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

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**Report and Accounts  
30 September 2006**



**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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**2007 Financial Calendar**

22 January	Annual General Meeting
26 January	Final dividend paid
May	Interim Results announced
30 September	Year end
November	Final Results announced
December	Annual Report and Accounts published

## Directors

### **Peter Timms** (Aged 63) (Chairman)

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

### **Rachel Beagles** (Aged 38)

Rachel Beagles was appointed a non-executive Director of the Company in March 2006. She was co-head of the Pan European Banks Equity Research and Sales Team and a Managing Director of the Corporate and Investment Bank Group Division at Deutsche Bank AG. She is also a non-executive Director of Crown Place VCT plc, Newlon Housing Trust and Outward Housing.

### **Malcolm Coubrough** (Aged 60)

Malcolm Coubrough was appointed a non-executive 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 65)

Christopher Jones was appointed a non-executive Director of the Company in 1994. From 1985 until his retirement in 2003 he was head of Investments at Merchant Investors Assurance Company Ltd, a subsidiary of Allianz (UK) Ltd. His other non-executive directorships are: Atlantis Japan Growth Ltd, Cayenne Trust plc, Ecofin Water & Power Opportunities plc, Japan Accelerated Performance Fund PLC, Jupiter Second Enhanced Income Trust plc, Montanaro UK Smaller Companies Trust plc, Montanaro European Smaller Companies Ltd, Recovery Trust plc and Thompson Clive Investment plc.

### **Maxwell Packe** FCA (Aged 61)

Maxwell Packe was appointed a non-executive Director of the Company in 1997. He is chairman of Medico-Legal Reporting Limited and Murray VCT 2 PLC.

All Directors are members of the Audit, Management Engagement and Nomination Committees.

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  
Telephone: 020 7658 3206

### **Registrar**

Lloyds TSB Registrars Scotland  
PO Box 28448  
Finance House  
Orchard Brae  
Edinburgh EH4 1WQ  
Shareholder Helpline: 0870 601 5366  
website: [www.shareview.co.uk](http://www.shareview.co.uk)

### **Stockbrokers**

Winterflood Investment Trusts  
The Atrium Building  
Cannon Bridge  
25 Dowgate Hill  
London EC4R 2GA

### **Registered Office**

33 Bothwell Street  
Glasgow G2 6NL

### **Auditors**

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

### **Solicitors**

Tods Murray LLP  
33 Bothwell Street  
Glasgow G2 6NL

### **Custodian**

JPMorgan 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

## Financial Highlights

	30 September 2006	30 September 2005	% change
Net asset value per share	<b>239.61p</b>	188.73p*	+26.96
Share price	<b>209.50p</b>	171.50p	+22.16
Share price discount	<b>12.6%</b>	9.1%*	–
FTSE All-Share, ex-Investment Companies, ex-FTSE 100, Total return Index	<b>2,718.39</b>	2,127.50	+27.77
Total assets** (£'000)	<b>93,055</b>	74,498*	+24.91
Total borrowings (£'000)	<b>5,000</b>	5,000	–
Shareholders' funds (£'000)	<b>88,055</b>	69,498*	+26.70
Shares in issue ('000)	<b>36,749</b>	36,824	–0.20
Dividends per share	<b>2.85p</b>	2.25p	+26.67p

\* Restated (see note 24).

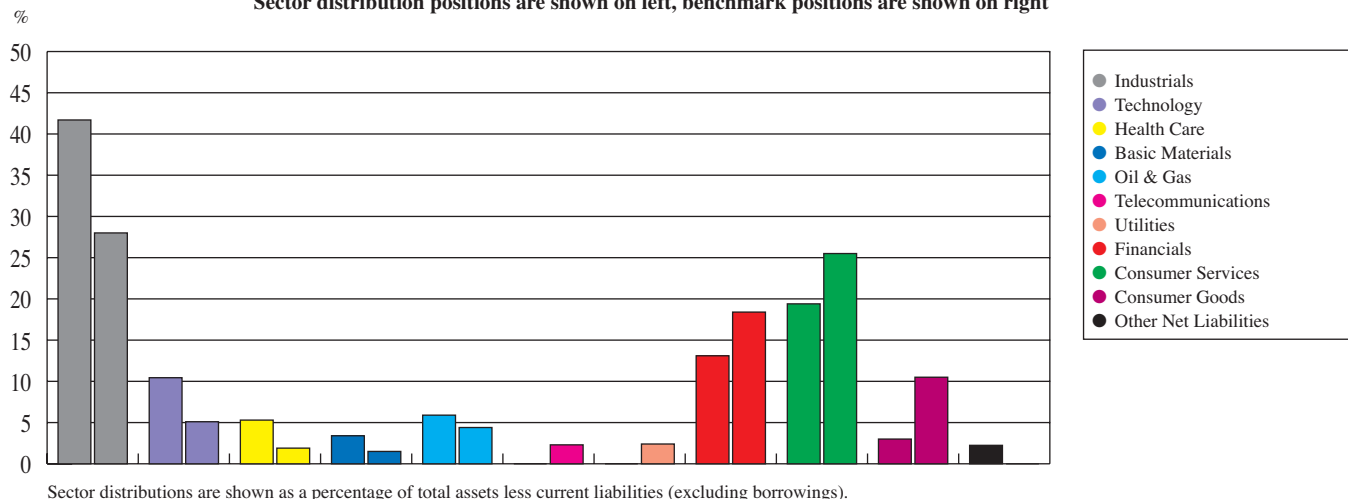
\*\*Total assets less current liabilities (excluding short-term borrowings).

## Sector Analysis

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

at 30 September 2006

Sector distribution positions are shown on left, benchmark positions are shown on right



## Ten Year Record

As at 30 September	Shareholders' funds £'000	Net asset value (NAV) per share** Pence	Share price Pence	Share price discount %
2006	88,055	239.6	209.5	12.6
2005*	69,498	188.7	171.5	9.1
2004	51,051	138.6	121.3	12.5
2003	30,508	112.5	106.0	5.8
2002	23,253	85.7	61.0	28.8
2001	36,185	146.7	111.0	24.3
2000	121,004	446.5	381.0	14.7
1999	40,548	162.8	130.0	20.1
1998	27,690	114.4	93.3	18.5
1997	36,724	149.3	125.5	15.9

\* (restated – see note 24)

\*\* NAV shown is the lower of undiluted or diluted net assets per share. The warrants expired on 31 January 2002 so eliminating distribution to the NAV.

## Ten Year Record

For the year ended 30 September	Revenue return per share	Net dividends	Cost of running trust† £'000
2006	3.5p	2.85p	1,104
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

† Operating expenses excluding finance costs and performance fees.

## Total Returns to 30 September 2006

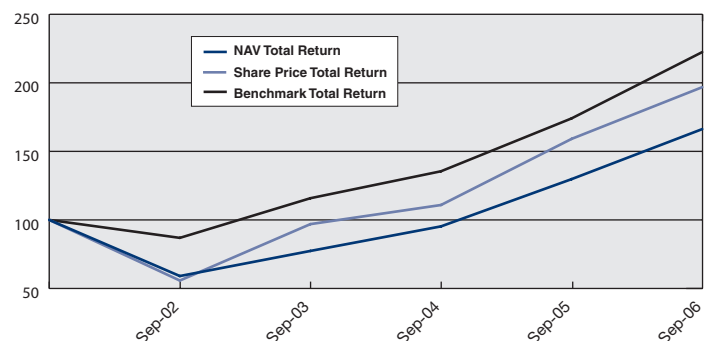
	Benchmark total return* %	NAV total return** %	Share price total return** %
1 year	27.8	28.1	23.7
2 years	64.1	74.4	77.5
3 years	92.0	114.8	103.0
4 years	155.9	181.4	252.8
5 years	122.4	66.2	96.8

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

\*\*Source: Fundamental Data/AIC.

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

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### Performance

I am pleased to report on another positive year for your Company, following four strong years of growth in absolute terms. The net asset value produced a total return of 28.1 per cent. compared to a total return of 27.8 per cent. for the FTSE All-Share, ex Investment Companies, ex FTSE 100 Index during the year ended 30 September 2006. The share price increased by 22.2 per cent., from 171.50 pence at the start of the year to 209.50 pence at 30 September 2006. The share price was impacted by an increase in the discount to net asset value from 9.1 per cent. to 12.6 per cent. during the year.

### Dividends

The Directors are pleased to recommend the payment of a final dividend of 2.85 pence per share for the year ended 30 September 2006, representing an increase of 26.7 per cent. on the final dividend of 2.25 pence per share for the previous year. This higher level of dividend reflects the greater income now generated by the portfolio, and represents a new basis for the dividend going forward.

A resolution approving the payment of a final dividend will be proposed at the Annual General Meeting. If passed, the dividend will be paid on 26 January 2007 to shareholders on the register at 29 December 2006.

