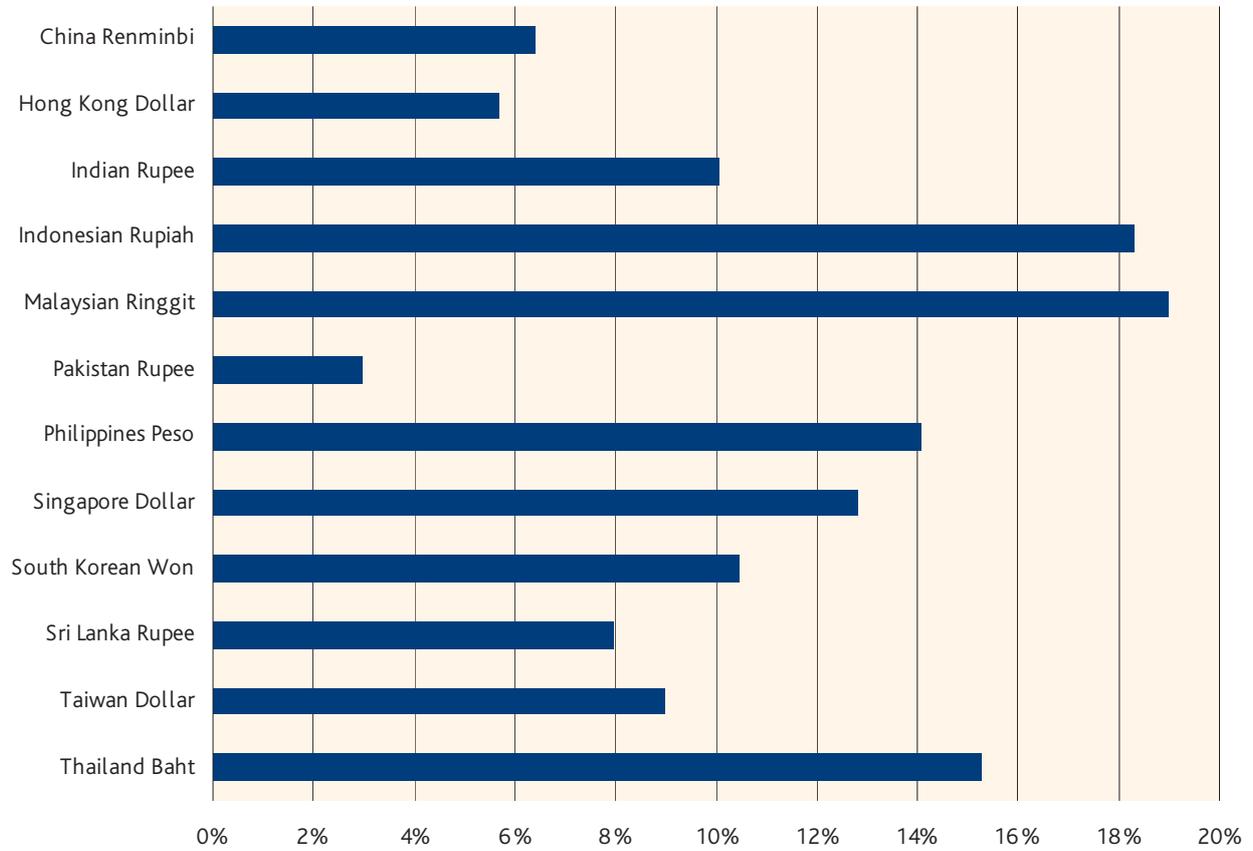


## Geographic Breakdown

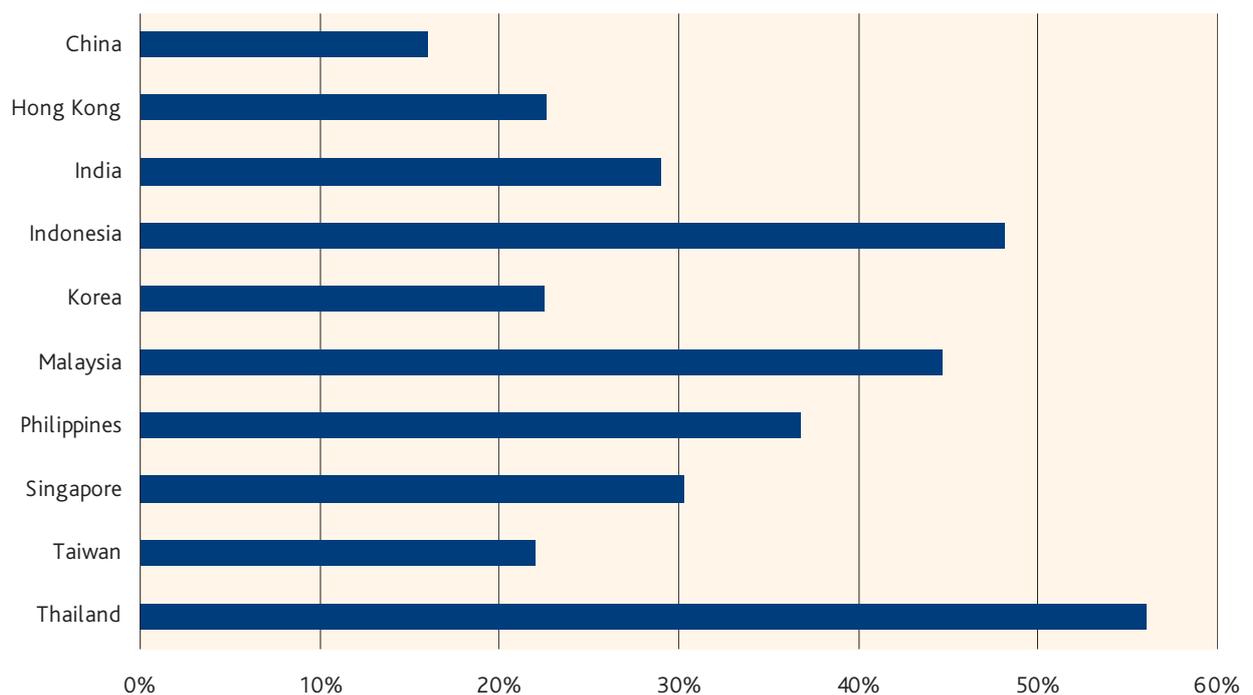


# Currency/Market Performance

## Currency Returns (£)



## MSCI Country Indices (£)



# Investment Portfolio – Ten Largest Investments

As at 31 August 2010

Company	Sector	Country of incorporation	Valuation 2010 £'000	Total assets %	Valuation 2009 £'000
<b>Jardine Strategic Holdings</b> A Singapore-listed conglomerate with interests across the region spanning property, hotels and consumer products.	Industrial Conglomerates	Singapore	24,894	5.3	19,054
<b>Oversea-Chinese Banking Corporation</b> A well-run Singaporean bancassurance company seeking to generate additional value for shareholders by restructuring assets and via regional expansion.	Commercial Banks	Singapore	19,855	4.2	17,294
<b>Samsung Electronics Pref</b> A leading semiconductor company which is also a major player in mobile phones and TFT-LCDs. The Company owns the preferred shares, which trade at a discount to the ordinary shares.	Semiconductors & Semiconductor Equipment	South Korea	18,869	4.0	18,777
<b>Swire Pacific 'B'</b> A Hong Kong-listed conglomerate, with interests in aviation (via Cathay Pacific), property, beverages, marine services and industrial activities.	Real Estate Management & Development	Hong Kong	18,728	4.0	17,102
<b>Standard Chartered<sup>A</sup></b> A Hong Kong-listed lender with significant operations in the emerging markets.	Commercial Banks	Hong Kong	17,471	3.7	13,420
<b>HDFC</b> The largest mortgage company in India, with additional interests in banking, insurance and venture capital funds.	Thriffs & Mortgage Finance	India	17,316	3.7	15,236
<b>Singapore Technologies Engineering</b> Defence contractor with capabilities in aerospace, electronics, land systems and marine.	Aerospace & Defence	Singapore	16,088	3.4	13,785
<b>Singapore Telecommunications</b> Singapore Telecom is a regional telecommunications company, with a combined mobile subscriber of more than 285 million customers from its own operations in Singapore and Australia, and regional associates in India, Philippines, Thailand, Indonesia, Pakistan and Bangladesh.	Diversified Telecommunication Services	Singapore	15,667	3.3	12,032
<b>United Overseas Bank</b> Singapore's second largest bank, primarily focused on SMEs and consumers, with its core market in Singapore and the balance predominantly in southeast Asia.	Commercial Banks	Singapore	15,494	3.3	13,510
<b>PTT Exploration &amp; Production</b> Thailand's sole gas exploration and production company, majority-owned by state enterprise PTT Plc. The company plans to invest US\$6bn over the next five years in exploration projects and the expansion of existing sites.	Oil, Gas & Consumable Fuels	Thailand	15,313	3.2	13,619
Top ten investments			<b>179,695</b>	<b>38.1</b>	

# Investment Portfolio – Other Investments

As at 31 August 2010

Company	Sector	Country of incorporation	Valuation 2010 £'000	Total assets %	Valuation 2009 £'000
<b>Siam Cement</b>	Construction Materials	Thailand	15,098	3.2	10,124
<b>Taiwan Semiconductor Manufacturing Company</b>	Semiconductors & Semiconductor Equipment	Taiwan	14,667	3.1	12,104
<b>Infosys Technologies</b>	IT Services	India	14,610	3.1	11,784
<b>China Mobile</b>	Wireless Telecommunication Services	China	14,538	3.1	12,825
<b>CNOOC</b>	Oil, Gas & Consumable Fuels	China	14,528	3.1	11,993
<b>City Developments</b>	Real Estate Management & Development	Singapore	13,662	2.9	12,485
<b>John Keells Holdings</b>	Industrial Conglomerates	Sri Lanka	11,440	2.4	3,898
<b>Hero Honda</b>	Automobiles	India	11,179	2.3	11,391
<b>Public Bank Berhad</b>	Commercial Banks	Malaysia	10,715	2.3	9,144
<b>Taiwan Mobile</b>	Wireless Telecommunication Services	Taiwan	10,622	2.3	7,585
Top twenty investments			<b>310,754</b>	<b>65.9</b>	
<b>Unilever Indonesia</b>	Household Products	Indonesia	9,758	2.1	8,564
<b>Ayala Land</b>	Real Estate Management & Development	Philippines	9,586	2.0	5,717
<b>Sun Hung Kai Props</b>	Real Estate Management & Development	Hong Kong	9,246	2.0	9,767
<b>Dairy Farm International</b>	Food & Staples Retailing	Hong Kong	8,967	1.9	7,066
<b>CIMB Group</b>	Commercial Banks	Malaysia	8,491	1.8	4,854
<b>Grasim Industries</b>	Construction Materials	India	8,362	1.8	9,944
<b>Shinsegae Company</b>	Food & Staples Retailing	South Korea	8,284	1.7	5,778
<b>Hang Lung Group</b>	Real Estate Management & Development	Hong Kong	7,931	1.7	5,777
<b>ICICI Bank</b>	Commercial Banks	India	7,577	1.6	2,832
<b>Hindustan Unilever</b>	Household Products	India	7,492	1.6	5,296
Top thirty investments			<b>396,448</b>	<b>84.1</b>	
<b>Hang Lung Properties</b>	Real Estate Management & Development	Hong Kong	7,267	1.5	7,250
<b>Singapore Airlines</b>	Airlines	Singapore	7,037	1.5	7,941
<b>PetroChina</b>	Oil, Gas & Consumable Fuels	China	6,867	1.5	5,991
<b>Wing Hang Bank</b>	Commercial Banks	Hong Kong	6,859	1.5	6,602
<b>ASM Pacific Technologies</b>	Semiconductors & Semiconductor Equipment	Hong Kong	6,845	1.5	6,074
<b>Bank of Philippine Islands</b>	Commercial Banks	Philippines	5,658	1.2	4,835
<b>British American Tobacco</b>	Tobacco	Malaysia	5,514	1.2	5,284
<b>Busan Bank</b>	Commercial Banks	South Korea	5,298	1.1	4,692
<b>Venture Corp</b>	Electronic Equipment & Instruments	Singapore	4,974	1.0	5,656
<b>DFCC Bank</b>	Commercial Banks	Sri Lanka	4,434	0.9	1,480
Top forty investments			<b>457,201</b>	<b>97.0</b>	
<b>Daegu Bank</b>	Commercial Banks	South Korea	4,223	0.9	5,361
<b>Dah Sing Financial</b>	Commercial Banks	Hong Kong	3,589	0.8	3,515
<b>Ultratech</b>	Construction Materials	India	2,151	0.4	–
<b>Li &amp; Fung</b>	Household Products	Hong Kong	712	0.2	–
Total investments			<b>467,876</b>	<b>99.3</b>	
Net current assets			<b>3,448</b>	<b>0.7</b>	
<b>Total assets<sup>B</sup></b>			<b>471,324</b>	<b>100.0</b>	

