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**SCHRODER  
UK GROWTH  
FUND plc**

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**Report and Accounts  
30 April 2006**



**Schroders**



#### **INVESTMENT OBJECTIVE**

**The Company's principal investment objective is to achieve capital growth predominantly from investment in UK equities, with the aim of providing a total return in excess of the FTSE All-Share Index.**

**Contents****Page**

Directors	2
Financial Highlights	3
Long-term Record	4
Chairman's Statement	5
Investment Manager's Review	7
Twenty Largest Investments	9
List of Investments	10
Business Review	12
Report of the Directors	16
Directors' Remuneration Report	20
Statement of Directors' Responsibilities	22
Corporate Governance	23
Board Committees	27
Independent Auditors' Report	31
Income Statement	33
Reconciliation of Movements in Shareholders' Funds	34
Balance Sheet	35
Cash Flow Statement	36
Reconciliation of Net Cash Flow to Movement in Net Debt	36
Notes to the Accounts	37
Company Summary and Shareholder Information	48
Investing in Schroder UK Growth Fund plc	49
Notice of Meeting	50
Advisers	52

## Directors



### **Alan Clifton** (Chairman)\*†

Aged 59, was appointed as a Director on 18 June 2001 and was previously the Managing Director of Morley Fund Management, the asset management arm of Aviva plc. He is currently Chairman of JPMorgan Fleming Japanese Smaller Companies Investment Trust plc and a Director of International Biotechnology Trust plc and a number of other investment companies. He also serves as a Member of The Lord Chancellor's Strategic Investment Board.

### **Keith Niven**†

Aged 57, was appointed as a Director on 28 January 1994. He is non-executive Chairman of Matrix Income & Growth VCT plc and a non-executive Director of two other investment trusts, Schroder Income Growth Fund plc and Impax Environmental Markets plc. Mr Niven is a trustee of the Charities Aid Foundation ("CAF"), Chairman of CAF's Investment Advisory Committee and a non-executive Director of CAF BANK Limited. He is also a non-executive Director of Healthstar Group plc and an investment advisor to the Rolls-Royce Pension Fund. Mr Niven was previously a Vice Chairman of Schroder Investment Management Limited and Chairman of Schroder Unit Trusts Limited.

### **Ian Phillips**\*†

Aged 67, was appointed as a Director of the Company on 2 February 1994 and is Chairman of Oxford University Press Pension Fund, a Director of M&G Equity Investment Trust plc and on the management boards of Pan European Property Unit Trust and the Gloucestershire Hospitals Foundation Trust.

### **Stella Pirie OBE**\*†

Aged 55, was appointed as a Director on 5 August 2002. She is currently a Director of Avon Rubber plc and Stroud & Swindon Building Society, and a board member of UK Trade & Investment. She is also Chair of Governors Bath Spa University.

### **David Ritchie**\*†

Aged 61, was appointed as a Director on 6 August 2001. He is Chairman of Edinburgh New Income Trust plc and of Cornelian Asset Management Limited and a Director of AMEC Staff Pensions Trustee Limited. He is a former Executive Chairman of Scottish Widows Investment Management Limited.

\* Member of the Audit and Management Engagement Committees

† Member of the Nomination Committee

Mr Clifton is Chairman of the Nomination and Management Engagement Committees

Mr Ritchie is Chairman of the Audit Committee

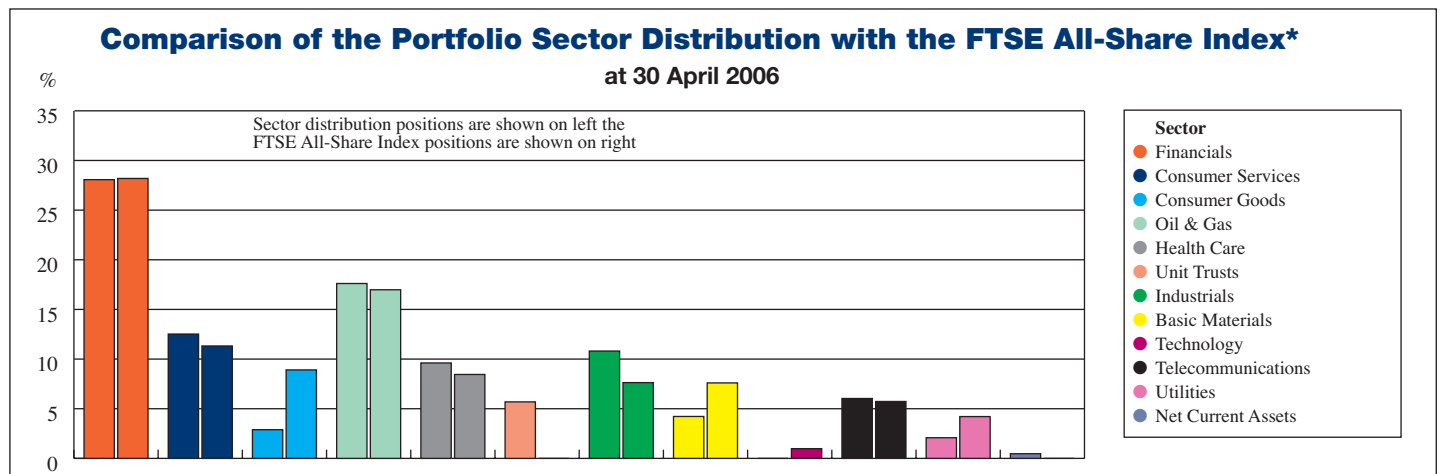
## Financial Highlights

	30 April 2006	30 April 2005	% Change
Net asset value per share	<b>139.59p</b>	108.90p*	+28.2
Share price	<b>123.00p</b>	94.00p	+30.9
Share price discount	<b>11.9%</b>	13.7%	
Total assets less current liabilities (excl. loans)	<b>£257.1m</b>	£204.3m*	+25.8
Loans	<b>£28.0m</b>	£25.0m	
Shareholders' funds	<b>£229.1m</b>	£179.3m*	+27.8
Market capitalisation	<b>£201.9m</b>	£154.8m	+30.4
Shares in issue	<b>164.1m</b>	164.6m	-0.3
	<b>Year ended 30 April 2006</b>	<b>Year ended 30 April 2005</b>	
Ordinary dividends per share	<b>3.35p</b>	3.15p	6.4%
Net asset value total return†	<b>+31.7%</b>	+7.0%	
FTSE All-Share Index total return†	<b>+32.4%</b>	+10.7%	
Total expense ratio††	<b>0.68%</b>	0.69%*	

† Source: Fundamental Data

†† Calculated in accordance with AITC guidance. Based on operating costs, excluding performance fee and finance costs, and expressed as a percentage of average monthly net assets

\* Restated for the effect of adoption of FRS 21 and FRS 26, see note 1 to the accounts



\* Sector distributions are shown as a percentage of total assets less current liabilities (excluding loans)

## Ten-Year Record

As at 30 April	Total assets <sup>*(a)</sup> £'000	Shareholders <sup>***(a)</sup> funds £'000	Diluted NAV <sup>***</sup> per Ordinary share	Undiluted NAV <sup>(a)</sup> per Ordinary share	Market price of Ordinary shares	Share price (discount)/ premium %
2006	257.1m	229.1m	N/A	139.59p	123.00p	(11.89)
2005	204.3m	179.3m	N/A	108.90p	94.00p	(13.68)
2004	192.9m	172.9m	N/A	102.92p	93.50p	(9.15)
2003	161.7m	141.7m	84.24p	84.24p	77.75p	(7.70)
2002	240.0m	210.0m	117.41p	119.73p	100.50p	(14.40)
2001	338.3m	288.3m	144.63p	150.75p	126.00p	(12.88)
2000	368.0m	365.0m	166.66p	175.63p	145.50p	(12.70)
1999	402.7m	402.7m	169.14p	178.58p	149.00p	(11.91)
1998	465.8m	420.8m	173.04p	185.49p	168.50p	(2.62)
1997	342.1m	312.2m	133.22p	139.69p	136.00p	2.09

\* Total assets less current liabilities, excluding loans

\*\* From 1 May 1999 to 30 April 2006, the Company purchased 64,931,684 shares for cancellation, at a cumulative cost of £82.5 million

\*\*\* Warrants expired on 2 September 2002

(a) The figures for 2005 have been restated in accordance with FRS26. The figures for the earlier years have not been restated

## Ten-Year Record (continued)

As at 30 April	Return per Ordinary Share	Net dividends per Ordinary Share	Cost of running trust* £'000	Actual gearing ratio <sup>††</sup>	Potential gearing ratio <sup>†††</sup>
2006	3.36p	3.35p	1,366	1.12	1.12
2005	3.20p	3.15p	1,208	1.13	1.14
2004	2.96p	3.00p	1,159	1.10	1.12
2003	2.91p	3.00p	1,057	1.13	1.14
2002	3.42p	3.50p	1,531	1.14	1.14
2001	3.07p	4.80p <sup>†</sup>	2,128	1.10	1.17
2000	3.41p	4.00p	2,451	0.98	1.01
1999	4.59p	3.90p	2,986	0.99	1.00
1998	4.22p	3.60p	3,298	1.05	1.11
1997	3.70p	3.30p	2,760	1.09	1.10

\* Operating expenses before tax relief (excl. performance fees and interest payable)

<sup>†</sup> Includes a special dividend of 1.80p per share

<sup>††</sup> Total assets less cash divided by shareholders' funds

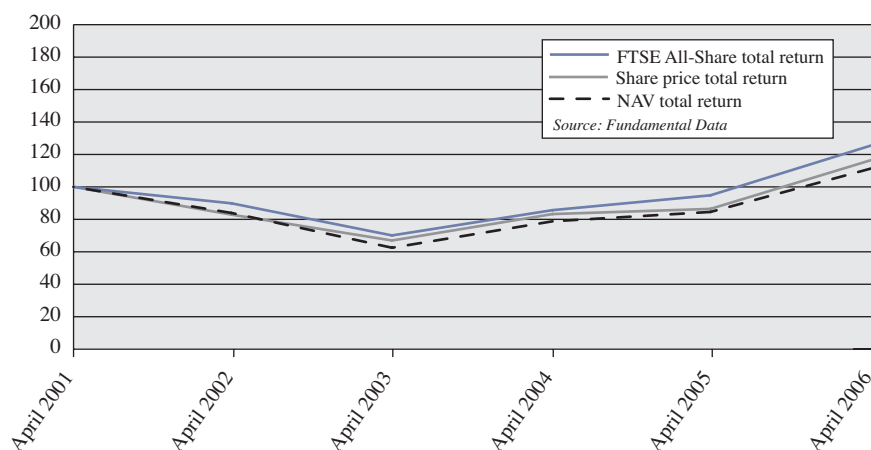
<sup>†††</sup> Total assets divided by shareholders' funds

## Ten-Year Total Returns to 30 April 2006

	Share price %	NAV %	FTSE All- Share Index %
1 year	34.76	31.67	32.36
2 year	39.92	41.30	46.49
3 year	73.97	78.11	79.06
4 year	40.52	32.63	39.63
5 year	16.5	11.34	25.51
6 year	4.47	(2.71)	22.81
7 year	4.13	4.88	24.50
8 year	(5.44)	0.01	38.71
9 year	20.09	33.05	86.23
10 year	27.47	46.09	116.36

Source: Fundamental Data

## Five-Year Share Price and NAV Performance\*



\* All data has been rebased to 100 at start of period

## Chairman's Statement

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### Performance

I am pleased to report a strong rise in net assets over the course of the past year. It has been a particularly good period for all world stock markets, and during it the UK market reached its highest level in five years. For the year ended 30 April 2006, the Company's net asset value produced a total return of 31.7% while the share price posted a total return of 34.8%. These compare with a return of 32.4% for the FTSE All-Share Index calculated on the same basis.