### Gearing Facility

The Company renewed its £10 million revolving credit facility in April 2006 following a review of the terms and a comparison of indicative quotations from other banking institutions. A total of £5 million of this facility remained drawn for the duration of the year under review. Parameters for the use of gearing are established and reviewed by the Board regularly.

### Purchase of Shares for Cancellation and Treasury Shares

At the Company's last Annual General Meeting held on 23 January 2006, the Company was granted authority to purchase up to 14.99 per cent. of its issued share capital for cancellation, of which a maximum of 10 per cent. could be held in treasury for later re-issue at a premium to net asset value. During the year ended 30 September 2006, the Directors purchased 75,000 shares for cancellation, but did not utilise the authority for holding shares in treasury for re-issue.

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

### Changes to UK Accounting Standards

The Company has adopted a number of new accounting standards as a result of the Accounting Standards Board's convergence programme with International Accounting Standards applicable to investment trusts, which prepare their financial statements under UK Generally Accepted Accounting Practice. These are the first full year accounts which have been prepared in accordance with newly adopted accounting standards. In addition, the Directors' Report contains a Business Review for the first time this year, as required under the European Union's Accounts

## Chairman's Statement continued

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Modernisation Directive for all UK listed companies for financial years beginning on or after 1 April 2005.

### **Appointment of Non-Executive Director**

Ms Rachel Beagles was appointed as a non-executive Director on 27 March 2006. Ms Beagles, aged 38, gained a wide experience of equity analysis and investment in the City where she was Co-Head of the Pan-European Banks Equity Research and Sales Team and a Managing Director of Corporate and Investment Bank Group Division at Deutsche Bank AG. She is currently a non-executive director of Crown Place VCT plc.

The Directors welcome and look forward to working with Ms Beagles. In accordance with the Articles of Association, she will be proposed for election at the Annual General Meeting.

### **Annual General Meeting**

The Annual General Meeting will be held at 12.00 noon on 22 January 2007, 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

21 November 2006

## Investment Manager's Review

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### 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 2006 the Company's net asset value on a total return basis increased by 28.1 per cent. This compared to a 27.8 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.

As in the previous year, a major contributor to performance in the latest twelve months has been companies on the receiving end of bids from trade buyers or private equity investors, including Neutec Pharma (antibody manufacturer), Retail Decisions (fuel card operator), Babcock International (defence, rail, power & marine services), TTP Comms (mobile phone software), Hardy's & Hansons (brewer), John Laing (PFI Investments), and P&O (ports operator). Investments in the real estate sector have performed well, reflecting further yield compression in the underlying asset markets and the impending launch of real estate investment trusts. Companies exposed to infrastructure spending in the UK and overseas have also benefited from strong underlying demand and supply side shortages. The principal detractors to performance have been Corin (hip replacements) which experienced delays in the US regulatory approval process, and a number of other smaller technology investments which also experienced delays in new product sales.

### Market Background

UK equities have continued to advance strongly in the past twelve months, with the Mid 250 Index significantly outperforming other size indices. Takeover activity has continued apace, fuelled by rising corporate confidence, high levels of liquidity in private equity funds, a continuing low level of UK funding costs and plentiful sources of bank finance. The Mid 250 Index is now trading at a modest premium to larger companies and a yield discount, but dividend growth has run significantly ahead of inflation this year.

A market correction in May, engendered by rising geopolitical risks in the Middle East and fears of rising inflation, proved short-lived. The oil price (Brent Crude) peaked in the summer at over US\$78 a barrel, but ended the period under review below US\$60, a more manageable level. UK consumer spending has, as anticipated, remained under pressure from rising fuel bills and indirect taxes, and many companies supplying consumer products have struggled to pass on their own cost inflation. Elsewhere, inflationary pressures have on the whole been increasing.

## Investment Manager's Review continued

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### **Portfolio Update**

New purchases in the past year have been focused on the themes of infrastructure spending, pricing power and undergeared balance sheets. New investments have included Axon (SAP consulting), Balfour Beatty (engineering contracting and PFI), Chloride (uninterruptible power supplies), Cobham (defence equipment), Easyjet (budget airline), Holidaybreak (holiday specialist), Halma (sensors, controls), Mitie (FM services), Morson (engineering recruitment), Stagecoach (bus and train operator), Whitbread (hotel and pub operator) and William Hill (betting shops). At 30 September 2006, 91 per cent. of the portfolio was invested in constituents of the benchmark. The Company retains modest levels of gearing.

### **Outlook**

With corporate confidence high and private equity and infrastructure funds flush with cash, the volume of merger and acquisition activity looks set to continue apace. Share buybacks are also supportive of the UK equity market, albeit they are mostly being undertaken by larger companies.

Although recent falls in energy prices may relieve one pressure on the UK consumer, inflationary forces in other areas such as food, university fees and indirect taxes appear to be increasing. The headline inflation data do not seem to fully reflect the true cost increases being experienced by households. Accordingly, we remain nervous of the retail sector and other consumer-facing businesses. Our investment philosophy leads us to seek out sectors of the economy where demand outstrips supply, which at present includes infrastructure spending, PFI investments, oil services, construction, power and rail provision. We also expect consolidation in the defence and business publishing sectors.

In the light of these factors, we are underweight in general retailing, household goods, insurance and consumer-facing media, and overweight in support services, construction, oil services and software.

**Schroder Investment Management Limited**

21 November 2006

## Portfolio of Investments

As at 30 September 2006

Company	Sector Classification	Sub-Sector Classification	Principal Activity	Market Value of Holdings £'000	% of Shareholders' Funds
<b>Aveva</b>	Technology	Software & Computer Services	process engineering software company	<b>1,823</b>	<b>2.07</b>
<b>Babcock International</b>	Industrials	Support Services	multinational engineered systems and services group	<b>1,730</b>	<b>1.96</b>
<b>Homeserve</b>	Industrials	Support Services	provider of home emergency repair insurance coverage	<b>1,663</b>	<b>1.89</b>
<b>Big Yellow Group</b>	Financials	Real Estate	provision of self storage and related services	<b>1,660</b>	<b>1.89</b>
<b>Shaftsbury</b>	Financials	Real Estate	property owner and developer in London's West End	<b>1,651</b>	<b>1.88</b>
<b>Elementis</b>	Basic Materials	Chemicals	manufacture and sale of chromium chemicals, pigments and other chemicals	<b>1,598</b>	<b>1.82</b>
<b>Wood Group (John)</b>	Oil and Gas	Oil Equipment, Services & Distribution	international service company to energy industries	<b>1,553</b>	<b>1.76</b>
<b>Premier Oil</b>	Oil and Gas	Oil Equipment, Services & Distribution	oil & gas exploration development and production	<b>1,550</b>	<b>1.76</b>
<b>Wetherspoon (JD)</b>	Consumer Services	Travel & Leisure	development and management of public houses	<b>1,532</b>	<b>1.74</b>
<b>Wilson Bowden</b>	Consumer Goods	Household Goods	house building and property development	<b>1,510</b>	<b>1.72</b>
<b>Retail Decisions</b>	Technology	Software & Computer Services	payment card fraud prevention and payment processing	<b>1,500</b>	<b>1.70</b>
<b>SIG</b>	Industrials	Support Services	leading European distributor of insulation materials	<b>1,472</b>	<b>1.67</b>
<b>William Hill</b>	Consumer Services	Travel & Leisure	fixed-odds bookmaking services and online casino	<b>1,448</b>	<b>1.64</b>
<b>Laing (John)</b>	Industrials	Support Services	owner, operator and manager of public sector infrastructure assets	<b>1,445</b>	<b>1.64</b>
<b>WSP</b>	Industrials	Support Services	multi-disciplinary engineering consulting group	<b>1,437</b>	<b>1.63</b>
<b>Inchcape</b>	Consumer Services	General Retailing	international automotive services group	<b>1,414</b>	<b>1.61</b>
<b>Axon</b>	Technology	Software & Computer Services	implementation and support of SAP for global companies	<b>1,395</b>	<b>1.58</b>
<b>Victrex</b>	Basic Materials	Chemicals	manufacturer and seller of thermoplastic	<b>1,385</b>	<b>1.57</b>
<b>Enterprise</b>	Industrials	Support Services	provider of outsourced maintenance services to large organisations	<b>1,380</b>	<b>1.57</b>
<b>Carillion</b>	Industrials	Construction & Materials	infrastructure, building and business services	<b>1,357</b>	<b>1.54</b>
<b>Twenty Largest Investments</b>				<b>30,503</b>	<b>34.64</b>