<sup>A</sup> Valuation amalgamates both UK (£10,580,000; 2009 – £7,889,000) and Hong Kong (£6,891,000; 2009 – £5,531,000) listed equity holdings.

<sup>B</sup> See definition on page 51.

Note: Unless otherwise stated, foreign stock is held and all investments are equity holdings.

# Your Board of Directors

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The Directors, all of whom are non-executive and independent of the Manager, supervise the management of Edinburgh Dragon Trust plc and represent the interests of shareholders.



**Allan McKenzie**

**Status:** Independent Non-Executive Chairman

**Age:** 63

**Length of service:** 4 years, appointed a Director on 1 September 2006

**Experience:** former chief operating officer and a managing director of BlackRock International Limited prior to his retirement in 2006. He is the chairman of Impax Asian Environmental Markets plc. He is also a former director of BlackRock Global Series plc and a former chairman and director of the Thailand International Fund Limited. Between 1972 and 1991 he was actively involved in fund management, specialising in Asian equity markets. Since 1991 his role was in marketing and client relationship management at both Scottish Widows Investment Management and BlackRock International Limited.

**Committee membership:** Audit Committee and Remuneration Committee

**Remuneration:** £27,000 per annum

**All other public company**

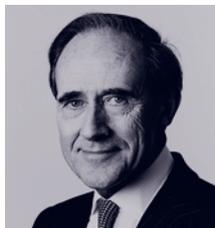
**directorships:** Impax Asian Environmental Markets plc

**Employment by the Manager:** None

**Other connections with Trust or Manager:** None

**Shared Directorships with any other Trust Directors:** None

**Shareholding in Company:** 5,000 Ordinary Shares



**Frank Frame**

**Status:** Senior Independent Non-Executive Director

**Age:** 80

**Length of service:** 16 years, appointed a Director on 22 February 1994

**Experience:** formerly deputy chairman of The Hongkong and Shanghai Banking Corporation; adviser to the board of HSBC Holdings; chairman of South China Morning Post, Far Eastern Economic Review and The Waller Group; and a director of Swire Pacific, The Hongkong Securities and Futures Commission, The British Bank of the Middle East and The Weir Group. Currently a director of Northern Gas Networks.

**Committee membership:** None

**Remuneration:** £18,000 per annum

**All other public company**

**directorships:** None

**Employment by the Manager:** None

**Other connections with Trust or Manager:** None

**Shared Directorships with any other**

**Trust Directors:** None

**Shareholding in Company:** 8,500 Ordinary shares



**David Gairns**

**Status:** Independent Non-Executive Director

**Age:** 74

**Length of service:** 7 years, appointed a Director on 1 July 2003

**Experience:** is a chartered accountant and has spent his professional career with KPMG, retiring in 1991 as senior partner of the Hong Kong firm. He is a former non-executive director of The Hongkong and Shanghai Banking Corporation and Mass Transit Railway Corporation.

**Committee membership:** Audit Committee (Chairman) and Remuneration Committee (Chairman)

**Remuneration:** £20,000 per annum

**All other public company**

**directorships:** None

**Employment by the Manager:** None

**Other connections with Trust or Manager:** None

**Shared Directorships with any other**

**Trust Directors:** None

**Shareholding in Company:** None



**Tony Lowrie**

**Status:** Independent Non-Executive Director

**Age:** 68

**Length of service:** 6 years, appointed a Director on 4 October 2004

**Experience:** has been involved in Asian investment for over 30 years, originally with Hoare Govett and HG Asia and ABN Amro where he was a managing director prior to his retirement in 2007. He is a director of Kenmare Resources plc and a former non-executive director of JD Wetherspoon.

**Committee membership:**

Remuneration Committee

**Remuneration:** £18,000 per annum

**All other public company**

**directorships:** Kenmare Resources plc

**Employment by the Manager:** None

**Other connections with Trust or**

**Manager:** None

**Shared Directorships with any other**

**Trust Directors:** None

**Shareholding in Company:** None



**Iain McLaren**

**Status:** Independent Non-Executive Director

**Age:** 59

**Length of service:** appointed a Director on 6 September 2010

**Experience:** is a chartered accountant and was a partner at KPMG for 27 years, including Senior Partner in Scotland from 1999 to 2004, retiring from the firm in 2008. He is the Senior Independent Director and Audit Committee Chairman of Cairn Energy Plc. He is also a non-executive director of Baillie Gifford Shin Nippon Plc and Investors Capital Trust Plc and a director of a number of other companies. He is the Senior Vice President of Institute of Chartered Accountants of Scotland.

**Committee membership:** Audit Committee

**Remuneration:** £19,000 per annum

**All other public company**

**directorships:** Cairn Energy Plc, Baillie Gifford Shin Nippon Plc and Investors Capital Trust Plc

**Employment by the Manager:** None

**Other connections with Trust or**

**Manager:** None

**Shared Directorships with any other**

**Trust Directors:** None

**Shareholding in Company:** None



**Peter Tyrie**

**Status:** Independent Non-Executive Director

**Age:** 64

**Length of service:** 21 years, appointed a Director on 5 July 1989

**Experience:** was managing director of Mandarin Oriental Hotel Group until 1989 when he returned to Great Britain. He established the Eton Group in 1998, a company specialising in luxury city centre hotels which he then sold in August 2007.

**Committee membership:** None

**Remuneration:** £18,000 per annum

**All other public company**

**directorships:** None

**Employment by the Manager:** None

**Other connections with Trust or**

**Manager:** None

**Shared Directorships with any other**

**Trust Directors:** None

**Shareholding in Company:** 11,000

Ordinary shares



**Iain Watt**

**Status:** Independent Non-Executive Director

**Age:** 65

**Length of service:** 23 years, appointed a Director on 12 August 1987

**Experience:** has over 40 years' experience of the investment management industry and was former chief executive of Edinburgh Fund Managers plc.

**Committee membership:** None

**Remuneration:** £18,000 per annum

**All other public company**

**directorships:** None

**Employment by the Manager:** None

**Other connections with Trust or**

**Manager:** None

**Shared Directorships with any other**

**Trust Directors:** None

**Shareholding in Company:** 17,164

Ordinary shares

# Directors' Report

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The Directors present their report and the audited financial statements for the year ended 31 August 2010.

## Business Review

This Business Review, in conjunction with the rest of the Report and Accounts, is intended to provide shareholders with the information and measures that the Directors use to assess, direct and oversee the Manager in the management of the Company's portfolio. The Business Review is prepared in accordance with the requirements of Section 417 of the Companies Act 2006.

## Principal Activity

The Company is registered as a public limited company in Scotland and is an investment company as defined by Section 833 of the Companies Act 2006. The Company's registration number is SC106049.

The Company carries on business as an investment trust and the Directors do not envisage any change in this activity in the foreseeable future. The Company has received requisite approval of investment trust status from the Inland Revenue for accounting periods up to and including 31 August 2009.

The Directors are of the opinion, under advice, that the Company has conducted its affairs for the year ended 31 August 2010 so as to be able to obtain approval as an investment trust under Sections 1158-1159 of the Corporation Tax Act 2010 (formerly Section 842 of the Income and Corporation Taxes Act 1988) for that year, although approval for the period would be subject to review were there to be any enquiry under the Corporation Tax Self Assessment regime.

The Company has conducted its affairs so as to satisfy the requirements as a qualifying security for Individual Savings Accounts. The Directors intend that the Company will continue to conduct its affairs in this manner.

## Investment Objective and Policy

The Company's objective is to achieve long term capital growth through investment in the Far East. The Company's benchmark is the MSCI All Country Asia (ex Japan) Index. Investments are made in stock markets in the region with the exception of Japan and Australasia, principally in large companies.

Details of the Company's investment policy and strategy are provided in the Investment Objective and Policy section on page 3.

## Review of Performance

An outline of the performance, market background, investment activity and portfolio strategy during the year

under review, as well as the investment outlook, is provided in the Chairman's Statement and Manager's Review.

## Future Trends

The region's economies have high rates of growth, strong trade and fiscal surpluses and rapidly developing capital markets. Nevertheless the past has demonstrated regional risks and the outlook for the region is provided in the Chairman's Statement and Manager's Review.

## Risk Management

The major risks associated with the Company are detailed below:

- Resource risk: The Company is an investment trust and has no employees. The responsibility for the management of the Company has been delegated to Aberdeen Asset Managers Limited ('the Manager') under the management agreement. The terms of the management agreement cover the necessary duties and conditions expected of the Manager. The Board reviews the performance of the Manager on a regular basis and their compliance with the management contract formally on an annual basis.
- Investment and market risk: The Company is exposed to the effect of variations in share prices due to the nature of its business. Investment in Asian equities involves a greater degree of risk than that usually associated with investment in the major securities markets. These include a greater risk of social, political and economic instability including changes in government which may restrict investment opportunities and have an adverse effect on economic reform. Changes in legal, regulatory and accounting policies can also affect the value of the Company's investments. The lower volumes of trading in certain securities of emerging markets may result in lack of liquidity and price volatility. In addition, currency fluctuations and high interest rates may affect the value of the Company's investments and the income derived therefrom.

The Board continually monitors the investment policy of the Company, taking account of stockmarket factors, and reviews the Company's performance compared to its benchmark index and peer group. Further details on other risks relating to the Company's investment activities, including market price, liquidity and foreign currency risks, are provided in note 18 to the financial statements.