### Earnings and Dividends

Earnings per share increased in the current year from 3.20p per share to 3.36p per share. The Directors are pleased to declare a second interim dividend of 1.85p per share, making a total of 3.35p per share for the year as a whole – an increase of 6.4% on the previous year.

### Gearing Policy

Of the Company's £30m borrowing facility, £25m was drawn down at the start of the year and this rose to £28m at the end, as additional borrowings were drawn down in line with the rise in the Company's assets. The facility is now fully drawn. The net gearing level (which takes account not only of the borrowings but any cash held by the investment manager) at the beginning of the year was 13.1% and had decreased to 12.1% by the end of the year as the net assets of the Company increased.

The Company's gearing continues to operate within pre-agreed limits so that actual gearing does not represent more than 20% of shareholders' funds.

### Discount Protection

During the year ended 30 April 2006, the Board continued to operate its share buy-back facility and a total of 500,000 ordinary shares were purchased for cancellation, equal to 0.3 per cent. of the shares in issue on 1 May 2005. These purchases had the effect of enhancing net asset value at the time of the various purchases by approximately £67,000.

Your Directors are proposing at the Annual General Meeting that the Company renew and expand its existing authorities and be granted the authority to hold repurchased shares in treasury for subsequent reissue. The proposed authority would permit up to 10 per cent. of the share capital (including shares held in treasury) to be issued without being first offered to existing shareholders, an increase from the 5 per cent. limit that has been granted until now. A number of minor technical changes to the Articles, designed to facilitate the proposed use of treasury shares, will also be proposed.

The Board's intention is that shares to be held in treasury may be re-issued at any time and at whatever discount the prevailing market price represents to the prevailing net asset value per share. However, no share held in treasury will be issued at a discount that is wider than the discount prevailing at the time of its acquisition and any shares held in treasury for 12 months will be cancelled and so not reissued.

We believe that this proposal, if approved by shareholders, would enable the Company to better control the volatility of the discount of the share price to net asset value and would provide additional liquidity in the market.

## Chairman's Statement continued

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### **Outlook**

In the weeks following the close of our financial year, we have seen a setback in all world stock markets, and this uncertainty may persist for some time. Nevertheless, our Manager remains optimistic on the prospects for the market, encouraged by continuing economic growth and on-going profits improvements in the companies in which we are invested.

### **Annual General Meeting**

The Annual General Meeting will be held at 12.00 noon on Wednesday 2 August 2006, and shareholders are encouraged to attend. I hope as many of you as possible will be able to come along. The meeting, as in previous years, will include a presentation by the Investment Manager on the prospects for the UK market and the Company's investment strategy.



**Alan Clifton**

*Chairman*

29 June 2006

## Investment Manager's Review

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### Market Background

UK share prices have risen strongly over the last twelve months, with the FTSE All-Share total return index ending the period at its highest level in over five years. The market has enjoyed a strong run, buoyed by rising levels of corporate profitability, strong global growth and increasing levels of merger and acquisition activity and speculation. For much of the year, and in the middle part of it in particular, the performance of the market was dominated by strong returns in the resources sector. Mining stocks especially rose sharply as underlying commodity prices and earnings forecasts increased. Later in the period, the tone and perspective of the market changed, and an accelerating rate of merger and acquisition activity, involving increasingly large companies, focussed more attention on the underlying value of a broader group of companies.

### Performance

Over the twelve months to 30 April 2006 the company produced a total return of +31.7% compared to the total return of the FTSE All-Share benchmark index of +32.4%. Absolute performance has been strong, but on a relative basis it slightly lagged the index. This has been primarily due to the effects of its sector positioning in the period when a narrow group of resource stocks, to which in aggregate the portfolio has been underweight, has dominated market returns. Performance was stronger later in the year as the merits of portfolio holdings began to be more widely acknowledged.

### Investment Activity and Portfolio Strategy

Our approach is always to take a long term view of companies' prospects and earnings potential and to take advantage of periods when their fundamental merits are either overlooked or misunderstood. For parts of last year, the merits of many fundamentally attractive companies were disregarded in the immediate enthusiasm for resources stocks. As a result a sizeable number of companies, including some of the portfolio's longstanding holdings, began to appear unjustifiably cheap. In the second half of the period it was encouraging to see the value in many listed companies better recognised through merger and acquisition activity, to the benefit of several of the portfolio's holdings such as O2, P&O and BAA. As the market became less narrowly focussed and began to evaluate companies' longer term potential more adequately, so some of the holdings which lagged the market return in the middle part of last year performed better.

Despite this, there remains considerable scepticism about companies which are dependent on significant re-investment activity to support future growth. Reuters' share price has been volatile as it has been penalised by the market for capital investment plans which have been poorly understood by the market. Tesco and Smiths Group have suffered on similar grounds. Such re-investment will be essential for many companies to sustain attractive returns for shareholders. It has been rewarding recently to see our confidence in the future profits growth of many other of the portfolio's holdings shared more widely. Likewise, we fully expect companies with sound reinvestment plans to be rewarded for these in time.

## Investment Manager's Review continued

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### **Outlook**

The pace of the recent rise in UK equities raised concerns about a possible correction in the market, which came to fruition during May. However, while we were certainly due some setback, the momentum in earnings growth that has supported the three year bull market remains very supportive. Given the background of strong corporate profitability, valuations which remain below long-term averages and the fact that there is still no euphoria or an overwhelming belief in equities – institutional pension funds remain ongoing sellers – we are retaining an optimistic outlook for UK equity markets.

**Schroder Investment Management Limited**

29 June 2006

## Twenty Largest Investments

As at 30 April 2006

Company and Principle Activity	Market value of holding £'000	% of shareholders' funds*
<b>BP</b> Integrated oil group	20,607	8.99
<b>HSBC</b> International banking and financial services group	18,335	8.00
<b>GlaxoSmithKline</b> Research based pharmaceutical group	17,107	7.47
<b>Vodafone</b> Global mobile service provider	15,495	6.76
<b>Schroder Institutional UK Smaller Companies Fund</b> Unit Trust	14,622	6.38
<b>Royal Bank of Scotland</b> Banking and financial services group	12,863	5.61
<b>BG</b> Oil and gas exploration and production group	12,574	5.49
<b>Royal Dutch Shell</b> Integrated oil group	12,052	5.26
<b>Rio Tinto</b> World leader in finding, mining and processing a wide range of minerals across the world	10,863	4.74
<b>HBOS</b> Banking and financial services group	8,777	3.83
<b>Prudential</b> International financial services and insurance group	6,815	2.97
<b>Tesco</b> Leading UK and international food retailing group	6,487	2.83
<b>Standard Chartered</b> Banking and financial services group	5,979	2.61
<b>BAA</b> UK Airport Operator	5,788	2.53
<b>British Land Company</b> Real estate company	5,589	2.44
<b>Drax</b> Coal-fired power station operator	5,358	2.35
<b>AstraZeneca</b> Research based pharmaceutical company	5,014	2.19
<b>British Sky Broadcasting</b> Pay-television broadcasting company	5,005	2.18
<b>Wolseley</b> Distributor and wholesaler of building materials and supplies	4,819	2.10
<b>Reuters</b> News and financial information provider	4,790	2.09
<b>Total</b>	<b>198,939</b>	<b>86.82</b>

\*Total assets less current liabilities

At 30 April 2005, the twenty largest investments represented 83.15% of Shareholders' Funds

## List of Investments

At 30 April 2006

Company	Industrial Sector	Market value of holdings £'000	Percentage of Shareholders' Funds
<b>Basic Materials</b>			
Rio Tinto	Basic Materials	10,863	
		10,863	4.74
<b>Consumer Goods</b>			
Burberry	Personal Goods	1,401	
Gallaher	Tobacco	3,943	
British American Tobacco	Tobacco	2,084	
		7,428	3.24
<b>Consumer Services</b>			
Tesco	Food and Drug Retailers	6,487	
Boots	General Retailers	1,662	
GUS	General Retailers	4,403	
MFI	General Retailers	1,654	
Signet	General Retailers	2,243	
Intercontinental Hotels	Leisure, Entertainment and Hotels	3,691	
British Sky Broadcasting	Media and Photography	5,005	
Reuters	Media and Photography	4,790	
United Business Media	Media and Photography	2,255	
		32,190	14.05
<b>Financials</b>			
HBOS	Banks	8,777	
HSBC Holdings	Banks	18,335	
Royal Bank of Scotland	Banks	12,863	
Standard Chartered	Banks	5,979	
Old Mutual	Life Assurance	3,837	
Prudential	Life Assurance	6,815	
Resolution	Life Assurance	3,321	
3i Group	General Financial	3,721	
Man Group	General Financial	2,950	
British Land	Real Estate	5,589	
		72,187	31.50
<b>Healthcare</b>			
Smith & Nephew	Health	2,587	
AstraZeneca	Pharmaceuticals and Biotechnology	5,014	
GlaxoSmithkline	Pharmaceuticals and Biotechnology	17,107	
		24,708	10.78

**List of Investments** continued

At 30 April 2006

Company	Industrial Sector	Market value of holdings £'000	Percentage of Shareholders' Funds
<b>Industrials</b>			
Smiths	Aerospace and Defence	4,027	
Wolseley	Construction and Building Materials	4,819	
Cookson	Engineering and Machinery	1,799	
Charter	Industrial Engineering	4,370	
Bunzl	Support Services	3,105	
Intertek	Support Services	2,101	
BAA	Transport	5,788	
BBA	Transport	1,786	
		27,795	12.14
<b>Oil and Gas</b>			
BG	Oil and Gas producers	12,574	
BP	Oil and Gas producers	20,608	
Royal Dutch Shell	Oil and Gas producers	12,052	
Tullow Oil	Oil and Gas producers	49	
		45,283	19.77
<b>Telecommunications</b>			
Vodafone	Telecommunication Services	15,495	
		15,495	6.76
<b>Unit Trust</b>			
Schroder Institutional UK Smaller Companies Fund – Income Units	Unit Trusts	14,622	
		14,622	6.38
<b>Utilities</b>			
Drax	Utilities	5,358	
		5,358	2.34
<b>Total Investment Portfolio</b>		255,929	111.70
<b>Other net liabilities</b>		(26,798)	(11.70)
<b>Total equity shareholders' funds</b>		<b>229,131</b>	<b>100.00</b>

## Business Review

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### Company's Business

The Company carries on business as an investment trust and is an investment company within the meaning of section 266 of the Companies Act 1985. The Company was established in 1994 and its ordinary shares are listed on the London Stock Exchange.

