

Schroder

Oriental Income Fund Limited

Report and Accounts to 31 August 2011



Schroders

Investment Objective

The Company's investment objective is to provide a total return for investors primarily through investments in equities and equity-related investments, of companies which are based in, or which derive a significant proportion of their revenues from, the Asia Pacific region and which offer attractive yields.

Directors

Robert Sinclair*† (Aged 62)
(Chairman)

was appointed as a non-executive Director of the Company on 17 June 2005.

Mr Sinclair is the Managing Director of Artemis Trustees Limited. Mr Sinclair has over 42 years experience in finance and accountancy of which 32 years have been spent in the Guernsey Financial Services industry. Mr Sinclair is a director of several companies which are quoted on the London Stock Exchange and is also a director of a number of fund management companies. He is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Institute of Chartered Accountants of Scotland. Mr Sinclair is a resident of Guernsey.

Fergus Dunlop*† (Aged 53)

was appointed as a non-executive Director of the Company on 21 April 2008.

Mr Dunlop is a Director of Resolution Limited and of several Channel Island based investment funds. He has over 20 years experience in investment companies in London, Frankfurt, Munich and the Channel Islands. Mr Dunlop joined Mercury Asset Management in 1987 in London, and managed their joint venture with Munich

Reinsurance, and its Jersey subsidiary. This led to the opening of a MAM (now BlackRock) Frankfurt office in 1995, to which he transferred in 1997, developing its institutional business until 2001. From 2002 to 2007 he was a managing director and partner of a fund advisory business in Munich. Mr Dunlop is a resident of Guernsey.

Peter Rigg*† (Aged 63)

was appointed as a non-executive Director of the Company on 17 June 2005. Mr Rigg is the Chairman of Polarcus, a Dubai-based, Norwegian listed seismic survey company. He is a board director of two private equity funds managed by General Enterprise Management Services Limited ("GEMS") investing principally in Asian companies. Between 1989 and 1995, Mr Rigg worked for the CS First Boston Group in Hong Kong, where he held various roles, including acting as board representative of International Investment Trust Co., a leading Taipei-based fund management company; managing director and Hong Kong-based head of Asian equity capital markets; and managing director and head of investment banking for CS First Boston (Hong Kong) Limited.

Prior to that, Mr Rigg worked for Credit Suisse First Boston Limited in London as director for Asian investment banking and as a solicitor in banking and private practice. Mr Rigg is a resident of the United Kingdom.

Christopher Sherwell† (Aged 63)

was appointed as a non-executive Director of the Company on 17 June 2005.

Mr Sherwell is a non-executive director of a number of investment-related companies. He was Managing Director of Schroders (C.I.) Limited from April 2000 until January 2004, and served as a director of various Schroder group companies and investment funds. He remains a non-executive Director of Burnaby Insurance (Guernsey) Limited, a wholly-owned subsidiary of Schroders plc. His other directorships include chairmanship of Goldman Sachs Dynamic Opportunities Limited, a fund of hedge funds. Before joining Schroders in 1993, Mr Sherwell worked as Far East regional strategist with Smith New Court Securities in London and Hong Kong. Mr Sherwell was previously a journalist, working for the Financial Times. Mr Sherwell is a resident of Guernsey.

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

Mr Rigg is chairman of the Audit and Management Engagement Committees.

Mr Sinclair is chairman of the Nomination Committee.

Advisers

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Financial Highlights

	31 August 2011	31 August 2010	% Change
Shareholders' funds	£254.07m	£219.20m	15.9
Net asset value per ordinary share	152.80p	136.63p	11.8
Net asset value per ordinary share (excluding undistributed current year revenue)	148.27p	133.07p	11.4
Share price	152.00p	136.25p	11.6
Premium (based on NAV excluding undistributed current year revenue)	2.5%	2.4%	
Total expense ratio*	0.92%	0.98%	
	For the year ended 31 August 2011	For the year ended 31 August 2010	
Net revenue return per ordinary share	7.22p	6.25p	15.5
Dividends per share	6.35p	5.80p	9.5
Share price total return**	13.2%	39.6%	
NAV total return**	14.7%	31.2%	

* Calculated in accordance with AIC guidance and based on operating costs, excluding performance fees, finance costs and expressed as a percentage of average monthly net assets.

** Source: Morningstar (net of dividends reinvested).

Six-Year Record

As at 31 August	NAV Total Return* %	Share Price Total Return* %	Dividends per share pence	Net revenue return per ordinary share pence
2011	14.70	13.20	6.35	7.22
2010	31.20	39.60	5.80	6.25
2009	3.00	16.30	5.50	6.27
2008	(6.70)	(10.10)	5.43	7.14
2007	27.80	29.30	4.95	5.84
2006**	2.77	(2.92)	4.88	6.50

* Source: Morningstar.

** The period since inception 28 July 2005 to 31 August 2006.

Chairman's Statement

Performance

For the year ended 31 August 2011 the Company's net asset value produced a total return of 14.7%* (2010: 31.2%) with a share price total return of 13.2%* (2010: 39.6%).

The Investment Manager's Review provides a more detailed description of the performance of the portfolio during the year under review.

Dividends

Revenue earnings per share for the year increased by 15.5% to 7.22p per share compared with 6.25p for the previous year.

The Board has declared a second interim dividend of 3.70p per share for the year ended 31 August 2011. This takes total dividends per share for the year to 6.35p, an increase of 9.5% on total dividends of 5.80p per share paid last year. The second interim dividend will be paid on 30 December 2011 to shareholders on the register on 16 December 2011.

Issue of Shares and Discount Management

In the year under review, demand for the Company's shares has continued and reflects the current attractiveness of the asset class for investors.

As part of the Board's active policy of discount management and premium control, we have issued shares at a slight premium to asset value to provide liquidity to investors and a total of 5,845,000 ordinary shares were issued during the year (2010: 7,100,000). A further 2,290,000 shares have been issued since the end of the year.

The Board will seek to renew the existing authorities to issue and buy-back shares in the Company and appropriate resolutions are included in the Notice of the Annual General Meeting. The Board considers these authorities as valuable tools in the continuing management of share price volatility relative to net asset value.

It remains the intention of the Board to cancel any shares bought back. It is also the intention to issue shares in the Company at a premium to net asset value where there is demand in the market. The objective will be the managing of any share price premium to Net Asset Value whilst meeting demand in the market for shares.

Gearing

During the year under review, the Company maintained a revolving £25 million multi-currency credit facility with Scotiabank Europe PLC. Net effective gearing stood at 7.7% at the beginning of the year and had decreased to 2.3% at 31 August 2011. The level of gearing continues to be monitored closely by the Board and managed as necessary.

Outlook

Pleasing as it is to report on a year when the NAV produced a total return of 14.7%, we are conscious that since the year end the NAV has fallen back 1.8%. It is a reversal that highlights the short-term dilemma for Asia. In the last fiscal year the region – and specifically the portfolio's holdings – seemed to be doing just what investors wanted, continuing to produce above-average growth at a time when growth is at a premium. Asian markets, however, have not been able to avoid the recent sharp fall in investor sentiment. The issue is whether the underlying causes of that fall – concern about global growth and the Eurozone's sovereign debt problems – will have an equal impact on the dividend-generating power of Asian companies.

The Manager's review offers reassurance on the extent to which share valuations seem to have discounted much of the uncertainty. More broadly, the Board continues to see a strategic logic in its goal of providing investors with an income-oriented exposure to what remains one of the world's most dynamic corporate sectors.

Chairman's Statement

Annual General Meeting

The Annual General Meeting will be held in Guernsey at 12.00 noon on Friday 30 December 2011 and shareholders are invited to attend.

Robert Sinclair

Chairman

2 December 2011

*Source: Morningstar.

Investment Manager's Review

The net asset value of the Company recorded a total return of 14.7%* over the twelve months to end August 2011. A second interim dividend of 3.70p has been announced, giving a total dividend of 6.35p for the year.

Despite a significant correction close to the end of the fiscal year, regional markets generated modest positive returns over the fiscal year, although it is notable that half the return was due to currency movements as a number of regional currencies appreciated against sterling.

Investor sentiment was buoyed in the first half of the year by the

confirmation of further quantitative easing by the US Federal Reserve in November and the accompanying fiscal package. Strains in the euro were somewhat quiescent as investors anticipated a healthy recovery in developed economies in line with improvements in leading indicators.

Although Asian markets participated in this rally, they tended to lag the global averages. While regional investors welcomed the improved outlook for the export fortunes of the region, the recovery in developed economies came at an awkward time in the domestic cycle for Asia given high capacity utilization, widespread increases in inflation fuelled by higher oil, food and commodity prices, and Central Banks generally tightening monetary policy.

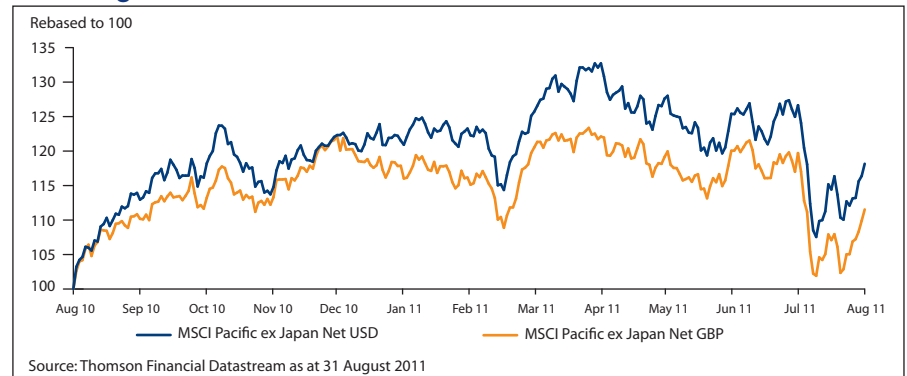
These conditions have been particularly evident in China, where the authorities have been resorting to an array of cooling measures for almost two years. While the massive fiscal and monetary stimulus seen in the wake of the 2008 crisis succeeded in restoring strong economic growth, it has been very dependent on an explosion in credit and a surge in infrastructure and property investment. Attempts to rein this in, along with growing concern over credit quality, weighed on Chinese equities, which were the notable laggards over the year.

In contrast, Thailand and Indonesia have been bright spots, with both economies seen as relatively immune from global issues and offering superior long-term growth prospects. Korea and Taiwan performed strongly in the first half of the year, but faded subsequently due to the softening in global leading indicators and the more general sell off in July and August sparked by the re-emergence of concerns over the euro.