- Gearing risk: During the year to 31 August 2010 the Company had in place a £40 million multi-currency loan facility. As at 31 August 2010 no drawdowns had been made on this facility and the facility subsequently expired on 29 September 2010. The Board is considering further gearing options available to the Company. Gearing has the effect of exacerbating market falls and gains. In order to

manage the level of gearing, the Board has set a maximum gearing ratio of 20%.

- **Regulatory risk:** The Company operates in a complex regulatory environment and faces a number of regulatory risks. Serious breaches of regulations, such as Sections 1158-1159 of the Corporation Tax Act 2010, the UKLA Listing Rules and the Companies Act, could lead to a number of detrimental outcomes and reputational damage. The Audit Committee monitors compliance with regulations by reviewing internal control reports from the Manager.
- **Discount volatility:** The Company's share price can trade at a discount to its underlying net asset value. The Board monitors the discount level of the Company's shares and has in place a buyback mechanism whereby the Manager is authorised to buy back shares within certain limits.

### Monitoring Performance – Key Performance Indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. The key performance indicators (KPIs) are established industry measures, and are as follows:

- Net asset value (total return)
- Share price (total return)
- Performance attribution
- Discount to net asset value

A record of these measures is disclosed on page 4. Performance is measured against the Company's benchmark, the MSCI All Country Asia (ex Japan) Index and the Board also considers peer group comparative performance.

### Social, Community, Employee Responsibilities and Environmental Policy

As an investment trust, the Company has no employees and has no direct social, community, employee or environmental responsibilities. Details of the Company's Socially Responsible Investment policy are set out in the Corporate Governance Report.

### Share Capital

In December 2009, the Company announced a Tender Offer for up to 15% of the Ordinary shares of the Company at a discount of 3 per cent. to Formula Asset Value, which resulted in 15% Ordinary shares (34,643,156 shares) being tendered. A special resolution authorising the Company to buy back up to 34,643,156 Ordinary shares in connection with the Tender Offer was passed at a General Meeting of the Company on 15 January 2010 which resulted in 15% of the net assets of the Company (valued at £68,343,809) being distributed in cash to exiting Ordinary shareholders and 34,643,156 Ordinary shares being repurchased by the

Company at the Repurchase Price of 197.2794 pence per share and cancelled.

Following the implementation of the Tender Offer, the Company had 196,311,219 Ordinary shares in issue. There were no further buybacks during the year and there have been no buybacks subsequent to the year end up to the date of this report.

At 31 August 2010 the Company's capital structure consisted of 196,311,219 Ordinary shares of 20p each (2009 - 230,954,375 Ordinary shares). The Ordinary shares carry a right to receive dividends which are declared from time to time by an ordinary resolution of the Company (up to the amount recommended by the Board) and to receive any interim dividends which the Directors may resolve the Company should pay. On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to Ordinary shareholders in proportion to their shareholdings. On a show of hands, every shareholder present in person, or by proxy, has one vote and, on a poll, every Ordinary shareholder present in person has one vote for each share held and a proxy has one vote for every share represented.

There are no restrictions concerning the holding or transfer of the Company's shares and there are no special rights attached to any of the shares. The Company is not aware of any agreements between shareholders which may result in restriction on the transfer of shares or the voting rights.

### Other Information

The rules concerning the appointment and replacement of Directors, amendments of the Articles of Association and powers to issue or buy back Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006. There are no agreements which the Company is party to that might affect its control following a takeover bid; and there are no agreements between the Company and its Directors concerning compensation for loss of office. Other than the Management Agreement with the Manager, further details of which are set out on page 23, the Company is not aware of any contractual or other agreements which are essential to its business which ought to be disclosed in the Directors' Report.

### Dividends

The Directors recommend that a final dividend of 1.90p per Ordinary share (2009 – 1.61p) be paid on 10 December 2010 to shareholders on the register on 12 November 2010.

### Directors

Details of the current Directors of the Company are shown on pages 18 to 20.

Tony Cassidy retired from the Board on 9 December 2009 and Allan McKenzie took over the chairmanship of the Company at this time.

Iain McLaren was appointed as a non-executive director on 6 September 2010 and, in accordance with the Company's Articles of Association, will retire from the Board and offer himself for election at the forthcoming Annual General Meeting.

Peter Tyrie will retire from the Board at the conclusion of the Annual General Meeting.

In accordance with the Company's Articles of Association, Tony Lowrie will retire from the Board and, being eligible, offer himself for re-election at the Annual General Meeting.

In accordance with the corporate governance procedures endorsed by the Board, all Directors who have attained more than nine years' service will retire from the Board and submit themselves for re-election on an annual basis. Messrs Frame and Watt will retire and be proposed for re-election at the Annual General Meeting.

No contract or arrangement subsisted during the period in which any of the Directors was materially interested. No Director had a service contract with the Company.

The Directors' interests in the shares of the Company as at 31 August 2010 are shown in Table 1.

	<b>31 August 2010</b>	<b>1 September 2009</b>
	<b>Ordinary shares</b>	<b>Ordinary shares</b>
Tony Cassidy (retired 9 December 2009)	n/a	9,538
Frank Frame	8,500	8,500
David Gairns	—	—
Tony Lowrie	—	—
Allan McKenzie	5,000	—
Iain McLaren (appointed 6 September 2010)	n/a	n/a
Peter Tyrie	11,000	11,000
Iain Watt	17,164*	17,789*

Table 1 Directors and their interests in the Company  
\* of which nil (2009 - 625) Ordinary shares are held in trust

The Company has not been notified of any subsequent changes in Directors' interests.

## Directors' Conflicts of Interest

The Board monitors on a regular basis the direct and indirect interests of each Director and has concluded that there were no situations which gave rise to an interest of a Director which conflicted with the interests of the Company.

## Directors' Liability Insurance

The Directors have the benefit of the indemnity provisions contained in the Company's Articles of Association. The Company maintains insurance in respect of Directors' and officers' liabilities in relation to their acts on behalf of the Company.

## Management Agreement

The Manager to the Company is Aberdeen Asset Managers Limited. Under the Management Agreement, the Manager is required to give a notice period of six months if it wishes to terminate the agreement. The notice period for the Company is three months or on shorter notice in certain circumstances. Compensation is payable in lieu of the unexpired notice period if actual notice is less than the notice period. The management fee is 0.25% per quarter of the net assets of the Company less (i) the value of any investment funds managed by the Manager and (ii) 50% of the value of any investment funds managed or advised by investment managers other than the Manager.

## Auditors

The Company's auditors, KPMG Audit Plc, are willing to continue in office, and resolutions will be proposed at the forthcoming Annual General Meeting to re-appoint them, and to authorise the Directors to fix their remuneration. Non-audit fees of £14,000 were paid to the auditors during the period, which related to their review of the interim report and their work in connection with the Tender Offer.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each 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 to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Corporate Governance

The Statement of Corporate Governance, which forms part of the Directors' Report, is contained on pages 26 to 29.

## Payments Policy

It is the Company's policy 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. In certain circumstances, settlement terms are agreed prior to business taking place.

## Substantial Share Interests

At 14 October 2010, the substantial interests in the Ordinary share capital which had been notified to the Company during the period are shown in Table 2.

Holder	No. of Ordinary shares	%
City of London Investment Management	21,415,747	10.9
Lazard Freres Asset Management	18,546,858	9.5
Derbyshire County Council	12,000,000	6.1
Rensburg Sheppards Investment Management	9,835,022	5.0
Legal & General Assurance	7,461,676	3.8

Table 2 Substantial share interests

## Annual General Meeting

Among the resolutions being put at the Annual General Meeting of the Company to be held on 8 December 2010, the following resolutions will be proposed:

### (i) Section 551 authority to allot shares

Resolution 10, which is an ordinary resolution, will, if approved, give the Directors a general authority to allot new securities up to an aggregate nominal value of £13,087,415, representing approximately 33.33 per cent. of the total Ordinary share capital of the Company in issue as at the date of this Directors' Report, such authority to expire on 28 February 2012 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

### (ii) Limited disapplication of Pre-emption Provisions

As noted above, resolution 10 will, if approved, give the Directors a general authority to allot securities up to an aggregate nominal amount of £13,087,415. Resolution 11, which is a special resolution, will, if approved, give the Directors power to allot unissued Ordinary shares up to a maximum aggregate nominal amount of £1,963,112, being 5% of the current issued share capital of the Company, for cash other than to existing shareholders pro rata to their holdings. A maximum of £13,087,415 of unissued Ordinary share capital may also be allotted for cash, pursuant to a rights issue made pro rata to shareholders in the future. Ordinary shares would only be issued for cash pursuant to a rights issue

at a price not less than the net asset value per share. This authority will expire on 28 February 2012 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

The Directors consider that the powers proposed to be granted by the above resolutions are necessary to provide flexibility to issue shares should they deem it to be in the best interests of shareholders as a whole. The Directors do not have any intention of exercising such powers at present.

### (iii) Purchase of the Company's own Ordinary shares

Resolution 12, which will be proposed as a special resolution, will authorise the Company to make market purchases of its own shares. The maximum number of Ordinary shares which may be purchased pursuant to the authority shall be 14.99% of the issued share capital of the Company as at the date of the passing of the resolution (approximately 29.4 million Ordinary shares). The minimum price which may be paid for an Ordinary share (exclusive of expenses) shall be 20p. The maximum price for an Ordinary share (again exclusive of expenses) shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations for the Company's Ordinary shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to an Ordinary share on the trading venue where the purchase is carried out.

This authority, if conferred, will only be exercised if to do so would enhance the net asset value per share and is in the best interests of shareholders generally. Shares so repurchased will be cancelled. This authority will expire on 28 February 2012 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

### (iv) Notice period for general meetings

The Company's Articles of Association enable the Company to call general meetings (other than an Annual General Meeting) on 14 clear days' notice. In order for this to be effective, the shareholders must also approve the calling of meetings on 14 days' notice by separate resolution. Resolution 13 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Companies Act 2006 (as amended by the

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Shareholders' Rights Regulations) before it can call a general meeting on 14 days' notice.

### Recommendation

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and recommend that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings totalling, in aggregate, 41,664 Ordinary shares, and representing 0.02% of the existing issued Ordinary share capital of the Company.

By order of the Board,  
**Aberdeen Asset Managers Limited**  
Secretary

Edinburgh, 14 October 2010

# Statement of Corporate Governance

## Compliance

The Company is committed to high standards of corporate governance. The Board is responsible for good governance, and this statement describes how the Company applies the principles identified in the 2008 Combined Code (appended to the Financial Services Authority Listing Rules) throughout the financial year. The Board confirms that the Company has complied throughout the accounting period to 31 August 2010 with the relevant provisions of the Combined Code. The Company is also a member of the Association of Investment Companies ('AIC'), which has published its own Code of corporate governance to recognise the special circumstances of investment trusts. The Board is of the opinion that the Company has complied with the recommendations of the AIC Code.

## The Board

The Board consists of seven non-executive Directors. Profiles of the Board members appear on pages 18 to 20 of the annual report. Each Director has the requisite range of business and financial experience to enable the Board to provide clear and effective leadership and proper stewardship of the Company. Mr Frame is the Senior Independent Director and is available to shareholders in the event that there are concerns that cannot be resolved through discussion with the Chairman.

