
**SCHRODER
UK MID &
SMALL CAP
FUND plc**

**Report and Accounts
30 September 2005**



Schroders

INVESTMENT OBJECTIVE

To invest in mid and small cap equities with the aim of providing a total return in excess of the FTSE All-Share, ex-investment companies, ex-FTSE 100, Total Return Index.

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2006 Financial Calendar

23 January	Annual General Meeting
25 January	Final dividend paid
May	Interim Results announced
30 September	Company's year end
November	Preliminary Results announced
December	Annual Report and Accounts published

Directors

Peter K Timms*† (Aged 62) (Chairman)

Peter Timms, CBE, was appointed a Director of the Company in 1989 and Chairman in 2000. He is chairman and managing director of Flexible Technology Ltd, and is chairman of HIE Ventures Ltd, J&S Marine Ltd, Murray VCT3 plc and SETG Ltd. He is also a non-executive director of Argyll & the Islands Enterprise Company Ltd, Business Forum Scotland Ltd, Caledonian MacBrayne Ltd, and Northlink Orkney and Shetland Ferries Ltd.

C Malcolm Coubrough*† (Aged 59)

Malcolm Coubrough was appointed a Director of the Company in 1998. He is chairman and managing director of Charles Coubrough & Co Ltd and associated companies, currently farming 7,500 acres in Strathclyde and the Borders.

Chris Jones*† (Aged 64)

Christopher Jones was appointed a Director of the Company in 1994. He was head of investments at Merchant Investors Assurance Company Ltd, which he joined in 1985, until retiring in 2003. Merchant Investors was, until 2003, a subsidiary of Allianz (UK) Ltd. From 1971 to 1985 he was a fixed interest and money manager with Property Growth Assurance, now a wholly-owned subsidiary of Royal & Sun Alliance Insurance Group plc. He is a Director of Ecofin Water & Power Opportunities plc, Atlantis Japan Growth Ltd, Montanaro UK Smaller Companies Trust plc, Montanaro European Smaller Companies Ltd, Recovery Trust plc, Thompson Clive Investment plc, Jupiter Second Enhanced Income Trust plc and Japan Accelerated Performance Fund PLC.

Maxwell G Packe*† (Aged 60)

Maxwell Packe was appointed a Director of the Company in 1997. He is chairman of Hotel and Catering Training Company Limited, Medico-Legal Reporting Limited, Neville Johnson Offices Ltd and Murray VCT 2 PLC.

* Member of the Audit Committee and the Management Engagement Committee.

† Member of the Nomination Committee.

Mr Packe is Chairman of the Audit Committee.

Mr Timms is Chairman of the Management Engagement and Nomination Committees.

Advisers

Secretary and Investment Manager

Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA

Registrar

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

Registered Office

33 Bothwell Street
Glasgow G2 6NL

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Custodian

JP Morgan Chase Bank
1 Chaseside
Bournemouth
Dorset BH7 7DA

Bankers

Schroder & Co. Limited
31 Gresham Street
London EC2V 7QA

Royal Bank of Scotland plc
Corporate Banking Office
5-10 Great Tower Street
London EC3P 3HX

Solicitors

Tods Murray LLP
33 Bothwell Street
Glasgow G2 6NL

Stockbrokers

Close Brothers Securities Limited
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Financial Highlights

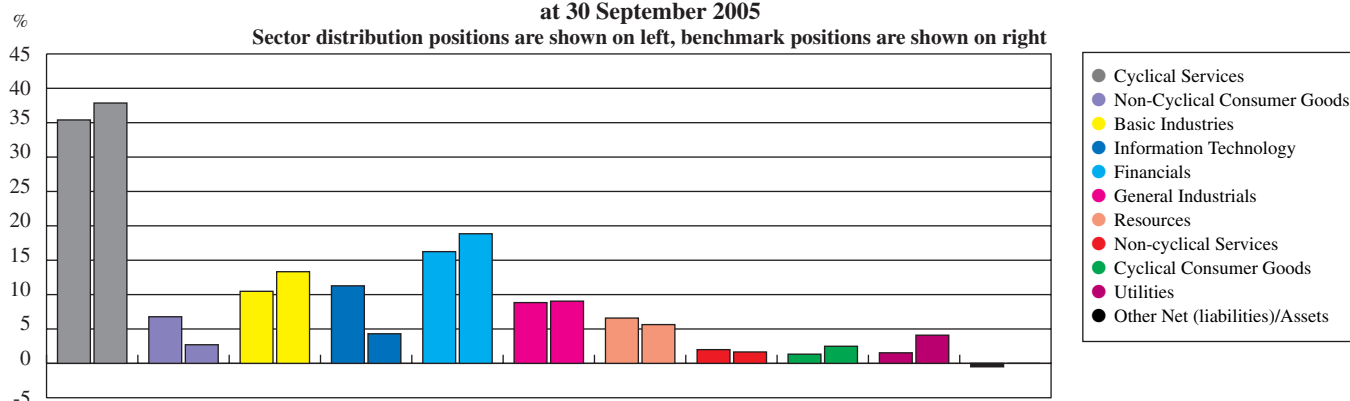
	30 September 2005	30 September 2004	% change
Net asset value per share – pence	186.48p	138.64p	+34.51
Share price – pence	171.50p	121.25p	+41.44
Share price discount %	(8.0)%	(12.5)%	–
FTSE All-Share, ex-Investment Companies, ex-FTSE 100, Total Return Index	2,127.50	1,656.07	+28.47
Total assets* (£'000)	73,669	56,051	+31.43
Total borrowings (£'000)	5,000	5,000	–
Shareholders' funds (£'000)	68,669	51,051	+34.51
Shares in issue ('000)	36,824	36,824	–
Dividends per share – pence	2.25p	2.00p	+12.50

* Total assets less current liabilities (excluding short-term borrowings).

Sector Analyses

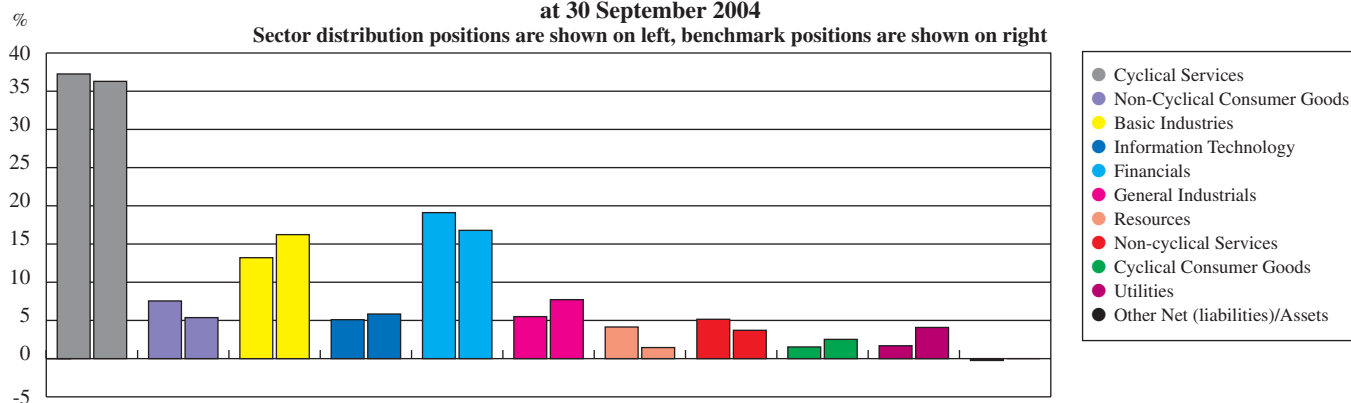
Comparison of Sector Distribution with the FTSE All-Share, ex-Investment Companies, ex-FTSE 100, Index

at 30 September 2005



Comparison of Sector Distribution with the FTSE All-Share, ex-Investment Companies, ex-FTSE 100, Index

at 30 September 2004



Ten Year Record

At 30 September	Shareholders' funds £'000	NAV per share*	Share price	Share Price discount %
2005	68,669	186.5p	171.5p	8.0
2004	51,051	138.6p	121.3p	12.5
2003	30,508	112.5p	106.0p	5.8
2002	23,253	85.7p	61.0p	28.8
2001	36,185	146.7p	111.0p	24.3
2000	121,004	446.5p	381.0p	14.7
1999	40,548	162.8p	130.0p	20.1
1998	27,690	114.4p	93.3p	18.5
1997	36,724	149.3p	125.5p	15.9
1996	36,580	148.5p	128.5p	13.5