## Portfolio of Investments continued

As at 30 September 2006

Company	Sector Classification	Sub-Sector Classification	Principal Activity	Market Value of Holdings £'000	% of Shareholders' Funds
<b>Halma</b>	Industrials	Electronic & Electrical Equipment	manufacturer of safety products	1,337	1.52
<b>United Business</b>	Consumer Services	Media	market research, news distribution and professional media	1,325	1.50
<b>Mitie</b>	Industrials	Support Services	building and maintenance service group	1,315	1.49
<b>Whitbread</b>	Consumer Services	Travel & Leisure	operator of hotels, restaurants and health and fitness centres	1,295	1.47
<b>Rotork</b>	Industrials	Industrial Engineering	design, manufacture and support of actuators	1,267	1.44
<b>Grainger Trust</b>	Financials	Real Estate	purchase, letting, management and refurbishment of tenanted property	1,256	1.43
<b>Meggitt</b>	Industrials	Aerospace & Defence	manufacturer of electronic instruments for aircraft	1,248	1.42
<b>Holidaybreak</b>	Consumer Services	Travel & Leisure	provider of camping and short break holidays	1,230	1.40
<b>Fisher (James) &amp; Sons</b>	Industrials	Industrial Transportation	ship owners and suppliers of maritime services	1,229	1.40
<b>Findel</b>	Consumer Services	General Retailing	home shopping and educational supplies	1,223	1.39
<b>Rensburg Sheppards</b>	Financials	General Financial	personal asset management and stockbroking services	1,200	1.36
<b>Atkins (WS)</b>	Industrials	Support Services	engineering consultancy and architectural services	1,180	1.34
<b>Investec</b>	Financials	General Financial	International investment and private banking group	1,179	1.34
<b>Speedy Hire</b>	Industrials	Support Services	hire services and civil engineering	1,173	1.33
<b>Keller Group</b>	Industrials	Construction & Materials	construction services	1,171	1.33
<b>Bovis Homes</b>	Consumer Goods	Household Goods	builder of residential and retirement homes	1,158	1.32
<b>Laird</b>	Industrials	Electronic & Electrical Equipment	design and supply of products to residential building industry	1,128	1.28
<b>Latchways</b>	Industrials	Support Services	production, distribution and installation of industrial safety equipment	1,128	1.28
<b>Domestic &amp; General</b>	Financials	Non-Life Insurance	domestic appliance insurance services and related activities	1,124	1.28
<b>Shanks</b>	Industrials	Support Services	waste management services	1,114	1.26
<b>White Young Green</b>	Industrials	Support Services	international engineering company	1,114	1.26
<b>Spirax-Sarco Engineering</b>	Industrials	Industrial Engineering	manufacturer of fluid control products	1,105	1.25

## Portfolio of Investments continued

As at 30 September 2006

Company	Sector Classification	Sub-Sector Classification	Principal Activity	Market Value of Holdings £'000	% of Shareholders' Funds
<b>BPP</b>	Industrials	Support Services	professional qualifications training and academic education	<b>1,101</b>	<b>1.25</b>
<b>Dobbies Garden Centre</b>	Consumer Services	General Retailing	retail garden centres	<b>1,100</b>	<b>1.25</b>
<b>Dicom</b>	Technology	Software & Computer Services	provider of information capture and communications solutions	<b>1,094</b>	<b>1.24</b>
<b>Royalblue</b>	Technology	Software & Computer Services	front office trading in computer software	<b>1,058</b>	<b>1.20</b>
<b>Diploma</b>	Industrials	Support Services	international distributor of specialist equipment	<b>1,058</b>	<b>1.20</b>
<b>Whatman</b>	Health Care	Health Care Equipment & Services	international separations technology business	<b>1,050</b>	<b>1.19</b>
<b>Wilmington</b>	Consumer Services	Media	provider of information to business markets through various media	<b>1,040</b>	<b>1.18</b>
<b>Chloride Group</b>	Industrials	Electronic & Electrical Equipment	power protection solutions provider	<b>1,036</b>	<b>1.18</b>
<b>Fifty Largest Investments</b>				<b>65,539</b>	<b>74.42</b>
<b>Northgate</b>	Industrials	Industrial Transportation	van hire specialist in UK and Spain	<b>1,016</b>	<b>1.15</b>
<b>Aberdeen Asset Management</b>	Financials	General Financial	asset management company to a wide range of financial institutions	<b>982</b>	<b>1.11</b>
<b>EasyJet</b>	Consumer Services	Travel and leisure	budget airline	<b>972</b>	<b>1.10</b>
<b>Venture Production</b>	Oil and Gas	Oil Equipment, Services & Distribution	acquisition and exploitation of stranded energy reserves	<b>961</b>	<b>1.09</b>
<b>Bespak</b>	Health Care	Health Care Equipment & Services	manufacture and supply of medical devices to pharmaceutical industry	<b>922</b>	<b>1.05</b>
<b>Savills</b>	Financials	Real Estate	international property services group	<b>905</b>	<b>1.03</b>
<b>RM</b>	Technology	Software & Computer Services	supplier of ICT software and the provision of educational services	<b>895</b>	<b>1.02</b>
<b>Go-Ahead</b>	Consumer Services	Travel and leisure	owner and operator of public transport services	<b>889</b>	<b>1.01</b>
<b>Dechra Pharmaceuticals</b>	Health Care	Pharmaceuticals & Biotechnology	manufacturer of pharmaceutical products and equipment for veterinary industry	<b>885</b>	<b>1.00</b>
<b>Quintain Estates &amp; Development</b>	Financials	Real Estate	property investment and development company	<b>875</b>	<b>0.99</b>
<b>Imprint</b>	Industrials	Support Services	provider of executive search and selection services	<b>842</b>	<b>0.96</b>
<b>Expro International</b>	Oil and Gas	Oil Equipment, Services & Distribution	provider of specialised services to oil and gas industry	<b>833</b>	<b>0.95</b>

## Portfolio of Investments continued

As at 30 September 2006

Company	Sector Classification	Sub-Sector Classification	Principal Activity	Market Value of Holdings £'000	% of Shareholders' Funds
<b>Balfour Beatty</b>	Industrials	Construction & Materials	engineering & construction company	<b>824</b>	<b>0.94</b>
<b>Fenner</b>	Industrials	Industrial Engineering	manufacturer and distributor of conveyor belting and polymer products	<b>806</b>	<b>0.91</b>
<b>Management Consulting</b>	Industrials	Support Services	consultancy services offering operational improvements to its clients	<b>788</b>	<b>0.89</b>
<b>Intermediate Capital</b>	Financials	General Financial	provider of mezzanine capital and manager of third party funds	<b>713</b>	<b>0.81</b>
<b>Majestic Wine</b>	Consumer Services	Food & Drug Retailers	operator of wine warehouse chain	<b>702</b>	<b>0.80</b>
<b>Morson</b>	Industrials	Support Services	providers of temporary and permanent technical personnel	<b>697</b>	<b>0.79</b>
<b>Qinetiq</b>	Industrials	Aerospace & Defence	international defence and security technology company	<b>695</b>	<b>0.79</b>
<b>Stagecoach</b>	Consumer Services	Travel & Leisure	international operator of buses, trains and coaches	<b>635</b>	<b>0.72</b>
<b>Alterian</b>	Technology	Software & Computer Services	global provider of integrated database marketing	<b>629</b>	<b>0.71</b>
<b>Huntleigh</b>	Health Care	Health Care Equipment & Services	design, manufacture distribution and rental of medical equipment	<b>622</b>	<b>0.71</b>
<b>National Express</b>	Consumer Services	Travel & Leisure	provider of bus, train and coach services	<b>563</b>	<b>0.64</b>
<b>Chrysalis</b>	Consumer Services	Media	radio stations, producer and distributor of CD's and DVD's	<b>561</b>	<b>0.64</b>
<b>SHL</b>	Industrials	Support Services	suppliers of objective staff assessment via internet testing	<b>535</b>	<b>0.61</b>
<b>EMAP</b>	Consumer Services	Media	media company including magazines, television and radio stations	<b>498</b>	<b>0.57</b>
<b>Corin</b>	Health Care	Health Care Equipment & Services	manufacture and marketing of orthopaedic devices	<b>488</b>	<b>0.55</b>
<b>Business Post</b>	Industrials	Industrial Transportation	express delivery services	<b>481</b>	<b>0.55</b>
<b>Nestor</b>	Health Care	Health Care Equipment & Services	provision of temporary healthcare personnel and services	<b>467</b>	<b>0.53</b>
<b>Cobham</b>	Industrials	Aerospace & Defence	development and supply of aerospace and defence systems	<b>454</b>	<b>0.52</b>
<b>La Tasca</b>	Consumer Services	Travel & Leisure	operation of licensed restaurants	<b>367</b>	<b>0.42</b>
<b>Imperial Energy</b>	Oil and Gas	Oil Equipment, Services & Distribution	oil exploration and production in the CIS	<b>329</b>	<b>0.37</b>
<b>System C Healthcare</b>	Technology	Software & Computer Services	design and implementation of computer systems for the healthcare market	<b>313</b>	<b>0.36</b>