The Company has no executive directors or employees. All Directors are considered to be independent of the Manager and to be free of any material relationship with the Manager which could interfere with the exercise of their independent judgement. The Board takes the view that length of service does not compromise independence. This is consistent with the AIC Code. Mr Watt, being a former director of Edinburgh Fund Managers Group plc, did have a material relationship with the Manager but given that relationship was over five years ago, he is deemed to be independent. When making a recommendation for re-electing a Director, the Board will take into account the on-going requirements of the Combined Code.

The Board has overall responsibility for the Company's affairs. It delegates, through an investment management agreement and specific instructions, the day-to-day management of the Company to the Manager, Aberdeen Asset Managers Limited.

The Board normally meets at least five times each year, and more frequently where business needs require. In addition, there is regular contact between the Directors and the Manager throughout the year. The following table sets out the number of scheduled Board meetings (including Committees) held during the financial year and the number of meetings attended by each Director.

Meetings held and attendance	Board meetings	Audit Committee meetings	Remuneration Committee meetings
Tony Cassidy	2/2	n/a	n/a
Frank Frame	5/5	n/a	n/a
David Gairns <sup>1</sup>	5/5	3/3	1/1
Tony Lowrie <sup>1</sup>	5/5	2/3	1/1
Allan McKenzie <sup>1</sup>	5/5	3/3	1/1
Peter Tyrie	5/5	n/a	n/a
Iain Watt	5/5	n/a	n/a

<sup>1</sup> Member of Audit Committee

<sup>2</sup> Iain McLaren was appointed on 6 September 2010 and therefore did not attend meetings during the financial year

Directors also attended a number of non-scheduled meetings to deal with special ad-hoc issues.

The Board has a schedule of matters reserved to it for decision, and the requirement for Board approval on these matters is communicated directly to the senior staff of the Manager. Such matters include overall strategy, review of investment policy, performance, borrowings, treasury, marketing, Board composition, corporate governance policy and communications with shareholders. Full and timely information is provided to the Board to enable the Directors to function effectively and to discharge their responsibilities. The Board also reviews the financial statements and revenue budgets.

## Performance Evaluation

An appraisal of each Director, including the Chairman, and of the operation of the Board and its Committees, was undertaken during the year. The Chairman's performance assessment was led by the Senior Independent Director. The Board also reviewed the Chairman's and Directors' other commitments. The Board is satisfied that each Director's performance continues to be effective, and that each remains fully committed to the Company.

There is no separate Nomination Committee. Director appraisals, succession planning, new appointments and training are considered by the whole Board.

## Succession Planning

In line with the Company's strong commitment to its corporate governance responsibilities, the Board regularly reviews its performance and structure to ensure it has the correct mix of relevant skills and experience for the good conduct of the Company's business. New Directors are

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identified against the requirements of the Company's business and the need to have a balanced Board. For new appointments a description of the required role is prepared and nominations of Directors are sought in the financial and investment sectors. External search consultants are used to ensure that a wide range of candidates can be considered.

The Board has agreed a succession planning programme in order to provide an appropriate balance between new blood and continuity, in line with good corporate governance. During the year an external consultant was employed by the Board to identify potential candidates for a new Board appointment. This resulted in the appointment of Iain McLaren as a non-executive director on 6 September 2010. Mr McLaren is a chartered accountant and a former senior partner at KPMG. He will offer himself for election by shareholders at the forthcoming Annual General Meeting and the Board supports his candidature.

The Company's Articles of Association provide that a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. All Directors are required to submit themselves for re-election at least once every three years. The Board's current policy is that Directors with more than nine years' service are required to submit themselves for annual re-election. In line with the Board's policy, Messrs Frame and Watt retire at this year's Annual General Meeting and offer themselves for re-election. The Board has reviewed the skills and experience of each Director, and supports their re-election. The Board also supports the re-election of Tony Lowrie who is due to retire under the Company's Articles of Association at this year's Annual General Meeting.

New Directors will be given appropriate induction from the Manager. All Directors are entitled to receive appropriate and relevant training.

There is a procedure for a Director to take independent professional advice, if necessary, at the Company's expense.

### Remuneration Committee

The Remuneration Committee, which comprises David Gairns (Chairman), Allan McKenzie and Tony Lowrie, is responsible for determining the level of Directors' fees. Details of Directors' remuneration are contained within the Directors' Remuneration Report.

### Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the

year under review and up to the date of approval of this annual report and accounts. It is regularly reviewed by the Board and accords with the FRC's guidance, 'Internal Control: Revised Guidance for Directors on the Combined Code'. The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and the policies by which these risks are managed. The significant risks faced by the Company are as follows:

- financial;
- operational;
- compliance; and
- reputational.

The Directors have delegated the investment management of the Company's assets to the Manager within overall guidelines, and this embraces implementation of the system of internal control, including financial, operational and compliance controls and risk management. Internal control systems are monitored and supported by an internal audit function which undertakes periodic examination of business processes, including compliance with the terms of the management agreement, and ensures that recommendations to improve controls are implemented.

Risks are identified and documented through a risk management framework by each function within the Manager's activities. Risk is considered in the context of the FRC guidance, and includes financial, regulatory, market operational and reputational risk. This helps the internal audit risk assessment model identify those functions for review. Any weaknesses identified are reported to the Board, and timetables are agreed for implementing improvements to systems. The implementation of any remedial action required is monitored and feedback provided to the Board.

Note 18 to the accounts provides further information on risks. The key components designed to provide effective internal control are outlined below:

- The Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance; the emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.
- The Board and the Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board and there are meetings with the Manager as appropriate.
- As a matter of course, the Manager's compliance department continually reviews the Manager's operations.

- Written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers.
- The Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place within the Manager, has decided to place reliance on the Manager's systems and internal audit procedures.
- The Audit Committee carried out six monthly reviews of internal controls, including the internal audit and compliance functions. At its October 2010 meeting, the Audit Committee performed its annual assessment of internal controls for the year ended 31 August 2010 and taking account of events since 31 August 2010. The results of the assessment were reported to the Board.

Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and by their nature can only provide reasonable, and not absolute, assurance against material misstatement or loss.

## Accountability and Audit

The respective responsibilities of the Directors and the auditors in connection with the financial statements appear on pages 30 and 32.

The members of the Audit Committee are Mr Cairns (Chairman), Mr McKenzie and Mr McLaren. Mr Lowrie stood down from the Audit Committee in October 2010. All members of the Audit Committee are chartered accountants and have the necessary recent and relevant financial experience. The Audit Committee considers reports from the external auditors and the Manager's internal audit and compliance functions. The terms of reference of the Audit Committee, which are available on request and on the Company's website, are reviewed and re-assessed on an annual basis. The main responsibilities of the Audit Committee are:

- to review and monitor the internal control systems and risk management systems on which the Company is reliant.
- to consider annually whether there is a need for the Company to have its own internal audit function.
- to monitor the integrity of the interim and annual financial statements of the Company by reviewing, and challenging where necessary, the actions and judgements of the Manager.
- to meet with the external auditors to review their proposed audit programme of work and the findings of the auditors. The Committee also uses this as an opportunity to assess the effectiveness of the audit process.

- to develop and implement policy on the engagement of the external auditors to supply non-audit services. The non-audit fees for the year to 31 August 2010 were £14,000, relating to the review of the interim accounts and their work on the Tender Offer. The Board will review any future non-audit fees in the light of the requirement to maintain the auditors' independence.
- to review the arrangements in place within the Manager whereby staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.
- to make recommendations to the Board in relation to the appointment of the external auditors and to approve the remuneration and terms of engagement of the external auditors.
- to monitor and review annually the external auditors' independence, objectivity, effectiveness, resources and qualification. At its October 2010 meeting, the Committee was satisfied that the auditors remained independent and objective.
- to review the performance of the Manager and its compliance with the Management Agreement.

## Going Concern

Shareholders are given the opportunity to vote on the continuation of the Company every three years. The last continuation vote was in December 2009 when shareholders voted in favour of continuation.

The Company's assets consist substantially of equity shares in companies listed on recognised stock exchanges and in most circumstances are realisable within a short timescale. The Directors believe that it is appropriate to continue to adopt the going concern basis in the preparation of the accounts, and they consider that the Company has adequate resources to continue in operational existence for the foreseeable future.

## Review of Manager

The Board keeps the resources of the Manager under constant review. In addition, it conducts an annual review of the terms and conditions of the Management Agreement ("Agreement") and of all aspects of the Manager's performance under this Agreement. The notice period for the Company under the Agreement if it wishes to terminate the Agreement is three months or on shorter notice in certain circumstances. Compensation is payable in lieu of the unexpired notice period if actual notice is less than the notice period. Following the most recent review, the Board concluded that the Manager, whose team is well-qualified and experienced, had satisfactorily met the terms of its Agreement with the Company, and is satisfied that the continuing appointment of the Manager is in the interests of the Company and its shareholders.

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## Relations with Shareholders

The Directors place great importance on communication with shareholders. Besides shareholders, the report and accounts are widely distributed to other parties who have an interest in the Company's performance. Shareholders and potential investors may obtain up-to-date information on the Company through the Manager's freephone information service, and the Company responds to letters from shareholders on a wide range of issues. The Manager maintains contact with institutional shareholders and feeds back shareholder views to the Board. The Board also met with representatives of the major shareholders during the financial year. The Company's annual and interim reports and other publications can be downloaded from the Company's website, [www.edinburghdragon.co.uk](http://www.edinburghdragon.co.uk).

It is the intention of the Board that, in the ordinary course, the notice of the Annual General Meeting included within the annual report and accounts is normally sent out at least 20 working days in advance of the meeting. All Directors intend to be available at the forthcoming Annual General Meeting, and shareholders are encouraged to attend. Proxy voting figures for each resolution are announced to the meeting after voting on a show of hands.

## Proxy Voting as an Institutional Shareholder

In relation to the use of the Company's voting rights in respect of investee companies, the Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights. The underlying aim of the exercising of such voting rights is to protect the return from an investment. The Manager's policy is to vote in a prudent and diligent manner, and, as far as is practicable, to vote at all meetings called by investee companies.

## Corporate Governance and Socially Responsible Investment Policy

The Directors, through the Manager, encourage companies in which investments are made to adhere to best practice in the area of Corporate Governance and Socially Responsible Investing. They believe that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies in both areas.

The Manager's ultimate objective, however, is to deliver superior investment return for their clients. Accordingly, whilst the Manager will seek to favour companies which pursue best practice in these areas, this must not be to the detriment of the return on the investment portfolio.

# Statement of Directors' Responsibilities

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The Directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge that:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

For Edinburgh Dragon Trust plc  
**Allan McKenzie**  
Chairman

14 October 2010

# Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 8 of the Large & Medium sized Companies & Groups (Accounts and reports) Regulation 2008. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires your Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 32.

## Remuneration Committee

The Company has seven non-executive Directors. The Remuneration Committee has responsibility for determining the level of Directors' fees. The Board has appointed the company secretary and Manager, Aberdeen Asset Managers Limited, to provide information when the Directors consider the level of Directors' fees.

## Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, and be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and have a similar investment objective. It is intended that this policy will continue for the year to August 2011 and subsequent years.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £200,000 per annum. Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.