Ten Year Record

For the year ended 30 September	Earnings	Net dividends	Cost of running trust† £'000
2005	2.8p	2.25p	963
2004	2.4p	2.0p	695
2003	(0.3)p	—	743
2002	(0.6)p	—	814
2001	2.7p	3.1p	944
2000	2.8p	1.0p	974
1999	2.6p	3.1p	463
1998	3.6p	3.1p	480
1997	2.9p	3.1p	496
1996	3.4p	2.8p	431

* NAV shown is the lower of undiluted or diluted net assets per share. The warrants in issue expired on 31 January 2002 so diluted NAVs are no longer applicable.

† Operating expenses excluding finance costs and performance fees.

Total returns to 30 September 2005

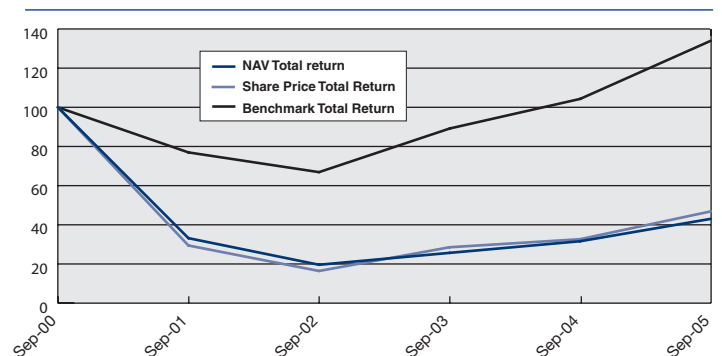
	Benchmark total return* %	NAV total return** %	Share price total return** %
1 year	28.5	36.2	43.5
2 years	50.3	67.7	64.1
3 years	100.3	119.7	185.2
4 years	74.1	29.8	59.1
5 years	34.0	(57.0)	(53.2)

* Source: Schroders/Datastream. The benchmark is the FTSE All-Share, ex-Investment Companies, ex-FTSE 100, Total Return Index.

** Source: Fundamental Data/AITC.

Note: Schroder Investment Management Limited was appointed as Investment Manager with effect from 1 May 2003.

Share Price/NAV/Benchmark Index Performance (5 years)



Chairman's Statement

Performance

I am pleased to be able to report on another good year for the Company, both in absolute and relative terms. The net asset value produced a total return of 36.2 per cent. during the year ended 30 September 2005 compared to a 28.5 per cent. return generated by the benchmark, the FTSE All-Share, ex Investment Companies, ex FTSE 100 Total Return Index, over the same period.

The Company's share price increased during the year under review from 121.25 pence per share at the beginning of the year to 171.50 pence per share at 30 September 2005, representing an increase of 41.4 per cent. The strong performance of the share price during the year can be attributed to a re-rating in the shares as the discount to net asset value narrowed from 12.5 per cent. at the beginning of the year to 8.0 per cent. at the end of the year.

Dividends

The Company's investment objective is one of capital growth. However, the Company has received increased yields from the portfolio during the last two years and we stated last year that 2.0 pence per share would be a suitable base for a progressive dividend policy. The Directors are therefore recommending the payment of a final dividend of 2.25 pence per share for the year ended 30 September 2005, an increase of 12.5 per cent. on the dividend of 2.0 pence per share for the previous year.

A resolution relating to the payment of a final dividend will therefore be proposed at the Annual General Meeting and, if passed, the dividend will be paid to shareholders on 25 January 2006.

Gearing Facility

At the beginning of the year, the Company had in place a £10 million revolving credit facility, of which £5 million was drawn down. This facility expired in April 2005 and was renewed for a further year, following a review of terms and a comparison of indicative quotations from other banking institutions. A total of £5 million remained drawn for the duration of the year under review. Parameters for the use of gearing are established and reviewed by the Board.

Purchase of Shares for Cancellation and Treasury Shares

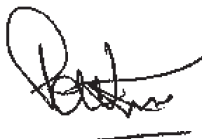
At the Company's last Annual General Meeting on 27 January 2005, the Company was given the authority to purchase up to 14.99 per cent. of the Company's issued share capital for cancellation and for shares representing up to 10 per cent. of the capital to be held in treasury for later re-issue at a premium to net asset value. During the year ended 30 September 2005, the Directors did not utilise the authority given to them and no purchases of shares were made for cancellation or for holding in treasury for re-issue.

However, the Board continues to consider whether purchases should be made on a regular basis, and to provide maximum flexibility for the future proposes that the authority be renewed at the forthcoming Annual General Meeting.

Chairman's Statement continued

Annual General Meeting

The Annual General Meeting will be held at 12.00 noon on Monday 23 January 2006, and shareholders are encouraged to attend. The meeting will include a presentation by the Investment Manager on the prospects for the UK market and the Company's investment strategy.



Peter Timms, CBE
Chairman

11 November 2005

Investment Manager's Review

Investment Philosophy

We have adopted a consistent investment process, taking a stock specific approach with an emphasis on growth companies. Sector weightings play a secondary role, resulting naturally from stock selection. Fundamental research forms the basis of each investment decision taken by us as your Manager, carrying out our own research with numerous company contacts. When analysing stocks, we look for companies with strong management teams with a proven record, good future prospects and a strong business franchise within their markets.

Performance

Over the twelve months to 30 September 2005 the Company's net asset value total return increased by 36.2 per cent. This compared to a 28.5 per cent. increase in the FTSE All-Share, ex Investment Companies, ex FTSE 100, Total Return Index over the same period. This index was adopted as the new benchmark from 1 May 2003, following the change of manager.

The main contributors to last year's outperformance have been companies in various sectors on the receiving end of bids or bid approaches from trade buyers or private equity investors, including Ottakar's (bookshops), Northgate (van hire), Lastminute.com (internet retailer) and Somerfield (food retailer). Investments in the oil and gas sector and related services also outperformed, reflecting continuing strong appreciation in energy prices, while in the domestic market construction services companies benefitted from high levels of both government and commercial activity.

Market Background

UK equities have continued to advance strongly in the past twelve months, with small and medium sized companies outperforming large companies in the closing months of 2004 but struggling a little in relative terms as 2005 has progressed. For much of the year under review the economic background in the UK and indeed globally has been reasonably benign, and low interest rates coupled with improving corporate confidence and high levels of liquidity have led to an unprecedented level of takeover activity. This has supported equity valuations even as the oil price has advanced to record nominal levels. However, increased new issue activity in the summer has soaked up some of the market's liquidity and this trend has continued into the autumn. In addition, earlier increases in UK interest rates, coupled with rising fuel bills and higher indirect taxes have now begun to slow UK consumer spending. This is increasingly evident in the results of consumer-facing companies and we expect more disappointing trading updates as Christmas approaches.

Portfolio Update

New purchases in the past year have again been biased towards government and business spending and away from consumer spending which is weak. New purchases have included WSAtkins (consulting engineers), Bodycote (heat treatment and testing), BPP (continuous professional education), Dechra Pharmaceuticals (veterinary supplies and pharmaceuticals), Elementis (chromium chemicals), Fenner (oil and coal industry supplies), Investec (South African bank), Rensburg Sheppards (wealth management) and Wood Group (oil industry services).