The Company conducts itself with a view to being an approved investment trust for the purposes of Section 842 of the United Kingdom Income and Corporation Taxes Act 1988 so as to gain exemption from capital gains tax.

### Investment Objective

The investment objective of the Company is to achieve capital growth predominantly from investment in UK equities, with the aim of providing a total return in excess of the FTSE All-Share Index.

### Performance

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

### Investment Strategy

The Board has delegated management of the Company's portfolio to Schroder Investment Management Limited (the "Manager"). The Manager manages the portfolio with the aim of helping the Company achieve its investment objective. The investment policy is based on a longer term view of the business prospects of the portfolio's constituent companies. The portfolio is highly diversified to assist in reducing the impact of economic fluctuations. Further details of the Manager's portfolio strategy, and other factors that have affected performance during the year, are also set out in the Investment Manager's Review.

### Dividend Policy

The Company's focus is on total return without constraining the Manager to deliver any given level of investment income. Although the Board does not have a specific dividend target, it aims to provide shareholders with a stable stream of income rising over the long term.

For the year ended 30 April 2006, investment income on the portfolio rose by 6.9%, enabling Directors to declare dividends totalling 3.35p per share, an increase of 6.4% on the preceding year.

The Board anticipates that income from investee companies will continue to increase, enabling a progressive dividend distribution policy to be followed.

### Measuring Success – Key Performance Indicators

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

## Business Review continued

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### Investment Performance

The Board considers that monitoring the relative success of the Company's investment performance, measured against its established benchmark, is one of its most important roles.

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

For the year ended 30 April 2006, the Company achieved a total return on net asset value of 31.7% compared to a total return of 32.4% for the benchmark. Charts showing the Company's five-year performance and sector distribution against the benchmark as at 30 April 2006 can be found on pages 3 and 4 of this Report. The Board acknowledges that long-term performance has not been satisfactory. Discussions in 2002 led to the appointment of Richard Buxton as investment manager, following which performance has improved and has been in line with the benchmark. The objective remains to out-perform the benchmark over time.

Each year the Board conducts an assessment of the Manager in the light of the performance achieved. Explanations of the factors behind the performance for the year under review are set out in statements from the Chairman and Investment Manager in this Report. The Board remains supportive of the Manager and believes that it has the depth of resource in its management team to enable the Company to out-perform over the longer-term, backed by strong distribution capabilities and administration. It continues to work with the Manager to adopt strategies to improve performance.

### Discount Management

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

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

Share buy-backs are a more direct way of managing the discount. The discount of the Company's share price to its underlying net asset value and the discounts of peer group companies, are monitored on a daily basis. The Board considers the use of its share buy-back authority on a regular basis and has adopted guidelines which outline circumstances in which the Company is prepared to buy-back shares. These guidelines are reviewed and updated on a regular basis.

At 30 April 2006, the Company's share price stood at a discount of 11.9% to net asset value, which compared with those of peer group companies ranging between 2.3% and 10.2%. During

## Business Review *continued*

the year under review the discount reached a high of 12% and a low of 9%. The Directors utilised the Company's share buy-back powers during the year under review to purchase 500,000 shares for cancellation. After the year-end it has used its powers to purchase an additional 870,000 shares for cancellation.

Following its latest review, the Board is seeking authority at the forthcoming Annual General Meeting to purchase shares to hold in treasury, allowing for re-issue at a discount. The Directors believe that this will assist them further in managing the volatility of the discount and improving the liquidity of the shares.

### Control of Total Expenses

One of the advantages of closed ended vehicles is their relatively low running costs compared with other investment vehicles. The Board has adopted a third KPI which assists the Board in keeping the total expense ratio ("TER") of the Company under review.

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

The TER for the Company for the year to 30 April 2006 (calculated in accordance with AITC guidance as total annualised net operating expenses after tax divided by average net assets during the year) was 0.68%. This is believed to be significantly below the average for investment trusts in general and for our peer group.

### 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. 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:-

#### Market Risk

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

#### Gearing

The Company utilises a credit facility, currently in the amount of £30 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 share price 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 actual gearing does not represent more than 20% of shareholders' funds.

**Business Review** continued

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**Discount**

Over time, investment vehicles and asset classes can become out of favour with investors or trusts 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 "Investment Performance" above.

**Regulatory Risks**

The regulatory environment in which the Company operates is increasingly complex and the Company faces a number of regulatory risks. A breach of section 842 of the Income and Corporation Taxes Act 1988 could result in the Company being subject to capital gains tax on the sale of portfolio investments. Breaches of other regulations such as the UK Listing Authority's Listing Rules could lead to a number of detrimental outcomes and damage the Company's reputation. Breaches of controls by service providers such as the Manager could also lead to reputational damage or loss.

**Resources**

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

**Changes to UK Accounting Standards**

As described in greater detail in the Directors' Report and in the Notes to the Financial Statements, the Company has adopted new accounting standards and a revised Statement of Recommended Practice for Investment Trust Companies, during the year ended 30 April 2006.

**Environmental Policy**

As an investment trust, 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.

By Order of the Board

**Alan Clifton**

*Chairman*

4 July 2006

## Report of the Directors

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The Directors submit their Report and the Accounts of the Company for the year ended 30 April 2006.

### Company's Business

The Company carries on business as an investment trust and is an investment company within the meaning of section 266 of the Companies Act 1985 (as amended). In order to continue to obtain exemption from capital gains tax, the Company has conducted itself with a view to being an approved investment trust for the purposes of Section 842 of the United Kingdom Income and Corporation Taxes Act 1988 (as amended). The last accounting period for which the Company has been treated as approved by the Inland Revenue is the year ended 30 April 2004 and the Company has subsequently directed its affairs so as to enable it to continue to qualify for such approval. The Company is not a close company for taxation purposes.

### Accounting Standards

The accounts continue to be prepared in accordance with applicable United Kingdom law and Generally Accepted Accounting Principles (UK GAAP). The Accounting Standards Board (ASB) has implemented a convergence programme with International Financial Reporting Standards (IFRS) and as part of this project has issued several new Financial Reporting Standards (FRS). Of these new accounting standards, FRS 21 (Events after the Balance Sheet Date), and FRS 26 (Financial Instruments: Measurements) have led to certain changes in the company's accounting policies. There are two significant changes; the first is to change the basis of valuing the listed portfolio from using mid-market prices to bid prices. This has had a minimal impact on our NAV. The prior year figures in the accounts have been restated; the second change is to recognise interim dividends payable only after they have been declared and paid. Accordingly, the accounts have been restated to add back dividends which were accrued but unpaid at 30 April 2005. The second interim dividend for 30 April 2006 of £3,037,000 will therefore not be deducted from net assets until after 30 April 2006. In addition, the adoption of FRS25 (Financial Instruments: Disclosure and Presentation) has led to changes in disclosure and presentation. Full details of the changes in accounting policies and presentation are given in note 1 of the accounts.

### Revenue and Earnings

The net revenue return before finance costs and taxation for the year was £5,923,000. After deducting interest charges and taxation the amount available for distribution to shareholders was £5,539,000, equivalent to earnings of 3.36p per ordinary share.

### Dividend Policy

The Directors of the Company intend to continue to pay dividends at the end of January and July in each year. Although it is their intention to distribute substantially all of the Company's net income after expenses and taxation, the Company is permitted to retain up to a maximum of 15% of its gross income from shares and securities in each year as a revenue reserve. The Company may take advantage of this to facilitate a consistent dividend policy.

Having already paid a first interim dividend of 1.50p per share, the Board has now declared a second interim dividend of 1.85p per share for the year ended 30 April 2006 which is payable on 31 July 2006 to Shareholders on the Register on 7 July 2006. Thus, dividends for the full year amount to 3.35p per share (2005: 3.15p per share). As in previous years, the dividend will be declared as an interim to enable payment at the end of July, ahead of the Company's Annual General Meeting in August.

## Report of the Directors continued

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Total dividend payments for the year of £5,507,000 would previously have resulted in retained revenue for the year of £32,000 but under new accounting standards, the second interim dividend amounting to £3,037,000 will not be accounted for until it has been paid.

### **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 market in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. There were no outstanding trade creditors, other than purchases for future settlement, at 30 April 2006 (2005: nil).

### **Treasury Share Authority**

During the year ended 30 April 2006, the Board has continued to operate the Company's share buy-back facility and a total of 500,000 ordinary shares were purchased for cancellation, equal to approximately 0.3% of the shares in issue on 1 May 2005.

The Directors have continued to consider share buy-backs to be one of a number of tools that may be used to enhance shareholder value. We are now proposing that the Company renew and expand its existing authorities and at the same time be granted the authority to hold repurchased shares in treasury for subsequent reissue (i.e. rather than for immediate cancellation). The Board believes that this will give the Company flexibility to provide a source of additional liquidity for its shares in the secondary market. The renewed authority would permit up to 10% of the share capital (including shares held in treasury) to be issued without being first offered to existing shareholders, an increase from the 5% limit that has been granted until now. The Board's intention is that shares to be held in treasury may be re-issued at any time and at whatever discount the prevailing market price represents to the prevailing net asset value per share. However in order to ensure that all shareholders will benefit, no share held in treasury will be issued at a discount that is wider than the discount prevailing at the time of its acquisition and any shares held in treasury for 12 months will be cancelled and so not reissued.

The powers relating to treasury shares will be in addition to the powers to repurchase shares for immediate cancellation and to issue new shares at a premium to net asset value. Accordingly, resolution 7 in the Notice of the Annual General Meeting, to be proposed as an ordinary resolution, and resolution 8, to be proposed as a special resolution, renew the existing authority that allows the Directors to issue a limited number of shares without the normal pre-emption rights, which require that the shares first to be offered pro-rata to existing shareholders and increases the limit from 5% to 10% of the issued share capital. The new limit applies not only to the issue of new shares (as at present) but also to the sale of shares held in treasury. Resolution 9, also to be proposed as a special resolution, renews the existing authority to buy-back up to 14.99% of the issued share capital on 4 July 2006 in the Market.

The new authorities, if approved, would last until the next Annual General Meeting. The Board expects that the authorities will then be renewed at that and each subsequent Annual General Meeting, or more frequently if the interests of the Company so require.

The use of treasury shares raises a number of issues as to whether shares held in treasury should be counted as issued share capital for certain purposes, for example levels of shareholding which, if not disclosed, trigger the right of the Company to implement restrictions on the voting rights attached to the relevant shares. The Directors are accordingly recommending that the Articles be

## Report of the Directors continued

amended to clarify that shares in treasury do not count for this and similar purposes and to provide that, for example, shares held in treasury do not carry the right to any distribution of assets in a liquidation and that, at the same time, a number of other minor amendments be made. Resolution 10 will accordingly be proposed at the meeting as a special resolution to adopt amended Articles of Association which incorporate these changes.