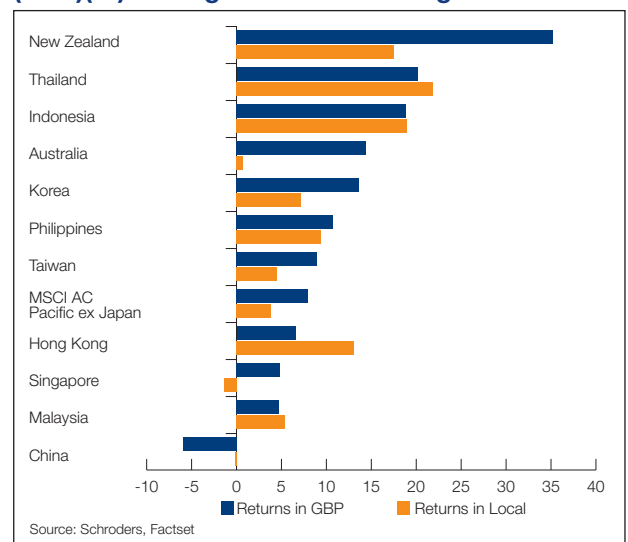
Fund Positioning and Performance

Through a period of considerable economic and financial uncertainty, the Company's focus upon well capitalised companies offering relatively high and sustainable dividends has stood the portfolio in good stead. The total return achieved was approximately twice the 7.9% return achieved by the reference benchmark, the MSCI All Countries Pacific ex Japan Index. The main contributors were strong stock selection in Singapore, Taiwan, Thailand and the Philippines, with lesser added value from Hong Kong and Malaysia. In terms of country allocation, the main positives were from the underweighting in China and overweighting in New Zealand.

Performance of the MSCI AC Pacific ex Japan Index 31 August 2010 to 31 August 2011



MSCI AC Pacific ex Japan net returns by country (GBP)(%) 31 August 2010 to 31 August 2011



Investment Manager's Review

Portfolio positioning in terms of country and sector exposure has been broadly stable over the period. At the margin, we added to Singapore and Thailand at the expense of Australia, Hong Kong and Taiwan. In sector terms, we added to telecoms, real estate and other financials while reducing consumer cyclicals, industrials, materials and banks.

Investment Outlook

Global growth is once more decelerating rapidly, both in developed Western and Asian economies. For developed markets, this is despite widespread excess capacity, suggesting that the root cause is high levels of debt weighing on both private and public sector confidence amid deflationary pressures, most markedly in peripheral Europe. Meanwhile, for Asian markets the issue is a more conventional downcycle as local credit conditions have tightened and the external environment worsens.

Unsurprisingly, comparisons with late 2008 are being drawn, and in some ways the current situation does not benefit from the analogy. In retrospect, there was sufficient political will, monetary resolve and fiscal firepower to provide the boost to confidence and growth that allowed markets to rally so strongly over the last two years. There is good reason to doubt it now given fiscal contractions in prospect in the United States, United Kingdom and Europe, high levels of debt, the intractability of the euro-bloc's problems, and legitimate doubts over the willingness and ability of Emerging markets to provide a counter-weight to the lack of end demand in the developed world.

However, these uncertainties are at least partly reflected in valuations, which already anticipate a 25-30% decline in Asian earnings. This would suggest that there is still downside if we are due a repeat of the 2008 experience, but otherwise there is a good chance of positive returns on a twelve month view. Furthermore, many Asian countries have policy options and financial strength that will help them ride out a tough external environment. One area of internal worry for the region is the possibility of a rapid slowdown in China, but even this should be manageable given that country's current account surplus and high foreign exchange reserves.

The latter concern is enough for us to remain cautious on direct China exposure, preferring as we do the greater transparency and stronger balance sheets available in Hong Kong, Singapore and Taiwan which comprise, along with Australia, the bulk of the Company's investment exposure. There remain ample equity income opportunities in Asia, and the Company is modestly geared, though retaining flexibility to exploit what are likely to remain volatile markets.

Sector and Country Weights

Portfolio by country at 31 August 2011

	Portfolio Weight (%)
Australia	21.24
Singapore	18.85
Hong Kong	16.25
Taiwan	10.25
Thailand	6.77
New Zealand	6.57
China	4.86
Korea	3.67
Malaysia	2.78
UK	2.57
Indonesia	2.37
Philippines	1.62
Japan	1.51
Canada	0.69

Source: Schroders as at 31 August 2011.

Portfolio by sector at 31 August 2011

	Portfolio Weight (%)
Real Estate	22.12
Industrials	20.12
Telecommunications	12.89
Banks	11.96
Consumer Goods	9.94
Technology	6.76
Consumer Services	4.34
Other Financials	4.18
Utilities	3.44
Basic Materials	2.67
Oil & Gas	1.13
Healthcare	0.45

Schroder Investment Management Limited

2 December 2011

*Source: Morningstar.

Investment Portfolio

As at 31 August 2011

Company	Industrial Classification	Location and Activity	Market Value of Holding £'000	% of Shareholders' Funds
Fortune Real Estate Investment Trust	Real Estate Investment Trusts	Operator of shopping malls in Hong Kong	12,580	4.95
Australia and New Zealand Banking Group	Banks	Australian banking group	10,368	4.08
Ascendas Real Estate Investment Trust	Real Estate Investment Trusts	Singapore based REIT	10,212	4.01
Telecom Corporation of New Zealand	Fixed Line Telecommunications	New Zealand telecommunications service provider	8,936	3.52
Fletcher Building	Construction and Materials	New Zealand based building materials	8,227	3.24
Glow Energy	Electricity	Thai supplier of electricity and steam power	7,254	2.86
Taiwan Semiconductor Manufacturing	Technology Hardware and Equipment	Taiwanese manufacturer of semiconductor products	6,726	2.65
Swire Pacific	General Industrials	Hong Kong holding company	6,643	2.61
Mapletree Industrial	Real Estate Investment Trusts	Singapore based REIT	6,390	2.52
Chunghwa Telecom	Telecommunications	Taiwanese provider of telecommunication services	6,364	2.50
Texwinca Holdings	Clothing and Accessories	Hong Kong producer of dyes and yarn	5,936	2.34
Crown	Travel and Leisure	Australian entertainment group	5,871	2.31
Venture	Electronic and Electrical Equipment	Contract manufacturing services in Singapore	5,724	2.25
Frasers Centrepoint Trust REIT	Real Estate Investment Trusts	Singapore REIT investing in retail properties	5,555	2.19
Suncorp	Banks	Australian bank and general insurance group	5,471	2.15
Amcor	General Industrials	Australian international integrated packaging company	5,453	2.15
Siliconware Precision	Technology Hardware and Equipment	Taiwanese semi-conductor assembly and testing group	5,086	2.00
Macquarie Korea Infrastructure Fund	Industrial Transportation	Roads, tunnels and bridges in Korea	5,020	1.98
BOC Hong Kong Holdings	Banks	Financial services in Hong Kong	4,933	1.94
Hopewell Holdings	Real Estate and Investment Services	Property and toll roads in Hong Kong	4,539	1.79
Twenty largest investments			137,288	54.04
Hanjaya Mandala Sampoerna	Tobacco	Leading tobacco company in Indonesia	4,448	1.75
Jiangsu Expressway	Transportation Services	Manages and operates toll expressways in China	4,305	1.69
Philippine Long Distance Telecom	Mobile Telecommunications	Philippines telephone company	4,238	1.67
Public Bank	Banks	Malaysian banking group	4,238	1.67
Coca-Cola Amatil	Beverages	Australian company that bottles and distributes Coca-Cola drinks and other beverages in Australia	4,034	1.59
Honda	Automobiles and Parts	Japanese manufacturer of automobiles and motorcycles	3,946	1.55
Westpac Banking	Banks	Australian banking group	3,919	1.54
Rio Tinto	Mining	Australian international mining company	3,894	1.53
Sun Hung Kai Properties	Real Estate and Investment Services	Hong Kong real estate developer	3,633	1.43
Mirvac	Real Estate and Investment Services	Property developer in Australia and New Zealand	3,476	1.37
Vtech Holdings	Technology Hardware and Equipment	Consumer electronics products in Hong Kong	3,389	1.33
Advanced Information	Mobile Telecommunications	Thai provider of mobile communication services	3,160	1.24
China Vanke	Real Estate and Investment Services	Chinese property development company	3,087	1.22
Incitec Pivot	Chemicals	Australian manufacturer of fertilisers and chemicals	3,083	1.21
Hyundai Motor Company	Automobiles and Parts	Korean cars, trucks and commercial vehicles producer	3,077	1.21
Stockland Trust	Real Estate Investment Trusts	Australian property group	3,066	1.21
Taiwan Mobile	Mobile Telecommunications	Taiwanese telecom services	3,043	1.20
Axiata	Mobile Telecommunications	Malaysian mobile communications company	3,035	1.19
Zhejiang Expressway	Industrial Transportation	Manages high grade roads in China	2,926	1.15
Keppel Corporation	General Industrials	Singapore holding company	2,887	1.14
Jardine Matheson	General Industrials	Hong Kong holding company	2,864	1.13
Frasers Commercial Trust	Non Equity Investment Instruments	Singapore commercial real estate	2,832	1.11

Investment Portfolio

As at 31 August 2011

Company	Industrial Classification	Location and Activity	Market Value of Holding £'000	% of Shareholders' Funds
HSBC	Banks	Hong Kong global banking group	2,819	1.11
Total Access Communication	Telecommunications	Thai telecommunications company	2,803	1.10
CPN Retail Growth	Real Estate Investment Trusts	Operator/owner of shopping properties in Thailand	2,747	1.08
Industrial & Commercial Bank of China	Banks	Chinese banking group	2,746	1.08
Sims Metal Management	Support Services	Australian based metal recycling company	2,621	1.03
Shanghai Industrial Holdings	General Industrials	Real estate and utilities in Hong Kong	2,411	0.95
Myer Holdings Ltd	General Retailers	Australian department store	2,392	0.94
Yue Yuen Industrial	Personal Goods	Hong Kong footwear manufacturer and distributor	2,317	0.91
Computershare	Computer Services	Australian share registries and shareholder communications	2,277	0.90
China Construction Bank	Banks	Chinese banking group	2,227	0.88
Merida Industry	Leisure Goods	Taiwanese bicycle manufacturer	2,219	0.87
Charm Communications	Media	Television advertising agency in China	2,099	0.83
Jardine Strategic	General Industrials	Hong Kong listed holding company	2,098	0.83
Far EastOne Telecommunications	Telecommunications	Taiwanese provider of communications services	2,097	0.83
Niko Resources	Oil and Gas Producers	Canadian oil and gas producer	1,811	0.71
Perusahaan Gas Negara	Gas Water and Multiutilities	Indonesian natural gas and distribution company	1,739	0.68
WPG Holdings	Technology Hardware and Equipment	Taiwanese electronic components distribution	1,240	0.49
Samsung Electronics	Technology Hardware and Equipment	South Korean electronics group	1,233	0.49
Ansell	Medical Supplies	Australian latex manufacturing company	1,180	0.46
Adelaide Brighton	Construction and Materials	Australian construction company	1,142	0.45
Woodside Petroleum	Oil and Gas Producers	Australian petroleum exploration and production company	1,137	0.45
GuocoLeisure	Travel and Leisure	Hotels and resorts in Singapore	982	0.39
Quality Houses	Real Estate and Investment Services	Thailand listed property developer	962	0.38
Midland Realty	Real Estate and Investment Services	Hong Kong estate agency	780	0.31
LPN Development	Real Estate and Investment Services	Real estate developer in Thailand	777	0.31
Ping An Insurance Warrants	Life Insurance	Insurance service provider in China	331	0.13
LG Corp	General Industrials	South Korean investment holding company	262	0.10
Total Investments			261,317	102.86
Net current liabilities			(7,247)	(2.86)
Total equity shareholders' funds			254,070	100.00

At 31 August 2010, the twenty largest investments represented 53.37% of shareholders' funds.