Investment Manager's Review continued

At 30 September 2005, 88 per cent. of the portfolio was invested in constituents of the benchmark. The Company retains modest levels of gearing.

Outlook

Mounting evidence of a reduction in UK consumer spending, coupled with high energy costs, is likely to cause more disappointing corporate trading updates before 2005 is finished. Companies with high levels of debt or heavy lease commitments will be most at risk of an erosion of equity value. We remain cautious about the outlook for UK consumer dependent companies, since indebtedness is high and unemployment is starting to rise, albeit from a low level. The UK government will in our view need to raise taxes to sustain its spending plans. This could come from a rise in national insurance rates, or a windfall tax on North Sea oil production, or the introduction of real estate investment trusts, or from other sources. In this uncertain environment, the focus of our investments will be on companies with strong franchises, preferably evidenced by pricing power. Low interest rates, strong cash flow into private equity funds and the margin pressures on many corporates will however drive merger and acquisition activity, supporting equity valuations.

In the light of these factors, we are underweight in the general retailing, leisure and media sectors but overweight in support services, software, health and real estate.

Schroder Investment Management Limited

10 November 2005

Twenty Largest Investments

At 30 September 2005

Company and Activity	Value of Holdings £'000	Percentage of Shareholders' Funds
WSP Multi-disciplinary engineering consulting group.	1,348	1.96
SIG Leading European distributor of insulation materials.	1,321	1.92
Homeserve Provider of home emergency repair insurance coverage.	1,299	1.89
Meggitt Manufacturer of electronic instruments for aircraft.	1,297	1.89
Resolution Specialises in asset management and the ownership and administration of closed life funds.	1,234	1.80
Wood Group (John) International energy company provides products and services to oil, gas and power industries.	1,208	1.76
Victrex Manufactures and sells a thermoplastic used primarily by compounders and processors.	1,197	1.74
Elementis International chemical company specialising in pigments and performance chemicals.	1,135	1.65
Premier Oil International oil and gas exploration and development company.	1,131	1.65
Northgate Van hire specialist in UK and Spain.	1,130	1.65
Aveva Process engineering software company.	1,123	1.64
Rotork Design, manufacture and support of actuators, systems and related products.	1,103	1.61
Bodycote International Manufactures and distributes metal technology, operates hot isostatic pressings, metallurgical coatings and materials testing services.	1,085	1.58
Investec International investment and private banking group.	1,080	1.57
Latchways Designer and manufacturer of safety equipment.	1,075	1.57
Rensburg Sheppards Financial services group, primary activities are stockbroking and personal asset management.	1,061	1.55
Carillion Construction company specialising in roads, rail, hospitals, and PFI projects.	1,060	1.54
Abbot Group Supplies drilling, well engineering and facilities engineering services to the oil and gas industry.	1,056	1.54
Shaftesbury Property owner and developer in London's West End.	1,046	1.52
White Young Green International engineering company which specialises in mechanical, electrical, and environmental services.	1,032	1.50
Total	23,021	33.53

Report of the Directors

The Directors are pleased to present their Report and the Accounts of the Company for the year ended 30 September 2005.

Company's Business

The Company carries on business as an investment trust, and it is an investment company within the meaning of Section 266 of the Companies Act 1985 (as amended). In order to obtain exemption from capital gains tax, the Company has conducted itself with a view to being an approved investment trust for the purpose 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 as meeting the qualifying criteria for investment trust status is the year ended 30 September 2003 and the Company has subsequently conducted its affairs so as to enable it to continue to qualify for such approval.

The Company is not a close company for taxation purposes.

A review of the Company's business and its likely future development is given in the Chairman's Statement on pages 5 and 6 and the Investment Manager's Review on pages 7 and 8.

Revenue and Dividend

The net revenue return after taxation for the year was £1,012,000 (2004: £744,000) equivalent to earnings per ordinary share of 2.75p (2004: 2.37p).

For the year ended 30 September 2005, the Directors have recommended a final dividend of 2.25p per share (2004: 2.00p).

The dividend has absorbed £829,000 leaving a balance of £183,000 to be transferred to the revenue reserve (2004: £736,000 and £8,000 respectively).

Net Asset Value

During the year under review the net asset value per share of the Company rose to 186.48p per share from 138.64p per share.

Directors

The Directors of the Company and their beneficial and family interests in the Company's share capital during the year to 30 September 2005 are given below:

	At 30 September 2005	At 1 October 2004
	Ordinary shares	Ordinary shares
P K Timms	10,000	10,000
C M Coubrough	1,725	1,725
C Jones	10,000	10,000
M G Packe	40,660	40,660

There have been no changes in the above holdings between the end of the financial year and 21 December 2005.

In accordance with the Company's Articles of Association, Mr Coubrough and Mr Packe will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Report of the Directors continued

Mr Timms and Mr Jones retire in accordance with the Company's policy on tenure, outlined in the corporate governance section on page 17. Mr Packe also retires in accordance with the Company's policy on tenure.

None of the Directors have a contract of service with the Company. No Director has any material interest in any other contract that is significant to the Company's business.

The Board supports the re-elections of Mr Coubrough, Mr Packe, Mr Jones and Mr Timms who continue to contribute valuable input to the deliberations of the Board and who continue to devote significant time to the business of the Company.

Directors' Remuneration Report

Legislation requires the Company to produce a yearly report on Directors' remuneration and the Company's remuneration policy, and to put an annual resolution to shareholders for the approval of that report. The Remuneration Report prepared in accordance with the Directors' Remuneration Report Regulations 2002 can be found on pages 14 and 15. The notice of the Annual General Meeting on pages 43 to 44 contains an ordinary resolution (No. 3) to approve the Remuneration Report for the year. It should be noted that the result of this resolution is advisory only.

Substantial Share Interests

As at 21 December 2005, the Company had been notified of the following interests in excess of 3 per cent. of the issued share capital.

	Number of Shares held	Percentage of class
East Riding of Yorkshire Council	3,401,493	9.24%
Standard Life Investment Management Limited	2,843,504	7.72%
Bank of England Pension Fund	2,325,000	6.30%
Royal London Asset Management	1,909,616	5.18%
Allianz AG and subsidiaries	1,772,783	4.80%
Scottish Widows	1,696,360	4.60%
Exeter Asset Management	1,500,000	4.00%
Universities Superannuation Scheme Limited	1,313,325	3.56%
JP Morgan Securities Limited	1,230,000	3.34%
Advance UK Trust plc	1,153,668	3.13%
Barclays plc	1,104,724	3.00%

Policy for 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 trade creditors as at 30 September 2005.

Purchase of Shares for Cancellation

The total number of shares in issue on 21 December 2005 was 36,823,690. At the Annual General Meeting held in January 2005, an authority for the Directors to purchase up to 14.99 per cent. of the issued share capital of the Company for cancellation was renewed by the shareholders. Whilst

Report of the Directors continued

the authority was not used during the year, the Directors wish to renew the authority to purchase shares for cancellation. A resolution authorising the Directors to purchase up to 14.99 per cent. of the share capital in issue on 21 December 2005 will be proposed at the forthcoming Annual General Meeting for which notice is given on pages 43 to 44.

The Directors believe that it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy back its ordinary shares in the market as they keep under review the purchase of ordinary shares. Purchases will only be made if the Directors consider that the purchase would be for the benefit of the Company and shareholders, taking into account relevant factors and circumstances at the time. This authority will lapse at the conclusion of the Company's Annual General Meeting in 2007 unless renewed earlier.

Treasury Shares

The Company is also permitted to purchase up to 10 per cent. of its own issued shares and hold those shares in treasury. These shares may then be reissued or cancelled at a future date rather than simply cancelled at the time of acquisition.

The Board believes that the responsible use of this facility should provide flexibility to the Investment Manager in carrying out its functions and fulfilling its primary objective of net asset growth. The Board has therefore decided that the Investment Manager may use this power subject to the restrictions that the shares may only be held for up to 12 months and may only be sold at a premium to their net asset value.