### Directors and their Interests

The Directors of the Company and their biographical details can be found on page 2. All Directors held office throughout the year under review.

In accordance with the Company's Articles of Association, Mr Clifton will retire by rotation and, being eligible, offers himself for re-election. In addition, in accordance with the Company's policy on tenure as outlined in the following Corporate Governance Statement, Mr Phillips and Mr Niven, having served as non-executive Directors for more than 9 years, will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Board, having reviewed the performance of the Board during the year, considers that each of Messrs Clifton, Phillips and Niven 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.

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

The Directors' interests in the Company's share capital at the beginning and end of the financial year ended 30 April 2006, all of which were beneficial, were as follows:

Director	Ordinary shares of 25p each 30 April 2006	Ordinary shares of 25p each 1 May 2005
Alan Clifton	<b>25,000</b>	25,000
Keith Niven	<b>26,939</b>	26,278
Ian Phillips	<b>15,492</b>	15,217
Stella Pirie	<b>10,339</b>	10,085
David Ritchie	<b>20,000</b>	20,000

Certain Directors' shareholdings have changed since the year-end as a result of transactions through Schroder's PEP/ISA Share Plan. The resultant changes in shareholdings at 4 July 2006 are as follows: Keith Niven: 26,861 Ordinary shares; Stella Pirie: 10,309 Ordinary shares; and Ian Phillips: 15,447 Ordinary shares.

### Substantial Share Interests

At 3 July 2006, the Company had been notified that Barclays plc had an interest in 8,293,344 ordinary shares being 5.08% of the shares in issue. The Directors are also aware that 74,530,386 ordinary shares, representing 45.6% of the Company's issued share capital, were held by investors in the Schroder PEP/ISA Scheme at 3 July 2006.

### Independent Auditors

The Company's Auditors, PricewaterhouseCoopers LLP, have expressed their willingness to remain in office and a resolution to reappoint them as Auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM.

**Report of the Directors** continued

The Audit Committee has adopted a policy on the engagement of the Auditors to supply non-audit service services to the Company. The Auditors charged £3,000 for the supply of non-audit services during the year under review in relation to work performed at the time of the interim announcement.

**Investment Manager**

During the year under review the Board considered the services provided by the Investment Manager, Schroder Investment Management Limited. The Board continues to consider that the Manager has the appropriate depth of resource to provide above-average returns in the longer-term. The Board therefore considers that the Manager's continued appointment under the terms of the current Investment Management Agreement, further details of which are set out below, remains in the interests of shareholders as a whole.

The Investment Manager provides investment management and company secretarial services to the Company in accordance with an Investment Management Agreement.

Fees (excluding performance fees) payable to the Investment Manager under the Agreement are based on 0.4% of the Company's net assets. Net assets are defined as total assets less all current liabilities other than short term borrowings. The value of cash up to the level of short term borrowing is deducted from this calculation of net assets. Investments in Schroder funds are subject to rebating to ensure that the Investment Manager receives only 0.4% on such investments. The Manager is also entitled to receive an annual performance fee, capped at £500,000, provided that the total return generated by the Company's net asset value out-performs the FTSE All-Share Index by at least 0.50% per annum. The performance fee equating to 10% of the amount of the out-performance will be calculated annually but averaged and accumulated over a rolling three-year period. The amount of management fees payable in respect of the year ended 30 April 2006 are shown in note 3 to the accounts.

Under the Investment Management Agreement, Schroder Investment Management Limited is entitled to a secretarial fee amounting to £57,120 (plus VAT) for the year ended 30 April 2006. This fee increases each year in line with the Retail Price Index.

Registered Office:  
31 Gresham Street  
London EC2V 7QA

By Order of the Board  
Schroder Investment Management Limited  
Company Secretary

Registered number: 2894077  
4 July 2006

## Directors' Remuneration Report for the year ended 30 April 2006

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

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £125,000 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 fulfil 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. Following an increase in fees implemented in January 2005, there was no increase this year. Directors receive £13,500 per annum and the Chairman receives fees at the rate of £20,000 per annum to reflect his more onerous role. No element of the Directors' remuneration is performance related.

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.

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

No Director has a service contract with the Company. However, Directors have a letter of appointment with the Company under which they are entitled to one month's notice in the event of termination. The 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 Association. Thereafter Directors retire by rotation at least every three years. The Chairman meets with each Director before such Director is proposed for re-election and, subject to the evaluation of performance carried out each year, the Board agrees whether it is appropriate for such Directors to seek an additional term.

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

**Directors' Remuneration Report** for the year ended 30 April 2006 continued**Performance Graph**

A graph showing the Company's net asset value and share price total return compared with its benchmark, the FTSE All-Share Index, over the last 5 years is shown on page 4.

**Remuneration**

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

<b>Director</b>	<b>Directors' fees for the year ended 30 April 2006</b>	Directors' fees for the year ended 30 April 2005*
Alan Clifton (Chairman and highest paid Director)	<b>£20,000</b>	£18,300
Keith Niven	<b>£13,500</b>	£12,200
Ian Phillips	<b>£13,500</b>	£12,200
Stella Pirie	<b>£13,500</b>	£12,200
David Ritchie	<b>£13,500</b>	£12,200
Ian Trotter**	–	£7,700
<b>Total</b>	<b>£74,000</b>	£74,800

\* On 1 January 2005, fees were increased from £11,500 per annum to £13,500 per annum for Directors and from £17,500 per annum to £20,000 per annum for the Chairman.

\*\* Retired on 31 December 2004.

The information in the above table has been audited (see the Independent Auditors' Report on pages 31 and 32).

By order of the Board  
Schroder Investment Management Limited  
Company Secretary

4 July 2006

## Statement of Directors' Responsibilities

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The Directors are responsible for preparing accounts 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, and are in accordance with applicable United Kingdom law and Generally Accepted Accounting Principles (UK GAAP).

The Directors are satisfied that the Company has adequate resources to continue in business and accordingly that the accounts should be drawn up on a going concern basis. 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. These policies and standards, for which the Directors accept responsibility, have been discussed with the Auditors.

As far as the Directors are aware there is no relevant audit information of which the auditors are unaware and they have taken all steps they should have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error, other irregularities and non-compliance with laws and regulations.

The Directors believe that they have complied with these responsibilities.

The financial statements are published on the [www.schroders.co.uk](http://www.schroders.co.uk) website, which is a website maintained by the Company's Investment Manager. The maintenance and integrity of the website maintained by Schroders is, so far as it relates to the Company, the responsibility of Schroders. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

## Corporate Governance

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The Board is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be appropriate for an investment trust in order to comply with the principles of the Combined Code (the “Code”).

### Compliance with the Code

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 22, indicates how the Company has complied with the principles of good governance of the Code and its requirements on Internal Control.

### Compliance Statement

The Board considers that the Company has, throughout the year under review, complied with the best practice provisions in Section 1 of the Code, save in respect of the appointment of a Senior Independent Director, as disclosed below, where departure from the Code is considered appropriate given the Company’s position as an investment trust. The Board also considers that it substantially complies with the principles of the AITC Code of Governance.

### 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 and setting its agenda.

#### Role of the Board

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

### Composition and Independence

The Board currently consists of five non-executive Directors. The biographies of each of these Directors, including their age and length of service, are set out on page 2 of this Report. The Board considers each of the Chairman, Mr Phillips, Ms Pirie and Mr Ritchie to be independent. Mr Niven is not deemed independent by virtue of his previous relationship with the Investment Manager and because he is a non-executive Director of Schroder Income Growth Fund plc, another investment trust managed by Schroders. The independence of each Director is considered on a continuing basis.

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

## Corporate Governance *continued*

The Board is satisfied that it is of sufficient size with an appropriate balance of skills and experience, and that no individual or group of individuals is, or has been, in a position to dominate decision making.

### **Senior Independent Director**

The Board has considered whether a senior independent Director should be appointed. As the Board comprises entirely non-executive Directors, the appointment of a senior independent Director is not considered necessary. However, the Chairman of the Audit Committee leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns which cannot be resolved through discussion with the Chairman.

### **Tenure**

The Directors have adopted a policy on tenure that is considered appropriate for an investment trust. The Board does not believe that length of service, by itself, leads to a closer relationship with the Investment Manager or necessarily affects a Directors' 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 Combined 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, Directors attend relevant seminars and events to allow them to continually refresh their skills and knowledge and keep up with changes within the investment trust industry.

### **Board Evaluation**

The Board has adopted a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. The evaluation takes place in two stages, firstly, 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. The Board has developed criteria for use at the evaluation, which focuses on the individual contribution to the Board and its Committees made by each Director and the responsibilities, composition and agenda of the Committees and of the Board itself.

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

### **Meetings and Attendance**

The Board meets at least five times each year and, in addition, meets specifically to discuss strategy once each year. Additional meetings are also arranged as required and regular contact

**Corporate Governance** continued

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 six scheduled meetings held during the year under review is set out in the table below.

Director	Maximum attendance	Board meetings Attended
Alan Clifton	6	6
Keith Niven	6	6
Ian Phillips	6	6
Stella Pirie	6	6
David Ritchie	6	6

**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.

**Relations with Shareholders**

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

The Board believes that the 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 pages 50 and 51 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

## Corporate Governance continued

compromised in the process the Board do, however, believe that it is also possible to develop a framework that, in the interests of our shareholders, allows a broader range of considerations, including environmental and social issues, to be taken into account when selecting and retaining investments. The investment process therefore contains a review of research into the environmental, social and ethical stance of companies. Where potential financial or reputational risks are identified, their materiality is assessed and given due consideration when selecting or retaining investments.

### Exercise of Voting Powers

The Company has delegated responsibility for voting to Schroders who votes in accordance with its corporate governance policy.

### 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.

### Internal Control

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

The Board believes that the key risks identified and the implementation of an on-going system to identify, evaluate and manage these risks are based upon and relevant to the Company's business as an investment trust. The on-going 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.

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

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

## Board Committees

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### **Audit Committee**

The members of the Committee as at 30 April 2006 were:

David Ritchie (Chairman)

Alan Clifton

Ian Phillips

Stella Pirie

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.

### **Terms of Reference**

The Company established an Audit Committee in 1994. 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 responsibilities of the Committee include the following:

#### **Financial Statements**

- (a) to monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- (b) to review and, if appropriate, recommend to the Board, the Company's annual and interim reports;

#### **Internal Control**

- (c) to monitor and review annually whether an internal audit function is required;
- (d) to monitor the Company's accounting and financial internal control systems, and to monitor the internal control systems of the Investment Manager and Custodian and to make recommendations on any improvements to such systems;
- (e) to monitor the Company's procedures for ensuring compliance with regulatory and financial reporting requirements and its relationship with the relevant regulatory authorities;

#### **External audit and relationship with the external auditor**

- (f) to discuss any matters arising from the audit and recommendations made by the auditors;
- (g) to make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (h) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- (i) to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

## Board Committees continued

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### **Report on the Committee's Activities**

To discharge its duties, the Committee met on two occasions during the year ended 30 April 2006 and considered the following:

- the annual financial statements and interim financial statements
- the external auditors' year-end reports and management letters
- the effectiveness of the audit process
- the independence and objectivity of the external auditor
- internal controls operating within the management company

### **Attendance**

Both of the meetings held during the year ended 30 April 2006 were attended by all members of the Committee.