**Portfolio of Investments** continued

As at 30 September 2006

<b>Company</b>	<b>Sector Classification</b>	<b>Sub-Sector Classification</b>	<b>Principal Activity</b>	<b>Market Value of Holdings £'000</b>	<b>% of Shareholders' Funds</b>
<b>Bango</b>	Technology	Software & Computer Services	provides technology for consumer purchases via internet on mobile telephones	<b>254</b>	<b>0.29</b>
<b>ClinPhone</b>	Health Care	Health Care Equipment & Services	centralised support services for clinical trials	<b>239</b>	<b>0.27</b>
<b>I-Mate</b>	Technology	Hardware & Equipment	developer and supplier of high end wireless integrated pocket pc	<b>231</b>	<b>0.26</b>
<b>Stream</b>	Consumer Services	Media	provider of information via mobile and fixed line telephones	<b>210</b>	<b>0.24</b>
<b>Dawson</b>	Industrials	Support Services	distributor of newspapers, magazines and books	<b>206</b>	<b>0.23</b>
<b>Innovision Research &amp; Technology</b>	Industrials	Electronic & Electrical Equipment	integrated circuits for wireless connections	<b>119</b>	<b>0.14</b>
<b>EMAP 'B' Red Pref</b>	Consumer Services	Media	media company including magazines, television and radio stations	<b>44</b>	<b>0.05</b>
<b>Pinnacle Staffing</b>	Industrials	Support Services	providers of temporary healthcare staff	<b>37</b>	<b>0.04</b>
<b>Ludgate 181 Jersey</b>	Financials	General Financial	venture capital investment fund	<b>0</b>	<b>0.00</b>
<b>Total Investment Portfolio</b>				<b>90,023</b>	<b>102.23</b>
<b>Net current liabilities</b>				<b>(1,968)</b>	<b>(2.23)</b>
<b>Equity shareholders' funds</b>				<b>88,055</b>	<b>100.00</b>

All above investments are equity investments.

The top 20 investment represents 34.64% (2005: 33.12%) of net assets at the year end.

## Report of the Directors (incorporating the Business Review)

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The Directors are pleased to present their Report and the Accounts of the Company for the year ended 30 September 2006.

### Business Review

#### Company's Business

The Company carries on business as an investment trust and is classified as 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 approved as an investment trust by the Inland Revenue was for the year ended 30 September 2005. 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.

#### Investment Objective

The investment objective of the Company is to achieve a total return in excess of the FTSE All-share, ex-Investment Companies, ex-FTSE 100 Total Return Index.

#### Investment Policy

In applying the investment objective, the Manager expects the Company to be fully invested and to borrow up to 25 per cent. of total assets when appropriate. The strategy is to invest predominantly in the investment universe associated with the benchmark though the Company may invest in other collective funds where desirable.

#### Performance

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

#### Investment Strategy

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

#### Measuring Success – Key Performance Indicators

The Board has adopted key performance indicators ("KPIs") which assist it in measuring the development and success of the Company's business. The KPIs focus on the following areas: the investment objective of providing a total return in excess of the benchmark Index; management of the share price discount to net asset value and the rate of expenses incurred by shareholders in the running of the Company.

#### Investment Performance

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

For the year ended 30 September 2006, the Company achieved a total return on net asset value of 28.1% compared to a total return of 27.8% for the benchmark. Charts showing the Company's

## Report of the Directors continued

five-year performance and sector distribution against the benchmark as at 30 September 2006 can be found on pages 3 and 4 of this Report.

### Discount Management

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

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

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

At 30 September 2006, the Company's share price stood at a discount of 12.6% to net asset value. During the year under review the discount reached a high of 14% and a low of 8%.

### Control of Total Expenses

The Board has adopted a third KPI which measures the total expense ratio ("TER") of the Company.

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

The TER for the Company for the year to 30 September 2006 (calculated in accordance with AIC guidance as total annualised net operating expenses after tax divided by average net assets during the year) was 1.4%.

### Principal Risks and Uncertainties

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

#### Market Risk

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

#### Gearing

The Company has in place a credit facility, amounting to £10 million, of which £5 million has been drawn down and an additional £2 million overdraft facility, which is currently unutilised. In falling markets, any reduction in the net asset value and share price is amplified by the gearing.

## Report of the Directors continued

The Directors keep the Company's gearing under constant review and impose strict restrictions on borrowings to mitigate this risk.

### Discount

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

### Regulatory Risks

The regulatory environment in which the Company operates is increasingly complex and the Company faces a number of regulatory risks. A breach of section 842 of the Income and Corporation Taxes Act 1988 could result in the Company being subject to capital gains tax on the sale of portfolio investments. Breaches of other regulations such as the Companies Act 1985 (as amended) and the UK Listing Authority's Listing Rules could lead to a number of detrimental outcomes and damage the Company's reputation. Breaches of controls by service providers such as the Manager could also lead to reputational damage or loss.

### Resources

The Company has no employees; its investments are managed by Schroders, which also acts as Company Secretary and provides accounting and administration services to the Company. The principal terms of the Investment Management Agreement are set out on page 19.

### Changes to UK Accounting Standards

As described in greater detail in the Chairman's Statement and note 1a to the Financial Statements, the Company has adopted new accounting standards and a revised Statement of Recommended Practice for Investment Trust Companies during the year ended 30 September 2006.

### Environmental Policy

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

### Results and Dividend

The total return after taxation for the year was £19,559,000 (2005: £18,447,000).

The net revenue return after taxation for the year was £1,281,000 (2005: £1,012,000) equivalent to a revenue return per ordinary share of 3.48p (2005: 2.75p).

For the year ended 30 September 2006, the Directors have recommended a final dividend of 2.85p per share (2005: 2.25p).

The dividend would previously have absorbed £1,047,000, leaving a balance of £234,000 to be transferred to the revenue reserve (2005: £829,000 and £183,000 respectively), but under the newly adopted accounting standards, the dividend amounting to £1,047,000 will not be accounted for until it has been paid.

### Net Asset Value

During the year under review, the net asset value per share of the Company rose to 239.61p per share from 188.73p (restated) per share.

## Report of the Directors continued

### Directors

The Directors of the Company and their beneficial and family interests in the Company's share capital during the year to 30 September 2006 are as follows:

Director	Ordinary Shares of 25p each at 30 September 2006	Ordinary Shares of 25p each at 1 October 2005
Peter Timms	10,000	10,000
Rachel Beagles*	5,717	N/A
Malcom Coubrough	1,725	1,725
Chris Jones	10,000	10,000
Maxwell Packe	40,660	40,660

\* Ms Beagles was appointed as a Director on 27 March 2006.

There have been no changes in the above holdings between the end of the financial year and 20 December 2006.

In accordance with the Articles of Association, Ms Beagles will seek election at the forthcoming Annual General Meeting, this being the first Annual General Meeting since her appointment.

In accordance with the Company's Articles of Association and the Company's policy on tenure, outlined in the Corporate Governance section on page 23, Mr Timms and Mr Jones will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. In addition and in accordance with the Company's policy on tenure, Mr Coubrough and Mr Packe will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Board supports the election of Ms Beagles and the re-elections of Mr Timms, Mr Jones, Mr Coubrough and Mr Packe 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.

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

### Substantial Share Interests

As at 20 December 2006, the Company had been notified of the following interests of 3 per cent. or above of its issued share capital, as follows:

Shareholder	Number of Shares held	Percentage of issued class
East Riding of Yorkshire Council	3,275,000	8.91%
Standard Life Investment Management Limited	2,843,504	7.73%
Bank of England Pension Fund	2,325,000	6.32%
Royal London Asset Management	1,909,616	5.19%
Allianz AG and subsidiaries	1,772,783	4.82%
Scottish Widows	1,696,360	4.61%
Exeter Asset Management	1,500,000	4.08%
Barclays plc	1,472,732	4.00%
Universities Superannuation Scheme Limited	1,313,325	3.57%
JP Morgan Securities Limited	1,230,000	3.34%
Advance UK Trust plc	1,153,668	3.13%

### Purchase of Shares for Cancellation

The total number of shares in issue on 20 December 2006 was 36,748,690. At the Annual General Meeting held on 23 January 2006, 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 shareholders. The Company purchased 75,000 Ordinary Shares for cancellation during the year under review and

## Report of the Directors continued

the Directors wish to renew the authority to purchase Shares for cancellation at the forthcoming Annual General Meeting. Accordingly, a resolution authorising the Directors to purchase up to 14.99 per cent. of the share capital in issue on 20 December 2006 will be proposed at the forthcoming Annual General Meeting for which notice is given on pages 51 and 52.

