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

**Report and Accounts
30 September 2007**



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.**

Contents**Page**

Directors and Advisers	2
Financial Highlights and Sector Analysis	3
Ten Year Record and Performance Analysis	4
Chairman's Statement	5
Investment Manager's Review	7
Portfolio of Investments	9
Report of the Directors (incorporating the Business Review)	13
Directors' Remuneration Report	19
Corporate Governance	21
Board Committees	26
Statement of Directors' Responsibilities	29
Independent Auditors' Report	30
Income Statement	32
Reconciliation of Movements in Shareholders' Funds	33
Balance Sheet	34
Cash Flow Statement	35
Notes to the Accounts	36
Company Summary and Shareholder Information	45
Investing in Schroder UK Mid & Small Cap Fund plc	46
Notice of Meeting	47

2008 Financial Calendar

29 January	Annual General Meeting
31 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 64) (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, 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 39)

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, Outward Housing, and Webface Technology Ventures Limited.

Malcolm Coubrough (Aged 61)

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 66)

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 comprise: 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 and Thompson Clive Investment plc.

Maxwell Packe FCA (Aged 62)

Maxwell Packe was appointed a non-executive Director of the Company in 1997. He is chairman of Personal Injury Medical Services and Close Enterprise VCT Limited.

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 6501

Registered Office

33 Bothwell Street
Glasgow G2 6NL

Custodian

JPMorgan Chase Bank
1 Chaseside
Bournemouth
Dorset BH7 7DA

Auditors

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

Registrar

Equiniti Limited
(formerly Lloyds TSB Registrars)
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Shareholder Helpline: 0870 601 5366

Bankers

Schroder & Co. Limited
31 Gresham Street
London EC2V 7QA
ING Bank N.V.
60 London Wall
London EC2M 5TQ

Solicitors

Tods Murray LLP
33 Bothwell Street
Glasgow G2 6NL

Stockbrokers

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

Financial Highlights

	30 September 2007	30 September 2006	Change %
Net asset value per share	278.30p	239.61p	+16.15
Share price	242.50p	209.50p	+15.75
Share price discount	12.9%	12.6%	–
FTSE All-Share, ex-Investment Companies, ex-FTSE 100, Total Return Index*	3,022.20	2,718.39	+11.18
Total assets ** (£'000)	105,852	93,055	+13.75
Borrowings (£'000)	5,000	5,000	–
Shareholders' Funds (£'000)	100,852	88,055	+14.53
Shares in issue ('000)	36,239	36,749	–
Dividends per share	4.11p	2.85p	+44.21
Total expense ratio (TER)***	1.07%	1.40%	–

* Source: Thomson Financial Datastream

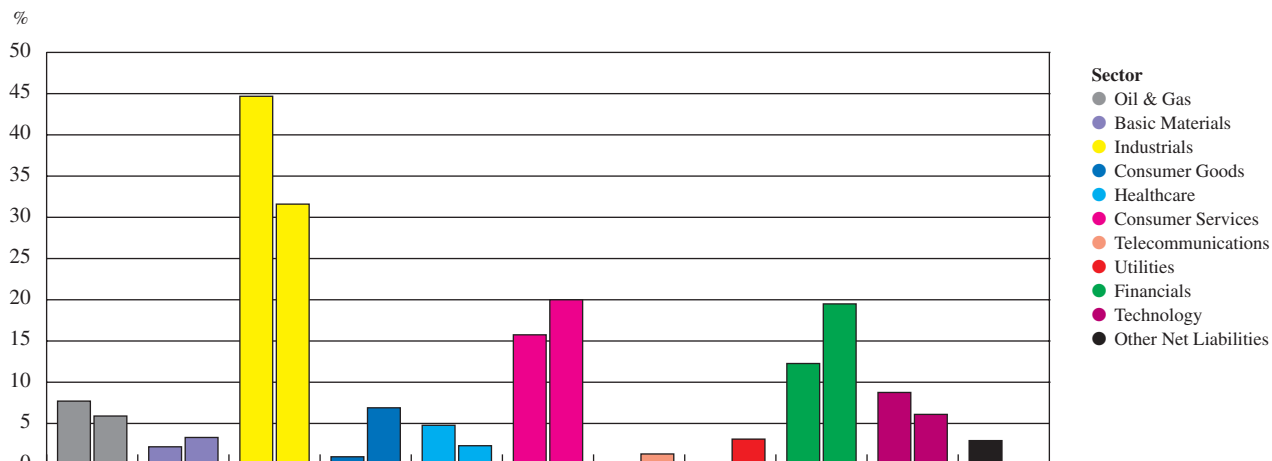
** Total assets less current liabilities (excluding short term borrowings)

*** Calculated in accordance with AIC guidance as total annualised net operating expenses after tax divided by average net assets during the year (excluding performance fee).