A copy of the full Terms of Reference of the Audit Committee is available on request from the Company Secretary.

**Board Committees** continued**Management Engagement Committee**

The members of the Committee as at 30 April 2006 were:

Alan Clifton (Chairman)  
Ian Phillips  
Stella Pirie  
David Ritchie

The Board considers each member of the Committee to be independent.

**Terms of Reference**

The Company established a Management Engagement Committee in 1994. The role of the Committee is to review the terms of the management contract with the Investment Manager. In addition, the Committee also reviews Directors' fees and makes recommendations to the Board in this regard.

The responsibilities of the Committee include the following:

- (a) to review the performance of the Investment Manager and its continuing suitability to manage the Company's portfolio;
- (b) to review the terms of the management contract between the Company and the Investment Manager, and to ensure that the terms are competitive, fair and reasonable for the shareholders; and
- (c) to review and make recommendations on any proposed amendment or material breach of the management contract.

**Report on the Committee's Activities**

To discharge its duties, the Committee met on one occasion during the year ended 30 April 2006 and considered the following:

- the performance and suitability of the Investment Manager
- the terms and conditions of the management contract
- the fees paid to Directors

**Attendance**

This meeting was attended by all members of the Committee.

A copy of the full Terms of Reference of the Management Engagement Committee is available on request from the Company Secretary.

## Board Committees continued

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### **Nomination Committee**

The members of the Committee as at 30 April 2006 were:

Alan Clifton (Chairman)  
Keith Niven  
Ian Phillips  
Stella Pirie  
David Ritchie

The Board considers each member of the Committee, with the exception of Mr Niven, to be independent.

### **Terms of Reference**

The Company established a Nomination Committee in 1999. The role of the Committee is to consider and make recommendations to the Board on its composition and balance of skills and experience, and on individual appointments, to lead the process and make recommendations to the Board.

The responsibilities of the Committee include the following:

- (a) to evaluate the balance of skills, knowledge and experience of the Board of Directors and to prepare a description of the role and capabilities required for a particular appointment. In the case of the appointment of a Chairman, to prepare a job specification;
- (b) to select potential candidates to fill vacancies on the Board of Directors for recommendation to the Board;
- (c) to interview, or arrange for suitable Directors to interview, candidates for Directors;
- (d) to review periodically the terms of appointment of the non-executive Directors; and
- (e) to consider whether a senior independent director should be appointed and, if appropriate, to identify and recommend to the Board suitable candidates for the role

A formal procedure for the appointment of new Directors is contained in the Terms of Reference of the Committee.

### **Report on the Committee's Activities**

The Committee did not have occasion to meet during the year ended 30 April 2006.

A copy of the full Terms of Reference of the Nomination Committee is available on request from the Company Secretary.

## Independent Auditors' Report

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### **Independent Auditors' Report To the members of Schroder UK Growth Fund plc**

We have audited the accounts of Schroder UK Growth Fund plc for the year ended 30 April 2006 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

#### *Respective responsibilities of directors and auditors*

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. The directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Report of the Directors is consistent with the accounts. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. The other information comprises only the Chairman's Statement, Investment Manager's Review, Report of the Directors, the unaudited part of the Directors' Remuneration Report, Business Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

## Independent Auditors' Report continued

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### *Basis of audit opinion*

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors' Remuneration Report to be audited.

### *Opinion*

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 April 2006 and of its net return and cash flows for the year then ended;
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the accounts.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
4 July 2006

## Income Statement

	Notes	For the year ended 30 April 2006			For the year ended 30 April 2005 (Restated – See Note 22b)		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value	9	–	51,717	51,717	–	8,141	8,141
Income	2	6,581	–	6,581	6,283	–	6,283
Investment management fee	3	(303)	(708)	(1,011)	(253)	(592)	(845)
Performance fee accrual write back	3	–	–	–	–	120	120
Administrative expenses	4	(355)	–	(355)	(363)	–	(363)
<b>Net return before finance costs and taxation</b>		<b>5,923</b>	<b>51,009</b>	<b>56,932</b>	5,667	7,669	13,336
Interest payable	5	(384)	(896)	(1,280)	(357)	(832)	(1,189)
<b>Net return on ordinary activities before taxation</b>		<b>5,539</b>	<b>50,113</b>	<b>55,652</b>	5,310	6,837	12,147
Taxation on ordinary activities	6	–	–	–	–	–	–
<b>Net return on ordinary activities after taxation attributable to equity shareholders</b>		<b>5,539</b>	<b>50,113</b>	<b>55,652</b>	5,310	6,837	12,147
<b>Net return per ordinary share</b>	<b>8</b>	<b>3.36p</b>	<b>30.44p</b>	<b>33.80p</b>	3.20p	4.12p	7.32p

The total column of this statement is the profit and loss account of the Company. The revenue return and capital return columns are both provided in accordance with guidance issued by the Association of Investment Trust companies. The Company has no recognised gains or losses other than those disclosed in the Income Statement and the Reconciliation of Movements in Shareholders' Funds. Accordingly no Statement of Total Recognised Gains or Losses is presented.

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

## Reconciliation of Movements in Shareholders' Funds

	Share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserve £'000	Revenue Reserve £'000	Total £'000
Balance at 30 April 2004 – previously reported	42,011	15,258	944	98,869	417	14,158	1,288	172,945
Valuation adjustment (see note 22(c))	–	–	–	–	–	(181)	–	(181)
Dividends – second interim dividend in respect of the year ended 30 April 2004	–	–	–	–	–	–	2,521	2,521
<b>Balance at 30 April 2004 – restated</b>	<b>42,011</b>	<b>15,258</b>	<b>944</b>	<b>98,869</b>	<b>417</b>	<b>13,977</b>	<b>3,809</b>	<b>175,285</b>
Balance at 30 April 2004 – restated	42,011	15,258	944	98,869	417	13,977	3,809	175,285
Net profit from operating activities	–	–	–	–	–	6,837	5,310	12,147
Share buyback	(850)	850	–	(3,142)	–	–	–	(3,142)
Dividends – second interim dividend paid in respect of the year ended 30 April 2004	–	–	–	–	–	–	(2,512)	(2,512)
Dividends – first interim dividend paid in respect of the year ended 30 April 2005	–	–	–	–	–	–	(2,483)	(2,483)
<b>Balance at 30 April 2005 – restated</b>	<b>41,161</b>	<b>16,108</b>	<b>944</b>	<b>95,727</b>	<b>417</b>	<b>20,814</b>	<b>4,124</b>	<b>179,295</b>
Balance at 30 April 2005 – restated	41,161	16,108	944	95,727	417	20,814	4,124	179,295
Net profit from operating activities	–	–	–	–	–	50,113	5,539	55,652
Share buy back	(125)	125	–	(629)	–	–	–	(629)
Dividends – second interim dividend paid in respect of the year ended 30 April 2005	–	–	–	–	–	–	(2,717)	(2,717)
Dividends – first interim paid in respect of the year ended 30 April 2006	–	–	–	–	–	–	(2,470)	(2,470)
<b>Balance at 30 April 2006</b>	<b>41,036</b>	<b>16,233</b>	<b>944</b>	<b>95,098</b>	<b>417</b>	<b>70,927</b>	<b>4,476</b>	<b>229,131</b>

The notes on pages 37 to 47 form an integral part of these accounts.

## Balance Sheet

At 30 April

	Notes	2006 £'000	(Restated – see note 22(a)) 2005 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	9	255,929	201,173
<b>Current assets</b>			
Debtors	10	1,729	2,233
Cash at bank		199	1,480
		1,928	3,713
<b>Creditors: amounts falling due within one year</b>	11	(28,726)	(25,591)
<b>Net current liabilities</b>		(26,798)	(21,878)
<b>Net assets attributable to shareholders</b>		229,131	179,295
<b>Capital and reserves</b>			
Called-up share capital	12	41,036	41,161
Capital redemption reserve	13	16,233	16,108
Share premium account	14	944	944
Share purchase reserve	15	95,098	95,727
Warrant exercise reserve	16	417	417
Capital reserve	17	70,927	20,814
Revenue reserve	18	4,476	4,124
<b>Total equity shareholders' funds</b>		229,131	179,295
<b>Net asset value per ordinary share</b>	19	139.59p	108.90p

The Accounts were approved by the Board of Directors on 4 July 2006 and signed on behalf of the Board by:

**Alan Clifton**

**David Ritchie**

Directors

The notes on pages 37 to 47 form an integral part of these accounts.

## Cash Flow Statement

	Notes	£'000	For the year ended 30 April 2006 £'000	£'000	For the year ended 30 April 2005 £'000
<b>Operating Activities</b>					
Income from investments		6,975		5,915	
Interest received		113		240	
Administrative expenses		(360)		(313)	
Investment management fee		(953)		(837)	
<b>Net cash inflow from operating activities</b>	<b>20</b>		<b>5,775</b>		<b>5,005</b>
<b>Returns on investments and servicing of finance</b>					
Bank loan and overdraft interest paid		(1,288)		(1,171)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			<b>(1,288)</b>		<b>(1,171)</b>
<b>Financial Investment</b>					
Purchases of investments		(62,710)		(23,441)	
Sales of investments		59,755		21,011	
<b>Net cash outflow from financial investment</b>			<b>(2,955)</b>		<b>(2,430)</b>
<b>Equity dividends paid</b>			<b>(5,187)</b>		<b>(4,995)</b>
<b>Net cash outflow before financing</b>			<b>(3,655)</b>		<b>(3,591)</b>
<b>Financing</b>					
Purchase of shares for cancellation		(626)		(3,278)	
Bank loan drawn down		3,000		5,000	
<b>Net cash inflow from financing</b>			<b>2,374</b>		<b>1,722</b>
<b>Net cash outflow in the year</b>			<b>(1,281)</b>		<b>(1,869)</b>

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

	Notes	£'000	For the year ended 30 April 2006 £'000	£'000	For the year ended 30 April 2005 £'000
Decrease in cash in the year		(1,281)		(1,869)	
Movement in bank loan to finance investments		(3,000)		(5,000)	
Change in net debt resulting from cash flows			(4,281)		(6,869)
Net debt brought forward at 1 May			(23,520)		(16,651)
<b>Net debt carried forward at 30 April</b>	<b>21</b>		<b>(27,801)</b>		<b>(23,520)</b>

The notes on pages 37 to 47 form an integral part of these accounts.