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 share price discount to net asset value and 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 2008 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 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. A Special Resolution will therefore be proposed at the Annual General Meeting and includes power to re-issue shares held in treasury on a non pre-emptive basis.

### Issues of New Shares

At the 2006 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 2008 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 £459,358 (equivalent to 1,837,434 ordinary shares of 25p and 5 per cent. of the Company's existing issued ordinary share capital at 20 December 2006), 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 2008.

### Investment Manager

Having considered the long-term performance of the portfolio, the depth of the investment team and the resources provided to the Company by the Investment Manager, the Directors consider

**Report of the Directors** continued

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) and over and above 0.8 per cent., to a maximum performance fee of 1 per cent. of average assets in any given year.

For the year to 30 September 2006, no performance fee is payable under the terms of the agreement (2005: £412,000 plus VAT).

Schroder Investment Management Limited also is entitled to a secretarial fee amounting to £94,000 (including 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.

**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 2006.

**Auditors**

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

The Auditors provide non-audit services to the Company, details of which are set out in note 4 on page 40. 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 27.

**Annual General Meeting**

The Annual General Meeting will be held at 12.00 noon on Monday 22 January 2007. The Notice of Meeting is set out on pages 51 and 52.

By Order of the Board  
Schroder Investment Management Limited  
Company Secretary

Registered Office:  
33 Bothwell Street  
Glasgow G2 6NL

Registered in Scotland Number: 82551  
20 December 2006

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

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

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £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 fulfil 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 which 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 Provision B of the Combined Code relating to remuneration do not apply to the Company, except as outlined above, as the Company does not have any 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 Directors' terms of appointment are available for inspection at the Company's Registered Office address during normal business hours and at the Annual General Meeting.

All Directors are appointed for an initial term covering the period from the date of their appointment until the first 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-Investment Companies and ex-FTSE 100, Total Return Index, over the last 5 years is shown on page 4.

**Directors' Remuneration Report for the year ended 30 September 2006** continued

<b>Director</b>	<b>Year ended 30 September 2006 £</b>	<b>Year ended 30 September 2005 £</b>
Peter Timms	<b>20,000</b>	20,000
Rachel Beagles*	<b>7,705</b>	N/A
Malcolm Coubrough	<b>15,000</b>	15,000
Chris Jones	<b>15,000</b>	15,000
Maxwell Packe	<b>15,000</b>	15,000
<b>Total</b>	<b>72,705</b>	65,000

\*Ms Beagles was appointed as a Director on 27 March 2006.

The information in the above table has been audited (see the Independent Auditors' Report on pages 33 and 34).

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

20 December 2006

## Corporate Governance

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

### Compliance with the Code

The UK Listing Authority requires all UK listed companies to disclose how they have complied with the provisions of the Code. This Corporate Governance Statement, together with the Statement of Directors’ Responsibilities set out on page 32, indicates how the Company has complied with the principles of good governance of the Code and its requirements on internal control.

### Compliance Statement

The Board considers that the Company has, throughout the year under review, complied with the best practice provisions in Section 1 of the Code, save in respect of 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 AIC Code of Governance.

### Application of Code Principles

#### Role of the Chairman

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

#### Role of the Board

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

### Composition and Independence

The Board currently consists of five non-executive Directors. 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, Rachel Beagles, 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.

## Corporate Governance continued

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### Senior Independent Director

The Board has considered whether a senior independent director should be appointed. The Board comprises entirely of 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, or necessarily affects a Director's independence of character or judgement. Therefore, the independence of Directors will continue to be assessed on a case by case basis. In order to give shareholders the opportunity to endorse this policy, and in accordance with the provisions of the Code, any Director who has served for more than nine years will be subject to annual re-election by shareholders.

The Board does not believe that reaching the age of 70 should necessarily exclude a Director from continuing in office. The age of each Director is set out in the Annual Report (see page 2) and any Director who has reached the age of 70 will be subject to annual re-election by shareholders.

### 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 last 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.

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.

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.

## Corporate Governance continued

### 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 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:

Director	Maximum attendance	Board meetings attended
Peter Timms	4	4
Rachel Beagles*	2	2
Malcolm Coubrough	4	4
Chris Jones	4	4
Maxwell Packe	4	4

\*Ms Beagles was appointed on 27 March 2006.

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.

### 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 also 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

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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 51 and 52 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. Provided 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 by the Manager when selecting or retaining investments.

### Exercise of Voting Powers

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

### Accountability and Audit

The Statement of Directors' Responsibilities in respect of the financial statements is on page 32 and a statement of going concern is set out below. The independent auditors' report can be found on pages 33 and 34.

### 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 FRS 18, they continue to adopt the going concern basis in preparing the financial statements.

### Internal Control

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

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

## Corporate Governance continued

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the systems of internal control, including any whistleblowing policies where appropriate, adopted by the Investment Manager and other major service providers, and ensures regular communication of the results of monitoring by third parties to the Board, the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition.

Although the Board believes that it has a robust framework of internal control in place this can only provide 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 most of its operations to third parties. The Board will continue to monitor its system of internal control and will continue to take steps to embed the system of internal control and risk management into the operations of the Company. In doing so, the Audit Committee will review at least annually whether a function equivalent to an internal audit is needed.

## Board Committees

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### **Audit Committee**

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

Maxwell Packe FCA (Chairman)

Rachel Beagles\*

Malcolm Coubrough

Chris Jones

Peter Timms

\*Ms Beagles was appointed as a member of the Audit Committee on 16 May 2006.

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 the Audit Committee in 1993. The role of the 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 a 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

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

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

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

### **Attendance**

Both of the meetings held during the year ended 30 September 2006 were attended by all members of the Committee who were then incumbent.

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 2006 were:

Peter Timms (Chairman)  
 Rachel Beagles\*  
 Malcolm Coubrough  
 Chris Jones  
 Maxwell Packe

\*Ms Beagles was appointed as a member of the Management Engagement Committee on 16 May 2006.

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. 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 2006 and considered the following:

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

**Attendance**

This meeting was attended by all members of the Committee who were then incumbent.

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 2006 were:

Peter Timms (Chairman)

Rachel Beagles\*

Malcolm Coubrough

Chris Jones

Maxwell Packe

\*Ms Beagles was appointed as a member of the Nomination Committee on 16 May 2006.

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

### Terms of Reference

The Company established the 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 for appointment 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 appointments to the Board;
- (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 2006 and considered the following:

- an evaluation of the balance of skills, knowledge and experience of the Board;
- the selection of suitable candidates to fill a vacancy on the Board; and
- arranging for selected candidates to be interviewed.

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

## Board Committees continued

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### **Attendance**

This meeting was attended by all members of the Committee who were then incumbent.

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

## Statement of Directors' Responsibilities

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The Directors are responsible for preparing accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the net return of the Company for that period, and are in accordance with applicable laws and regulations.

The Directors are satisfied that the Company has adequate resources to continue in business and accordingly that the accounts should be drawn up on a going concern basis. Further, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of these financial statements and applicable United Kingdom accounting standards have been followed.

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

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

The Directors believe that they have complied with these responsibilities.

## Independent Auditors' Report

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

We have audited the financial statements of Schroder UK Mid & Small Cap Fund plc for the year ended 30 September 2006 which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, Cash Flow Statement and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

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 and International Standards on Auditing (UK and Ireland).

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 and whether the information given in the directors' report is consistent with the financial statements.

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Directors and Advisers, Financial Highlights and Sector Analysis, Ten Year Record and Performance Analysis,

## Independent Auditors' Report continued

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Chairman Statement, Investment Manager's Review, List of Investments, Report of the Directors (incorporating the Business Review), the unaudited part of the Directors Remuneration Report, Corporate Governance, Board Committees, and a Statement of Directors' Responsibilities, Company Summary and Shareholder Information and Notice of Annual General Meeting. 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2006 and of its net return for the year then ended;
- 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; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP  
Registered Auditor  
London  
20 December 2006

## Income Statement

	Note	For the year ended 30 September 2006			For the year ended 30 September 2005		
		Revenue Return £'000	Capital Return £'000	Total Return £'000	Revenue Return £'000	Capital Return £'000	Total Return £'000
Gains on investments held at fair value	9	—	19,202	19,202	—	18,731	18,731
Income	2	1,720	—	1,720	1,434	—	1,434
Investment management fee	3/18	(77)	(691)	(768)	(63)	(568)	(631)
Performance fee		—	—	—	—	(484)	(484)
Administrative expenses	4	(336)	—	(336)	(332)	—	(332)
<b>Net return before finance costs and taxation</b>		<b>1,307</b>	<b>18,511</b>	<b>19,818</b>	1,039	17,679	18,718
Finance costs	5/18	(26)	(233)	(259)	(27)	(244)	(271)
<b>Net return on ordinary activities before taxation</b>		<b>1,281</b>	<b>18,278</b>	<b>19,559</b>	1,012	17,435	18,447
Taxation on ordinary activities	6	—	—	—	—	—	—
<b>Net return on ordinary activities after taxation</b>							
<b>attributable to equity shareholders</b>		<b>1,281</b>	<b>18,278</b>	<b>19,559</b>	1,012	17,435	18,447
<b>Net return per ordinary share</b>	8	<b>3.48p</b>	<b>49.65p</b>	<b>53.13p</b>	2.75p	47.35p	50.10p