Report of the Directors

Business Review

Company's Business

The Company carries on business as a Guernsey closed-ended investment company.

Investment Objective

The investment objective of the Company is to provide a total return for investors primarily through investments in equities and equity-related investments, of companies which are based in, or which derive a significant proportion of their revenues from, the Asia Pacific region and which offer attractive yields.

Relationship with the Investment Manager

Schroder Investment Management Limited ("Schroders"), which is authorised and regulated by the Financial Services Authority ("FSA"), provides investment management, accounting and company secretarial services to the Company under the terms of an investment management agreement. Schroders also provides general marketing support for the Company and manages relationships with key investors, in conjunction with the Chairman, other Board members or the corporate broker as appropriate.

The Company's assets are managed in line with appropriate restrictions placed on Schroders by the Board. These restrictions include limits on the type and relative size of holdings which may be held in the portfolio and on the use of gearing, hedging, cash, derivatives and other financial instruments. Schroders is also responsible for ensuring that the voting rights held in respect of portfolio companies are used as part of a process of effective engagement with the management of portfolio companies. The Company also gives instructions to Schroders to ensure that it discharges the obligations of the Stewardship Code on its behalf.

Schroders, in its capacity as Company Secretary, liaises with the Company's corporate broker to assist in the implementation of the Company's share issuance and discount management policies. The Company Secretary also advises the Board on key relationships with other third party service providers and ensures regular review of the services provided by these parties.

All services carried out by Schroders are subject to regular reporting to, and monitoring by, the Board and Audit Committee as appropriate.

Investment Strategy

The Board has delegated management of the Company's portfolio to Schroders. The Manager manages the portfolio with the aim of helping the Company to achieve its investment objective. Details of the Manager's strategy, and other factors that have affected performance during the year, are set out in the Investment Manager's Review.

Investment Policy

The investment policy of the Company is to invest in a diversified portfolio of investments, primarily equities and equity-related investments, of companies which are based in, or derive a significant proportion of their revenues from, the Asia Pacific region. The portfolio is diversified across a number of industries and a number of countries in that region. The portfolio may include government, quasi-government, corporate and high yield bonds and preferred shares. A full breakdown of the investment portfolio may be found on pages 7 and 8.

Equity-related investments which the Company may hold include investments in other collective investment undertakings (including real estate investment trusts and related stapled securities), warrants, depository receipts, participation certificates, guaranteed performance bonds, convertible bonds, other debt securities, equity-linked notes and similar instruments (whether or not investment grade) which give the Company access to the performance of underlying equity securities, particularly where the Company may be restricted from directly investing in such underlying equity securities or where the Manager considers that there are benefits to the Company in holding such investments instead of directly holding the relevant underlying equity securities. Such investments may be listed or traded outside the Asia Pacific region. Such investments may subject the Company to credit risk against the issuing entity. The Company may also participate, subject to regulatory and tax implications, in debt-to-equity conversion programmes.

The Investment Manager may consider writing calls over some of the Company's holdings, as a low risk way of enhancing the returns from the portfolio. The Board has set a limit such that covered calls cannot be written over portfolio holdings representing in excess of 15% of gross assets. However, the Company may only invest in derivatives for the purposes of efficient portfolio management. Investors should note that the types of equity-related

Report of the Directors

investments listed in this paragraph is not an exhaustive list of the types of securities and financial instruments in which the Company may invest, and the Company will retain the flexibility to make any investments unless these are prohibited by the investment restrictions applicable to the Company.

Although the Company has the flexibility to invest in bonds and preferred shares as described above, the intention of the Directors is that the assets of the Company which are invested (that is to say, which are not held in cash, money funds, debt securities, interest bearing gilts or treasuries) will predominantly comprise Asia Pacific equities and equity-related investments.

Spread of Investment Risk and Investment Restrictions

Risk in relation to the Company's investments is spread as a result of the Manager monitoring the Company's portfolio on an on-going basis with a view to ensuring that the portfolio retains an appropriate balance to meet the Company's investment objective.

In order to comply with the Listing Rules, the Company will not invest more than 10%, in aggregate, of the value of its total assets (calculated at the time of any relevant investment) in other investment companies or investment trusts which are listed on the Official List (save to the extent that those investment companies or investment trusts have stated investment policies to invest no more than 15% of their gross assets in other investment companies or investment trusts which are listed on the Official List). Additionally, the Company will not:

- (i) invest, either directly or indirectly, or lend more than 20% (calculated at the time of any relevant investment or loan) of its gross assets to any single underlying issuer (including the underlying issuer's subsidiaries or affiliates);
- (ii) invest more than 20% (calculated at the time of any relevant investment) of its gross assets in one or more collective investment undertakings which may invest more than 20% of its gross assets in other collective investment undertakings;
- (iii) invest more than 40% (calculated at the time of any relevant investment) of its gross assets in another collective investment undertaking;
- (iv) expose more than 20% of its gross assets to the creditworthiness or solvency of any one counterparty;
- (v) invest in physical commodities; or
- (vi) invest in derivatives except for the purposes of efficient portfolio management.

In the event of any breach of the investment restrictions applicable to the Company, shareholders will be informed of the actions to be taken by the Manager by notice sent to the registered addresses of the shareholders in accordance with the Articles or by an announcement issued through a regulatory information service approved by the FSA.

No breaches of these investment restrictions took place during the year ended 31 August 2011.

The Investment Portfolio on pages 7 and 8 and the Investment Manager's Review on pages 5 and 6 demonstrate that, as at 31 August 2011, the portfolio was invested in at least 12 countries and in many different industry sectors within such countries. There were 69 equity holdings in the portfolio at the year end. The Board therefore believes that the objective of spreading risk has been achieved in this way.

Gearing

The Company's policy is to permit borrowings (including foreign currency borrowings) of up to 25% of the Company's net asset value (measured when new borrowings are incurred). It is intended that the Manager should have the flexibility to utilise this power to leverage the Company's portfolio in order to enhance returns where and to the extent that this is considered appropriate by the Directors.

At the beginning of the year under review, the net effective gearing (as a percentage of the Company's net asset value) was 7.7% and at the end of the year it was 2.3%. The average net effective gearing during the year under review (based on month-end net assets) was 4.9%. The Company's gearing continues to operate within pre-agreed limits so that actual gearing does not represent more than 25% of shareholders' funds.

Performance

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

Report of the Directors

Measuring Success – Key Performance Indicators (“KPIs”)

The Board has adopted key performance indicators which assist it in measuring the development and success of the Company’s business. The KPIs focus on the following areas: the success of the Company in achieving its investment objective, the management of the discount and the rate of expenses incurred in the running of the Company.

Investment Performance

An outline of performance, market background, investment activity and portfolio strategy during the year under review, as well as in outlook, is provided in the Investment Manager’s Review.

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

For the year ended 31 August 2011, the Company produced a total return on net asset value of 14.7%.

Premium/Discount Management

The shares of the Company trade at a premium or discount to net asset value and the management of the premium/discount is a key factor for the Board.

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

Share buy-backs are a more direct way of managing the discount. If appropriate, the discount of the Company’s share price to its underlying net asset value and the discounts of peer group companies are monitored. As indicated in the launch Prospectus, the Directors have implemented an active discount management policy through the use of share buy-backs to seek to maintain the price at which the ordinary shares trade relative to their prevailing net asset value at no greater than a 5% discount over the longer term. No ordinary shares were purchased for cancellation during the year (2010: Nil).

The Directors also seek to manage the premium through the issuance of shares when appropriate to provide liquidity to the market. During the year under review the share price traded at an average premium of 0.5%, and the Company issued 5,845,000 ordinary shares (2010: 7,100,000) during the year and a further 2,290,000 ordinary shares have been issued since the end of the year.

Control of Total Expenses

The Board also keeps the total expense ratio (“TER”) of the Company under review.

An analysis of all costs, including management fees, directors’ fees and general expenses, is submitted to each Board meeting.

The TER for the Company for the year to 31 August 2011 (calculated in accordance with AIC guidance as total annualised net operating expenses; excluding finance costs and performance fees divided by average net assets during the year) was 0.92% (2010: 0.98%).

Principal Risks and Uncertainties

The Board has adopted a matrix of key risks which affect its business and a robust framework of internal control which is designed to monitor those risks and to provide a monitoring system to enable the Directors to mitigate these risks as far as possible and which assist in determining the nature and extent of the significant risks the Board is willing to take in achieving its strategic objectives. A full analysis of the Directors’ system of internal control and its monitoring system is set out in the Corporate Governance Statement. The principal risks are considered to be as follows:

Financial Risk

The Company is exposed to the effect of market fluctuations due to the nature of its business. A significant fall in regional equity markets would have an adverse impact on the value of the Company’s underlying investments. The

Report of the Directors

Board considers the portfolio's risk profile at each Board meeting and discusses with the Manager appropriate strategies to mitigate any negative impact of substantial changes in markets.

The Company invests predominantly in underlying assets which are denominated in currencies other than Sterling and therefore has an exposure to changes in the exchange rates between Sterling and these currencies which has the potential to have a significant effect on returns. While the Directors consider the Company's hedging policy on a regular basis, the Company did not engage in currency hedging to reduce the risk of currency fluctuations and the volatility of returns which might result from such currency exposure during the year ended 31 August 2011.

A full analysis of the financial risks facing the Company is set out in note 21 on pages 35 to 40.

The Company utilises a loan facility, currently in the amount of £25 million, which increases the funds available for investment through borrowing ("gearing"). Therefore, in falling markets, any reduction in the net asset value and, by implication, the consequent share price movement is amplified by the gearing. The Directors keep the Company's gearing under constant review and impose strict restrictions on borrowings to mitigate this risk. The Company's gearing continues to operate within pre-agreed limits so that net effective gearing does not represent more than 25% of shareholders' funds.

Strategic Risk

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

Accounting, Legal and Regulatory Risk

Breaches of the UK Listing Rules, Companies (Guernsey) Law 2008 or other regulations with which the Company is required to comply, could lead to a number of detrimental outcomes and damage the Company's reputation. Breaches of controls by service providers, including the Manager, could also lead to reputational damage or loss.

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

Report of the Directors

The Directors submit their Report and the audited Accounts of the Company for the year ended 31 August 2011.

Net Asset Value

Over the year under review the net asset value per share (excluding undistributed current year revenue) of the Company increased from 133.1 pence to 148.3 pence per share.