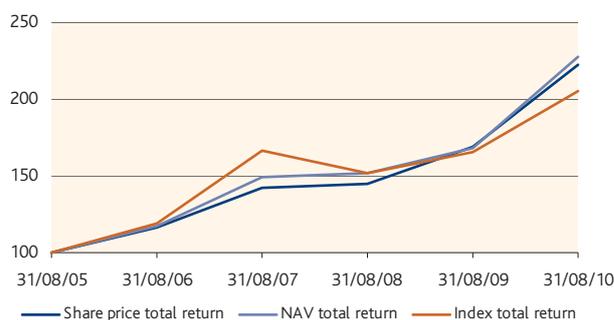
The Board carried out a review of Directors' fees during the year, and concluded that the fees payable to Directors should remain at £27,000 for the Chairman, £20,000 for the Chairman of the Audit Committee, £19,000 for each member of the Audit Committee and £18,000 for each Director. The last increase in fees was effective from 1 March 2009.

## Directors' Service Contracts

It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that a Director shall retire and be subject to election at the first Annual General Meeting after their appointment, and to re-election at least every three years after that. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

## Total Shareholder Return

The graph charts, for the five-year period to 31 August 2010 (rebased to 100 at 31 August 2005), the total shareholder return (assuming all dividends are reinvested) in each period for a holding in the Company's shares against the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the MSCI All Country Asia (ex Japan) Index is calculated. This index was chosen for comparison purposes only.



## Directors' Emoluments for the Year (audited)

The Directors who served in the year received emoluments in the form of fees, as described in the Table below.

	Year to 31 August 2010 £	Year to 31 August 2009 £
Tony Cassidy	7,400	24,750
Frank Frame	18,000	16,500
David Gairns	20,000	18,750
Tony Lowrie	19,000	17,000
Allan McKenzie	24,800	17,000
Peter Tyrie	18,000	16,500
Iain Watt	18,000	16,500
	<b>125,200</b>	<b>127,000</b>

## Approval

The Directors' Remuneration Report on page 31 was approved by the Board of Directors on 14 October 2010 and signed on its behalf by:

**Allan McKenzie**  
Chairman  
14 October 2010

# Independent Auditors' Report to the Members of Edinburgh Dragon Trust plc

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We have audited the financial statements of Edinburgh Dragon Trust plc for the period ended 31 August 2010 set out on pages 33 to 47. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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 Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the information given in the Corporate Governance Statement set out on pages 26 to 29 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; 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 page 28, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 26 to 29 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Richard Hinton (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
*Chartered Accountants*  
Edinburgh

14 October 2010

# Income Statement

	Notes	Year ended 31 August 2010			Year ended 31 August 2009		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	9	–	124,323	124,323	–	36,147	36,147
Currency gains/(losses)		–	205	205	–	(1,502)	(1,502)
Income	2	12,067	–	12,067	12,028	–	12,028
Investment management fee	3	(4,476)	–	(4,476)	(3,393)	–	(3,393)
Administration expenses	4	(1,279)	–	(1,279)	(1,152)	–	(1,152)
<b>Net return before finance costs and taxation</b>		<b>6,312</b>	<b>124,528</b>	<b>130,840</b>	<b>7,483</b>	<b>34,645</b>	<b>42,128</b>
Interest payable and similar charges	5	(130)	–	(130)	(1,513)	–	(1,513)
<b>Return on ordinary activities before taxation</b>		<b>6,182</b>	<b>124,528</b>	<b>130,710</b>	<b>5,970</b>	<b>34,645</b>	<b>40,615</b>
Taxation on ordinary activities	6	(698)	–	(698)	(633)	–	(633)
<b>Return on ordinary activities after taxation</b>		<b>5,484</b>	<b>124,528</b>	<b>130,012</b>	<b>5,337</b>	<b>34,645</b>	<b>39,982</b>
<b>Return per share (pence):</b>	<b>8</b>	<b>2.62</b>	<b>59.49</b>	<b>62.11</b>	<b>2.31</b>	<b>15.00</b>	<b>17.31</b>

The total column of this statement represents the profit and loss account of the Company.

A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses are recognised in the Income Statement.

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

The accompanying notes are an integral part of the financial statements.

# Balance Sheet

	Notes	As at 31 August 2010 £'000	As at 31 August 2009 £'000
<b>Non-current assets</b>			
Investments at fair value through profit or loss	9	467,876	410,773
<b>Current assets</b>			
Debtors and prepayments	10	910	1,371
Cash and short term deposits		4,525	3,308
		5,435	4,679
<b>Creditors: amounts falling due within one year</b>			
Other creditors	11	(1,987)	(1,378)
<b>Net current assets</b>		3,448	3,301
<b>Net assets</b>		<b>471,324</b>	<b>414,074</b>
<b>Share capital and reserves</b>			
Called-up share capital	12	39,262	46,190
Share premium account		4,285	4,285
Special reserve	12	6,726	75,770
Capital redemption reserve		16,945	10,017
Capital reserve	13	393,419	268,891
Revenue reserve		10,687	8,921
<b>Equity shareholders' funds</b>	14	<b>471,324</b>	<b>414,074</b>
<b>Net asset value per Ordinary share (pence)</b>	14	<b>240.09</b>	<b>179.29</b>

The financial statements were approved by the Board of Directors and authorised for issue on 14 October 2010 and were signed on its behalf by:

**Allan McKenzie**

Chairman

The accompanying notes are an integral part of the financial statements.

## Reconciliation of Movements in Shareholders' Funds

### For the year ended 31 August 2010

	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 31 August 2009	46,190	4,285	75,770	10,017	268,891	8,921	414,074
Return on ordinary activities after taxation	–	–	–	–	124,528	5,484	130,012
Dividends paid	–	–	–	–	–	(3,718)	(3,718)
Tender offer of own shares	(6,928)	–	(69,044)	6,928	–	–	(69,044)
<b>Balance at 31 August 2010</b>	<b>39,262</b>	<b>4,285</b>	<b>6,726</b>	<b>16,945</b>	<b>393,419</b>	<b>10,687</b>	<b>471,324</b>

### For the year ended 31 August 2009

	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 31 August 2008	46,190	4,285	75,770	10,017	234,246	7,279	377,787
Return on ordinary activities after taxation	–	–	–	–	34,645	5,337	39,982
Dividends paid	–	–	–	–	–	(3,695)	(3,695)
<b>Balance at 31 August 2009</b>	<b>46,190</b>	<b>4,285</b>	<b>75,770</b>	<b>10,017</b>	<b>268,891</b>	<b>8,921</b>	<b>414,074</b>

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

The accompanying notes are an integral part of the financial statements.

# Cash Flow Statement

	Notes	Year ended 31 August 2010		Year ended 31 August 2009	
		£'000	£'000	£'000	£'000
<b>Net cash inflow from operating activities</b>	15		7,036		7,505
<b>Servicing of finance</b>					
Bank and loan interest paid			(130)		(2,030)
<b>Taxation</b>					
Net tax paid			(867)		(505)
<b>Financial investment</b>					
Purchases of investments		(32,516)		(48,526)	
Sales of investments		100,251		53,434	
<b>Net cash inflow from financial investment</b>			67,735		4,908
<b>Equity dividend paid</b>			(3,718)		(3,695)
<b>Net cash inflow before financing</b>			70,056		6,183
<b>Financing</b>					
Tender offer of own shares (including expenses)			(69,044)		–
Sale of Certificates of Deposit			–		33,071
Repayment of Loan Notes			–		(55,446)
<b>Net cash outflow from financing</b>			(69,044)		(22,375)
<b>Increase/(decrease) in cash</b>	16		<b>1,012</b>		<b>(16,192)</b>
<b>Reconciliation of net cash inflow to movements in net funds</b>					
Increase/(decrease) in cash as above			1,012		(16,192)
Sale of Certificates of Deposit			–		(33,071)
Repayment of Loan Notes			–		55,446
Exchange movements			205		(1,502)
<b>Movement in net funds in the year</b>			1,217		4,681
Net funds/(debt) at 1 September			3,308		(1,373)
<b>Net funds at 31 August</b>			<b>4,525</b>		<b>3,308</b>

The accompanying notes are an integral part of the financial statements.

## 1. Accounting policies

### (a) Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified to include the revaluation of investments and in accordance with the applicable UK Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in January 2009). They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The financial statements have been prepared on a going concern basis. The Directors believe this is appropriate for the reasons outlined in the Statement of Corporate Governance on page 28.

The financial statements, and the net asset value per share figures, have been prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP').

### (b) Investments

Listed investments have been designated upon initial recognition as fair value through profit and loss. Investments are recognised and de-recognised on the trade date at cost. Subsequent to initial recognition, investments are valued at fair value, which for listed investments is deemed to be bid market prices. Gains and losses arising from changes in fair value are included as a capital item in the Income Statement and are ultimately recognised in the capital reserve except to the extent where they are readily convertible to cash.

### (c) Income

Dividends (other than special dividends), including taxes deducted at source, are included in revenue by reference to the date on which the investment is quoted ex-dividend. Special dividends are reviewed on a case-by-case basis and may be credited to capital, if circumstances dictate. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity shares are recognised on a time-apportioned basis so as to reflect the effective yield on shares. Other returns on non-equity are recognised when the right to return is established. The fixed return on a debt security, if material, is recognised on a time apportioned basis so as to reflect the effective yield on each security. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of cash dividend is recognised in capital reserves. Interest receivable on bank balances is dealt with on an accruals basis.

### (d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue column of the Income Statement with the exception of expenses directly relating to the acquisition or disposal of an investment, in which case, they are added to the cost of the investment or deducted from the sale proceeds. Such transaction costs are disclosed in accordance with the SORP. These expenses are charged to the capital column of the Income Statement and are separately identified and disclosed in note 9.

### (e) Deferred taxation

Deferred taxation is provided on all timing differences, that have originated but not reversed at the Balance Sheet date, where transactions or events that result in an obligation to pay more or a right to pay less tax in future have occurred at the Balance Sheet date, measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods. Due to the Company's status as an investment trust company, and the intention to continue to meet the conditions required to obtain approval for the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

### (f) Capital reserves

Gains and losses on investments and changes in fair values of investments which are readily convertible to cash, without accepting adverse terms, are transferred to the capital reserve.

## Notes to the Financial Statements continued

### (g) Foreign currency

Assets and liabilities in foreign currencies are translated at the rates of exchange ruling on the Balance Sheet date. Transactions involving foreign currencies are converted at the rate ruling on the date of the transaction. Gains and losses on the realisation of foreign currencies are recognised in the Income Statement and are then transferred to the capital reserve.

### (h) Dividends payable

Final dividends are dealt with in the period in which they are paid.

2. Income	2010 £'000	2009 £'000
<b>Income from investments<sup>A</sup></b>		
UK dividend income	436	364
Overseas dividends	11,043	11,252
Scrip dividends	579	10
	<b>12,058</b>	<b>11,626</b>
<b>Other income<sup>B</sup></b>		
Deposit interest	9	402
<b>Total income</b>	<b>12,067</b>	<b>12,028</b>

<sup>A</sup> Derived from financial assets at fair value through profit and loss.

<sup>B</sup> Derived from financial assets not at fair value through profit and loss.

### Income from investments

Listed UK	436	364
Listed overseas	11,622	11,262
	<b>12,058</b>	<b>11,626</b>

3. Investment management fee	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	<b>4,476</b>	–	<b>4,476</b>	<b>3,393</b>	–	<b>3,393</b>

The management fee paid to Aberdeen Asset Managers Limited ('the Manager') is 0.25% per quarter of the total net assets less (i) the value of any investment funds managed by the Manager and (ii) 50% of the value of any investment funds managed or advised by investment managers other than the Manager.