Sector Analysis

Comparison of the Portfolio Sector Distribution* with the FTSE All-Share, ex-Investment Companies, ex-FTSE 100, Total Return Index as at 30 September 2007

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



*Portfolio sector distributions are calculated as a percentage of total assets less current liabilities (excluding borrowings).

Ten Year Record

As at 30 September	Shareholders' funds £'000	Net asset value (NAV) per share** pence	Share price pence	Share price discount %
2007	100,852	278.3	242.5	12.9
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	18.4

* Restated to comply with the convergence of International Accounting Standards and UK GAAP.

** Lower of undiluted or diluted net assets per share. The warrants expired on 31 January 2002.

Ten Year Record

For the year ended 30 September	Revenue return per share pence	Net dividends pence	Cost of running trust† £'000
2007	5.0	4.11	1,241
2006	3.5	2.85	1,104
2005	2.8	2.25	963
2004	2.4	2.00	695
2003	(0.3)	–	743
2002	(0.6)	–	814
2001	2.7	3.10	944
2000	2.8	1.00	974
1999	2.6	3.10	463
1998	3.6	3.10	480

† Operating expenses excluding finance costs and performance fees.

Total Returns to 30 September 2007

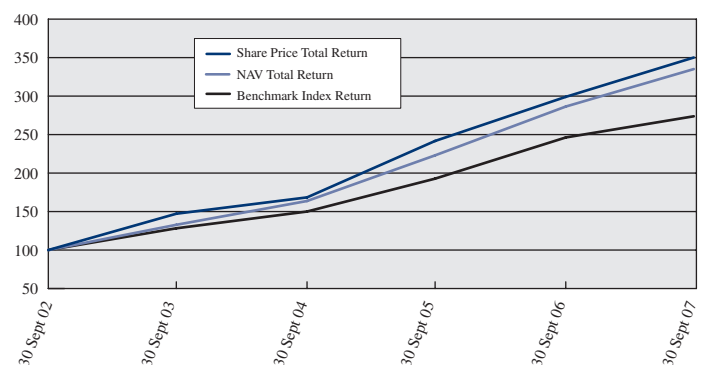
	Benchmark total return* %	NAV total return** %	Share price total return** %
1 year	11.2	17.0	17.1
2 years	42.1	50.3	44.9
3 years	82.5	104.7	107.9
4 years	113.5	152.3	137.8
5 years	173.8	235.2	250.1

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

** Source: Fundamental Data

Note: Schroder Investment Management Limited was appointed as Investment Manager on 1 May 2003.

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



Chairman's Statement

Performance

I am pleased to report on another positive year for your Company, with the net asset value again producing strong results following five years of growth in absolute terms. The net asset value produced a total return of 17.0% compared to a total return of 11.2% for the FTSE All-Share, ex Investment Companies, ex FTSE 100 Index during the year ended 30 September 2007. The share price increased by 15.75%, from 209.50 pence at the start of the year to 242.50 pence at 30 September 2007.

Over the period from 1 May 2003 (when Schroders took responsibility for the management of the portfolio) to 30 September 2007, the net asset value has produced a total return of 135.2%, compared to a total return of 73.8% for the FTSE All-Share, ex Investment Companies, ex FTSE 100 Index 2007 and 150.1% for the share price.

Dividends

Following the 26.6% increase in dividends last year, the income generated by the portfolio again significantly increased during the year. The Directors are therefore pleased to recommend the payment of a final dividend of 4.11 pence per share for the year ended 30 September 2007, representing an increase of 44.21% on the final dividend of 2.85 pence per share for the previous year.

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 31 January 2008 to shareholders on the register at 28 December 2007.

Gearing Facility

The Company renewed its £10 million revolving credit facility in April 2007 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 22 January 2007, the Company was granted authority to purchase up to 14.99% of its issued share capital for cancellation, of which a maximum of 10% could be held in treasury for later re-issue at a premium to net asset value. During the year ended 30 September 2007, the Directors purchased 510,000 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.