Dividend Policy

Dividends on the ordinary shares are expected to be paid twice a year, normally in respect of the six months to 28 February and 31 August. All dividends will be paid as interim dividends. In accordance with the Company's Articles of Association, no dividends can be paid otherwise than out of the profits available for the purpose.

Having already paid a first interim dividend of 2.65p (2010: 2.60p) per share, the Board has now declared a second interim dividend of 3.70p (2010: 3.20p) per share for the year ended 31 August 2011 which is payable on 30 December 2011 to Shareholders on the Register on 16 December 2011. Thus, dividends for the year amount to 6.35p (2010: 5.80p) per share. This represents an increase of 9.5% over the rate of dividends paid in respect of the previous year.

Total dividend payments for the year of £10,643,000 (2010: £9,328,000) would have resulted in retained revenue for the year of £9,486,000 but in accordance with accounting standards, the second interim dividend amounting to £6,237,000 will not be accounted for until it has been paid.

Directors and their Interests

The Directors of the Company and their biographical details can be found on the inside front cover. All Directors held office throughout the year under review.

In accordance with the Company's Articles of Association and its policy on tenure as outlined in the Governance Statement, Mr Fergus Dunlop will retire by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting.

Mr Christopher Sherwell was Managing Director of Schroders (C.I.) Limited from April 2000 until January 2004 and a non-executive director of the company until December 2008. He has also served as a director of various Schroder group companies and investment funds and remains a non-executive Director of Burnaby Insurance (Guernsey) Limited, a wholly owned subsidiary of Schroders plc. He therefore offers himself for re-election at the Annual General Meeting, in accordance with the Listing Rules.

No Director has any material interest in any other contract which is significant to the Company's business.

The Board, having reviewed its performance during the year, considers that Mr Dunlop and Mr Sherwell continue to demonstrate commitment to their roles and provide valuable contributions to the deliberations of the Board. It therefore recommends that shareholders vote in favour of their re-elections.

The Directors' interests in the Company's share capital at the beginning and end of the financial year ended 31 August 2011, all of which were beneficial, were as follows:

Director	Ordinary shares of 1p each 31 August 2011	Ordinary shares of 1p each 1 September 2010
Robert Sinclair	10,000	10,000
Fergus Dunlop	10,000	10,000
Peter Rigg	10,000	10,000
Christopher Sherwell	10,000	10,000

There have been no changes in the above holdings between the end of the financial year and 2 December 2011.

As at the date of this Report, the Company had 168,569,500 ordinary shares of 1p each in issue. Accordingly, the total number of voting rights in the Company at the date of this Report is 168,569,500. Full details of the Company's share capital are set out in note 16 on page 32.

Report of the Directors

Substantial Share Interests

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

	Number of Ordinary shares	Percentage of total voting rights
Rensburg Sheppards Investment Management	17,764,006	10.53
Rathbone Investment Management	11,069,985	6.57
KB Financial Services Holdings Limited	9,927,288	5.89
Brewin Dolphin Limited	9,043,847	5.37
Charles Stanley & Co Ltd	7,860,051	4.66
Cheviot Asset Management Limited	7,789,750	4.62

Investment Manager

Schroders provides investment management services to the Company in accordance with an Investment Management Agreement.

Under the terms of the Investment Management Agreement, the Manager is entitled to receive a basic management fee of an amount equivalent to 0.75% per annum of the net assets of the Company, payable quarterly in arrears and calculated as at the last business day in February, May, August and November in each year while the agreement remains in force.

The Investment Manager is entitled to receive a performance fee based on the performance of the Company's adjusted net asset value per ordinary share. The performance fee is 10% of the amount by which the adjusted net asset value per ordinary share (adjusted as described below) at the end of the relevant calculation period exceeds a hurdle, being 107% of the adjusted net asset value per ordinary share at the end of the previous calculation period multiplied by the time weighted average of the number of ordinary shares in issue during the period. The net asset value as at the end of the period is adjusted as appropriate to take account of dividends, buy-backs or the issue of ordinary shares and to add back performance fees paid or accrued during the period.

The performance fee is only payable in respect of any period to the extent that the closing adjusted net asset value per ordinary share, taking account of the performance fee, exceeds the higher of 100p or the highest adjusted net asset value per ordinary share (reduced to the level at which any cap as described below applied) in respect of which a performance fee was previously paid. The total amount of any performance fee payable in respect of any one accounting period is capped at 1% of the net assets of the Company calculated at the end of that period. A performance fee of £2,236,000 is payable in respect of the year ended 31 August 2011 (2010: £2,156,000). Further details of the performance fee can be found in notes 5 and 20 on pages 29 and 33.

Any investment management fees payable to the Investment Manager or to other subsidiaries of Schroders plc ("Schroders") in respect of investments by the Company in collective investment schemes and collective investment trusts managed or advised by Schroders are deducted from the fee payable to the Investment Manager under the Investment Management Agreement. There were no such investments as at 31 August 2011.

The appointment of the Investment Manager is subject to termination by either party giving to the other at any time on not less than 12 months' written notice of termination.

The Directors consider the continuing appointment of the Investment Manager on the terms of the existing Investment Management Agreement to be in the best interests of the Company and shareholders as a whole. Schroders provides the Company with considerable investment management resource, thereby assisting the Company to achieve its investment objective.

Secretarial and Administration Arrangements

Schroders provides administrative, accounting and company secretarial services to the Company. For these services, Schroders receives a quarterly fee, payable in arrears at the rate of £75,000 per annum.

Policy for the Payment of Creditors

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant markets in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. There were no outstanding trade creditors at 31 August 2011 (2010: Nil).

Report of the Directors

Statement of Directors' Responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey law and generally accepted accounting principles.

Guernsey Company law requires the Directors to prepare financial statements for each financial year which 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 should:

- select suitable accounting policies and then apply them consistently; and
- make judgments and estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records that 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 (Guernsey) Law, 2008 (as amended). They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are listed within the Directors and Advisors section on the inside front cover, confirms that, to the best of their knowledge:

- the accounts, which have been prepared in accordance with International Financial Reporting Standards as adopted in the EU and with the Companies (Guernsey) Law, 2008, and give a true and fair view of the assets, liabilities, financial position and the net return of the Company; and
- the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The Directors are responsible for the maintenance and integrity of the Company's website. Visitors to the website need to be aware that legislation in Guernsey governing the preparation and dissemination of the report and accounts may differ from legislation in their jurisdiction.

Going Concern

The Directors are of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the accounts as the assets of the Company consist predominantly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future. Further, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of these accounts and applicable accounting standards have been followed.

The Company's Corporate Governance statement is set out on pages 18 to 22 and forms part of the Report of the Directors.

Anti-Bribery Policy

The Board notes the recent implementation of the Bribery Act 2010, which came into force on 1 July 2011. The Company continues to be committed to carrying out its business fairly, honestly and openly. To this end, it has undertaken a risk assessment of its internal procedures and the policies of the Company's service providers and has adopted a revised anti-bribery policy which aims to prevent bribery being committed by Directors and persons associated with the Company on the Company's behalf and to ensure compliance with the Bribery Act.

Environmental Policy

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

Independent Auditors

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

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

Report of the Directors

The Audit Committee has adopted a pre-approval policy on the engagement of the Auditors to supply non-audit services to the Company. The Auditors did not supply any non-audit services during the year under review (2010: nil).

Provision of Information to Auditors

The Directors at the date of approval of this report confirm that, so far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Annual General Meeting ("AGM")

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

The AGM will be held on Friday, 30 December 2011 at 12.00 noon. The formal notice of the AGM is set out on page 40.

Special Business to be proposed at the AGM

[Resolution 7 – Authority to make market purchases of the Company's own shares \(special resolution\)](#)

At the AGM on 17 December 2010, the Company was granted authority to make market purchases of up to 25,268,568 ordinary shares for cancellation. No ordinary shares were bought back under this authority and the Company therefore has remaining authority to purchase up to 25,268,568 ordinary shares. This authority will expire at the forthcoming AGM.

The Directors believe it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy back its ordinary shares in the market as they keep under review the share price discount to net asset value and the purchase of ordinary shares. A special resolution will be proposed at the forthcoming AGM to give the Company authority to make market purchases of up to 14.99% of the ordinary shares in issue at the date of the AGM. The Directors will exercise this authority only if the Directors consider that any purchase would be for the benefit of the Company and its Shareholders, taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled. The authority to be given at the 2011 AGM will lapse at the conclusion of the AGM in 2012, unless renewed or revoked earlier.

The maximum purchase price that may be paid for an ordinary share will not be more than 105% of the average of the middle market values of the shares, as taken from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase and the higher of the price of the last independent trade in the shares and the highest then current independent bid for the shares on the London Stock Exchange. The minimum price will be 1p, being the nominal value per ordinary share.

[Resolution 8 – Disapplication of pre-emption rights \(special resolution\)](#)

As last year the Board is proposing an annual authority be given to Directors to disapply pre-emption rights when issuing shares. This authority will expire at the AGM in 2012.

The approval of this authority will allow the Company to continue to issue shares on the current basis and provide sufficient liquidity to meet demand for shares in the market.

Recommendation

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

By Order of the Board
Schroder Investment Management Limited
Company Secretary
2 December 2011

Remuneration Report

The determination of the Directors' fees is a matter dealt with by the Management Engagement Committee and the Board. The Company's Articles of Incorporation limit the aggregate fees payable to the Board of Directors to a total of £150,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive Directors in the industry generally, the role that individual Directors carry out in respect of Board and Committee responsibilities, and the time committed to the Company's affairs. The Directors' fees are reviewed annually by the Board. During the year ended 31 August 2011, Directors received fees of £20,000 per annum and the Chairman received fees of £25,000 per annum to reflect his more onerous role. The Chairman of the Audit Committee receives an additional £2,500 per annum to reflect his more onerous role.

The last review of Directors' fees was carried out in 2011 and it was agreed that they should remain unchanged for the forthcoming year.

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

The Board believes that the principles in Code Provision D of the UK Corporate Governance Code relating to remuneration do not apply to the Company, except as outlined above, as the Company has no executive Directors.

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

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

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

Remuneration

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

Director	For the year ended 31 August 2011	For the year ended 31 August 2010
	£	£
Robert Sinclair	25,000	25,000
Fergus Dunlop	20,000	20,000
Peter Rigg	22,500	22,500
Christopher Sherwell	20,000	20,000
	87,500	87,500

By order of the Board
Schroder Investment Management Limited
Company Secretary
2 December 2011

Corporate Governance

Compliance with the UK Corporate Governance Code

The Board is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be appropriate for an investment company in order to comply with the principles of the UK Corporate Governance Code (the "Code"), which replaces the 2008 Combined Code and is applicable to the Company for the year under review. The Code is published by the FSA and is available to download from www.fsa.gov.uk.

Compliance Statement

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

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

Application of Code Principles

Role of the Chairman

The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role promoting a culture of openness and debate by facilitating the effective contribution of Directors, setting the Board's agenda and for ensuring that adequate time is available for discussion of all agenda items, including strategy.