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

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

## Reconciliation of Movements in Shareholders' Funds

For the year ended 30 September 2005

	Share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Merger reserve £'000	Share purchase reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 September 2004								
– previously reported	9,206	50	13,971	2,184	17,095	8,483	62	51,051
Dividend accrued at 30 September 2004	—	—	—	—	—	—	736	736
Balance at 30 September 2004 – restated <sup>(a)</sup>	9,206	50	13,971	2,184	17,095	8,483	798	51,787
Net profit from operating activities	—	—	—	—	—	17,435	1,012	18,447
Dividends paid in respect of the year ended 30 September 2004	—	—	—	—	—	—	(736)	(736)
<b>Balance at 30 September 2005 as restated<sup>(a)</sup></b>	<b>9,206</b>	<b>50</b>	<b>13,971</b>	<b>2,184</b>	<b>17,095</b>	<b>25,918</b>	<b>1,074</b>	<b>69,498</b>

For the year ended 30 September 2006

	Share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Merger reserve £'000	Share purchase reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 30 September 2005								
– previously reported	9,206	50	13,971	2,184	17,095	25,918	245	68,669
Dividend accrued at 30 September 2005	—	—	—	—	—	—	829	829
Balance at 30 September 2005 – restated <sup>(a)</sup>	9,206	50	13,971	2,184	17,095	25,918	1,074	69,498
Less investment valuation changes <sup>(b)</sup>	—	—	—	—	—	(27)	—	(27)
Net profit from operating activities	—	—	—	—	—	18,278	1,281	19,559
Dividends paid in respect of the year ended 30 September 2005	—	—	—	—	—	—	(829)	(829)
Share buy back	(19)	19	—	—	(146)	—	—	(146)
<b>Balance at 30 September 2006</b>	<b>9,187</b>	<b>69</b>	<b>13,971</b>	<b>2,184</b>	<b>16,949</b>	<b>44,169</b>	<b>1,526</b>	<b>88,055</b>

<sup>(a)</sup> The balance of revenue reserve at 30 September 2005 has increased by £829,000 (2004: £736,000) being the final dividend accrued and now added back in accordance with FRS 21.

<sup>(b)</sup> Mid to bid adjustment for portfolio valuation as at 30 September 2005 in accordance with FRS 26.

The notes on pages 39 to 48 form an integral part of these financial statements.

## Balance Sheet

As at 30 September

	Note	2006 £'000	(Restated) 2005 £'000
<b>Fixed assets</b>			
<b>Investments</b>	<b>9</b>		
Listed investments held at fair value through profit or loss		90,023	73,894
Unlisted investments held at fair value through profit or loss		—	146
		<b>90,023</b>	<b>74,040</b>
<b>Current assets</b>			
Debtors	<b>10</b>	<b>118</b>	1,546
Cash at bank		<b>3,480</b>	89
		<b>3,598</b>	1,635
<b>Creditors: amounts falling due within one year</b>	<b>11</b>	<b>(5,566)</b>	(6,177)
<b>Net current liabilities</b>		<b>(1,968)</b>	(4,542)
<b>Net assets</b>		<b>88,055</b>	69,498
<b>Capital and reserves</b>			
Called up share capital	<b>13</b>	<b>9,187</b>	9,206
Capital redemption reserve	<b>14</b>	<b>69</b>	50
Share premium account	<b>15</b>	<b>13,971</b>	13,971
Merger reserve	<b>16</b>	<b>2,184</b>	2,184
Share purchase reserve	<b>17</b>	<b>16,949</b>	17,095
Capital reserves	<b>18</b>	<b>44,169</b>	25,918
Revenue reserve	<b>19</b>	<b>1,526</b>	1,074
<b>Total equity shareholders' funds</b>		<b>88,055</b>	69,498
<b>Net asset value per ordinary share</b>	<b>20</b>	<b>239.61p</b>	188.73p

The financial statements were approved by the Board of Directors on 20 December 2006 and signed on behalf of the Board by:

**P Timms**

**M Packe**

Directors

The notes on pages 39 to 48 form an integral part of these financial statements.

## Cash Flow Statement

	Note	For the year ended 30 September 2006		For the year ended 30 September 2005	
		£'000	£'000	£'000	£'000
<b>Operating activities</b>					
Income received		1,754		1,414	
Administrative expenses paid		(334)		(325)	
Investment management fee paid		(742)		(588)	
Performance fee paid		(484)		(217)	
<b>Net cash inflow from operating activities</b>	<b>21</b>	<b>194</b>			<b>284</b>
<b>Returns on investments and servicing of finance</b>					
Interest paid		(304)		(273)	
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(304)</b>			<b>(273)</b>
<b>Taxation</b>					
Tax paid		—		—	
<b>Total tax paid</b>		<b>—</b>			<b>—</b>
<b>Financial Investment</b>					
Purchase of investments		(28,692)		(30,659)	
Sale of investments		33,168		31,132	
<b>Net cash inflow from financial investment</b>		<b>4,476</b>			<b>473</b>
<b>Equity dividends paid</b>		<b>(829)</b>			<b>(736)</b>
<b>Net cash inflow/(outflow) before financing</b>		<b>3,537</b>			<b>(252)</b>
<b>Financing</b>					
Purchase of shares for cancellation		(146)		—	
<b>Net cash outflow from financing</b>		<b>(146)</b>			<b>—</b>
<b>Net cash inflow/(outflow)</b>		<b>3,391</b>			<b>(252)</b>

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

	For the year ended 30 September 2006		For the year ended 30 September 2005	
		£'000		£'000
Net cash inflow/(outflow)		3,391		(252)
Change in net debt		3,391		(252)
Net debt brought forward		(4,911)		(4,659)
<b>Net debt carried forward</b>		<b>(1,520)</b>		<b>(4,911)</b>

The notes on pages 39 to 48 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 in accordance with the Companies Act 1985 and United Kingdom Generally Accepted Accounting Practice (UK GAAP) issued by the Accounting Standards Board (ASB) and the Statement of Recommended Practice “Financial Statement of Investment Trust Companies (“SORP”) issued in January 2003 and revised in December 2005. They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The ASB has implemented a convergence programme with International Financial Reporting Standards and as part of this project, has introduced a number of new and revised Accounting Standards which have been adopted in these accounts and for which details are given below.

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

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

FRS 26 (Financial instruments: Measurement) – The Company has designated its assets as being measured at “fair value through profit or loss” The fair value of listed investments is deemed to be the bid value of those investments at the close of business on the relevant date. Previously, listed investments were valued at mid value. Unlisted investments are included at fair value. Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as “Gains or losses on investments held at fair value through profit or loss.” Transaction costs, which include broker commissions, have been included within the capital reserve. The Company has taken advantage of the exemption under 108(d) of FRS 26 and not restated the results for the year to 30 September 2005.

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

FRS 21 (Events after the Balance Sheet Date) – Dividends paid by the Company are recognised in the Reconciliation of Movements in Shareholders’ Funds in the period in which the Company is liable to pay them. Previously the Company accrued dividends in the period in which the net revenue, to which those dividends related was accounted for. The accounts for the year ended 30 September 2005 and 30 September 2004 have been restated to reflect these changes and the impact on current and prior years is shown in note 24.

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

- b **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.
- c **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 entirely to the capital return as they are primarily attributable to the Capital Performance of the Company’s Investments.
- d **Taxation** Deferred tax is provided in accordance with FRS19 on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that it is more likely than not that they are receivable.
- e **Capital reserve – realised**  
The following are accounted for in this reserve:
- gains on losses on the realisation of investments
  - realised foreign exchange differences of a capital nature
  - other capital charges and credits charged or credited to this account in accordance with the above policies.

## Notes to the Accounts continued

### 1 Accounting policies continued

#### Capital reserve – unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end
- unrealised foreign exchange differences of a capital nature.

The Company has taken advantage of the exemption under 108(d) of FRS 26 and not restated the results for the year to 30 September 2005. There was a difference of £27,000 between the mid and bid valuation as at 30 September 2005.