## Notes to the Accounts

### 1 Accounting policies

A summary of the more important accounting policies is set out below:

#### a Basis of accounting

These accounts have been prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with the Companies Act 1985 and Generally Accepted Accounting Principles (UK GAAP) issued by the Accounting Standards Board (ASB) and the Statement of Recommended Practice "Financial Statement of Investment Trust Companies ("SORP") issued in January 2003 and revised in December 2005. The ASB has implemented a convergence programme with International Financial Reporting Standards and as part of this project has introduced a number of new and revised Accounting Standards which have been adopted in these accounts and for which details are given below.

#### Changes in presentation

The Statement of Total Return is now called the Income Statement. Dividends payable to equity shareholders are no longer reflected in the Income statement although they continue to be shown in the Reconciliation of Movement in Shareholders' Funds (as required by FRS 25 (Financial Instruments disclosure and presentation)) which is now presented as a primary statement.

#### Changes in accounting policy

The Company has changed its accounting policy for the valuation of listed investments and the recognition of dividends payable to equity shareholders. These changes in policy are detailed below:

FRS 26 (Financial instruments: Measurement) – The Company has designated its assets and liabilities as being measured at "fair value through profit or loss" The fair value of listed investments is deemed to be the bid value of those investments at the close of business on the relevant date. Previously, listed investments were valued at mid value. Unlisted investments are included at fair value. Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as "Gains or losses on investments held at fair value through profit or loss." Transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase are also included here. All purchases and sales are accounted for on a trade date basis.

FRS 23 (The effects of changes in Foreign Exchange Rates) – This is a UK domiciled company with a predominantly UK shareholder base. The company's assets, liabilities, income and expenditure are mainly denominated in sterling and therefore the functional and presentational currency of this Company is deemed to be sterling and the accounts presented accordingly.

FRS 21 (Events after the Balance Sheet Date) – Dividends paid by the Company are recognised in the Reconciliation of Movements in Shareholders' Funds in the period in which the Company is liable to pay them. Previously the Company accrued dividends in the period in which the net revenue, to which those dividends related was accounted for.

The accounts for the year ended 30 April 2005 have been restated to reflect these changes and the impact on current and prior years is shown in note 22.

Other than the matters noted above the same accounting policies used for the year ended 30 April 2005 have been applied in preparing the accounts for the year ended 30 April 2006.

#### b Income recognition

Dividends received from investments are credited to the revenue account by reference to their ex-dividend date except where in the opinion of the directors, the dividend is capital in nature in which case it is taken to the capital return. Other income is recognised on an accruals basis. UK dividends are accounted for net of any tax credits.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in capital reserve.

#### c Investment management fee and finance costs

The investment management fee and finance costs are apportioned 30% to the revenue return and 70% to the capital return, in line with the Board's expected long-term split of returns from the investment portfolio of the Company. Performance fees are allocated entirely to the capital return as they are primarily attributable to the capital performance of the Company's investments.

## Notes to the Accounts *continued*

### d Foreign exchange

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

### e Taxation

Deferred tax is provided in accordance with FRS19 on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that it is more likely than not that they are receivable.

### f Capital reserve – realised

The following are accounted for in this reserve:

- gains on losses on the realisation of investments
- other capital charges and credits charged or credited to this account in accordance with the above policies

### Capital reserve – unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end.

## 2 Income

	<b>For the year ended 30 April 2006</b>	For the year ended 30 April 2005
	<b>£'000</b>	£'000
UK dividends	<b>6,459</b>	6,044
Bond interest	–	–
Income from investments	<b>6,459</b>	6,044
Deposit interest	<b>113</b>	236
Other income	<b>9</b>	3
Total income	<b>6,581</b>	6,283

## 3 Investment management fee

	<b>For the year ended 30 April 2006</b>	For the year ended 30 April 2005
	<b>£'000</b>	£'000
Investment management fee		
– charged to revenue	<b>303</b>	253
– charged to capital	<b>708</b>	592
	<b>1,011</b>	845
Performance fee accrual write back*		
– credited to capital	–	(120)

Included within investment management fees of £1,011,000 (2005: £845,000) is £151,000 (2005: £126,000) in respect of irrecoverable VAT.

The bases for calculating the investment management fee and the performance fee are set out in the Report of the Directors on page 19.

No performance fee is payable in respect of the 3 year performance period ended 30 April 2006 and no fee is accrued in respect of the performance periods ending 30 April 2007 and 30 April 2008.

\*This is the write back of an accrual for a performance fee of £120,000 made for the year ended 30 April 2004.

## Notes to the Accounts *continued*

### 4 Administrative expenses

	For the year ended 30 April 2006 £'000	For the year ended 30 April 2005 £'000
General expenses	195	209
Secretarial fee	67	65
Directors' emoluments	74	75
Auditors' remuneration		
– audit	16	14
– non audit	3	–
	<b>355</b>	<b>363</b>

Details of Directors' emoluments are disclosed in the Directors' Remuneration Report on page 21.

### 5 Interest payable

	For the year ended 30 April 2006 £'000	For the year ended 30 April 2005 £'000
Loan and overdraft facility		
– charged to revenue	384	357
– charged to capital	896	832
	<b>1,280</b>	<b>1,189</b>

All interest is in respect of borrowings repayable within one year.

### 6 Taxation

The Company has no corporation tax liability in the year to 30 April 2006 (2005: £Nil).

#### a) Tax attributable to expenses charged to capital

The Company has sufficient current and brought forward excess management expenses available, (charged to revenue), to offset against any taxable profits on the revenue account such that no relief is derived from expenses charged to the capital reserve.

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

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

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below:

	For the year ended 30 April 2006 Revenue £'000	For the year ended 30 April 2005 Revenue £'000
Return on ordinary activities before tax	5,539	5,310
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2004: 30%)	1,662	1,593
Tax effects of:		
UK dividends*	(1,938)	(1,813)
Revenue expenses not utilised in the year	276	220
<b>Total current taxation</b>	<b>–</b>	<b>–</b>

\* These items are not subject to tax in investment trust companies.

#### c) Provision for deferred taxation

No provision for deferred taxation has been made in the current or prior year.

#### d) Factors that may affect future tax charges

The Company has deferred tax assets of £5,642,946 (2005: £5,232,000) arising primarily from unutilised management expenses that have not been recognised as it is unlikely that these expenses will be utilised.

## Notes to the Accounts *continued*

### 7 Dividends

	For the year ended 30 April 2006 £'000	(Restated) For the year ended 30 April 2005 £'000
Amounts recognised as distributions in the period:		
Second interim dividend of prior year of 1.65p (2004: 1.50p)	2,717	2,512
First interim dividend of 1.50p (2005: 1.50p)	2,470	2,483
<b>Total dividends of 3.15p (3.00p) per ordinary share</b>	<b>5,187</b>	4,995

The first interim dividend of 1.50 pence per share (2005: 1.50 pence per share) is based on 164,645,900 (2005: 165,545,900) ordinary shares in issue.

The second interim dividend of prior year of 1.65 pence per share (2004: 1.50 pence per share) is based on 164,645,900 (2004: 168,045,900) ordinary shares in issue.

The total dividend payable in respect of the financial year, which is the basis of which the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered, is set out below:

	For the year ended 30 April 2006 £'000	For the year ended 30 April 2005 £'000
First interim dividend of 1.50p (2005: 1.50p)	2,470	2,483
Second interim dividend of prior year of 1.85p (2005: 1.65p)	3,037	2,717
<b>Total dividends of 3.35p (3.15p) per ordinary share</b>	<b>5,507</b>	5,200

The first interim dividend of 1.50 pence per share (2005: 1.50 pence per share) is based on 164,645,900 (2005: 165,545,900) ordinary shares in issue.

The second interim dividend of 1.85 pence per share (2005: 1.65 pence per share) is based on 164,145,900 (2005: 164,645,900) ordinary shares in issue.

### 8 Net return per ordinary share

	For the year ended 30 April 2006			(Restated) For the year ended 30 April 2005		
	Revenue	Capital	Total	Revenue	Capital	Total
Return per ordinary share	3.36p	30.44p	33.80p	3.20p	4.12p	7.32p

The basic revenue return per ordinary share is based on the net return on ordinary activities after interest payable and taxation of £5,539,000 (2005: £5,310,000) and on 164,640,421 (2005: 166,000,147) ordinary shares, being the weighted average number of ordinary shares in issue in the year.

The basic capital return per ordinary share is based on the net return on ordinary activities after interest payable and taxation of £50,113,000 (2005: £6,837,000) and on 164,640,421 (2005: 166,000,147) ordinary shares, being the weighted average number of ordinary shares in issue in the year.

The basic total return per ordinary share is based on the net return on ordinary activities after interest payable and taxation of £55,652,000 (2005: £12,147,000) and on 164,640,421 (2005: 166,000,147) ordinary shares being the weighted average number of ordinary shares in issue in the year.

## Notes to the Accounts continued

## 9 Investments

	For the year ended 30 April 2006 £'000	(Restated) For the year ended 30 April 2005 £'000
Opening book cost	183,723	180,073
Opening unrealised profits	17,450	11,396
Opening valuation	201,173	191,469
Valuation adjustment (see note 22(c))	–	(181)
Opening valuation – restated	201,173	191,288
Purchases at cost	62,794	22,645
Sales proceeds	(59,755)	(20,901)
Realised profit/(losses) for the year	8,143	(1,145)
Unrealised profits for the year	43,574	9,286
Closing valuation	255,929	201,173
Closing book cost	200,042	183,723
Closing unrealised profits	55,887	17,450
Closing valuation	255,929	201,173

The investments are valued on the basis set out in note 1a.

Transaction costs which include stamp duty and broker commissions have been included within the capital account. Purchase transaction costs for the year to 30 April 2006 amounted to £399,000 and sales transaction costs amounted to £77,000.

	For the year ended 30 April 2006 £'000	(Restated) For the year ended 30 April 2005 £'000
<b>Profits on investments</b>		
Realised profits based on historical cost	13,280	1,906
Loss: amounts recognised as unrealised profits in previous years (see note 17)	(5,137)	(3,051)
Realised profits/(losses) losses based on carrying value at previous balance sheet date	8,143	(1,145)
Net movement in unrealised profits	43,574	9,286
Profits on investments	51,717	8,141

## 10 Debtors

	2006 £'000	2005 £'000
Dividends and interest receivable	1,705	2,212
Prepayments	24	21
	1,729	2,233

## Notes to the Accounts continued

**11 Creditors: amounts falling due within one year**

	2006 £'000	(Restated) 2005 £'000
Amounts falling due within one year:		
Purchases for future settlements to brokers	278	194
Bank loan	28,000	25,000
Investment management fee	270	212
Creditors and accrued charges	178	185
	<b>28,726</b>	<b>25,591</b>

The Company has a £30 million revolving credit facility with the Royal Bank of Scotland Finance (Ireland), of which £28 million (2005: £25 million) was drawn down at 30 April 2006. The facility is unsecured and is not subject to any early termination charges.