Role of the Board

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

Composition and Independence

The Board currently consists of four non-executive Directors. The biographies of each of these Directors, including their age and length of service, are set out on the inside front cover of this Report. The Board considers each of the Chairman, Mr Dunlop and Mr Rigg to be independent. Mr Sherwell is not deemed independent by virtue of his relationship with the Investment Manager as disclosed in the Report of the Directors.

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

The Board is satisfied that it is of sufficient size with an appropriate balance of skills and experience, independence and knowledge of both the Company and the wider investment company industry to enable them to discharge their respective duties and responsibilities effectively and that no individual or group of individuals is, or has been, in a position to dominate decision making.

Board Committees

The Board has delegated certain responsibilities and functions to Committees. Terms of Reference for each of these Committees, which are reviewed annually, are available on the Company's website at www.schroderorientalincomefund.com. Details of membership of the Committees at 31 August 2011 may be found

Corporate Governance

on the inside front cover and information regarding attendance at Committee Meetings during the year under review may be found on page 20.

Audit Committee

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

To discharge its duties, the Committee met on two occasions during the year ended 31 August 2011 and considered the annual and half-yearly accounts, the external Auditors' year-end report, management representation letters, the effectiveness of the audit process, the independence and objectivity of the external Auditor and internal controls operating within the management company and custodian.

Management Engagement Committee

The role of the Management Engagement Committee is to ensure that the Company's investment manager remains suitable to manage the portfolio, that the management contract is competitive and reasonable for the shareholders, and that the Company maintains appropriate administrative and company secretarial support. In addition, the Committee reviews fees paid to Directors and makes recommendations to the Board in this regard. The Board considers each member of the Committee to be independent.

To discharge its duties, the Committee met on one occasion during the year ended 31 August 2011 and considered the performance and suitability of the Investment Manager, the terms and conditions of the management contract and the fees paid to Directors.

Nomination Committee

The role of the Nomination Committee is to consider and make recommendations to the Board on its composition so as to maintain an appropriate balance of skills, experience and diversity, including gender, and to ensure progressive refreshing of the Board. On individual appointments, the Committee leads the process and makes recommendations to the Board. The Board considers each member of the Committee, with the exception of Mr Sherwell, to be independent.

The Committee did not have cause to meet during the year under review but has done so since the end of the year to consider the balance of the Board.

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

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

Tenure

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

Induction and Training

The Board has adopted a full, formal and tailored induction programme for new Directors, which is administered by the Company Secretary. Directors are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and its internal controls. Regulatory and legislative changes affecting Directors' responsibilities are advised to the Board as they arise along with changes to best practice. Advisers to the Company also prepare reports for the Board from time to time. In addition, the Chairman reviews the training and development needs of each Director annually, as part of the evaluation process outlined below.

Corporate Governance

Board Evaluation

The Board has adopted a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. The Board has not requested an external evaluation of its performance as it believes that the current process provides a sufficient level of objectivity. The last evaluation took place in October 2011. The evaluation takes place in two stages, first, the evaluation of individual Directors is led by the Chairman, and the evaluation of the Chairman's performance is led by the Chairman of the Audit Committee. Secondly, the Board evaluates its own performance and that of its Committees. The Directors meet at least once a year without the Chairman present and the Chairman of the Audit Committee chairs this meeting.

Evaluation is conducted utilising a questionnaire combined with one to one meetings if appropriate. The Board has developed criteria for use at the evaluation, which focuses on the individual contribution to the Board and its Committees made by each Director, an analysis of the time which Directors are able to allocate to the Company to discharge their duties effectively and the responsibilities, composition and agenda of the Committees and of the Board itself.

Meetings and Attendance

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

Director	Board	Audit Committee	Management Engagement Committee
Robert Sinclair	4/4	2/2	1/1
Fergus Dunlop	4/4	2/2	1/1
Peter Rigg	4/4	2/2	1/1
Christopher Sherwell	4/4	N/A	N/A

Information Flows

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

Directors' and Officers' Liability Insurance

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

Directors' Indemnities

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

Conflicts of Interest

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

Major Shareholders

Details of the Company's major shareholders are set out in the Report of the Directors on page 14.

Relations with Shareholders

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

Corporate Governance

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

The Board believes that the Company's policy of reporting to shareholders as soon as possible after the Company's year-end and holding the earliest possible Annual General Meeting is valuable. The Notice of Meeting on page 41 sets out the business of the meeting.

Environmental Policy

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

Exercise of Voting Rights and the UK Stewardship Code

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

Internal Control

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

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

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

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

Independent Auditor's Report

Independent Auditor's Report to the Members of Schroder Oriental Income Fund Limited

We have audited the accounts of Schroder Oriental Income Fund Limited for the year ended 31 August 2011 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet, Cash Flow Statement, Reconciliation of Net Cash Flow to Movement in Net Debt and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities on page 15, the Directors' are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the matters set out below.

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Michael Bane
For and on behalf of Ernst & Young LLP
Guernsey
2 December 2011

Statement of Comprehensive Income

	Note	For the year ended 31 August 2011			For the year ended 31 August 2010		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	2	–	26,157	26,157	–	45,694	45,694
Currency gains/(losses)	3	–	1,270	1,270	–	(797)	(797)
Income	4	14,323	–	14,323	11,936	–	11,936
Investment management and performance fees	5	(562)	(3,548)	(4,110)	(444)	(3,192)	(3,636)
Administrative expenses	6	(485)	(7)	(492)	(457)	(8)	(465)
Net profit before finance costs and taxation		13,276	23,872	37,148	11,035	41,697	52,732
Finance costs							
Interest payable and similar charges	7	(102)	(233)	(335)	(166)	(383)	(549)
Net profit on ordinary activities before taxation		13,174	23,639	36,813	10,869	41,314	52,183
Taxation on ordinary activities	8	(1,248)	–	(1,248)	(1,093)	–	(1,093)
Profit for the year and Total Comprehensive Income		11,926	23,639	35,565	9,776	41,314	51,090
Net profit per ordinary share	10	7.22p	14.31p	21.53p	6.25p	26.42p	32.67p

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS as adopted by the European Union. The Company does not have any other comprehensive income and hence the net profit for the year, as disclosed above, is the same as the Company's total comprehensive income.

The Revenue and Capital columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

The notes on pages 27 to 39 form an integral part of these accounts.

Statement of Changes in Equity

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve* £'000	Total £'000
At 1 September 2009		1,700	39	150,374	3,063	12,428	167,604
Total Comprehensive Income:							
Net profit on ordinary activities		–	–	–	41,314	9,776	51,090
Transactions with owners, recorded directly to equity:							
Issue of shares		9,218	–	–	–	–	9,218
Ordinary dividends paid	9	–	–	–	–	(8,713)	(8,713)
At 31 August 2010		10,918	39	150,374	44,377	13,491	219,199
At 1 September 2010		10,918	39	150,374	44,377	13,491	219,199
Total Comprehensive Income:							
Net profit on ordinary activities		–	–	–	23,639	11,926	35,565
Transactions with owners, recorded directly to equity:							
Issue of shares		9,000	–	–	–	–	9,000
Ordinary dividends paid	9	–	–	–	–	(9,694)	(9,694)
At 31 August 2011		19,918	39	150,374	68,016	15,723	254,070

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

The notes on pages 27 to 39 form an integral part of these accounts.

Balance Sheet

	Note	At 31 August 2011 £'000	At 31 August 2010 £'000
Non-current assets			
Investments held at fair value through profit or loss	11	261,317	237,244
		261,317	237,244
Current assets			
Other receivables	12	1,589	1,548
Cash and cash equivalents	13	13,970	4,225
		15,559	5,773
Total assets		276,876	243,017
Current liabilities			
Bank loans	14	(19,960)	(21,146)
Other payables	15	(2,846)	(2,672)
		(22,806)	(23,818)
Net assets		254,070	219,199
Equity attributable to equity holders			
Called-up share capital	16	19,918	10,918
Capital redemption reserve	17	39	39
Special reserve	17	150,374	150,374
Capital reserve	17	68,016	44,377
Revenue reserve	17	15,723	13,491
Equity shareholders' funds		254,070	219,199
Net asset value per ordinary share	18	152.80p	136.63p

These accounts were approved by the Board of Directors on 2 December 2011 and signed on behalf of the Board by:

Robert Sinclair

Director

The notes on pages 27 to 39 form an integral part of these accounts.

Cash Flow Statement

	For the year ended 31 August 2011 £'000	For the year ended 31 August 2010 £'000
Cash flows from operating activities		
Net profit before finance costs and taxation	37,148	52,732
Other currency (gains)/losses	(1,270)	797
Overseas taxes paid	(1,210)	(1,083)
Adjustments for:		
Increase in investments	(24,073)	(64,217)
(Increase)/decrease in receivables	(98)	5
(Decrease)/increase in payables	146	2,246
Net cash from/(used in) operating activities	10,643	(9,520)
Cash flows from financing activities		
Equity dividends paid	(9,694)	(8,713)
Issue of shares	9,000	9,218
Bank overdraft interest paid	(2)	(1)
Bank loan interest paid	(263)	(502)
Other finance charges	(23)	(49)
Bank loans drawn down	-	6,080
Net cash (used in)/from financing activities	(982)	6,033
Net increase/(decrease) in cash and cash equivalents	9,661	(3,487)

Reconciliation of Net Cash Flow to Movement in Net Debt

	For the year ended 31 August 2011 £'000	For the year ended 31 August 2010 £'000
Net increase/(decrease) in cash and cash equivalents	9,661	(3,487)
Movement in borrowings	-	(6,080)
Movement in net cash/(debt) resulting from cash flows	9,661	(9,567)
Net debt at 1 September	(16,921)	(6,557)
Realised exchange gains on loan and other currency balances	84	464
Unrealised exchange gains/(losses) on the loan facility	1,186	(1,261)
Net debt at 31 August	19	(16,921)

The notes on pages 27 to 39 form an integral part of these accounts.

Notes to the Accounts

1. Accounting Policies

The accounts of the Company have been prepared in accordance with International Financial Reporting Standards ('IFRS'), which comprise standards and interpretations approved by the International Accounting Standards Board ('IASB') and International Accounting Standards Committee ('IASC') which were adopted by the European Union with effect from 31 August 2011.

The Company's functional currency and the currency used for the presentation of these accounts is pounds sterling, as that is the currency of the primary economic environment in which the Company operates.

(a) Basis of Preparation

The accounts have been prepared on a going concern basis.

Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment companies issued by the Association of Investment Companies ('AIC') in January 2009 is consistent with the requirements of IFRS, the Directors have sought to prepare the accounts on a basis compliant with the recommendations of the SORP.

(b) Presentation of the Statement of Comprehensive Income

The principal accounting policies have been applied consistently throughout the year ended 31 August 2011 and are unchanged from 2010.

In order to better reflect the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income.

(c) Income

Dividends receivable from equity shares are taken to the revenue column of the Statement of Comprehensive Income on an ex-dividend basis gross of foreign withholding tax, with the exception of dividends of a capital nature, which are credited to the capital column of the Statement of Comprehensive Income.