The management agreement is terminable by the Company on 3 months' notice or in the event of a change of control in the ownership of the Manager. The notice period required by the Manager is 6 months.

	2010	2009
	£'000	£'000
<b>4. Administrative expenses</b>		
Share Plan marketing contribution	187	212
Directors' fees	125	127
Safe custody fees	516	366
Auditors' remuneration:		
– Fees payable to the Company's auditors for the audit of the Company's annual accounts	16	14
– Fees payable to the Company's auditors for the review of the Company's half yearly accounts	4	4
Secretarial fee	76	75
Other expenses	355	354
	<b>1,279</b>	<b>1,152</b>

The secretarial fee is paid to the Manager and adjusted annually in line with the Retail Prices Index. The contribution to Share Plan Marketing was paid to the Manager in respect of marketing and promotion of the Company.

During the year £4,000 (2009 – £4,000) was paid to the auditors' for non-audit services. This related to further assurance work regarding the interim and regulatory reporting.

During the year an additional amount of £10,000 (2009 – nil) was paid to KPMG for services relating to the tender offer. This figure is reflected within the tender offer of own shares in the Reconciliation of Movements in Shareholders' Funds.

No pension contributions were made in respect of any of the Directors.

The Company does not have any employees.

	2010	2009
	£'000	£'000
<b>5. Interest payable and similar charges</b>		
Loans repayable in less than 1 year <sup>A</sup>	130	1,513

<sup>A</sup> Derived from liabilities not at fair value through profit and loss.

6. Taxation	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>(a) Analysis of charge for the year</b>						
Corporation tax	–	–	–	347	–	347
Double tax relief	–	–	–	(202)	–	(202)
Overseas tax	698	–	698	488	–	488
Taxation on ordinary activities	<b>698</b>	<b>–</b>	<b>698</b>	<b>633</b>	<b>–</b>	<b>633</b>

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

The tax assessed for the year is lower than the standard rate of corporation tax in the UK.

## Notes to the Financial Statements continued

	Revenue £'000	2010 Capital £'000	Total £'000	Revenue £'000	2009 Capital £'000	Total £'000
Return on ordinary activities before taxation	6,182	124,528	130,710	5,970	34,645	40,615
Corporation tax at 28% (2009 – 28%)	1,731	34,868	36,599	1,672	9,700	11,372
Deduct effect of capital:						
UK dividend income	(122)	–	(122)	(102)	–	(102)
Gains on investments not taxable	–	(34,810)	(34,810)	–	(10,121)	(10,121)
Currency (gains)/losses not taxable	–	(58)	(58)		421	421
Other non-taxable income	(3,254)	–	(3,254)	(1,104)	–	(1,104)
Increase/(decrease) in excess expenses and loan relationship deficit	1,645	–	1,645	(357)	–	(357)
Double tax relief taken	–	–	–	(202)	–	(202)
Movement in taxable accrued income	–	–	–	238	–	238
Overseas tax suffered	698	–	698	488	–	488
<b>Current tax charge for year</b>	<b>698</b>	<b>–</b>	<b>698</b>	<b>633</b>	<b>–</b>	<b>633</b>

At 31 August 2010, the Company had unutilised loan relationship losses of £130,000 (2009 – £nil) and unrelieved excess management expenses of £5,745,000 (2009 – £nil). No deferred tax asset has been recognised on the unutilised loan relationship losses and unrelieved excess management expenses.

### 7. Dividends

In order to comply with the requirements of Sections 1158 - 1159 of the Corporation Tax Act 2010 (formerly S842 ICTA 1988) and with company law, the Company is required to make a final dividend distribution.

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The table below sets out the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Sections 1158 – 1159 are considered. The revenue available for distribution by way of dividend for the year is £5,484,000 (2009 – £5,337,000).

	2010 £'000	2009 £'000
Proposed final dividend for 2010 – 1.90p per Ordinary share (2009 – 1.61p)	<b>3,730</b>	<b>3,718</b>

The final dividend will be paid on 10 December 2010 to shareholders on the register at the close of business on 12 November 2010.

### 8. Return per Ordinary share

	2010		2009	
	£'000	pence	£'000	pence
Revenue return	5,484	2.62	5,337	2.31
Capital return	124,528	59.49	34,645	15.00
<b>Total return</b>	<b>130,012</b>	<b>62.11</b>	<b>39,982</b>	<b>17.31</b>
Weighted average Ordinary shares in issue	<b>209,314,267</b>		<b>230,954,375</b>	

9. Investments	Listed overseas £'000	Listed in UK £'000	Total £'000
Fair value through profit or loss:			
Opening book cost	267,191	6,773	273,964
Opening fair value gains on investments held	135,693	1,116	136,809
Opening fair value	402,884	7,889	410,773
Movements in year:			
Purchases at cost	32,467	637	33,104
Sales – proceeds	(100,324)	–	(100,324)
– gains on sales	40,630	–	40,630
Current year fair value gains on investments held	81,639	2,054	83,693
Closing fair value	<b>457,296</b>	<b>10,580</b>	<b>467,876</b>
Closing book cost	239,964	7,410	247,374
Closing fair value gains on investments held	217,332	3,170	220,502
Closing fair value	<b>457,296</b>	<b>10,580</b>	<b>467,876</b>

	2010 £'000	2009 £'000
Listed on a recognised overseas investment exchange	457,296	402,884
Listed in the UK	10,580	7,889
	<b>467,876</b>	<b>410,773</b>

	2010 £'000	2009 £'000
<b>Gains on investments held at fair value through profit or loss</b>		
Realised gains on sales	40,630	117
Increase in fair value gains on investments held	83,693	36,030
	<b>124,323</b>	<b>36,147</b>

#### Transaction costs

During the year expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains on investments in the Income Statement. The total costs were as follows:

	2010 £'000	2009 £'000
Purchases	111	88
Sales	268	194
	<b>379</b>	<b>282</b>

10. Debtors and prepayments	2010 £'000	2009 £'000
Accrued income	769	1,306
Amounts due from brokers	73	–
Other debtors and prepayments	68	65
	<b>910</b>	<b>1,371</b>

## Notes to the Financial Statements continued

	2010	2009
	£'000	£'000
<b>11. Creditors: amounts falling due within one year</b>		
Outstanding purchase settlements	588	–
Corporation tax payable	–	145
Other creditors	1,399	1,233
	<b>1,987</b>	<b>1,378</b>

A multi-currency revolving advance facility of £40 million was implemented with The Royal Bank of Scotland on 30 September 2008. The commitment period of the new facility commenced on 30 September 2008 and ends on 29 September 2010. Interest will be charged at the margin above the rate at which Sterling/foreign currency deposits of comparable amount to the relevant advance are offered by LIBOR on the date on which the advance is required. A covenant has been imposed by The Royal Bank of Scotland that the gearing ratio, being gross borrowings divided by adjusted assets shall not exceed 25%.

	2010	2009
	£'000	£'000
<b>12. Called up share capital</b>		
<b>Authorised</b>		
325,000,000 (2009 – 325,000,000) Ordinary shares of 20p	<b>65,000</b>	<b>65,000</b>
<b>Called-up, allotted and fully paid</b>		
196,311,219 (2009 – 230,954,375) Ordinary shares of 20p	<b>39,262</b>	<b>46,190</b>

During the 12 months to 31 August 2010 the Company announced a Tender Offer for up to 15% of the Ordinary shares of the Company, which resulted in 15% being tendered (34,643,156 Ordinary shares). As a result, 15% of the assets of the Company (valued at £68,343,809) was distributed to exiting Ordinary shareholders. The costs of the Tender Offer were wholly borne by the exiting Ordinary shareholders. The buyback of the Ordinary shares under the Tender Offer has been accounted for through the special reserve which was created in 1998 following Court approval to cancel the share premium account. The buyback represented 17.65% of the issued Ordinary share capital at 31 August 2010. No Ordinary shares were bought back during the year to 31 August 2009.

	2010	2009
	£'000	£'000
<b>13. Capital reserve</b>		
At 1 September	268,891	234,246
Movement in fair value gains	124,323	36,147
Foreign exchange movement	205	(1,502)
At 31 August	<b>393,419</b>	<b>268,891</b>

The capital reserve includes investment holding gains amounting to £220,502,000 (2009 – £136,809,000), as disclosed in note 9.

#### 14. Net asset value per share

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

	2010	2009
Net assets attributable (£'000)	471,324	414,074
Number of Ordinary shares in issue (excluding shares held in treasury)	196,311,219	230,954,375
Net asset value per share (p)	240.09	179.29

15. Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities	2010 £'000	2009 £'000
Net return before finance costs and taxation	130,840	42,128
Adjusted for:		
Gains on investments	(124,323)	(36,147)
Currency (gains)/losses	(205)	1,502
Decrease/(increase) in accrued income	561	(109)
(Increase)/decrease in other debtors	(3)	7
Increase in sundry creditors including management fee due	166	124
<b>Net cash inflow from operating activities</b>	<b>7,036</b>	<b>7,505</b>

16. Analysis of changes in net funds	1 September 2009 £'000	Cash flow £'000	Currency movements £'000	31 August 2010 £'000
Cash and short term deposits	3,308	1,012	205	4,525
<b>Net funds</b>	<b>3,308</b>	<b>1,012</b>	<b>205</b>	<b>4,525</b>

#### 17. Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern; and
- to maximise the capital return to its equity shareholders through an appropriate balance of equity capital and debt. The Board normally seeks to limit gearing to 20% of net assets.

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes the nature and planned level of gearing, which takes account of the Manager's views on the market, and the extent to which revenue in excess of that which is required to be distributed should be retained. The Company has no externally imposed capital requirements.

#### 18. Financial instruments

##### Risk management

The Company's financial instruments comprise securities and other investments, cash balances, loans and debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income.

The Manager has a dedicated investment management process, which ensures that the investment policy explained on page 3 is followed. Stock selection procedures are in place based on the active portfolio management and identification of stocks. The portfolio is reviewed on a periodic basis by a Senior Investment Manager and also by the Manager's Investment Committee.

The Company's Manager has an independent Investment Risk department for reviewing the investment risk parameters of

## Notes to the Financial Statements continued

the Company's portfolio on a regular basis. The department reports to the Manager's Performance Review Committee which is chaired by the Manager's Chief Investment Officer. The department's responsibility is to review and monitor ex-ante (predicted) portfolio risk and style characteristics using best practice, industry standard multi-factor models.

Additionally, the Manager's Compliance department continually monitors the trust's investment and borrowing powers and reports to the Manager's Risk Management Committee.

The main financial risks that the Company faces from its financial instruments are market price risk (comprising interest rate risk, currency risk and other price risk), liquidity risk and credit risk.

The Board regularly reviews and agrees policies for managing each of these risks. The Manager's policies for managing these risks are summarised below and have been applied throughout the year. The numerical disclosures exclude short-term debtors and creditors.

### Market price risk

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

### Interest rate risk

Interest rate movements may affect :

- the level of income receivable on cash deposits;
- interest payable on the Company's variable rate borrowings.

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 and borrowing decisions.