**12 Share capital**

	2006 £'000	2005 £'000
Authorised:		
1,272,500,000 ordinary shares of 25p each	318,125	318,125
Allotted, called up and fully paid:		
Opening balance of 164,645,900 (2005: 168,045,900) ordinary shares of 25p each	41,161	42,011
Purchase of own shares (see note 13)	(125)	(850)
Closing balance of 164,145,900 (2005: 164,645,900) ordinary shares of 25p each	41,036	41,161

During the year the Company purchased 500,000 (2005: 3,400,000) ordinary shares of 25p each for cancellation at a total cost of £629,000 (2005: £3,142,000). Since 30 April 2006 the Company has purchased a further 870,000 shares at a total cost of £1,015,000.

**13 Capital redemption reserve**

	2006 £'000	2005 £'000
Capital redemption reserve brought forward	16,108	15,258
Purchase of own shares (see note 12)	125	850
Capital redemption reserve carried forward	16,233	16,108

**14 Share premium account**

	2006 £'000	2005 £'000
Share premium account brought forward and carried forward	944	944

**15 Share purchase reserve**

	2006 £'000	2005 £'000
Share purchase reserve brought forward	95,727	98,869
Cost of shares purchased for cancellation	(626)	(3,126)
Stamp duty on shares purchased for cancellation	(3)	(16)
Share purchase reserve carried forward	95,098	95,727

**16 Warrant exercise reserve**

	2006 £'000	2005 £'000
Warrant exercise reserve brought forward and carried forward	417	417

## Notes to the Accounts continued

**17 Other reserves**

	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Capital reserve total £'000
Balance brought forward (restated see note 22(a))	3,364	17,450	20,814
Transfer on disposal of investments	5,137	(5,137)	–
Increase in unrealised profits on investments	–	43,574	43,574
Realised losses on investments sold	8,143	–	8,143
Investment management fee	(708)	–	(708)
Loan facility interest	(896)	–	(896)
<b>Balance carried forward</b>	<b>15,040</b>	<b>55,887</b>	<b>70,927</b>

**18 Revenue reserve**

	Revenue reserve £'000
Balance brought forward (restated see note 22(a))	4,124
Transferred to reserves	5,539
Dividends paid	(5,187)
<b>Balance carried forward</b>	<b>4,476</b>

**19 Net asset value per ordinary share**

	30 April 2006	(Restated) 30 April 2005
Net asset value per ordinary share	<b>139.59p</b>	108.90p

Net asset value per ordinary share is based on 164,145,900 (2005: 164,645,900) ordinary shares in issue.

**20 Reconciliation of net revenue return before finance costs and taxation to net cash inflow from operating activities**

	For the year ended 30 April 2006 £'000	For the year ended 30 April 2005 £'000
Total return before finance costs and taxation	<b>56,932</b>	13,336
Gains on investments held at fair value	<b>(51,717)</b>	(8,141)
Movements in creditors	<b>56</b>	35
Movements in debtors	<b>(3)</b>	24
Movements in accrued income	<b>507</b>	(129)
Performance fee	<b>–</b>	(120)
<b>Net cash inflow from operating activities</b>	<b>5,775</b>	5,005

## Notes to the Accounts continued

## 21 Analysis of changes in net debt

	At 1 May 2005 £'000	Cash Flows £'000	At 30 April 2006 £'000	At 1 May 2004 £'000	Cash Flows £'000	At 30 April 2005 £'000
Cash at bank	1,480	(1,281)	199	3,349	(1,869)	1,480
Debt due within one year	(25,000)	(3,000)	(28,000)	(20,000)	(5,000)	(25,000)
Net debt	(23,520)	(4,281)	(27,801)	(16,651)	(6,869)	(23,520)

## 22 Restatement of opening balances

A reconciliation is given between the closing balances per the 30 April 2005 accounts and the restated balances following adoption of revisions to UK GAAP. Note 22(d) gives the impact of changes of accounting policy on the 2006 net return.

## (a) Balance Sheet

	(Previously reported) 30 April 2005 £'000	Adjustment £'000	(Restated) 30 April 2005 £'000
<b>Fixed assets</b>			
Investments at fair value through profit or loss	201,365	(192)	201,173*
<b>Current assets</b>			
Debtors	2,233	–	2,233
Cash at bank	1,480	–	1,480
	3,713	–	3,713
<b>Creditors: amounts falling due within one year</b>			
Loans	(25,000)	–	(25,000)
Other	(3,308)	2,717	(591)**
	(28,308)	2,717	(25,591)
<b>Net current liabilities</b>	(24,595)	2,717	(21,878)
<b>Net assets attributable to shareholders</b>	176,770	2,525	179,295
<b>Capital and reserves</b>			
Called up share capital	41,161	–	41,161
Capital redemption reserve	16,108	–	16,108
Share premium account	944	–	944
Share purchase reserve	95,727	–	95,727
Warrant exercise reserve	417	–	417
Capital reserves	21,006	(192)	20,814*
Revenue reserve	1,407	2,717	4,124**
<b>Total equity shareholders' funds</b>	176,770	2,525	179,295
<b>Net asset value per ordinary share</b>	<b>107.36p</b>	<b>1.54p</b>	<b>108.90p</b>

## Notes to the restatement of opening balances

\* Effect of revaluation of listed investments from mid to bid value

\*\* Effect of not recognising the second interim dividend paid after the balance sheet date

## Notes to the Accounts continued

## 22 Restatement of opening balances continued

## (b) Income Statement

	(Previously reported) 30 April 2005			Adjustment			(Restated) 30 April 2005		
	£000 Revenue	£000 Capital	£000 Total	£000 Revenue	£000 Capital	£000 Total	£000 Revenue	£000 Capital	£000 Total
Gains on investments held at fair value	–	8,152	8,152	–	(11)	(11)	–	8,141	8,141*
Income	6,283	–	6,283	–	–	–	6,283	–	6,283
Investment Management fee	(253)	(592)	(845)	–	–	–	(253)	(592)	(845)
Performance fee	–	120	120	–	–	–	–	120	120
Administrative expenses	(363)	–	(363)	–	–	–	(363)	–	(363)
Net (loss)/return before finance, costs and taxation	5,667	7,680	13,347	–	(11)	(11)	5,667	7,669	13,336
Interest payable	(357)	(832)	(1,189)	–	–	–	(357)	(832)	(1,189)
Net return before taxation	5,310	6,848	12,158	–	(11)	(11)	5,310	6,837	12,147
Tax on ordinary activities	–	–	–	–	–	–	–	–	–
Return on ordinary activities after tax for the period attributable to equity shareholders	5,310	6,848	12,158	–	(11)	(11)	5,310	6,837	12,147
Net return per ordinary share	3.20p	4.13p	7.33p	–	(0.01)p	(0.01)p	3.20p	4.12p	7.32p

Note to the restatement of opening balances

\*Effect of revaluation of listed investments from mid to bid value

## (c) Balance Sheet

	(Previously reported)	Adjustments	(Restated)
	30 April 2004 £'000		30 April 2004 £'000
<b>Non-current assets</b>			
Investments at fair value	191,469	(181)	191,288*
<b>Current assets</b>			
Debtors	2,238	–	2,238
Cash at bank and short term deposits	3,349	–	3,349
	5,587	–	5,587
<b>Creditors: amounts falling within one year</b>			
Loans	(20,000)	–	(20,000)
Other	(3,991)	2,521	(1,470)**
	(23,991)	2,521	(21,470)
<b>Total assets less current liabilities</b>	173,065	2,340	175,405
<b>Creditors: amounts falling due after more than one year</b>	(120)	–	(120)
<b>Net Assets</b>	172,945	2,340	175,285
Capital and reserves			
Called up share capital	42,011	–	42,011
Capital redemption reserve	15,258	–	15,258
Share premium account	944	–	944
Share purchase reserve	98,869	–	98,869
Warrant exercise reserve	417	–	417
Capital reserves	14,158	(181)	13,977*
Revenue reserves	1,288	2,521	3,809**
<b>Total equity shareholders' funds</b>	172,945	2,340	175,285
<b>Net asset value per ordinary share</b>	102.92p	1.39p	104.31p

Notes to the restatement of opening balances

\* Effect of revaluation of listed investments from mid to bid value

\*\*Effect of not recognising the proposed dividends until paid

## Notes to the Accounts *continued*

### **22 Restatement of opening balances** *continued*

#### **(d) Income Statement and Balance Sheet – 2006**

The impact of revaluing listed investments at bid value (as opposed to mid value) was to increase net return on ordinary activities after taxation for the year ended 30 April 2006 by £46,000. The impact of this change at 30 April 2006 was to decrease the value of investments by £146,000.

### **23 Transactions with the Manager**

The Company has appointed Schroder Investment Management Limited (“SIM”), a wholly owned subsidiary of Schroders plc, to provide investment management, accounting, secretarial, administrative and custodial services. Details of the management and secretarial fee arrangements for these services are given in the Directors’ Report on page 19. The total management fee (inclusive of VAT) payable under this agreement to SIM in respect of the year ended 30 April 2006 was £1,011,000 (2005: £845,000), of which £270,000 was outstanding at the year end (2005: £212,000). The total secretarial fee payable to SIM in respect of the year ended 30 April 2006 was £67,000 (inclusive of VAT) (2005: £65,000), of which £17,000 (2005: £17,000) was outstanding at the year end.

In addition to the above services, SIM also provided investment trust dealing services. The total cost to the Company of this service, payable to Lloyds TSB Registrars, for the year ended 30 April 2006 was £4,000 (2005: £12,000), of which £2,000 was outstanding at the year end (2005: £4,000).

Banking facilities were provided during the year by Schroder & Co Limited and also by the Company’s custodian, SIM.

At 30 April 2005, the balance held at Schroder & Co Limited was £11,000 (2005: £23,000) and the total interest receivable in the year ended 30 April 2006 was £1,000 (2005: £1,000).

At 30 April 2006 the Company had an investment in the Schroder Institutional UK Smaller Companies Fund valued at £14,622,000. This investment was acquired on 31 October 2002 by way of a in-specie transfer of certain Company holdings to that Fund at market value.

At 3 July 2006 SIM had an interest in 74,530,386 ordinary shares, representing 45.6% of the Company’s issued share capital on that date which are held by investors in a Schroder Personal Equity Plan/ISA.

### **24 Risk**

The following disclosures are provided in accordance with Financial Reporting Standard 25 “Financial instruments; disclosure and presentation”.

#### **Financial instruments and risk profile**

The Company’s investment objective is to provide capital growth predominantly from investment in UK equities. Consistent with that objective, the Company’s financial instruments largely comprise UK equity investments. In addition, the Company holds cash and short term deposits and various items such as debtors and creditors that arise directly from its operations. The financial instruments held by the Company are generally liquid. The Company’s assets and liabilities are all stated at fair value.

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

The Company does not enter into derivatives contracts.

As an investment trust, the Company invests in securities for the long term. Accordingly, it is the Company’s policy that no trading in investments or other financial instruments shall be undertaken.

The main risk arising from the Company’s financial instruments is market price risk. The Board reviews and agrees policy for managing this risk, as summarised below. This policy has remained substantially unchanged throughout the current and preceding year.