Interest from fixed income securities is recognised on a time-apportionment basis so as to reflect the effective yield on the fixed income securities.

Where dividends are received in the form of additional shares rather than cash, the amount of cash dividend foregone is recognised as income. Any excess in value of shares received over the amount of cash dividend foregone is recognised as a gain in the Statement of Comprehensive Income.

Interest receivable from bank deposits and other income is recognised on an accruals basis.

(d) Expenses and interest payable

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

Expenses are split and presented as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated and accordingly the investment management fee and finance costs have been allocated 30% to revenue and 70% to capital, as the Directors believe it reflects the long-term nature of the investment returns of the Company.

The performance fee is allocated 100% to capital as the Directors believe it reflects capital performance.

Expenses incidental to the acquisition or disposal of investments are charged wholly to capital in the Statement of Comprehensive Income.

(e) Taxation

The Company has been granted an exemption from Guernsey taxation under the Income Tax (Exempt Bodies) Guernsey Ordinance 1989 and is charged an exemption fee of £600.

The tax charged to the Statement of Comprehensive Income relates to overseas withholding tax suffered on investment income.

(f) Non-current asset investments held at fair value

All investments are classified as held at fair value through profit or loss on initial recognition and are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

The Company invests in securities for the long term. Accordingly it is the Company's policy that no trading shall be undertaken.

All the Company's investments are defined by IFRS as investments held at fair value through profit or loss.

Investments are recognised on trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost.

Gains and losses arising thereon are recognised in the capital column of the Statement of Comprehensive Income.

(g) Foreign exchange

Transactions involving currencies other than sterling are recorded at the exchange rate ruling on the transaction date. The results and financial position of the Company are expressed in sterling, which is the functional and presentational currency of the Company.

At each balance sheet date, monetary items and non-monetary assets and liabilities that are fair valued, which are denominated in foreign currencies, are retranslated at the closing rates of exchange.

Foreign currency exchange differences arising on translation are recognised in the Statement of Comprehensive Income.

(h) Cash and cash equivalents

Cash and cash equivalents comprises cash at bank, short term deposits, bank credit facilities and bank overdrafts.

These are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose.

(i) Other receivables

Other receivables do not carry any right to interest and are short-term in nature. Accordingly they are stated at their nominal value reduced by appropriate allowances for estimated irrecoverable amounts.

(j) Other payables

Other payables are not interest-bearing and are stated at their nominal amount.

(k) Short-term borrowings

Short-term borrowings under bank credit facilities are initially recognised at cost, being the fair value of the consideration received. The finance costs of servicing such borrowings are apportioned between revenue and capital in accordance with the policy set out above, using the effective interest rate method.

Notes to the Accounts

(l) Accounting estimates and judgements

The preparation of accounts in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods. There were no material accounting estimates in the current period.

(m) Single segment reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business. The Board has considered the requirements of FRS8 "Operating Segments". The Board is of the view that the Company is engaged in a single segment of business, of investing in companies which are based in, or which derive a significant proportion of their revenues from, the Asia Pacific region, and therefore the Company has only a single operating segment.

(n) Reserves

- (i) Share capital; represents the nominal value of authorised and allocated, called-up and fully paid shares issued and the premium on shares issued. Previously share premium was disclosed as Share Premium Account, which has now been included in share capital in accordance with Guernsey Law.
- (ii) Capital Redemption Reserve: the Capital Redemption Reserve, which is non-distributable holds the amount by which the nominal value of the Company's issued share capital is diminished when shares are redeemed or purchased out of the Company's profits.
- (iii) Special Reserve: distributable reserve, which can be used to finance the repurchase of shares in issue.
- (iv) Capital Reserve
 - The following are accounted for in this reserve:
 - gains and losses on the realisation of investments;
 - investment holding gains/(losses) held at the year end;
 - realised exchange differences of a capital nature;
 - unrealised exchange differences of a capital nature; and
 - other capital charges and credits charged to this account in accordance with the above policies.
- (v) Revenue Reserve: comprises accumulated undistributed revenue profits available for distribution as dividends, subject to meeting the solvency requirements of Guernsey Company Law.

(o) Accounting developments

(a) Standards, amendments and interpretations becoming effective in the year to 31 August 2011:

- * IFRS 1 (Amendment), 'First Time Adoption of International Financial Reporting Standards' simplified the structure of IFRS 1 without making any technical changes. No impact on the Company's Financial Statements.
- * IFRS 3 (Revised), 'Business Combinations' harmonised business combination accounting with US GAAP. Not currently relevant to the Company and therefore has no impact on the Financial Statements.
- * IFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations' (as part of Improvements to IFRSs issued in 2009). Not currently relevant to the Company and therefore has no impact on the Financial Statements.
- * IAS 27 (Revised), 'Consolidated and Separate Financial Statements' introduced changes to the accounting for transactions with non-controlling interests in consolidated financial statements. Adoption did not have any impact on the Company's Financial Statements.
- * IAS 32 (Amendment), 'Financial Instruments: Presentation' – amendments relating to classification of rights issues. No impact on the Company's Financial Statements.
- * IAS 39 (Amendment), 'Eligible Hedged Items'. The amendment prohibits designating inflation as a hedgeable component of a fixed debt, and in a hedge of a one-sided risk with options, prohibits including time value in the hedged risk. Not currently relevant to the Company therefore no impact on the Financial Statements.
- * IFRIC 15, 'Agreements for Construction of Real Estate'. Not relevant to the Company.
- * IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation'. Provides clarification to net investment hedging issues. Not currently relevant to the Company therefore no impact on the Financial Statements.
- * IFRIC 17, 'Distributions of Non Cash Assets to Owners' clarifies how an entity should measure distributions of assets other than cash made as a dividend to its owners. Not currently relevant to the Company therefore no impact on the Financial Statements.
- * IFRIC 18 'Transfer of Assets from Customers'. Not relevant to the Company.
- * Improvements to IFRS' issued in 2009 comprised numerous other minor amendments to IFRS, resulting in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments. These amendments had no impact on the Company's Financial Statements.

(b) Standards, amendments and interpretations to existing standards become effective in future accounting periods and have not been adopted early by the Company:

- * IFRS 9, 'Financial Instruments' (effective for financial periods beginning on or after 1 January 2015). Replaces IAS 39. Simplifies accounting for financial assets, replacing the current multiple measurement categories with a single principle-based approach to classification. All financial assets to be measured at either amortised cost or fair value. The Company will apply IFRS 9 from 1 September 2015, subject to endorsement by the EU.
- * IAS 24 (revised), 'Related Party Disclosures' (effective for financial periods beginning on or after 1 January 2011, subject to EU endorsement). Revises definition of related parties. Unlikely to have a significant effect.

(c) The following standards, amendments and interpretations to existing standards become effective in future accounting periods, but are not relevant for the Company's operations:

- * IFRS 1 (amendment), 'First-time Adoption of International Financial Reporting Standards'
- * IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments'
- * IFRIC 14 (Amendment), 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

Notes to the Accounts

2. Gains on investments held at fair value through profit or loss

	For the year ended 31 August 2011 £'000	For the year ended 31 August 2010 £'000
Net gains on disposals at historic cost	41,730	19,652
Fair value adjustments in earlier years	(17,769)	(3,615)
Gains based on fair value at previous balance sheet date	23,961	16,037
Investment holding gains during the year	2,196	29,657
	26,157	45,694

3. Currency gains/(losses)

	For the year ended 31 August 2011 £'000	For the year ended 31 August 2010 £'000
Exchange gains on currency balances	84	464
Exchange gains/(losses) on the loan facility	1,186	(1,261)
	1,270	(797)

4. Income

	For the year ended 31 August 2011 £'000	For the year ended 31 August 2010 £'000
Income from investments:		
Overseas dividends	14,173	11,341
Interest on fixed interest securities	107	447
Stock dividends	–	128
	14,280	11,916
Interest on deposits	43	20
	14,323	11,936

5. Investment management and performance fees

	For the year ended 31 August 2011			For the year ended 31 August 2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	562	1,312	1,874	444	1,036	1,480
Performance fee	–	2,236	2,236	–	2,156	2,156
	562	3,548	4,110	444	3,192	3,636

Under the terms of the Management Agreement, the Manager is entitled to receive a basic management fee of an amount equivalent to 0.75% per annum of the net assets of the Company, payable quarterly in arrears and calculated as at the last business day in February, May, August and November in each year while the agreement is in force.

The Manager is also entitled to a performance fee based on the performance of the Company's adjusted net asset value per Ordinary share, full details of which are set out on page 14 of this Report.

Notes to the Accounts

6. Administrative expenses

	For the year ended 31 August 2011			For the year ended 31 August 2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
General expenses	300	7	307	274	8	282
Directors' fees	88	–	88	88	–	88
Secretarial fee	75	–	75	75	–	75
Auditors' remuneration: Fees payable to the Company's auditor for the audit of the Company's annual accounts	22	–	22	20	–	20
	485	7	492	457	8	465

7. Interest payable and similar charges

	For the year ended 31 August 2011			For the year ended 31 August 2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Bank overdraft interest payable	2	–	2	1	–	1
Bank loan interest payable	93	217	310	150	349	499
Other finance charges	7	16	23	15	34	49
	102	233	335	166	383	549

8. Taxation

	For the year ended 31 August 2011 £'000	For the year ended 31 August 2010 £'000
Irrecoverable overseas tax	1,248	1,093

9. Dividends

	For the year ended 31 August 2011 £'000	For the year ended 31 August 2010 £'000
Amounts recognised as distributions in the year:		
Second interim dividend of prior year of 3.20p (2009: 3.00p)	5,288	4,650
First interim dividend of 2.65p (2010: 2.60p)	4,406	4,063
Total dividends of 5.85p (2010: 5.60p)	9,694	8,713
Total dividends payable in respect of the financial year:		
First interim dividend of 2.65p (2010: 2.60p)	4,406	4,063
Second interim dividend of 3.70p (2010: 3.20p)	6,237	5,265
Total dividends of 6.35p (2010: 5.80p)	10,643	9,328

The first interim dividend of 2.65 pence per share (2010: 2.60 pence per share) was paid on 15 April 2011 to shareholders registered on 1 April 2011. The shares were quoted ex-dividend on 30 March 2011.

The second interim dividend of 3.70 pence per share (2010: 3.20 pence per share) was declared on 2 December 2011 and will be paid on 30 December 2011.

Dividends are reflected in the accounts in the period in which they are paid.

Notes to the Accounts

10. Net profit per ordinary share

	For the year ended 31 August 2011	For the year ended 31 August 2010
Revenue (£'000)	11,926	9,776
Capital (£'000)	23,639	41,314
Total (£'000)	35,565	51,090
Weighted average number of shares	165,180,664	156,346,281
Revenue (pence)	7.22p	6.25p
Capital (pence)	14.31p	26.42p
Total (pence)	21.53p	32.67p

11. Investments held at fair value through profit or loss

	For the year ended 31 August 2011 £'000	For the year ended 31 August 2010 £'000
Movements of investments held as non current assets:		
Book cost brought forward	199,305	161,130
Acquisitions at cost	218,120	152,405
Proceeds of disposals	(220,203)	(133,883)
Net gains realised on disposals	41,730	19,652
Amortisation on fixed interest securities	(1)	1
Book cost at 31 August	238,951	199,305
Investment holding gains	22,366	37,939
Valuation of investments at 31 August	261,317	237,244

All investments are listed on recognised stock exchanges.