### Interest risk profile

The interest rate risk profile of the portfolio of the Company's financial assets and liabilities, excluding equity holdings which are all non-interest bearing, at the Balance Sheet date was as follows:

	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000
<b>At 31 August 2010</b>				
<b>Assets</b>				
Indian Rupee	–	–	–	50
UK Sterling	–	0.25	–	902
US Dollar	–	–	–	3,573
	<b>n/a</b>	<b>n/a</b>	<b>–</b>	<b>4,525</b>
<b>At 31 August 2009</b>				
<b>Assets</b>				
Hong Kong Dollar	–	–	–	1,227
UK Sterling	–	0.25	–	235
Taiwanese Dollar	–	–	–	64
US Dollar	–	–	–	1,782
	<b>n/a</b>	<b>n/a</b>	<b>–</b>	<b>3,308</b>

The weighted average interest rate is based on the current yield of each asset, weighted by its market value.

The weighted average interest rate on bank loans is based on the interest rate payable, weighted by the total value of the loans.

The floating rate assets consist of cash deposits on call earning interest at prevailing market rates.

The Company's equity portfolio and short-term debtors and creditors (excluding bank loans) have been excluded from the above tables.

### Interest rate sensitivity

Movements in interest rates would not significantly affect net assets attributable to the Company's shareholders and total profit.

### Foreign currency risk

All of the Company's investment portfolio is invested in overseas securities and the Balance Sheet, therefore, can be significantly affected by movements in foreign exchange rates. It is not the Company's policy to hedge this risk on a continuing basis but the Company may, from time to time, match specific overseas investments with foreign currency borrowings.

The revenue account is subject to currency fluctuation arising on dividends paid in foreign currencies. The Company does not hedge this currency risk.

Foreign currency risk exposure by currency of denomination:

	31 August 2010			31 August 2009		
	Overseas investments <sup>A</sup> £'000	Net monetary assets £'000	Total currency exposure £'000	Overseas investments <sup>A</sup> £'000	Net monetary assets £'000	Total currency exposure £'000
Hong Kong Dollar	137,864	–	137,864	121,063	1,227	122,290
Indian Rupee	68,687	50	68,737	68,685	–	68,685
Indonesian Rupiah	9,758	–	9,758	8,564	–	8,564
Korean Won	36,676	–	36,676	34,608	–	34,608
Malaysian Ringgit	24,719	–	24,719	19,282	–	19,282
Philippine Peso	15,244	–	15,244	10,552	–	10,552
Singapore Dollar	92,776	–	92,776	91,320	–	91,320
Sri Lankan Rupee	15,874	–	15,874	5,378	–	5,378
Sterling	10,580	902	11,482	7,889	235	8,124
Taiwanese Dollar	25,288	–	25,288	19,689	64	19,753
Thailand Baht	30,410	–	30,410	23,743	–	23,743
US Dollar	–	3,573	3,573	–	1,782	1,782
<b>Total</b>	<b>467,876</b>	<b>4,525</b>	<b>472,401</b>	<b>410,773</b>	<b>3,308</b>	<b>414,081</b>

<sup>A</sup> By country of listing.

### Foreign currency sensitivity

There is no sensitivity analysis included, as the Company's significant foreign currency financial instruments are in the form of equity investments, which have been included within the other price risk sensitivity analysis, so as to show the overall level of exposure.

### Other price risk

Other price risks (ie changes in market prices other than those arising from interest rate or currency risk) may affect the value of the quoted investments.

It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular country or sector. Both the allocation of assets and the stock selection process, as detailed on page 11, act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. The investments held by the Company are listed on various stock exchanges worldwide.

### **Other price risk sensitivity**

If market prices at the Balance Sheet date had been 10% higher or lower while all other variables remained constant, the return attributable to Ordinary shareholders for the year ended 31 August 2010 would have increased/decreased by £46,788,000 (2009 – increased/decreased by £41,077,000) and equity reserves would have increased/decreased by the same amount.

### **Liquidity risk**

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is not considered to be significant, as the Company's assets mainly comprise readily realisable securities which can be sold to meet funding requirements if necessary.

The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions, and reviews these on a regular basis. Borrowings comprise a revolving multi-currency credit facility. The Board has imposed a maximum gearing level, measured on the most stringent basis of calculation after netting off cash equivalents, of 20%. Details of borrowings at 31 August 2010 are shown in note 11.

Liquidity risk is not considered to be significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. Short-term flexibility is achieved through the use of loan and overdraft facilities, details of which can be found in note 11. Under the terms of the loan facility, the Investment Manager provides the lender with loan covenant reports on a monthly basis, to provide the lender with assurance that the terms of the facility are not being breached. The Investment Manager will also review the credit rating of a lender on a regular basis. Details of the Board's policy on gearing are shown in the interest rate risk section of this note.

### **Liquidity risk exposure**

At 31 August 2010 the Company had no borrowings (2009 – £nil).

### **Credit risk**

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

The risk is not considered to be significant, and is actively managed as follows:

- investment transactions are carried out with a large number of brokers, whose credit-standing is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a monthly basis. In addition, the Custodian carries out a stock reconciliation to third party administrators' records on a monthly basis to ensure discrepancies are picked up on a timely basis. The Manager's Compliance department carries out periodic reviews of the Custodian's operations and reports its findings to the Manager's Risk Management Committee. This review will also include checks on the maintenance and security of investments held;
- cash is held only with reputable banks with high quality external credit enhancements.

None of the Company's financial assets are secured by collateral or other credit enhancements.

### **Credit risk exposure**

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 August was as follows:

	2010		2009	
	Balance Sheet £'000	Maximum exposure £'000	Balance Sheet £'000	Maximum exposure £'000
<b>Current assets</b>				
Loans and receivables	910	910	1,371	1,371
Cash at bank and in hand	4,525	4,525	3,308	3,308
	<b>5,435</b>	<b>5,435</b>	<b>4,679</b>	<b>4,679</b>

None of the Company's financial assets is past due or impaired.

#### Maturity of financial liabilities

The maturity profile of the Company's financial liabilities at 31 August was as follows:

	2010 £'000	2009 £'000
In less than one year	–	–

#### 19. Fair value hierarchy

The Company adopted the amendments to FRS 29 'Financial Instruments: Disclosures' effective from 1 January 2009. These amendments require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy at 31 August 2010 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets at fair value through profit or loss</b>					
Quoted equities	a)	<b>467,876</b>	–	–	<b>467,876</b>

#### 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 Fair Value Level 1 are actively traded on recognised stock exchanges.

# Marketing Strategy

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Edinburgh Dragon Trust plc contributes to the marketing programme run by the Aberdeen Group ("AAM") on behalf of a number of investment trusts under its management. Under this agreement the Company's contribution is matched by AAM. This contribution is reviewed annually.

The purpose of the Programme is to communicate effectively with existing Shareholders and gain more new Shareholders, thus improving liquidity and thereby enhancing the value and rating of the Company's shares.

These aims can be met in several ways:

## Investor Relations Programme

AAM runs an investor relations programme to existing and prospective institutional investors in investment trusts. Each month institutional investors and prospects receive a Manager's report on your Company that includes detailed performance analysis.

## Group Schemes

AAM runs a group Share Plan and ISA. These schemes allow investment free of dealing costs and, with only nominal exit charges, have proved popular with private investors.

## Newsletter

The 'Bulletin' newsletter, an informed commentary on markets and investment trusts managed by AAM, is distributed free of charge.

## Public Relations

AAM undertakes to brief journalists, write regularly through placed articles and ensure Company results and any corporate activity are brought to public attention.

## Shareholder Services

AAM runs an investment help desk for retail enquirers and investors. Enquirers or investors will be sent any relevant literature on request and have queries answered immediately.

The Marketing Programme is under the direction of AAM's Head of Investor Relations who has considerable experience in the marketing and communications of investment products. He is supported by a team of marketing professionals.

## Internet

The AAM Investment Trust website contains details of closed funds and investment companies managed or advised by the Aberdeen Group.

Edinburgh Dragon Trust plc has its own dedicated website at: [www.edinburghdragon.co.uk](http://www.edinburghdragon.co.uk). This allows web users to access information on the Company's share price performance, capital structure, stock exchange announcements and monthly reports. The site is continuously being evaluated for improvement.

It is intended that ongoing Programme activities in these various fields, both proactive and supportive, will assist the Company to increase and maintain its Shareholder base, improve liquidity and sustain ratings.

The Company is committed to the close monitoring of the Programme. The Head of Investor Relations for Investment Trusts reports to the Board and provides a written summary quarterly.

If you have any questions about your Company, the Manager or performance, please telephone AAM Customer Services Department (direct private investors) on 0500 00 00 40. Alternatively, internet users may e-mail AAM at [inv.trusts@aberdeen-asset.com](mailto:inv.trusts@aberdeen-asset.com) or write to AAM at Aberdeen Investment Trusts, Block C, Western House, Lynchwood Business Park, Peterborough PE2 6BP

# How to Invest in Edinburgh Dragon Trust plc

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## How to Invest

Investors can buy and sell shares directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively shares can be bought directly through Aberdeen's Investment Plan for Children and Aberdeen's Investment Trust Share Plan, Investment Trust ISA or ISA Transfer.

## Aberdeen's Investment Plan for Children

Aberdeen Asset Managers ("AAM") runs an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including Edinburgh Dragon Trust plc. Anyone can invest in the Children's Plan, including parents, grandparents and family friends. All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on entry. Selling costs are £10+VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing AAM in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts.

## Aberdeen's Investment Trust Share Plan

AAM runs a Share Plan (the "Plan") through which shares in Edinburgh Dragon Trust plc can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors simply pay Government Stamp Duty (currently 0.5%) on entry. Selling costs are £10+ VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing AAM in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

## Stocks and Shares ISA

An investment of up to £10,200 in Edinburgh Dragon Trust plc can be made in the tax year 2010/2011.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £15+ VAT. The annual ISA management charge is £24+ VAT, calculated six monthly and deducted from income. Under

current legislation, investments in ISAs can grow free of capital gains tax.

## ISA Transfer

You can choose to transfer previous tax year investments to us which can be invested in Edinburgh Dragon Trust plc while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per trust of £250.

## Note

Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs, may be changed by future legislation.

## Trust Information

If investors would like details of Edinburgh Dragon Trust plc or information on the Children's Plan, Share Plan, ISA or ISA Transfers please telephone 0500 00 00 40 or write to Aberdeen Investment Trusts, Block C, Western House, Lynchwood Business Park, Peterborough PE2 6BP or e-mail [inv.trusts@aberdeen-asset.com](mailto:inv.trusts@aberdeen-asset.com). Details are also available on [www.invtrusts.co.uk](http://www.invtrusts.co.uk)

## Literature Request Service

For literature and application forms for the Manager's investment trust products, please contact:  
Telephone: 0500 00 40 00  
Email: [aam@lit-request.com](mailto:aam@lit-request.com)

## Keeping you Informed

The Company's share price appears daily in the Financial Times and the Daily Telegraph.

For internet users, detailed data on the Company, including price, performance information and a monthly fact sheet is available on the Company's website ([www.edinburghdragon.co.uk](http://www.edinburghdragon.co.uk)) and the TrustNet website ([www.trustnet.co.uk](http://www.trustnet.co.uk)). Alternatively you can call 0500 00 00 40 for trust information.