#### **Market price risk**

The Company’s exposure to market price risk comprises mainly movements in the value of its equity investments. A detailed breakdown of the investment portfolio is given on pages 10 to 11. Investments are valued in accordance with the Company’s accounting policies stated in note 1a on page 37. The Company does not hedge against movements in the value of these investments, although sensitivity to market price risk will be affected by changes in levels of borrowing and liquidity, as approved by the Board. At 30 April 2006, a 10% movement up or down in the market value of the Company’s investments would result in a 11.2% change in net asset value per share.

## Notes to the Accounts *continued*

### Credit risk

The Company's transactions in securities expose it to potential counterparty risk, although this is minimised by only entering into deals with brokers pre-approved by a credit committee of Schroder Investment Management Limited.

### Foreign currency risk

The Company's investment objective is to invest predominantly in UK equities. The Company may, however, hold foreign denominated assets. As at 30 April 2006, no foreign denominated assets were held (2005: £nil).

### Interest rate risk profile of financial assets and financial liabilities

#### *Financial assets*

Investments designated as held at fair value through profit or loss consist of equity shares which neither pay interest nor have a stated maturity date. Cash balances receive interest at market value.

#### *Financial liabilities*

The Company currently has a revolving credit facility of £30 million with The Royal Bank of Scotland Finance (Ireland) of which £28 million was drawn down at the period end (2005: £25 million). Interest is paid on the loan at a percentage rate per annum which is equivalent to 0.275% above the rate at which Sterling deposits of comparable amount to the relevant Advance and for the duration of such Advance are offered in the London Interbank Market at or about 11 a.m. on the date on which the Advance is required. The level of gearing is reviewed by the Board on a regular basis. The interest rate profile of the Company's financial liabilities (excluding short-term creditors) was:

	As at 30 April 2006				As at 30 April 2005			
	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Weighted average interest rate %	Weighted average period for which rate is fixed	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Weighted average interest rate %	Weighted average period for which rate is fixed
Loans	28,000	–	4.96	30 days	25,000	–	5.05	30 days

## Company Summary and Shareholder Information

### Company status

The Company was established on March 1994 and is an independent investment trust whose shares are listed on the London Stock Exchange. The Company's assets have been managed by Schroders since inception.

### Benchmark

Since inception, the Company has measured its performance against that of the FTSE All-Share Index.

### Duration

It is not intended for the Company to have a limited life however the Directors consider that shareholders should have the opportunity to decide the future of the Company at appropriate intervals. Accordingly, the Articles of Association provide for Directors to put forward proposals for the continuation of the Company at the Annual General Meeting in 2009 and at five yearly intervals thereafter.

### Share Price and Net Asset Value Information

The Company's shares are listed on the London Stock Exchange under the code SDU. The Company's ordinary share price is quoted daily in the Financial Times, The Times and The Daily Telegraph.

The Company releases its net asset value to the market weekly.

Share price information is also available on the Schroders website at:

<http://www.schroders.co.uk/its>

### Association of Investment Trust Companies

The Company is a member of the Association of Investment Trust Companies. Further information on this association can be found on its website, [www.aitc.co.uk](http://www.aitc.co.uk)

### Financial Calendar

January	Interim report published
31 January	First interim dividend payable
30 April	Year End
June	Second interim dividend and preliminary annual results announced
July	Annual Report and Accounts published
31 July	Second interim dividend payable
August	Annual General Meeting
December	First interim dividend and interim results announced

### Shares in issue

As at 4 July 2006, the Company had 163,275,900 Ordinary shares of 25p each in issue.

### Analysis of Shareholder Register

as at 30 April 2006

Total number of registered holders: 4,660

Investor Category	% of issued share capital
Private Individuals	6.6
Banks/Nominees (excluding Schroder PEP/ISA/Dealing Service)	43.5
Schroder PEP/ISA Holders	46.0
Schroder Investment Trust Dealing Service Participants	1.5
Others	2.4
	<b>100.00</b>

## Investing in Schroder UK Growth Fund plc

### Schroder Investment Trust Dealing Service

The Schroder Investment Trust Dealing Service provides a convenient and cost effective means of investing in the ordinary shares of the Company. The Service offers investors:

- a regular investment option from a minimum of £50 per month
- a lump sum investment option from a minimum of £1,000
- daily dealing
- competitive charges
- the option to reinvest income.

Other investment trusts which are available through this service are Schroder AsiaPacific Fund plc, Schroder Income Growth Fund plc, Schroder Oriental Income Fund Limited, Schroder Japan Growth Fund plc, Schroder Split Investment Fund plc, Schroder Split ZDP plc, Schroder UK Mid & Small Cap Fund plc, SVG Capital plc and International Biotechnology Trust plc.

### Individual Savings Account – Schroder Maxi ISA Plan

The Schroder ISA offers investors:

- lump sum investments in the ordinary shares of the Company from a minimum of £1,000 to a maximum of £7,000 in the current tax year
- a regular investment option from a minimum of £50 per month
- competitive charges
- the option to reinvest income
- the option to include other trusts.

If you would like further information about the Schroder Investment Trust Dealing Service or the Schroder Maxi ISA, please contact the Secretary of the Company at 31 Gresham Street, London EC2V 7QA or call Schroder Investor Services on freephone 0800 718 777.

### Capital Gains Tax Information

The acquisition costs of the shares for capital gains tax purposes based upon initial dealings are as follows:

- for the benefit of those shareholders who acquired their holdings in the original Offer for Subscription, with initial dealings on 25 April 1994:  
Each ordinary share of 25p each 93.30p
- for the benefit of those shareholders who acquired their holdings in the C share issue, with initial dealings on 29 April 1996:  
Each ordinary share of 25p each 122.65p

For the 2006/2007 tax year, the annual capital gains (after adjusting for indexation and taper relief of private individuals in excess of £8,800 (2005/2006: £8,500) are assessed for capital gains tax.

Capital gains on shares disposed of by individuals may be eligible for taper relief. The taper reduces the amount of a chargeable gain according to how long the asset has been held for periods after 5 April 1998.

Where shares were acquired before 6 April 1998, the capital gain will also be reduced by indexation allowance for the period up to April 1998, but not thereafter.

## Notice of Meeting

NOTICE is hereby given that the Annual General Meeting of Schroder UK Growth Fund plc will be held at 12 noon on Wednesday, 2 August 2006 at 31 Gresham Street, London EC2V 7QA to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 7 will be proposed as Ordinary Resolutions and resolutions 8 to 10 will be proposed as Special Resolutions.

### Ordinary Resolutions

1. To receive the Report of the Directors and the audited Accounts for the year ended 30 April 2006.
2. To approve the Directors' Remuneration Report for the year ended 30 April 2006.
3. To re-elect Mr Alan Clifton as a Director of the Company.
4. To re-elect Mr Keith Niven as a Director of the Company.
5. To re-elect Mr Ian Phillips as a Director of the Company.
6. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company and to authorise the Board to fix their remuneration.
7. That the Directors be and are hereby generally and unconditionally authorised, in substitution for all subsisting authorities in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £4,081,897 (representing 10% of the share capital in issue on 4 July 2006); and provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company but so that this authority shall enable the Company to make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry.

### Special Resolutions

8. That, subject to the passing of Resolution 7 set out above, the Directors be and are hereby empowered, pursuant to Section 95 of the Act, to allot equity securities (including any shares held in treasury) (as defined in Section 94 of the Act) pursuant to the authority given by Resolution 7 above and/or where such allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the Act as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £4,081,897 (representing 10% of the aggregate nominal amount of the share capital in issue on 4 July 2006); and provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry.
9. That the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Act, to make market purchases (within the meaning of section 163(3) of the Act) of Ordinary Shares of 25p 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 24,475,057, representing 14.99% of the issued share capital as at 4 July 2006;
  - (b) the minimum price which may be paid for a share is 25p;
  - (c) the maximum price which may be paid for a Share is an amount equal to 105% of the average of the middle market quotations for a Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased;

## Notice of Meeting continued

- (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 lower of the undiluted or diluted 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 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.
10. That the document presented to the meeting and signed by the Chairman for the purposes of identification be and is hereby adopted as the Articles of Association of the Company in substitution for the existing Articles.

By Order of the Board  
Schroder Investment Management Limited  
Company Secretary

Registered Office:  
31 Gresham Street  
London EC2V 7QA

Registered Number: 2894077

4 July 2006

### 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 Association) 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, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZR 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 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those Shareholders registered in the Register of Members of the Company at 6.00 p.m. on 31 July 2006 shall be entitled to attend and vote at the meeting in respect of the number of Shares registered in their name at that time. Changes to the Register of Members after 6.00 p.m. on 31 July 2006 shall be disregarded in determining the right of any person to attend and vote at the meeting.
- 3 In accordance with the requirements of the Companies Act 1985, a statement of all transactions of each Director and of his family interests in the shares of the Company will be available for inspection by any member of the Company at the registered office of the Company, 31 Gresham Street, London EC2V 7QA, during normal business hours on any business day and by any person attending the Annual General Meeting, during the continuance of the Meeting. None of the Directors have a contract of service with the Company.
- 4 The biographies of each of the Directors offering themselves for re-election are on page 2 of this report.
- 5 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.  
In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.  
CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by a particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.  
The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 6 Copies of the proposed new Articles of Association and a document detailing the changes from the existing Articles of Association are available from the Company Secretary and will be on display at the registered office on any weekday (excluding public holidays) from the date of this document until the completion of the meeting and at the meeting itself.

## Advisers

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### **Company Secretary and Registered Office**

Schroder Investment Management Limited  
31 Gresham Street  
London EC2V 7QA  
Telephone 020 7658 3206

### **Investment Manager and Custodian**

Schroder Investment Management Limited  
31 Gresham Street  
London EC2V 7QA

### **Bankers**

The Royal Bank of Scotland Finance (Ireland)  
IFSC House  
International Financial Services Centre  
Dublin 1  
Ireland

### **Registrar**

Lloyds TSB Registrars Scotland  
PO Box 28448  
Finance House  
Orchard Brae  
Edinburgh EH4 1WQ

### **Independent Auditors**

PricewaterhouseCoopers LLP  
Southwark Towers  
32 London Bridge Street  
London SE1 9SY

### **Solicitors**

Slaughter and May  
One Bunhill Row  
London EC1Y 8YY

### **Stockbrokers**

Dresdner Kleinwort Wasserstein  
20 Fenchurch Street  
London EC3P 3DB



Schroders plc is a leading asset management group, the shares of which are listed on the London Stock Exchange.

Schroders has been involved in investment management since 1922, and today is one of the leading international investment management houses, providing investment services, research and marketing functions from offices located in countries throughout the world.

Worldwide, as at end March 2006, Group assets under management were valued at £128.4 billion.

We manage funds across all asset categories, including equities, fixed income, cash and property. Our clients include corporations, local and public authorities, pension funds, insurance companies, charities and individuals.

Share price portfolio and other information on Schroder investment trusts is available on the internet at

<http://www.schroders.co.uk/its>

Schroder Investment Management Limited is authorised and regulated by the Financial Services Authority (FSA).



# Schroders