The following transaction costs which are included in acquisitions and proceeds above, including brokerage costs incurred during the year:

	For the year ended 31 August 2011 £'000	For the year ended 31 August 2010 £'000
On acquisitions	432	306
On disposals	575	416
	1,007	722

12. Other receivables

	At 31 August 2011 £'000	At 31 August 2010 £'000
Amounts receivable within one year:		
Accrued income	1,550	1,532
Sales for settlement	20	-
Prepaid expenses	19	16
	1,589	1,548

Notes to the Accounts

13. Cash and cash equivalents

	At 31 August 2011 £'000	At 31 August 2010 £'000
Short-term deposits	10,141	3,127
Cash at bank	3,829	1,098
	13,970	4,225

14. Bank loans

	At 31 August 2011 £'000	At 31 August 2010 £'000
Bank loan	19,960	21,146

During the year ended 31 August 2011, the Company had a multi-currency credit facility of £25,000,000 (2010: £24,500,000) in place with Scotiabank Europe PLC (secured). (2010: with ING Bank NV, unsecured). The facility is chargeable at a floating rate linked to LIBOR, is secured and is not subject to any early termination charges.

At 31 August 2011, £19,960,000 (2010: £21,146,000) was drawn down as follows:

	2011 £'000	2010 £'000
Sterling equivalent of US Dollar drawdown	19,960	21,146

15. Other payables

	At 31 August 2011 £'000	At 31 August 2010 £'000
Amounts payable within one year:		
Accrued expenses	2,846	2,654
Overseas taxation payable on stock dividends	-	18
	2,846	2,672

16. Share capital

	At 31 August 2011 £'000	At 31 August 2010 £'000
Authorised:		
250,000,000 (2010: 250,000,000) ordinary shares of 1p each	2,500	2,500
Allotted, Called-up and Fully paid:		
Balance brought forward: 160,434,500 (2010: 153,334,500) ordinary shares	10,918	1,700
Shares issued: 5,845,000 (2010: 7,100,000) ordinary shares	9,000	9,218
Balance carried forward: 166,279,500 (2010: 160,434,500) ordinary shares	19,918	10,918

A total of 5,845,000 (2010: 7,100,000) shares were issued during the year, the proceeds from which were £9,000,000 (2010: £9,218,000). Since the year end the Company has issued an additional 2,290,000 shares, the proceeds of which were £3,292,000.

Notes to the Accounts

17. Reserves

	Capital redemption reserve £'000	Special reserve £'000	Capital reserve gains and losses £'000	Capital reserve holding gains and losses £'000	Revenue reserve £'000
Balance brought forward at 1 September 2010	39	150,374	13,899	30,478	13,491
Prior period reclassification	–	–	(4,070)	4,070	–
Gains on disposal of investments	–	–	23,961	–	–
Net change in investment holding gains	–	–	–	2,196	–
Transfer on disposal of investments	–	–	17,769	(17,769)	–
Realised exchange gains on currency balances	–	–	84	–	–
Realised exchange losses on the credit facility	–	–	(2,815)	–	–
Unrealised exchange gain on the credit facility	–	–	–	4,001	–
Investment Management Fee	–	–	(1,312)	–	–
Performance fee	–	–	(2,236)	–	–
Bank loan interest and similar charges	–	–	(233)	–	–
Other expenses	–	–	(7)	–	–
Net profit after taxation for the year	–	–	–	–	11,926
Ordinary dividends paid	–	–	–	–	(9,694)
Balance carried forward at 31 August 2011	39	150,374	45,040	22,976	15,723

18. Net asset value per ordinary share

	At 31 August 2011	At 31 August 2010
Net asset value per ordinary share	152.80p	136.63p

The net asset value per ordinary share is based on net assets attributable to ordinary shareholders of £254,070,000 (2010: £219,199,000) and 166,279,500 (2010: 160,434,500) ordinary shares in issue at the year end.

19. Analysis of changes in funds

	At 31 August 2010 £'000	Cash flow £'000	Movement in borrowings £'000	Exchange gain £'000	At 31 August 2011 £'000
Cash at bank and short-term deposits	4,225	9,661	–	84	13,970
Net cash	4,225	9,661	–	84	13,970
Bank loan	(21,146)	–	–	1,186	(19,960)
Net debt	(16,921)	9,661	–	1,270	(5,990)

20. Related party transactions

The Company has appointed Schroders to provide investment management, accounting, secretarial and administration services.

Details of the management and secretarial fee arrangements for these services are given in the Report of the Directors on page 14. The total basic management fee payable under this agreement to Schroders in respect of the year ended 31 August 2011 was £1,874,000 (2010: £1,480,000), of which £470,000 (2010: £404,000) was outstanding at the year end.

During a review of the Investment Management Agreement (“the IMA”), the Board became aware that wording relating to the calculation of the performance fee within the IMA did not properly reflect one of the objectives of the fee structure envisaged at launch, that is, an annual hurdle based on a fixed percentage uplift to the opening net asset position in any one year. The Board has therefore agreed to an amendment to the IMA to rectify this anomaly and to clarify the provisions of the IMA so that it accurately reflects the intended agreement between the parties. Accordingly a performance fee of £2,236,000 is payable in respect of the year ended 31 August 2011 (2010: £2,156,000), all of which was outstanding at the year end. Whilst this

Notes to the Accounts

number is significantly larger than the £1,079,000 which would have been payable under the anomalous terms, it was never the intention for the fee to be paid on the basis previously set out in the IMA. The performance fee payable for prior years is unaffected by this change.

The total secretarial fee payable to Schroders in respect of the year ended 31 August 2011 was £75,000 (2010: £75,000), of which £19,000 (2010 : £19,000) was outstanding at the year end.

21. Risk Management

Financial instruments

The Company's investment objective is to provide a total return for investors primarily through investments in equities and equity-related investments, of companies which are based in, or which derive a significant proportion of their revenues from, the Asia Pacific region and which offer attractive yields.

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

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

The Company invests in securities for the long term. Accordingly, it is the Company's policy that no trading shall be undertaken.

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

1. Market Risk

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

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

a. Price Risk

The Company is an investment company and as such its performance is dependent on the valuation of its investments. Consequently price risk is the most significant risk that the Company is exposed to. A detailed breakdown of the investment portfolio is given on pages 7 to 8. Investments are valued in accordance with the Company's accounting policies as stated in note 1. Uncertainty arises as a result of future changes in the market prices of the Company's investments and the effect changes in exchange rates may have on the sterling value of these investments.

Management of the risk

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

The Company had no derivative instruments at the year end, but, in the event that it had, the value of derivative instruments held at the balance sheet date would be determined by reference to their market value at that date.

Price risks exposure

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

	31 August 2011 £'000	31 August 2010 £'000
Non-current asset investments at fair value through profit or loss	261,317	237,244

Concentration of exposure to price risk

The Company normally holds a mixture of equity and fixed interest investments in its portfolio. The portfolio is invested in many different industry sectors within a variety of countries, which significantly spreads the risk of individual investments performing poorly and reduces the concentration of exposure. A classification of investments by sector and country is provided on page 6.

Price risk sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and the equity to an increase or decrease of 10% (2010: 10%) in the fair values of the Company's investments. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's investments at each balance sheet date, with all other variables held constant.

Notes to the Accounts

	31 August 2011		31 August 2010	
	Increase in fair value £'000	Decrease in fair value £'000	Increase in fair value £'000	Decrease in fair value £'000
Effect on revenue return	(59)	59	(53)	53
Effect on capital return	25,995	(25,995)	23,600	(23,600)
Effect on total return and on net assets	25,936	(25,936)	23,547	(23,547)

b. Currency Risk

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

Management of the risk

The Investment Manager monitors the Company's exposure to foreign currencies on a daily basis, and reports to the board on a regular basis. It is the policy of the Company to consider entering into forward foreign exchange contracts, in addition to foreign currency loans, to hedge against foreign currency movements affecting the value of the investment portfolio. At 31 August 2011 and at 31 August 2010 the Company had no forward foreign exchange contracts in place.

Foreign currency exposure

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

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

(i) Financial assets

	At 31 August 2011			At 31 August 2010		
	Non-current asset investments £'000	Current assets £'000	Total £'000	Non-current asset investments £'000	Current assets £'000	Total £'000
Australian Dollar	55,491	2,297	57,788	54,620	519	55,139
Canadian Dollar	1,811	1	1,812	2,550	26	2,576
Chinese Yuan	-	-	-	13,655	-	13,655
Hong Kong Dollar	65,272	189	65,461	51,595	430	52,025
Indonesian Rupiah	6,187	-	6,187	6,368	32	6,400
Japanese Yen	3,946	834	4,780	2,401	-	2,401
New Taiwan Dollar	18,315	126	18,441	20,801	864	21,665
New Zealand Dollar	17,163	278	17,441	4,980	2	4,982
Malaysian Ringgit	7,272	-	7,272	-	-	-
Philippine Peso	4,238	97	4,335	8,604	67	8,671
Singaporean Dollar	34,581	846	35,427	27,972	221	28,193
South Korean Won	9,592	12	9,604	9,716	-	9,716
Thai Baht	17,703	263	17,966	10,520	186	10,706
United States Dollar	15,852	2,009	17,861	19,672	264	19,936
	257,423	6,952	264,375	233,454	2,611	236,065

(ii) Financial liabilities

The Company's financial liabilities comprise bank loans, overdraft balances and short-term payables. Details of the Company's bank borrowings are disclosed in note 14.

Notes to the Accounts

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

	At 31 August 2011			At 31 August 2010		
	Loan facility £'000	Short-term payable £'000	Total £'000	Loan facility £'000	Short-term payable £'000	Total £'000
Taiwan Dollar	–	–	–	–	18	18
United States Dollar	19,960	–	19,960	21,146	–	21,146
	19,960	–	19,960	21,146	18	21,164

Foreign currency sensitivity

By using the five largest currency exposures from the table below, the following analysis illustrates the sensitivity of the profit after taxation for the year and the equity in regard to the Company's monetary financial assets and financial liabilities.