In order to allow any shares which are held in treasury to be re-issued on a non pre-emptive basis, Shareholder approval will be required. Special Resolution number 11 to be proposed at the Annual General Meeting therefore includes power to re-issue shares held in treasury on a non pre-emptive basis.

Issues of New Shares

At the 2005 Annual General Meeting the Directors were given the power to allot new ordinary shares for cash. The Directors wish to renew these powers at the forthcoming Annual General Meeting.

The Directors intend to use this authority to issue new shares whenever they believe it is advantageous both to new investors and to the Company's existing shareholders to do so. The authority will only be used to issue shares at a premium to net asset value at the time of issue and will lapse at the conclusion of the Company's Annual General Meeting in 2007 unless renewed earlier.

If new ordinary shares are to be allotted for cash, Section 89(1) of the Companies Act 1985 requires such new shares to be offered first to existing holders of ordinary shares. This entitlement is known as a "pre-emption right". In certain circumstances it is beneficial for the Directors to allot shares for cash other than pro rata to existing shareholders and the Companies Act 1985 provides for shareholders to give such power to the Directors by waiving their pre-emption rights. Therefore, a special resolution will be proposed at the Annual General Meeting which, if passed, will give the Directors power to allot ordinary shares for cash on a non pre-emptive basis up to an aggregate nominal amount of £460,296 (equivalent to 1,841,184 ordinary shares of 25p and 5 per cent. of the Company's existing issued ordinary share capital at 21 December 2005), as if Section 89(1) of the Companies Act 1985 did not apply. This authority will lapse unless renewed at the Company's Annual General Meeting in 2007.

Report of the Directors continued**Investment Manager**

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

Schroder Investment Management Limited provides investment management, accounting, and administrative services to the Company. The agreement can be terminated by either party on 12 months' notice or on immediate notice in the event of certain breaches or the insolvency of either party.

Under the terms of the Management Agreement, Schroder Investment Management Limited is entitled to a fee at a rate of 0.8 per cent. on assets up to and including £75 million, and 0.6 per cent. thereafter, payable quarterly in arrears. For the purpose of calculating management and performance fees, assets means total assets less current liabilities other than short-term borrowings. Provided that if there are any short-term borrowings, the value of cash up to the level of such borrowings is deducted from the calculation of assets.

With effect from 1 October 2003, an annual performance fee was introduced. The fee is calculated on an annual basis as 0.1 per cent. of average monthly assets for each 1 per cent. out-performance of the benchmark (FTSE All-Share, ex investment companies, ex FTSE 100 Total Return Index) over and above 0.8 per cent., up to a maximum performance fee of 1 per cent. of average assets in any year.

For the year to 30 September 2005, a total performance fee of £412,000 plus VAT is payable under the terms of the agreement.

Schroder Investment Management Limited is also Company Secretary, and is entitled to a secretarial fee amounting to £79,335 (plus VAT) per annum. This fee increases each year on 30 April in line with the Retail Price Index movement for the preceding year.

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

Auditors

Ernst & Young LLP have expressed their willingness to remain in office and resolutions to re-appoint them and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

The Auditor provides non-audit services to the Company, details of which are set out in note 4 on page 32. The Audit Committee has adopted a policy on the engagement of the Auditor to supply non-audit services. Terms of Reference for the Audit Committee may be found on page 21.

Annual General Meeting

The Annual General Meeting will be held at 12.00 noon on Monday 23 January 2006. The Notice of Meeting is set out on pages 43 to 44.

Registered Office:
33 Bothwell Street
Glasgow G2 6NL

By Order of the Board
Schroder Investment Management Limited
Company Secretary

Registered in Scotland Number: 82551
21 December 2005

Directors' Remuneration Report for the year ended 30 September 2005

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 £100,000 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 fulfill in respect of Board and Committee responsibilities, and the time committed to the Company's affairs. For the year under review, Directors received fees of £15,000 per annum with £20,000 per annum for the Chairman.

No element of the Directors' remuneration is performance related.

No Director has a service contract with the Company.

No Director past or present has any entitlement to company pension arrangements, 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.

All 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.

All Directors are appointed for an initial term covering the period from the date of their appointment until the first Annual General Meeting 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.

A graph showing the Company's Net Asset Value and Share Price total return compared with its benchmark Index, the FTSE All-Share, ex-FTSE 100, ex-Investment Companies, Total Return Index, over the last 5 years is shown on page 4.

Directors' Remuneration Report for the year ended 30 September 2005 continued**Remuneration for Qualifying Services**

Director	For the year ended 30 September 2005 fees for services to the Company £	For the year ended 30 September 2004 fees for services to the Company £
P M Timms	20,000	16,000
C M Coubrough	15,000	9,000
C Jones	15,000	9,000
M G Packe	15,000	9,000
Total	65,000	43,000

The information in the above table has been audited (see the Independent Auditors' Report on pages 26 and 27).

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

By order of the Board

Schroder Investment Management Limited

Company Secretary

21 December 2005

Corporate Governance

The Company is committed to high standards of corporate governance. In July 2003, a revised Combined Code on Corporate Governance (the “Code”) was published by the Financial Reporting Council. The provisions of the revised Code formally apply to the Company for the first time for the year ended 30 September 2005. The UK Listing Authority requires all listed companies to disclose how they have applied the principles of, and complied with, the provisions of the Combined Code contained in the Listing Rules. This Statement, together with the Statement of Directors’ Responsibilities on page 25, indicates how the Company has applied 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 those matters 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 four non-executive Directors. Profiles of each of the Directors, including age and length of service, may be found on page 2. The Board considers each of the Chairman, Malcolm Coubrough, Chris Jones and Maxwell Packe to be independent of the Company’s Investment Manager. 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 investment portfolio, the arrangement of custodial services and the provision of accounting and company secretarial services.

A review of Board composition and balance including succession planning for appointments to the Board, is included as part of the annual performance evaluation of the Board, details of which may be found below.

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. The Board comprises entirely non-executive Directors and 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. As part of the evaluation process, the non-executive Directors meet without the Chairman being present.

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. Therefore, the independence of Directors will continue to be assessed on a case by case basis.

In order to allow 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 9 years will thereafter be subject to annual re-election at the Annual General Meeting.

The Board does not believe that reaching the age of 70 should necessarily exclude a Director from continuing as a Director of the Company. The ages of all Directors are stated in the Annual Report and Accounts, and any Director who has reached the age of 70 will be subject to annual re-election at the Annual General Meeting.

Induction and Training

When a Director is appointed he or she receives a full, formal and tailored induction, which is administered by the Company Secretary. Directors are provided, on a regular basis, with key information on the Board's policies, regulatory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Other advisers to the Company also prepare reports for the Board from time to time. In addition, Directors may attend ad hoc seminars covering issues and developments relevant to the investment trust industry.

Performance Evaluation

The Board has adopted a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors. The first evaluation was completed in November 2005. The evaluation is in two stages. First, the evaluation of individual Directors is led by the Chairman, and the evaluation of the Chairman's performance is led by the Chairman of the Audit Committee. Secondly, the Board evaluates its own performance and that of its Committees.

Evaluation is conducted utilising a questionnaire combined with one to one meetings. The Board has developed criteria for use at the evaluation, which focus 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.

Meetings

The Board meets at least four times each year. Additional meetings are also arranged as required and regular contact between Directors, the Investment Manager and the Company Secretary is

Corporate Governance continued

maintained throughout the year. Representatives of the Investment Manager and Company Secretary attend each meeting and other advisers also attend when requested to do so by the Board. Attendance at the four scheduled meetings was as set out below:

	Attendance
Director	
Peter Timms	4
Malcolm Coubrough	4
Chris Jones	4
Maxwell Packe	3

The Board is satisfied that each of the Chairman and the other non-executive Directors commit sufficient time to the affairs of the Company to fulfil their duties as Directors.