Directors' Fees

Following an annual review, the Board has agreed that fees to Directors should increase to £20,000 per annum, and that fees paid to the Chairman should increase to £25,000 per annum, to reflect current market rates. The fee increases will take effect from 1 October 2007.

Chairman's Statement continued

The total amount payable to Directors for the year ended 30 September 2008 will be £105,000. The Articles of Association of the Company currently restrict the aggregate fees which may be paid to Directors to £100,000 per annum. This cap has remained at the same level since 2005, since when an additional Board member has been appointed. An ordinary resolution will therefore be proposed at the forthcoming Annual General Meeting to increase the cap on the aggregate of all fees paid to Directors from £100,000 to £150,000. The Remuneration Report will continue to be submitted for approval by shareholders at each Annual General Meeting.

We believe that this increased cap amount will be sufficient to meet the requirements of the Board for the next few years.

Electronic Communications and Amendment to the Articles of Association

There have been a number of recent changes to company law and practice permitting the use of electronic communications as an alternative to traditional means of communication. We are therefore proposing to adopt revised Articles of Association which will allow the Company, where a shareholder agrees, to send certain information relating to the Company (e.g. notices, proxy forms and accounts) by electronic means or by placing this information on a website, but only if the shareholder has been sent notice that it is available in this way and not objected to the change.

Annual General Meeting

The Annual General Meeting will be held at 12.00 noon on Tuesday 29 January 2008, 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

12 November 2007

Investment Manager's Review

Investment Philosophy

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

Performance

Over the twelve months to 30 September 2007 the Company's net asset value on a total return basis increased by 17.0%. This compared to an 11.2% increase in the FTSE All-Share, ex Investment Companies, Ex FTSE 100, Total Return Index over the same period.

As in previous years, performance benefited from bid activity, with a trade bid for Dobbies Garden Centres by Tesco and a private equity bid for domestic appliance insurer Domestic & General. Companies exposed to infrastructure investment in the UK and overseas, such as consulting engineers WSP and WS Atkins, have benefited from strong underlying demand for their services. Similarly, companies servicing the oil and gas industry, such as Aveva and Wood Group, have been enjoying firm order books and strong pricing power. Meanwhile, Corin received FDA approval for the launch of its metal resurfacing hip replacement device in the US, and the shares more than doubled.

The principal detractors to performance have been various investments in the real estate sector which reacted negatively to the credit crunch over the summer. In addition, Imprint, a recruitment specialist, suffered from failed bid approaches, staff defections and concerns about future employment prospects in the financial services sector.

Market Background

The past twelve months have been a year of two halves in UK equity markets. The Mid 250 Index significantly outperformed other size indices in the early part of the year, with many bids and rumours of bids, particularly from private equity. However, there was a flight to liquidity over the summer, as fears about the extent of the US sub-prime mortgage crisis began to impact credit markets worldwide. The increase in three month inter-bank interest rates in the UK and worries about the off-balance sheet obligations of many financial institutions culminated in a run on deposits at Northern Rock. The banking and real estate sectors fell sharply and bid speculation evaporated. However, the oil price (Brent Crude) has moved up from US\$65 last autumn to nearly US\$90 today and other commodities have experienced similar price strength. The FTSE 100 Index has started to outperform medium and smaller companies in recent months. Reassuringly though, the contraction in credit markets has if anything enabled trade buyers to compete more effectively against private equity for assets, and there have been several bids recently.

Portfolio Update

New purchases in the past year have been focussed on the themes of infrastructure spending, oil production and food manufacture and retailing, all areas enjoying positive price inflation.

Investment Manager's Review continued

New investments have included Amec (oil and gas and power engineering), BSS (plumbing supplies), Charter (welding equipment, air and gas handling), Cranswick (pork based food manufacturing), Dana (oil and gas E&P co), Greggs (sandwich and savouries retailer), Hunting (marketing, transport and storage of oil and gas), IG Group (spread betting), Informa (provider of B2B information and exhibitions), Invensys (rail signalling equipment and process controls), Morgan Sindall (social housing construction, fit out specialist), and Travis Perkins (building supplies). Complete disposals have included Daily Mail and General Trust and Whitbread, upon promotion to the FTSE 100 Index, Dobbies Garden Centres, Domestic and General Group, Huntleigh Technology and Wilson Bowden on bids and Bovis Homes, Business Post, Easyjet, Investec and Savills on concerns about the UK housing market and the over indebted consumer. At 30 September 2007, 95% of the portfolio was invested in constituents of the benchmark. The Company has negligible gearing.