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

Assumed exchange rate movements:

- Sterling/Australian Dollar +/- 10% (2010: 10%)
- Sterling/Hong Kong Dollar +/- 10% (2010: 10%)
- Sterling/US Dollar +/- 10% (2010: 10%)
- Sterling/Singapore Dollar +/- 10% (2010: 10%)
- Sterling/Taiwanese Dollar +/- 10% (2010: 10%)

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

	At 31 August 2011			At 31 August 2010		
	Effect on Revenue return £'000	Effect on Capital return £'000	Total return and net assets £'000	Effect on Revenue return £'000	Effect on Capital return £'000	Total return and net assets £'000
Australian Dollar	46	6,376	6,422	57	6,069	6,126
Hong Kong Dollar	21	7,253	7,274	21	5,759	5,780
US Dollar	16	(249)	(233)	47	(182)	(135)
Singapore Dollar	2	3,934	3,936	21	3,111	3,132
Taiwanese Dollar	14	2,035	2,049	7	2,398	2,405
	99	19,349	19,448	153	17,155	17,308

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

	At 31 August 2011			At 31 August 2010		
	Effect on Revenue return £'000	Effect on Capital return £'000	Total return and net assets £'000	Effect on Revenue return £'000	Effect on Capital return £'000	Total return and net assets £'000
Australian Dollar	(37)	(5,217)	(5,254)	(47)	(4,965)	(5,012)
Hong Kong Dollar	(17)	(5,934)	(5,951)	(17)	(4,712)	(4,729)
US Dollar	(13)	204	191	(39)	149	110
Singapore Dollar	(2)	(3,219)	(3,221)	(18)	(2,546)	(2,564)
Taiwanese Dollar	(11)	(1,665)	(1,676)	(6)	(1,962)	(1,968)
	(80)	(15,831)	(15,911)	(127)	(14,036)	(14,163)

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

c. Interest Rate Risk

The Company will be affected by interest rate changes as it holds interest-bearing financial assets and liabilities. Interest rate changes will also have an impact in the valuation of investments, although this forms part of price risk, which is considered separately above.

Notes to the Accounts

Management of the risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the credit facility. The level of gearing is reviewed by the Board on a regular basis.

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

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

Interest rate exposure

The exposure, at 31 August, of financial assets and liabilities to interest rate risk is shown by reference to:

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

	At 31 August 2011			At 31 August 2010		
	Within one year £'000	More than one year £'000	Total £'000	Within one year £'000	More than one year £'000	Total £'000
Exposure to floating interest rates:						
Cash at bank and short-term deposits	13,970	–	13,970	4,225	–	4,225
Bank loan	(19,960)	–	(19,960)	(21,146)	–	(21,146)
Total exposure to interest rates	(5,990)	–	(5,990)	(16,921)	–	(16,921)
Exposure to fixed interest rates:						
Bonds	–	–	–	1,165	1,559	2,724
Total exposure to interest rates	–	–	–	1,165	1,559	2,724

The weighted average interest rate for the fixed rate financial assets held at 31 August 2011 was nil% (2010: 9.39%) and the effective average period for which the rate was fixed was 0.0 years (2010: 2.1 years).

The above year end amounts are not necessarily representative of the exposure to interest rates during the year, because the level of exposure changes as bonds are traded, borrowings are drawn down and repaid and the level of borrowings and/or cash held change during the year in response to the Board's and Manager's perception of market prospects and the investment opportunities available at any one time.

	At 31 August 2011			At 31 August 2010		
	Exposure to Floating rates £'000	Exposure to Fixed rates £'000	Total £'000	Exposure to Floating rates £'000	Exposure to Fixed rates £'000	Total £'000
Maximum interest rate exposure	(18,782)	1,561	(17,221)	(18,688)	7,895	(10,793)
Minimum interest rate exposure	(4,572)	1,411	(3,161)	(7,961)	2,632	(5,329)

Interest rate sensitivity

The following table illustrates the sensitivity of the revenue and capital return for the year and shareholders' funds to an increase or decrease of 0.50% (2010: 0.50%) in interest rates in regard to the Company's monetary financial assets and 0.50% (2010: 0.50%) in regard to the Company's monetary liabilities, which are subject to interest rate risk.

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

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

	At 31 August 2011		At 31 August 2010	
	Increase in rate £'000	Decrease in rate £'000	Increase in rate £'000	Decrease in rate £'000
Effect on revenue return	40	(40)	(11)	11
Effect on capital return	(70)	70	(74)	74
Effect on total return and on net assets	(30)	30	(85)	85

In the opinion of the directors, the above sensitivity analyses may not be representative of the year as a whole, since the level of exposure may change in response to the Board's and Manager's perception of market prospects and the investment opportunities available at any one time.

Notes to the Accounts

2. Liquidity Risk

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

Management of the risk

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

Liquidity risk exposure

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

3. Credit Risk

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

Management of the risk

The Company manages credit risk by entering into deals only with brokers pre-approved by a credit committee of Schroder Investment Management Limited. These arrangements were in place throughout the current year and the prior year. This risk is not considered to be significant.

Credit risk exposure

The exposure to credit risk at the year end comprised:

Financial Assets	At 31 August 2011 £'000	At 31 August 2010 £'000
Accrued income	1,550	1,532
Fixed Interest Securities	–	2,724
Cash at bank	13,970	4,225
	15,520	8,481

During the year all deposits placed were with banks that had ratings of A or higher.

All fixed interest securities held at the year end were non-investment grade.

The fair values of all of the above are considered to be the same as the values shown and the likelihood of a material credit default is considered to be low.

4. Fair Values of Financial Assets and Financial Liabilities

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

5. Summary of Financial Assets and Financial Liabilities by Category

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

Financial Assets	At 31 August 2011 £'000	At 31 August 2010 £'000
Financial assets at fair value through profit or loss:		
Non-current asset investments – designated as such on initial recognition	261,317	237,244
Loans and receivables:		
Current assets:		
Other receivables (due from brokers, dividends receivable and accrued income)	1,589	1,548
Cash at bank and short-term deposits	13,970	4,225
	15,559	5,773

Notes to the Accounts

Financial Liabilities	At 31 August 2011 £'000	At 31 August 2010 £'000
Measured at amortised cost		
Creditors: amounts falling due within one year		
Borrowings under the currency loan facility	20,006	21,146
Other payables	2,800	2,672
	22,806	23,818

6. Fair Value Hierarchy

The fair value hierarchy has the following levels:

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

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

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

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

Financial assets measured at fair value are grouped into the fair value hierarchy at 31 August 2011 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a	261,317	–	–	261,317
Net fair value		261,317	–	–	261,317

Financial assets measured at fair value 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
Financial assets at fair value through profit or loss					
Quoted equities	a	234,520	–	–	234,520
Quoted fixed interest investments	b	2,724	–	–	2,724
Net fair value		237,244	–	–	237,244

a. Quoted equities

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

b. Quoted fixed interest investments

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

7. Capital management policies and procedures

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

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

- (i) the planned level of gearing through the Company's credit facility;
- (ii) the need to buy back or issue equity shares; and
- (iii) the determination of dividend payments.

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

Notice of Meeting

NOTICE is hereby given that the Annual General Meeting of Schroder Oriental Income Fund Limited will be held at 12.00 noon on Friday, 30 December 2011 at Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL to consider and, if thought fit, to pass the following resolutions, of which resolutions 1 to 6 will be proposed as Ordinary Resolutions and resolutions 7 and 8 will be proposed as Special Resolutions:

1. To receive the Report of the Directors and the audited accounts for the year ended 31 August 2011.
2. To approve the Remuneration Report for the year ended 31 August 2011.
3. To re-elect Mr Fergus Dunlop as a Director of the Company.
4. To re-elect Mr Christopher Sherwell as a Director of the Company.
5. To re-appoint Ernst & Young LLP as Auditors of the Company.
6. To authorise the Board to determine the remuneration of Ernst & Young LLP as Auditors of the Company.
7. To consider and, if thought fit, to pass the following resolution as a special resolution:
"That the Company be and is hereby generally and unconditionally authorised in accordance with Section 315 of the Companies Guernsey Law 2008 (as amended), to make market purchases of ordinary shares of 1p each in the capital of the Company ("Shares"), at whatever discount the prevailing market price represents to the prevailing net asset value per share provided that:
(a) the maximum number of Shares hereby authorised to be purchased shall be 25,268,568, representing 14.99% of the issued share capital as at 2 December 2011;
(b) the minimum price which may be paid for a share is 1p;
(c) the maximum price which may be paid for a share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a share of the class being purchased taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased and (ii) the higher of the price of the last independent trade in the shares of that class and the highest then current independent bid for the shares of that class on the London Stock Exchange;
(d) purchases may only be made pursuant to this authority if the Shares are (at the date of the proposed purchase) trading on the London Stock Exchange at a discount to the net asset value;
(e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed or revoked prior to such time; and
(f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract."
8. To consider and, if thought fit pass the following as a special resolution:
"Subject to the passing of Resolution 7, the Board be and hereby is authorised in accordance with Section 292 of the Companies (Guernsey) Law, 2008 (as amended) to allot ordinary shares for cash and/or sell treasury shares up to 16,856,950 ordinary shares of 1p each in aggregate representing 10% of the share capital in issue on 2 December 2011 for cash and the right of Shareholders to receive a pre-emptive offer in respect of such ordinary shares shall be excluded pursuant to Article 3.24 of the Company's Articles of Incorporation, provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) from the conclusion of the Annual General Meeting of the Company to be held in 2012 save that the Board may allot ordinary shares for cash or sell treasury shares after the expiry of this authority in pursuance of an offer or agreement made by the Company before such expiry that would or might require ordinary shares to be allotted or treasury shares to be sold after such expiry.

By Order of the Board
Schroder Investment Management Limited
Company Secretary
Registered Number: 43298
2 December 2011

Registered Office:
PO Box 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey GY1 3QL

Explanatory Notes

- 1 An ordinary shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and (insofar as permitted by the Company's Articles of Incorporation) to vote instead of him.
A proxy need not be a member. A form of proxy is enclosed for ordinary shareholders which should be completed and returned to the Company's registrar, Computershare Investor Services (Jersey) Limited, c/o The Pavilions, Bridgwater Road, Bristol BS99 6ZY, not later than 48 hours before the time fixed for the meeting. Completion of the proxy will not preclude an ordinary shareholder from attending and voting in person.
- 2 The biographies of each of the Directors offering themselves for re-election are set out on the inside front cover of the Annual Report.
- 3 As at 2 December 2011, 168,569,500 ordinary shares of 1p were in issue. Accordingly, the total number of voting rights of the Company as at 2 December 2011 is 168,569,500.

Company Summary and Shareholder Information

The Company

Schroder Oriental Income Fund Limited is an independent, Guernsey resident company, whose shares are listed on the London Stock Exchange. As at 2 December 2011, the Company had 168,569,500 ordinary shares of 1p each in issue. The Company's assets are managed and it is administered by Schroders.

It is not intended for the Company to have a limited life and the Articles of Incorporation do not contain any provisions for review of the future of the Company at specified intervals.

Website and Price Information

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

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

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

Registrar Services

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to shareholdings, including a change of address or other amendment should be directed to Northern Trust International Fund Administration Services (Guernsey) Limited, PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL.

Dealing Codes

The dealing codes for the shares in the Company are as follows:

ISIN: GB00B0CRWN59

SEDOL: BOCRWN5

Ticker: SOI

www.schroderorientalincomefund.com