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.

Committees

The Board has delegated certain responsibilities and functions to Committees. Terms of reference, as well as details of membership and activities, for all Committees of the Board, are set out in the following pages. The Board keeps under review the composition of each of its Committees to ensure that undue reliance is not placed on particular individuals.

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, as permitted by Section 310 of the Companies Act 1985 (as amended).

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.

Corporate Governance continued

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 43 and 44 sets out the business of the meeting.

Environmental Policy

The Company's primary investment objective is to achieve optimal financial returns for shareholders, within established risk parameters and regulatory constraints. Providing that this objective is not compromised in the process the Board 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. In situations where a contentious matter is under consideration, the Manager may obtain approval from the Board before voting.

Accountability and Audit

The Statement of Directors' Responsibilities in respect of the financial statements is on page 25 and a statement of going concern is set out below. The independent auditors' report can be found on pages 26 and 27.

Going Concern

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

For this reason, and in accordance with FRS18, they continue to adopt the going concern basis in preparing the financial statements.

Internal Control

The Combined Code requires the Board to review the effectiveness of internal controls. The Board has previously undertaken a full review of all the aspects covered by 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 that identifies significant strategic, investment-related, operational and service provider risks and adopted an enhanced monitoring system to ensure that risk management and all aspects of internal control are considered on a regular basis.

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 adopted by the Investment Manager and other major service

Corporate Governance continued

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 framework 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 so doing the Audit Committee will review at least annually whether a function equivalent to an internal audit is needed.

The Board has conducted an annual review of the effectiveness of the system of internal control covering all controls including financial, operational and compliance controls and risk management. This assessment took into account issues arising from the reports reviewed by the Board during the year together with any additional information necessary to enable the Board to take account of all significant aspects of internal control.

Board Committees

Audit Committee

The members of the Committee as at 30 September 2005 were:

Maxwell Packe (Chairman)

Malcolm Coubrough

Chris Jones

Peter Timms

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 1993. 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 auditors' 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

Report on the Committee's Activities

To discharge its duties, the Committee met on two occasions during the year ended 30 September 2005 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
- revised Terms of Reference
- internal controls operating within the management company
- an update from the auditor on new accounting standards.

Attendance

Both of the meetings held during the year ended 30 September 2005 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 September 2005 were:

Peter Timms (Chairman)
Malcolm Coubrough
Chris Jones
Maxwell Packe

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

Terms of Reference

The Company established a Management Engagement Committee in 1999. 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 September 2005 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

Nomination Committee

The members of the Committee as at 30 September 2005 were:

Peter Timms (Chairman)
Malcolm Coubrough
Chris Jones
Maxwell Packe

The Board considers each member of the Committee 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

To discharge its duties, the Committee met on one occasion during the year ended 30 September 2005 and considered the following:

- revised Terms of Reference
- a revised procedure for the appointment of new Directors
- a job specification for the role of the Chairman.

Attendance

This meeting was attended by all members of the Committee.

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

Statement of Directors' Responsibilities

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 laws and regulations.

Further, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of these financial statements and applicable United Kingdom accounting standards have been followed.

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 1985. 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.

Independent Auditors' Report

Independent Auditors' Report to the Members of Schroder UK Mid & Small Cap Fund plc

We have audited the Company's financial statements for the year ended 30 September 2005 which comprise the Statement of Total Return, Balance Sheet, Cash Flow Statement, and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 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 financial statements. This other information comprises the Directors and Advisers, Financial Highlights and Sector Analysis, Ten Year Record and Performance Analyses, Chairman's Statement, Investment Manager's Review, Twenty Largest Investments, Report of the Directors, Corporate Governance, Board Committees, Statement of Directors' Responsibilities,

Independent Auditors' Report continued

List of Investments, Company Summary, Shareholder Information, Notice and Agenda and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company as at 30 September 2005 and of its revenue return for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
21 December 2005

Statement of Total Return

	Note	For the year ended 30 September 2005			For the year ended 30 September 2004		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	8	—	18,731	18,731	—	8,289	8,289
Income	2	1,434	—	1,434	1,069	—	1,069
Investment management fee	3/18	(63)	(568)	(631)	(43)	(383)	(426)
Performance fee	18	—	(484)	(484)	—	(217)	(217)
Administrative expenses	4	(332)	—	(332)	(269)	—	(269)
Net return before finance costs and taxation		1,039	17,679	18,718	757	7,689	8,446
Interest payable and similar charges	5/18	(27)	(244)	(271)	(13)	(120)	(133)
Net return on ordinary activities before taxation		1,012	17,435	18,447	744	7,569	8,313
Tax on ordinary activities	6	—	—	—	—	—	—
Net return on ordinary activities after tax for the year attributable to equity shareholders		1,012	17,435	18,447	744	7,569	8,313
Dividends							
Final dividend of 2.25p per share payable 25 January 2006 (2004: 2.00p)		(829)	—	(829)	(736)	—	(736)
Transfer to reserves		183	17,435	17,618	8	7,569	7,577
Return per ordinary share	7	2.75p	47.35p	50.10p	2.37p	24.13p	26.50p

The revenue column of this statement is the profit and loss account of the Company.

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

No operations were acquired or discontinued in the year.

The notes on pages 31 to 37 form an integral part of these financial statements.

Balance Sheet

At 30 September

	Note	2005 £'000	2004 £'000
Fixed assets			
Investments	8		
Listed investments		73,894	56,110
Unlisted investments		146	79
		74,040	56,189
Current assets			
Debtors	10	1,546	1,022
Cash at bank		89	341
		1,635	1,363
Current liabilities			
Creditors: amounts falling due within one year	11	(7,006)	(6,501)
Net current liabilities		(5,371)	(5,138)
Net assets		68,669	51,051
Capital and reserves			
Called up share capital	13	9,206	9,206
Capital redemption reserve	14	50	50
Share premium account	15	13,971	13,971
Merger reserve	16	2,184	2,184
Share purchase reserve	17	17,095	17,095
Capital reserves	18	25,918	8,483
Revenue reserve	19	245	62
Equity shareholders' funds	20	68,669	51,051
Net asset value per share	21	186.48p	138.64p

The financial statements were approved by the Board of Directors on 21 December 2005 and signed on behalf of the Board by:

P K Timms

M G Packe

Directors

The notes on pages 31 to 37 form an integral part of these financial statements.

Cash Flow Statement

	Note	For the year ended 30 September 2005		For the year ended 30 September 2004	
		£'000	£'000	£'000	£'000
Operating activities					
Income received		1,414		954	
Administrative expenses paid		(325)		(218)	
Investment management fee paid		(588)		(409)	
Performance fee		(217)		—	
Net cash inflow from operating activities	22		284		327
Returns on investments and servicing of finance					
Interest paid		(273)		(85)	
Net cash outflow from returns on investments and servicing of finance			(273)		(85)
Taxation					
UK tax recovered		—		—	
Total tax recovered			—		—
Financial Investment					
Purchase of investments		(30,659)		(29,361)	
Sale of investments		31,132		25,662	
Net cash outflow from financial investment			473		(3,699)
Equity dividends paid			(736)		—
Net cash inflow/(outflow) before financing			(252)		(3,457)
Financing					
Repayment on overdraft facility		—		(981)	
Loan facility drawdown		—		5,000	
Ordinary share issue expenses		—		(221)	
Net cash inflow from financing			—		3,798
Net cash (outflow)/inflow			(252)		341

Reconciliation of net cash (outflow)/inflow to movement in net debt

	For the year ended 30 September 2005	For the year ended 30 September 2004
	£'000	£'000
Net cash (outflow)/inflow	(252)	341
Loan and overdraft movements	—	(4,019)
Change in net debt	(252)	(3,678)
Net debt brought forward	(4,659)	(981)
Net debt carried forward	(4,911)	(4,659)

The notes on pages 31 to 37 form an integral part of these financial statements.