### 2 Income

	For the year ended 30 September 2006 £'000	For the year ended 30 September 2005 £'000
UK dividend income	1,661	1,400
Interest receivable and similar income	59	34
	<b>1,720</b>	<b>1,434</b>

### 3 Investment management fee

	For the year ended 30 September 2006 £'000	For the year ended 30 September 2005 £'000
Investment management fee		
— charged to revenue	66	54
— irrecoverable VAT	11	9
— charged to capital (note 18)	589	483
— irrecoverable VAT	102	85
	<b>768</b>	<b>631</b>

The basis for calculating the investment management fee is set out in the Report of the Directors on page 19.

For the year ended 30 September 2006 no performance fee was payable (2005: £412,000 plus VAT).

### 4 Administrative expenses

	For the year ended 30 September 2006 £'000	For the year ended 30 September 2005 £'000
Directors' fees	73	65
Auditors' remuneration:		
— audit	16	14
— other services*	20	3
Secretarial fees	94	90
General expenses	133	160
	<b>336</b>	<b>332</b>

\* Other services provided by the Company's Auditors are for tax compliance services, interim review and the liquidation of the subsidiary.

## Notes to the Accounts continued

### 5 Finance costs

	For the year ended 30 September 2006 £'000	For the year ended 30 September 2005 £'000
Interest payable and other finance costs		
— charged to revenue	26	27
— charged to capital	233	244
	<b>259</b>	271

### 6 Taxation

The Company has no corporation tax liability in the year to 30 September 2006 (2005: £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% (2005: 30%). The differences are explained below:

	For the year ended 30 September 2006 £'000	For the year ended 30 September 2005 £'000
<b>Factors affecting tax charge for the year</b>		
Revenue return on ordinary activities before tax	1,281	1,012
UK corporation tax at 30%	384	304
Tax effects of:		
UK dividends not chargeable to corporation tax	(498)	(420)
Revenue expenses not utilised in the year	114	116
<b>Total current taxation</b>	<b>—</b>	<b>—</b>

#### (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 £10,706,000 (2005: £9,394,000) 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.

## Notes to the Accounts continued

## 7 Dividends

	For the year ended 30 September 2006 £'000	For the year ended 30 September 2005 £'000
Amounts recognised as distributions in the period		
Final Dividend of prior year of 2.25p (2004: 2.00p)	829	736

The dividend of 2.25p (2004: 2.00p) is based on 36,823,690 (2005: 36,823,690) ordinary shares in issue.

The total dividend payable in respect of the financial year and which will be taken into account in determining the amount of net revenue retained under the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered, is set out below:

	For the year ended 30 September 2006 £'000	For the year ended 30 September 2005 £'000
Final Dividend 2.85p (2005: 2.25p)	1,047	829

The proposed dividend for the year is based on 36,748,690 (2005: 36,823,690) ordinary shares in issue. The dividend has not been accrued for in the accounts in accordance with the requirements of FRS 21.

## 8 Return per ordinary share

	For the year ended 30 September 2006			For the year ended 30 September 2005		
	Revenue	Capital	Total	Revenue	Capital	Total
Return per ordinary share	3.48p	49.65p	53.13p	2.75p	47.35p	50.10p

The basic revenue return per ordinary share is based on the net revenue return on ordinary activities after interest payable and taxation of £1,281,000 (2005: return of £1,012,000) and on 36,811,772 (2005: 36,823,690) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The basic capital return per ordinary share is based on the net capital return for the year of £18,278,000 (2005: return of £17,435,000) and on 36,811,772 (2005: 36,823,690) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The basic total return per ordinary share is based on the total net return for the year of £19,559,000 (2005: return of £18,447,000) and on 36,811,772 (2005: 36,823,690) ordinary shares being the weighted average number of ordinary shares in issue during the year.

## 9 Investments

	2006	2006	2006	2005	2005	2005
	Listed £'000	Unlisted £'000	Total £'000	Listed £'000	Unlisted £'000	Total £'000
Opening book cost	55,184	117	55,301	50,952	117	51,069
Opening unrealised gains	18,710	29	18,739	5,158	(38)	5,120
Opening valuation	73,894	146	74,040	56,110	79	56,189
Investment valuation adjustment (see note 1a)	(27)	—	(27)	—	—	—
Purchases at cost	28,611	—	28,611	30,776	—	30,776
Sales proceeds	(31,570)	(233)	(31,803)	(31,656)	—	(31,656)
Realised gains for the year	2,043	87	2,130	3,791	—	3,791
Unrealised gains for the year	17,072	—	17,072	14,873	67	14,940
Closing valuation	90,023	—	90,023	73,894	146	74,040
Closing book cost	62,643	—	62,643	55,184	117	55,301
Closing unrealised gain	27,380	—	27,380	18,710	29	18,739
Closing valuation	90,023	—	90,023	73,894	146	74,040

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

Transaction costs which include stamp duty and broker commissions have been included within the capital account. Purchase transaction costs for the year to 30 September 2006 amounted to £176,000 and sales transaction costs amounted to £50,000.

## Notes to the Accounts continued

	For the year ended 30 September 2006 £'000	For the year ended 30 September 2005 £'000
<b>Gains on investments</b>		
Realised gains based on historical cost	10,534	5,112
Less: amounts recognised as unrealised in previous years (note 18)	(8,404)	(1,321)
Realised gains based on carrying value at previous balance sheet date	2,130	3,791
Net movement in unrealised	17,072	14,940
Gains on investments	19,202	18,731

**10 Debtors**

	2006 £'000	2005 £'000
Amounts due within one year:		
Sales for future settlement	—	1,393
Prepayments and accrued income	118	153
	118	1,546

**11 Creditors**

	2006 £'000	Restated 2005 £'000
Amounts falling due within one year:		
Purchases for future settlement	247	328
Amounts due to subsidiary undertaking*	—	28
Loan facility	5,000	5,000
Other creditors and accruals	319	821
	5,566	6,177

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 2006 and 2005 and the amounts drawn down were £5,000,000 at each year end.

\* The Company's wholly owned subsidiary Mid-Small Ark plc was liquidated during the year and was dissolved from the Registrar of Companies on 13 October 2006.

**12 Contingent liabilities**

The Company had no contingent liabilities at the balance sheet date (2005: £Nil).

## Notes to the Accounts continued

**13 Share capital**

	2006 £'000	2005 £'000
Authorised:		
42,000,000 ordinary shares of 25p each (2005: 42,000,000 of 25p each)	10,500	10,500
Allotted, Called Up and Fully Paid:		
Opening balance of 36,823,690 ordinary shares (2005: 36,823,690) of 25p each	9,206	9,206
Buy back of 75,000 shares	(19)	—
Closing balance of 36,748,690 ordinary shares (2005: 36,823,690) of 25p each	9,187	9,206

**14 Capital redemption reserve**

	2006 £'000	2005 £'000
Capital redemption reserve brought forward	50	50
Buy back of 75,000 shares	19	—
Capital redemption reserve carried forward	69	50

**15 Share premium account**

	2006 £'000	2005 £'000
Share premium account brought and carried forward	13,971	13,971

**16 Merger reserve**

	2006 £'000	2005 £'000
Merger reserve brought and carried forward	2,184	2,184

**17 Share purchase reserve**

	2006 £'000	2005 £'000
Share purchase reserve brought forward	17,095	17,095
Buy back of 75,000 shares	(146)	—
Share purchase reserve carried forward	16,949	17,095

**18 Capital reserves**

	Realised £'000	Unrealised £'000	Total £'000
Balance brought forward	7,179	18,739	25,918
Mid to bid adjustment for portfolio valuation as at 30 September 2005	—	(27)	(27)
Transfer on disposal of investments	8,404	(8,404)	—
Unrealised gains on investments	—	17,072	17,072
Realised gains on investments sold	2,130	—	2,130
Investment management fee	(589)	—	(589)
Irrecoverable VAT on investment management fee	(102)	—	(102)
Finance costs	(233)	—	(233)
<b>Balance carried forward</b>	<b>16,789</b>	<b>27,380</b>	<b>44,169</b>

## Notes to the Accounts continued

**19 Revenue reserve**

	2006 £'000	Restated 2005 £'000
Revenue reserve brought forward	1,074	798
Transfer to revenue account	452	276
<b>Revenue reserve carried forward</b>	<b>1,526</b>	1,074

**20 Net asset value per ordinary share**

	2006	Restated 2005
Net asset value per ordinary share	<b>239.61p</b>	188.73p

The net asset value per ordinary share is based on the net assets attributable to ordinary shares of £88,055,000 (2005: £69,498,000 restated) and on 36,748,690 shares in issue at 30 September 2006 (2005: 36,823,690).