# How to Invest in Edinburgh Dragon Trust plc continued

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## Contact Us

For information on Edinburgh Dragon Trust plc and for any administrative queries relating to the Investment Plan for Children, Share Plan, ISA or ISA Transfer please contact:

Aberdeen Investment Trust Administration  
Block C, Western House  
Lynchwood Business Park  
Peterborough, PE2 6BP  
Telephone: 0500 00 00 40

Alternatively, if you have an administrative query which relates to a certificated holding, please contact the Registrar, as follows:

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA  
Telephone: 0871 384 2499  
Fax: 0871 384 2100  
Shareview Enquiry Line: 0871 384 2020  
Textel/hard of hearing: 0871 384 2255

(Calls to the above numbers will be charged at 8p per minute from a BT Landline. Other telephony providers' costs may vary.)

The above information has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Services Authority.

# Glossary of Terms and Definitions

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## **Actual Gearing**

Total Assets (as below) less all cash and fixed interest assets (excluding convertibles) divided by shareholders' funds.

## **Asset Cover**

The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.

## **Discount**

The amount by which the market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.

## **Dividend Cover**

Earnings per share divided by dividends per share expressed as a ratio.

## **Dividend Yield**

The annual dividend expressed as a percentage of the share price.

## **Net Asset Value**

The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. The net asset value divided by the number of shares in issue produces the net asset value per share.

## **Potential Gearing**

Total Assets including all debt being used for investment purposes divided by shareholders' funds.

## **Premium**

The amount by which the market price per share of an investment trust exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.

## **Price/Earnings Ratio**

The ratio is calculated by dividing the middle-market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.

## **Prior Charges**

The name given to all borrowings including debentures, loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.

## **Total Assets**

Total Assets less current liabilities (before deducting prior charges as defined above).

## **Total Expense Ratio**

Ratio of expenses as percentage of average shareholders' funds calculated as per the industry standard Lipper Fitzrovia method.

## **Total Return**

Total Return involves reinvesting the net dividend in the month that the share price goes up. The NAV Total Return involves investing the same net dividend in the NAV of the trust on the date to which that dividend was earned, eg quarter end, half year or year end date.

## **Winding-up Date**

The date specified in the Articles of Association for winding-up a company.

# Notice of Annual General Meeting

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Notice is hereby given that the twenty-third Annual General Meeting of Edinburgh Dragon Trust plc will be held at Bow Bells House, 1 Bread Street, London EC4M 9HH on 8 December 2010 at 12 noon to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 10 inclusive will be proposed as ordinary resolutions and resolutions 11 to 13 inclusive will be proposed as special resolutions:

## Ordinary Business

1. To receive the reports of the Directors and auditors and the audited financial statements for the year to 31 August 2010.
2. To receive the Directors' Remuneration Report for the year to 31 August 2010.
3. To approve payment of a final dividend of 1.90p per Ordinary share.
4. To elect Mr McLaren as a Director of the Company.
5. To re-elect Mr Frame as a Director of the Company.
6. To re-elect Mr Lowrie as a Director of the Company
7. To re-elect Mr Watt as a Director of the Company.
8. To re-appoint KPMG Audit Plc as auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
9. To authorise the Directors to determine the remuneration of the auditors for the year to 31 August 2011.
10. That, in substitution for any pre-existing power to allot or grant rights to subscribe for or to convert any security into shares in the Company, but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company ("securities") up to an aggregate nominal amount of £13,087,415, such authority to expire on 28 February 2012 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.
11. That, subject to the passing of resolution 10 in the notice convening the meeting at which this resolution is to be proposed ("the notice of meeting") and in substitution for all existing powers, the Directors be and are hereby generally empowered pursuant to section 570 of Companies Act 2006 (the "Act") to allot equity securities (as defined in section 560 (1) of the Act) for cash pursuant to the authority under section 551 of the Act conferred by resolution 11 in the notice of meeting as if section 561 of the Act did not apply to any such allotment, up to an aggregate nominal amount of £13,087,415, provided that this power shall be limited:
  - (i) to the allotment of equity securities in connection with any issue in favour of the holders of Ordinary shares on the register on a date fixed by the Directors where the equity securities respectively attributable to the interests of all the holders of Ordinary shares are proportionate (as nearly as practicable) to the respective numbers of Ordinary shares held by them on that date, provided that the Directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange; and
  - (ii) to the allotment (otherwise than pursuant to paragraph (i) of this resolution) of equity securities up to an aggregate nominal amount of £1,963,112, being 5% of the nominal value of the existing issued share capital of the Company; and shall expire on 28 February 2012 or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

## Special Business

12. That, in substitution for any existing authority under section 701 of the Companies Act 2006 (the "Act"), but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and 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 fully paid Ordinary shares of 20p each in the capital of the Company ("shares") provided that:

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- (i) the maximum aggregate number of shares hereby authorised to be purchased is 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;
  - (ii) the minimum price which may be paid for a share shall be 20p (exclusive of expenses);
  - (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount being not more than the higher of (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to a share on the trading venue where the purchase is carried out; and
  - (iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 28 February 2012 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase shares under such authority which would or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired.
13. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days notice provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution.

By order of the Board  
**Aberdeen Asset Managers Limited**  
Secretary  
8 November 2010

Registered office:  
40 Princes Street  
Edinburgh EH2 2BY

#### Notes:

- (i) A member is entitled to appoint a proxy or proxies to exercise all or any of their rights to attend, speak and vote on their behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share.
- (ii) A form of proxy for use by shareholders is enclosed with these accounts. Completion and return of the form of proxy will not prevent any shareholder from attending the meeting and voting in person. To be valid, the form of proxy should be lodged, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority at the address stated thereon, so as to be received not less than 48 hours (excluding non-working days) before the time of the meeting.
- (iii) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, to have the right to attend and vote at the Meeting a member must first have his or her name entered in the Company's register of members by not later than 6.00pm on Monday 6 December 2010 (or, in the event that the Meeting is adjourned, at 6.00pm on the day which is two business days before the time of the adjourned Meeting). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the Meeting referred to above.
- (iv) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the website [www.euroclear.com/CREST](http://www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- (v) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After

## Notice of Annual General Meeting continued

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this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

- (vi) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- (vii) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- (viii) The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with Section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in notes i) and ii) above does not apply to Nominated Persons. The rights described in these notes can only be exercised by members of the Company.
- (ix) No Director has a service contract with the Company but copies of Directors' letters of appointment will be available for inspection for at least 15 minutes prior to the Meeting and during the Meeting.
- (x) As at close of business on 1 November 2010 (being the latest practicable date prior to publication of this document), the Company's issued share capital comprised 196,311,219 Ordinary shares of 20p each. The total number of voting rights in the Company as at 1 November 2010 was 196,311,219.
- (xi) Any person holding 3% or more of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
- (xii) Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.
- (xiii) The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the Auditors' Report and the conduct of the audit, which they intend to raise at the next meeting of the Company. The Company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the Company or (ii) at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address, and be sent to: The Company Secretary, Edinburgh Dragon Trust plc, 40 Princes Street, Edinburgh EH2 2BY.
- (xiv) Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from the Company's website, [www.edinburghdragon.co.uk](http://www.edinburghdragon.co.uk).
- (xv) Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:
  - a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
  - b) the answer has already been given on a website in the form of an answer to a question; or
  - c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- (xvi) Shareholders are advised that, unless otherwise stated, any telephone number, website or e-mail address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form) is not to be used for the purposes of serving information or documents on, or otherwise communicating with, the Company for any purposes other than those expressly stated.

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- (xvii) There are special arrangements for holders of shares through the Aberdeen's Investment Plan for Children, Aberdeen's Investment Trust Share Plan and Investment Trust ISA. These are explained in the 'Letter of Direction' which such holders will have received with this report.

# Corporate Information

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## **Directors**

Allan McKenzie (Chairman)  
Frank Frame  
David Gairns  
Tony Lowrie  
Iain McLaren  
Peter Tyrie  
Iain Watt

## **Registered Office**

40 Princes Street  
Edinburgh EH2 2BY  
Telephone: 0131 528 4000  
Website: [www.edinburghdragon.co.uk](http://www.edinburghdragon.co.uk)

## **Manager and Secretary**

Aberdeen Asset Managers Limited  
(a subsidiary of Aberdeen Asset Management PLC which is authorised and regulated by the Financial Services Authority)

40 Princes Street  
Edinburgh EH2 2BY  
Telephone: 0131 528 4000  
Website: [www.aberdeen-asset.com](http://www.aberdeen-asset.com)

## **Registrars**

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Telephone: 0871 384 2499  
Website: [www.equiniti.com](http://www.equiniti.com)

## **Custodian/Banker**

BNP Paribas Securities Services  
55 Moorgate  
London EC2R 6PA

## **Auditors**

KPMG Audit Plc  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

## **Company Broker**

Winterflood Securities

## **Company Registration Number**

SC 106049

# Your Company's History

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## Issued Share Capital at 31 August 2010

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**196,311,219** Ordinary shares of 20p

## Capital History

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<b>Year to 31 August 2010</b>	Following the Tender Offer for up to 15% of the Ordinary shares of the Company at a discount of 3 per cent. to Formula Asset Value, 15% of the Ordinary shares (34,643,156 Shares) were repurchased for cancellation at the repurchase price of 197.2794p per share.
<b>Year to 31 August 2009</b>	No changes
<b>Year to 31 August 2008</b>	6,122,500 Ordinary shares were repurchased for cancellation at prices ranging from 131.75p to 164.25p
<b>Year to 31 August 2007</b>	200,000 Ordinary shares were repurchased for cancellation at prices ranging from 135.0p to 142.5p
<b>Year to 31 August 2006</b>	No changes
<b>Year to 31 August 2005</b>	Final conversion of 10,508,903 warrants 2005 into shares.
<b>2001 to 31 August 2004</b>	191,369 warrants 2005 were converted into Ordinary shares in the period up to 31 August 2004.
<b>1993 - 2000</b>	During the period 1995 -1996 the Company issued 841,571 Ordinary shares at a premium to the NAV. All of the 5,864,444 warrants 1996 were converted in the period up to 31 January 1996, the final conversion date. 230,171 warrants 2005 were converted into Ordinary shares in the period to 31 January 2000. The Company repurchased for cancellation 8,426,394 warrants 2005 in 1997 and 499,624 warrants 2005 in 2000. During the period 1998 - 2000 the Company repurchased 43,760,874 Ordinary shares for cancellation at prices ranging from 39.5p to 75.0p.
<b>1987 - 1993</b>	The Company was launched in 1987 with a share capital of 120,000,000 Ordinary 5p shares and 24,000,000 warrants 1996. In 1989, following a placing and open offer, 192,000,000 Ordinary 5p shares and 38,400,000 warrants 2005 were issued. In April 1993, following the acquisition Drayton Asia Trust plc, the Company issued 740,002,520 Ordinary shares and 42,086,268 warrants 2005. During the period 1987-1993, 542,223 warrants 1996 and 1,060,423 warrants 2005 were converted into Ordinary shares. In November 1993, following a four for one consolidation, the Company's issued share capital was 263,401,291 Ordinary 20p shares, 5,864,444 warrants 1996 and 19,856,461 warrants 2005.





Aberdeen