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 on the historical cost basis of accounting, modified to include the revaluation of investments, and in accordance with applicable accounting standards in the United Kingdom and the Statement of Recommended Practice “Financial Statements of Investment Trust Companies” (“SORP”), as issued in 2003.
- b **Investments** Listed investments in Great Britain are valued according to the prices issued by the London Stock Exchange, being the closing mid-market prices for all investments other than FTSE 100 constituents and FTSE reserve list constituents, for which last trade prices are used. Unquoted investments are valued by the Directors taking into account all available information.
- c **Capital gains and losses** Realised and unrealised gains and losses on investments are included in the capital reserve.
- d **Income recognition** Dividends received from investments are credited by reference to their ex-dividend date. Other income is recognised on an accruals basis. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of 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.
- e **Investment management fees, finance costs and performance fees** The investment management fee and finance costs on borrowings for investment purposes are apportioned 10% to the revenue account and 90% to capital reserve, in accordance with the Board’s expected long-term split of returns in the form of capital gains and income. Performance fees are charged to the extent attributable to the Capital Performance of the portfolio to the capital reserve.
- f **Taxation** The charge for taxation is based on the net revenue for the year.
Deferred Tax The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided using the liability method on all timing difference, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than no that there will be taxable profits in future against which the deferred tax asset can be offset.

2 Income

	For the year ended 30 September 2005	For the year ended 30 September 2004
	£’000	£’000
UK dividend income	1,400	1,058
Interest receivable and similar income	34	11
	1,434	1,069

3 Investment management fee

	For the year ended 30 September 2005	For the year ended 30 September 2004
	£’000	£’000
Investment management fee		
— charged to revenue	54	37
— irrecoverable VAT	9	6
— charged to capital (note 18)	483	326
— irrecoverable VAT	85	57
	631	426

The basis for calculating the investment management fee is set out in the Report of the Directors on page 13.

Notes to the Accounts *continued*

4 Administrative expenses

	For the year ended 30 September 2005 £'000	For the year ended 30 September 2004 £'000
Directors' fees	65	43
Auditors' remuneration:		
— audit	14	13
— other services*	3	3
Secretarial fees	90	89
General expenses	160	121
The Company	332	269

The Company has no employees or staff costs (2004: nil).

* Other services provided by the Company's Auditors are for tax compliance services.

5 Interest payable and similar charges

	For the year ended 30 September 2005 £'000	For the year ended 30 September 2004 £'000
Interest payable and other finance costs		
— charged to revenue	27	13
— charged to capital	244	120
	271	133

6 Taxation

The Company has no corporation tax liability in the year to 30 September 2005 (2004: £Nil).

(a) Tax attributable to expenses charged to capital

The Company has sufficient brought forward excess management expenses available to offset against any taxable profits on the revenue account such that no relief is derived from capitalised expenses.

(b) Factors affecting tax charge for the year

Due to the Company's status as an Investment Trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments. 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 September 2005 £'000	For the year ended 30 September 2004 £'000
Factors affecting tax charge for the year		
Return on ordinary activities before tax	1,012	744
UK corporation tax at 30%	304	223
Tax effects of:		
UK dividends not chargeable to corporation tax	(420)	(317)
Revenue expenses not utilised in the year	116	94
Total current taxation	—	—

Notes to the Accounts continued

6 Taxation (continued)

(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 £9,394,000 (2004: £7,707,000) surplus unutilised expenses which it is able to carry forward against future taxable profits. It is highly unlikely that future taxable profits will be of a level to utilise these expenses. As a result no deferred tax asset has been recognised in respect of taxable expenses.

7 Return per ordinary share

	For the year ended 30 September 2005			For the year ended 30 September 2004		
	Revenue	Capital	Total	Revenue	Capital	Total
Return per ordinary share	2.75p	47.35p	50.10p	2.37p	24.13p	26.50p

The basic revenue return per ordinary share is based on the net return on ordinary activities after interest payable and taxation of £1,012,000 (2004: £744,000) and on 36,823,690 (2004: 31,361,294) 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 capital gains for the year of £17,435,000 (2004: gains of £7,569,000) and on 36,823,690 (2004: 31,361,294) ordinary shares, being the weighted average number of ordinary shares in issue in the year.

8 Investments

	Listed 2005 £'000	Unlisted 2005 £'000	Total 2005 £'000
Opening book cost	50,952	117	51,069
Opening unrealised gains/(loss)	5,158	(38)	5,120
Opening valuation	56,110	79	56,189
Purchases at cost	30,776	—	30,776
Sales proceeds	(31,656)	—	(31,656)
Realised gains for the year	3,791	—	3,791
Unrealised gains for the year	14,873	67	14,940
Closing valuation	73,894	146	74,040
Closing book cost	55,184	117	55,301
Closing unrealised gain	18,710	29	18,739
Closing valuation	73,894	146	74,040

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

	For the year ended 30 September 2005 £'000
Gains on investments	
Realised gains based on historical cost	5,112
Less: amounts recognised as unrealised in previous years (note 18)	(1,321)
Realised gains based on carrying value at previous balance sheet date	3,791
Net movement in unrealised	14,940
Gains on investments	18,731

Notes to the Accounts continued

9 Subsidiary undertaking

The accounts present information about the Company as an individual undertaking and not about its group. Consolidated accounts have not been prepared as, in the opinion of the Directors, such accounts would be of no value to shareholders of the Company in view of the insignificant amounts involved. The Company owns the entire issued share capital of Mid-Small Ark plc, a company registered in Scotland, comprising 15,000,000 ordinary 25p shares. The principal activity of the company is that of an investment company. The investment in Mid-Small Ark plc is valued at nil at 30 September 2005. Mid-Small Ark plc had net assets of £25,000 and did not trade during the year under review (2004: same).

10 Debtors

	2005 £'000	2004 £'000
Amounts due within one year:		
Sales for future settlement	1,393	869
Prepayments and accrued income	153	153
	1,546	1,022

11 Creditors

	2005 £'000	2004 £'000
Amounts falling due within one year:		
Purchases for future settlement	328	230
Amounts due to subsidiary undertaking	28	28
Loan facility	5,000	5,000
Proposed dividend	829	736
Other creditors and accruals	821	507
	7,006	6,501

The Company has in place a £2,000,000 overdraft facility with JPMorgan Chase Bank, which is currently unutilised, and a 364 day £10,000,000 loan facility with The Royal Bank of Scotland plc, of which £5,000,000 has been drawn down. Both facilities are unsecured. These facilities were available in 2005 and 2004 and the amounts drawn down were £5,000,000 at each year end.

12 Contingent liabilities

The Company had no contingent liabilities at the balance sheet date (2004: £Nil).

13 Share capital

	2005 £'000	2004 £'000
Authorised:		
42,000,000 ordinary shares of 25p each (2004: 42,000,000 of 25p each)	10,500	10,500
Allotted, Called Up and Fully Paid:		
Opening balance of 36,823,690 ordinary shares (2004: 27,118,657) of 25p each	9,206	6,780
Issue of 9,705,033 ordinary shares	—	2,426
Closing balance of 36,823,690 ordinary shares (2004: 36,823,690) of 25p each	9,206	9,206

At an Extraordinary General Meeting on 16 April 2004, approval was given to the Directors to issue new ordinary shares up to an aggregate nominal value of £3,000,000 (12,000,000 shares) in connection with a prospectus dated 23 March 2004. On 23 April 2004, following implementation of the scheme, 9,705,033 shares were issued, in consideration for an "in-specie" transfer of certain selected stocks from the Allianz Dresdner Smaller Companies Investment Trust plc, at 135.88p per share.