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

	For the year ended 30 September 2006 £'000	For the year ended 30 September 2005 £'000
Net return before finance costs and taxation	19,818	18,718
Gains on investments held at fair value	(19,202)	(18,731)
Movements in accrued income	33	(1)
Movements in debtors	2	1
Movements in creditors	(457)	316
Stock dividend	—	(19)
<b>Net cash inflow from operating activities</b>	<b>194</b>	284

**22 Analysis of changes in net debt**

	At 1 October 2005 £'000	Cash flows £'000	At 30 September 2006 £'000	At 1 October 2004 £'000	Cash flows £'000	At 30 September 2005 £'000
Cash at bank	89	3,391	3,480	341	(252)	89
Debt due within one year	(5,000)	—	(5,000)	(5,000)	—	(5,000)
<b>Net debt</b>	<b>(4,911)</b>	<b>3,391</b>	<b>(1,520)</b>	(4,659)	(252)	(4,911)

**23 Related party transactions**

The Company has appointed Schroder Investment Management Limited ("SIM"), a wholly owned subsidiary of Schroders plc, to provide investment management, accounting and administrative services. Details of the management fee arrangements for these services are given in the Directors' Report on pages 18 and 19. The total fees payable under this agreement to SIM in respect of the year ended 30 September 2006 was £768,000 including VAT (2005: £1,115,000), of which £200,000 was outstanding at the year end (2005: £658,000).

SIM is also Company Secretary. Details of the fee arrangements for these services are given in the Directors' Report on page 19. The total secretarial fees payable to SIM in respect of the year ended 30 September 2006 was £94,000 including VAT (2005: £90,000), of which £24,000 was outstanding at the year end (2005: £45,000). 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 2006 was £4,000 (2005: £4,000).

During the year banking facilities were provided by Schroder & Co Limited. At 30 September 2006, the balance held at Schroder & Co Limited was £4,000 (2005: £14,000).

## Notes to the Accounts continued

## 24 Restatement of Balances

## 24a Balance Sheet

	Previously reported 30 September 2004 £'000s	Adjustment £'000s	Restated 30 September 2004 £'000s
<b>Fixed Assets</b>			
Listed investments held at fair value through profit or loss	56,110		56,110
Unlisted investments held at fair value through profit or loss	79		79
	56,189		56,189
<b>Current assets</b>			
Debtors	1,022		1,022
Cash at bank	341		341
	1,363		1,363
<b>Creditors: amounts falling due within one year</b>	(6,501)	736	(5,765) <sup>(a)</sup>
<b>Net current liabilities</b>	(5,138)	736	(4,402)
<b>Net assets</b>	51,051	736	51,787
<b>Capital and reserves</b>			
Called up share capital	9,206		9,206
Capital redemption reserve	50		50
Share premium account	13,971		13,971
Merger reserve	2,184		2,184
Share purchase reserve	17,095		17,095
Capital reserves	8,483		8,483
Revenue reserve	62	736	798 <sup>(a)</sup>
<b>Total equity shareholders' funds</b>	51,051	736	51,787
<b>Net asset value per ordinary share</b>	138.64p	2.00p	140.64p

<sup>(a)</sup> Effect of recognising dividends in the period in which the company is liable to pay them (see note 1a)

## Notes to the Accounts continued

## 24b Balance Sheet

	Previously reported 30 September 2005 £'000s	Adjustment £'000s	Restated 30 September 2005 £'000s
<b>Fixed Assets</b>			
Listed investments held at fair value through profit or loss	73,894	—	73,894
Unlisted investments held at fair value through profit or loss	146	—	146
	74,040	—	74,040
<b>Current assets</b>			
Debtors	1,546	—	1,546
Cash at bank and short term deposits	89	—	89
	1,635	—	1,635
<b>Creditors: amounts falling due within one year</b>	(7,006)	829	(6,177) <sup>(a)</sup>
<b>Net current liabilities</b>	(5,371)	829	(4,542)
<b>Net assets</b>	68,669	829	69,498
<b>Capital and reserves</b>			
Called up share capital	9,206	—	9,206
Capital redemption reserve	50	—	50
Share premium account	13,971	—	13,971
Merger reserve	2,184	—	2,184
Share purchase reserve	17,095	—	17,095
Capital reserves	25,918	—	25,918
Revenue reserve	245	829	1,074 <sup>(a)</sup>
<b>Total equity shareholders' funds</b>	68,669	829	69,498
<b>Net asset value per ordinary share</b>	186.48p	2.25p	188.73p

<sup>(a)</sup> Effect of recognising dividends in the period in which the company is liable to pay them (see note 1a)

## 25 Risk

The following disclosures are provided in accordance with Financial Reporting Standard 25, "Financial instruments: disclosure and presentation".

## Financial instruments and risk profile

The Company's investment objective is to invest in Mid and 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.

## Notes to the Accounts continued

### 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 9 to 13. The Company's investments are valued in accordance with the Company's accounting policies as disclosed on page 39. 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. The company maintains a well diversified portfolio of investments to minimise the specific market price risk of individual investments. At 30 September 2006, a 10% movement in the market value of the Company's investments would result in a 10% change in net asset value per share.

### Liquidity Risk

The vast majority of the Company's investments are listed on the London Stock Exchange and should, in most circumstances, be readily realisable. However the Company does, in accordance with its mandate, invest in the securities of smaller companies. The liquidity in such securities can, at times, become constrained and they will generally not be as easy to realise as larger "blue chip" securities. The Company seeks to mitigate this risk by having a diverse portfolio and not establishing unduly large positions in the securities of any one company.

### 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 2006, 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 2006				At 30 September 2005			
	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Weighted average interest rate %	Weighted average period for which rate is fixed	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Weighted average interest rate %	Weighted average period for which rate is fixed
Loan	5,000	—	5.12	26 days	5,000	—	5.17	90 days

## Company Summary and Shareholder Information

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### The Company

Schroder UK Mid & Small Cap Fund plc was established in April 1983 under the name of Murray Technology Investments plc, and Schroder Investment Management Limited took over management in May 2003, when the name was changed to Schroder UK Mid & Small Cap Fund plc. It is an investment trust with ordinary shares that are listed on the London Stock Exchange. It is one of a number of investment trusts managed and administered by Schroders.

### Investment Objective

The Company's investment objective is 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.

### Duration

It is not intended that the Company should have a limited life and the Articles of Association do not contain any provision for the review of the future of the Company at specified intervals.

### Share Price and Net Asset Value Information

The Company's shares are listed on the London Stock Exchange under the Code SCF. The price of its shares is quoted daily in The Financial Times, The Daily Telegraph and The Times.

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

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

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

Capital gains on shares disposed of by individuals may be eligible for taper relief. The taper reduces the amount of a chargeable gain according to how long the asset has been held for periods after 5 April 1998. Where shares were acquired before 6 April 1998, the gain will also be reduced by indexation allowance for the period up to April 1998, but not thereafter.

## Investing in Schroder UK & Mid Small Cap Fund plc

### Schroder Investment Trust Dealing Service

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

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

Other investment trusts which are available through this service are Schroder AsiaPacific Fund plc, Schroder Income Growth Fund plc, Schroder 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.

### Registrar Services

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to registered shareholdings, including a change of address or other amendment should be directed to Lloyds TSB Registrars Scotland at PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ. The telephone number of Lloyds TSB Registrars is 0870 601 5366.

Lloyds TSB Registrars Scotland maintain a web-based enquiry service for shareholders. Currently the “Shareview” site (address below) contains information available on public registers. Shareholders will be invited to enter their name, shareholder reference (account number) and post code and will be able to view information on their own holding.

Visit [www.shareview.co.uk](http://www.shareview.co.uk) for more details.

## Notice of Meeting

Notice is hereby given that the twenty-fifth Annual General Meeting of Schroder UK Mid & Small Cap Fund plc will be held at 12.00 noon on Monday 22 January 2007 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:–

### Ordinary Resolutions

1. To receive the Report of the Directors and the audited Accounts for the year ended 30 September 2006.
2. To approve a Final Dividend of 2.85 pence per share for the year ended 30 September 2006.
3. To approve the Directors' Remuneration Report for the year ended 30 September 2006.
4. To elect Ms Rachel Beagles as a Director of the Company.
5. To re-elect Mr Peter Timms as a Director of the Company.
6. To re-elect Mr Chris Jones as a Director of the Company.
7. To re-elect Mr Malcolm Coubrough as a Director of the Company.
8. To re-elect Mr Maxwell Packe as a Director of the Company.
9. To re-appoint Ernst & Young LLP as Auditors of the Company and to authorise the Directors to fix their 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 £459,358 (representing 5 per cent. of the aggregate nominal amount of the share capital in issue on 20 December 2006) 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.

### Special Resolutions

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 £459,358 (representing 5 per cent. of the aggregate nominal amount of the share capital in issue on 20 December 2006); 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 5,508,628 (equivalent to 14.99 per cent. of the share capital in issue on 20 December 2006);
  - (b) the minimum price which may be paid for a Share is 25p;

## Notice of Meeting continued

- (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;
- (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  
20 December 2006

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 5.00 pm on 19 January 2007 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 5.00 pm on 19 January 2007 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 election and 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.



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