Notes to the Accounts continued

14 Capital redemption reserve

	2005	2004
	£'000	£'000
Capital redemption reserve brought and carried forward	50	50

15 Share premium account

	2005	2004
	£'000	£'000
Share premium account brought forward	13,971	3,431
Issue of 9,705,033 ordinary shares	—	10,540
Share premium account carried forward	13,971	13,971

16 Merger reserve

	2005	2004
	£'000	£'000
Merger reserve brought and carried forward	2,184	2,184

17 Share purchase reserve

	2005	2004
	£'000	£'000
Share purchase reserve brought and carried forward	17,095	17,095

18 Capital reserve

	Realised	Unrealised	Total
	£'000	£'000	£'000
Balance brought forward	3,363	5,120	8,483
Transfer on disposal of investments	1,321	(1,321)	—
Unrealised gains on investments	—	14,940	14,940
Realised gains on investments sold	3,791	—	3,791
Investment management fee	(483)	—	(483)
Irrecoverable VAT on investment management fee	(85)	—	(85)
Performance fee	(412)	—	(412)
Irrecoverable VAT on performance fee	(72)	—	(72)
Finance costs	(244)	—	(244)
Balance carried forward	7,179	18,739	25,918

Performance fee

The basis for calculating the performance fee is set out in the Report of the Directors on page 13. For the year ended 30 September 2005, the Manager is entitled to a performance fee of £412,000 plus VAT.

19 Revenue reserve

	2005	2004
	£'000	£'000
Revenue reserve brought forward	62	54
Transfer to revenue account	183	8
Revenue reserve carried forward	245	62

Notes to the Accounts continued

20 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Net revenue return after taxation	1,012	744
Dividends	(829)	(736)
Net return on the revenue account	183	8
Non-distributable capital gain	17,435	7,569
Consideration of ordinary shares issued	—	13,187
Issue costs of ordinary shares	—	(221)
Net movement in shareholders' funds	17,618	20,543
Shareholders' funds brought forward	51,051	30,508
Shareholders' funds carried forward	68,669	51,051

21 Net asset value per share

	2005	2004
Net asset value per share – pence	186.48p	138.64p
Share price – pence	171.50p	121.25p

The net asset value per share is based on the net assets attributable to ordinary shares of £68,669,000 (2004: £51,051,000) and on 36,823,690 ordinary shares in issue at 30 September 2005 (2004: 36,823,690).

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

	For the year ended 30 September 2005 £'000	For the year ended 30 September 2004 £'000
Net revenue return before finance costs and taxation	1,039	757
Expenses charged to capital	(1,052)	(600)
Movements in accrued income	(1)	(116)
Movements in debtors	1	24
Movements in creditors	316	262
Stock dividend	(19)	—
Net cash inflow from operating activities	284	327

23 Analysis of changes in net debt

	At 1 October 2004 £'000	Cash flows £'000	At 30 September 2005 £'000	At 1 October 2003 £'000	Cash flows £'000	At 30 September 2004 £'000
Cash at bank	341	(252)	89	—	341	341
Debt due within one year	(5,000)	—	(5,000)	(981)	(4,019)	(5,000)
Net debt	(4,659)	(252)	(4,911)	(981)	(3,678)	(4,659)

24 Related party transactions

The Company has appointed Schroder Investment Management Limited (“SIM”), a wholly owned subsidiary of Schroders plc, to provide investment management, accounting, administrative and custodial services. Details of the management fee arrangements for these services are given in the Directors' Report on page 13. The total fees payable under this agreement to SIM in respect of the year ended 30 September 2005 was £1,115,000 including VAT (2004: £643,000), of which £658,000 was outstanding at the year end (2004: £331,000).

Notes to the Accounts continued

24 Related party transactions (continued)

SIM is also Company Secretary. Details of the fee arrangements for these services are given in the Directors' Report on page 13. The total secretarial fees payable to SIM in respect of the year ended 30 September 2005 was £90,000 including VAT (2004: £89,000), of which £45,000 was outstanding at the year end (2004: £23,000). In addition to the above services, SIM also provided investment trust dealing services. The total cost to the Company for this service, payable to Lloyds TSB Registrars, for the year ended 30 September 2005 was £4,000 (2004: £2,000).

During the year banking facilities were provided by Schroder & Co Limited and also by the Company's custodian, SIM. At 30 September 2005, the balance held at Schroder & Co Limited was £14,000 (2004: £29,000). At 30 September 2005, the balance held at SIM was £70,000 (2004: £8,000).

25 Risk

The following disclosures relating to the risks faced by the Company are provided in accordance with Financial Reporting Standard 13, "Derivatives and other financial instruments: disclosures".

Financial instruments and risk profile

The Company's investment objective is to invest in Mid & Small cap equities with the aim of providing a total return in excess of the FTSE All-Share, ex-FTSE 100, ex-Investment Companies Total Return Index. 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 short-term trading in investments or other financial instruments shall be undertaken.

The main risk arising from the Company's financial instruments is market price risk.

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 38 to 40. The Company's investments are valued in accordance with the Company's accounting policies as disclosed on page 31. 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 September 2005, a 10% movement in the market value of the Company's investments would result in a 11% change in net asset value per share.

Currency risk

The Company does not face any direct currency risk since all its assets and liabilities are denominated in sterling.

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.

Interest rate risk

The Company will be affected by changes in prevailing interest rates to the extent that it holds interest-bearing financial assets and liabilities. The effect of interest rate changes on the valuation of equities forms part of market price risk, which has been considered separately above.

Financial liabilities

The Company currently has a £2,000,000 overdraft facility with JPMorgan Chase Bank, which was not utilised at 30 September 2005, and a £10,000,000 loan facility with The Royal Bank of Scotland plc, of which £5,000,000 was drawn down at year end. The interest rate profile of the Company's financial liabilities (excluding short-term creditors) was:

	At 30 September 2005				At 30 September 2004			
	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
Loan	5,000	—	5.17	90 days	5,000	—	5.34	90 days

List of Investments

At 30 September 2005

Company	Industrial Classifications	Value of Holdings £'000	Percentage of shareholders' Funds
Resources			
Abbot	Oil and Gas	1,056	
Expro International	Oil and Gas	859	
Premier Oil	Oil and Gas	1,131	
Venture Production	Oil and Gas	602	
Wood Group (John)	Oil and Gas	1,208	
		4,856	7.07
Basic Industries			
Bovis Homes	Construction and Building Materials	747	
Carillion	Construction and Building Materials	1,060	
Crest Nicholson	Construction and Building Materials	448	
Elementis	Chemicals	1,135	
Keller	Construction and Building Materials	810	
Mowlem	Construction and Building Materials	241	
SIG	Construction and Building Materials	1,321	
Victrex	Chemicals	1,197	
Wilson Bowden	Construction and Building Materials	758	
		7,717	11.24
General Industrials			
Bodycote International	Electronic & Electrical Equipment	1,085	
Fenner	Engineering & Machinery	936	
Innovision Research & Technology	Electronic & Electrical Equipment	292	
Meggitt	Aerospace & Defence	1,297	
Renishaw	Electronic & Electrical Equipment	855	
Rotork	Engineering & Machinery	1,103	
Spirax-Sarco Engineering	Engineering & Machinery	946	
		6,514	9.49
Cyclical Consumer Goods			
Inchcape	Automobiles and Parts	985	
		985	1.43
Non-Cyclical Consumer Goods			
Bespak	Health	597	
Corin	Health	728	
Dechra Pharmaceuticals	Health	905	
Huntleigh Technology	Health	673	
Nestor Healthcare	Health	560	
NeuTec Pharma	Pharmaceuticals and Biotechnology	545	
Whatman	Health	985	
		4,993	7.27

List of Investments continued

At 30 September 2005

Company	Industrial Classifications	Value of Holdings £'000	Percentage of shareholders' Funds
Cyclical Services			
Atkins (WS)	Support Services	930	
Babcock International	Support Services	895	
BPP Holdings	Support Services	905	
Business Post	Support Services	515	
Chrysalis	Media and Entertainment	662	
Dawson Holdings	Support Services	353	
Diploma	Support Services	975	
Dobbies Garden Centre	General Retailers	693	
Erinaceous	Support Services	936	
Findel	General Retailers	906	
Fisher (James) & Sons	Transport	834	
Forth Ports	Transport	865	
Go-Ahead	Transport	630	
Hardys & Hansons	Leisure and Hotels	648	
Homeserve	Support Services	1,299	
Imprint	Support Services	592	
Jacques Vert	General Retailers	325	
Laing (John)	Support Services	975	
Latchways	Support Services	1,075	
Management Consulting	Support Services	679	
Northgate	Transport	1,130	
Peninsular & Orient Deferred	Support Services	1,002	
Serco	Support Services	641	
Shanks	Support Services	908	
SHL	Support Services	329	
Speedy Hire	Support Services	953	
Stagecoach	Transport	615	
United Business Media	Media and Entertainment	684	
Wetherspoon (J.D.)	Leisure and Hotels	868	
White Young Green	Support Services	1,032	
Wilmington	Media and Entertainment	874	
WSP	Support Services	1,348	
		26,076	37.97
Non-Cyclical Services			
I-Mate	Telecommunication Services	189	
La Tasca	Food and Drug Retailers	447	
Majestic Wine	Food and Drug Retailers	607	
Whittard of Chelsea	Food and Drug Retailers	230	
		1,473	2.15

List of Investments continued

At 30 September 2005

Company	Industrial Classifications	Value of Holdings £'000	Percentage of shareholders' Funds
	Utilities		
Dee Valley	Water	524	
Northumbrian Water	Water	615	
		1,139	1.66
	Financials		
Aberdeen Asset Management	Speciality and Other Finance	536	
Big Yellow	Real Estate	945	
Derwent Valley Holdings	Real Estate	914	
Domestic & General	Insurance	820	
Grainger Trust	Real Estate	1,026	
Helical Bar	Real Estate	731	
ICAP	Speciality and Other Finance	640	
Intermediate Capital	Speciality and Other Finance	922	
Investec	Speciality and Other Finance	1,080	
†New Star Asset Management	Speciality and Other Finance	146	
Quintain Estates & Development	Real Estate	873	
Rensburg Sheppards	Speciality and Other Finance	1,061	
Resolution	Life Assurance	1,234	
Shaftesbury	Real Estate	1,046	
		11,974	17.44
	Information Technology		
Alterian	Software and Computer Services	819	
Aveva	Software and Computer Services	1,123	
Dicom	Information Technology Hardware	896	
Netstore	Software and Computer Services	494	
Northgate Information Solutions	Software and Computer Services	969	
RM	Software and Computer Services	797	
Royalblue	Software and Computer Services	1,002	
Sci Entertainment	Software and Computer Services	795	
System C Healthcare	Software and Computer Services	479	
Torex Retail	Software and Computer Services	679	
TTP Communications	Information Technology Hardware	260	
		8,313	12.11
Total investment portfolio		74,040	107.83
Net current liabilities		(5,371)	(7.83)
Equity shareholders' funds		68,669	100.00

† Unlisted investment.

Company Summary

The Company

Schroder UK Mid & Small Cap Fund plc is an investment trust listed on the London Stock Exchange. It is one of a number of investment trusts managed and administered by Schroders.

The Company does not have a fixed life.

Price Information

The Company's shares are listed on the London Stock Exchange. The prices of the shares are quoted daily in the Financial Times.

Real time share information is available on the FT Cityline by dialing:

0906 003 3446 for the Ordinary Shares

Calls are charged at 60p per minute at all times.

Share price information, subject to a twenty minute delay, is also available on the internet at:

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

The site also contains other information on the Company including a factsheet containing, inter alia, information about the diversification of the portfolio and the Company's ten largest investments. The factsheet is published quarterly and is also available to Shareholders on request from the Secretary of the Company.

The Company releases its net asset value to the London Stock Exchange on a weekly basis.

Capital Gains Tax Information

For the 2005/2006 tax year the annual capital gains (after adjusting for indexation and taper relief) of private individuals in excess of £8,500 (2004/2005: £8,200) 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 gain will also be reduced by indexation allowance for the period up to April 1998, but not thereafter.

Shareholder Information

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 Japan Growth Fund plc, Schroder Split Investment Fund plc, Schroder Split ZDP plc, Schroder UK Growth Fund plc, SVG Capital plc and International Biotechnology Trust plc.

Individual Savings Account — Schroder Maxi ISA Plan

Schroders are providing a non CAT standard investment trust ISA, which includes Schroder UK Mid & Small Cap Fund plc. The investment trust ISA is designed as a maxi account, made up entirely of a stocks and shares component; a cash or insurance component is not offered.

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.

Notice and Agenda

Notice is hereby given that the twenty-fourth Annual General Meeting of Schroder UK Mid & Small Cap Fund plc will be held at 12.00 noon on Monday 23 January 2006 at 31 Gresham Street, London, EC2V 7QA to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 10 will be proposed as Ordinary Resolutions and resolutions 11 and 12 will be proposed as Special Resolutions:–

1. That the Report of the Directors and the Accounts for the year ended 30 September 2005 be adopted.
2. That a Final Dividend of 2.25p per share be declared for the year ended 30 September 2005.
3. That the Directors' Remuneration Report for the year ended 30 September 2005 be approved.
4. That Mr Malcolm Coubrough be re-elected as a Director of the Company.
5. That Mr Maxwell Packe be re-elected as a Director of the Company.
6. That Mr Chris Jones be re-elected as a Director of the Company.
7. That Mr Peter Timms be re-elected as a Director of the Company.
8. That Ernst & Young LLP be re-appointed as Auditors of the Company.
9. That the Board be authorised to agree the Auditors' remuneration.
10. That the Directors be and they 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 £460,296 (representing 5 per cent. of the aggregate nominal amount of the share capital in issue on 21 December 2005) provided that this authority shall expire on the date of the next Annual General Meeting of the Company, but so that this authority shall allow the Company to make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry.
11. That, subject to the passing of resolution 10 set out above, the Directors be and are hereby empowered, pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority given in accordance with Section 80 of the Act by the said resolution 10 and to sell equity securities which are held by the Company in treasury in terms of Section 162A of the Act as if Section 89(1) of the Act did not apply to any such allotment and/or sale, provided that this power shall be limited to the allotment and/or sale of equity securities up to an aggregate nominal amount of £460,296 (representing 5 per cent. of the aggregate nominal amount of the share capital in issue on 21 December 2005); and provided that this power shall expire on the date 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 or sold after such expiry.
12. That the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the Act) of Ordinary Shares of 25p each in the capital of the Company ("Shares"), provided that:
 - (a) the maximum number of Shares hereby authorised to be purchased shall be 5,519,871 (equivalent to 14.99 per cent. of the share capital in issue on 21 December 2005);
 - (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 per cent. 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 and Agenda 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.

Registered Office:
33 Bothwell Street
Glasgow G2 6NL
23 December 2005

By Order of the Board
Schroder Investment Management Limited
Company Secretary

Notes

- 1 A member of the Company entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend and on a poll to vote in his or her stead. A proxy need not be a member of the Company. Forms appointing proxies must be lodged with the Company's Registrar not less than 48 hours before the time appointed for the Meeting. The completion and return of a form of proxy will not preclude a holder entitled to attend and vote in person at the Meeting from doing so if he or she wishes.
- 2 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 during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) and by any person attending the Annual General Meeting, during the continuance of the Meeting. None of the Directors has a contract of service with the Company.
- 3 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those Shareholders registered in the Register of Members of the Company at 5 pm on 20 January 2006 shall be entitled to attend and vote at the meeting in respect of the number of Shares registered in their name at the time. Changes to the Register of Members after 5 pm on 20 January 2006 shall be disregarded in determining the right of any person to attend and vote at the meeting.
- 4 Profiles 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.

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 September 2005, Group assets under management were valued at £118.3 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