Outlook

Although UK interest rates now appear to have peaked, the impact of earlier rate rises will be felt over the next eighteen months as approximately 2 million households have to reset fixed rate mortgages. In addition, there is now likely to be a much more restrictive environment for obtaining new mortgages or consumer credit. Furthermore, basic food prices (milk, dairy, meat and bread) continue to rise, reflecting poor crop yields, competition for land from bio fuel producers, and an increased protein diet in developing countries. All these factors are also affecting the much larger US economy, and it is a concern that a downturn in their housing market is usually a precursor of recession.

On a more positive note, we expect private equity funds, which have raised substantial amounts of cash, to revisit targets in the middle market as paralysed debt markets prevent the completion of larger deals. There is also evidence that trade buyers are returning to M&A activity as share prices have fallen back.

Our investment philosophy leads us to seek out sectors of the UK market where demand outstrips supply and prices are rising. At present this leads us to invest in UK infrastructure spending, ahead of the 2012 Olympic Games, in food retailing and in the global provision of clean water, environmentally clean power and transport. We remain vigilant regarding a more widespread weakening of the US economy.

Schroder Investment Management Limited

12 November 2007

Portfolio of Investments

As at 30 September 2007

Company	Sector classification	Activity	Market value of holdings £'000	% of shareholders' funds
Babcock International	Support Services	Support services to defence, energy and transport sectors	2,294	2.27
Atkins (WS)	Support Services	Engineering consultancy and architectural services	2,226	2.21
Axon Group	Software & Computer Services	Implementation and support of SAP for global companies	2,079	2.06
John Wood Group	Oil Equipment & Services	International services to energy industries	1,978	1.96
AMEC	Support Services	International services to energy industries	1,913	1.90
Dechra Pharmaceuticals	Pharmaceuticals & Biotech.	Manufacturer of pharmaceutical products and distributor to veterinary industry	1,778	1.76
Laird Group	Electronic & Electrical Equip.	Design manufacture and supply of antennae, EMI and thermal shields to mobile device sector	1,777	1.76
Homeserve	Support Services	Provider of home emergency repair insurance coverage	1,727	1.71
Meggitt	Aerospace & Defence	Manufacturer of electronic instruments for aircraft	1,713	1.70
Greggs	Food & Drug Retailers	Retails sandwiches, savouries and other bakery-related products	1,680	1.67
Rotork	Industrial Engineering	Design, manufacture and support of valve actuators	1,667	1.65
Mitie Group	Support Services	Building and maintenance services	1,625	1.61
William Hill	Travel & Leisure	Fixed-odds bookmaking services and online casino	1,609	1.60
Fisher (James)	Industrial Transportation	Suppliers of maritime services	1,588	1.57
Halma	Electronic & Electrical Equip.	Manufacturer of safety products	1,575	1.56
Morgan Sindall	Construction & Materials	Specialist construction company	1,565	1.55
Aveva Group	Software & Computer Services	Process engineering software company	1,560	1.55
WSP Group	Support Services	Multi-disciplinary engineering consulting group	1,555	1.54
BPP Holdings	Support Services	Professional qualifications training and academic education	1,515	1.50
Quintain Estates & Development	Real Estate	Property investment and development company	1,478	1.47
Twenty Largest Investments			34,902	34.60

As at 30 September 2006, the twenty largest investments represented 34.64% of Shareholders' Funds.

Portfolio of Investments continued

As at 30 September 2007

Company	Sector classification	Activity	Market value of holdings £'000	% of shareholders' funds
Charter	Industrial Engineering	Manufactures welding consumables and air handling equipment	1,476	1.46
Carillion	Construction & Materials	Infrastructure, building and business services	1,418	1.41
Premier Oil	Oil & Gas Producers	Oil & gas exploration development and production	1,414	1.40
Findel	General Retailers	Home shopping and educational supplies	1,389	1.38
BSS Group	Support Services	Distributes heating, plumbing, and engineering products and services	1,376	1.36
Big Yellow Group REIT	Real Estate	Provision of self storage and related services	1,374	1.36
White Young Green	Support Services	Consulting engineers	1,362	1.35
Venture Production	Oil & Gas Producers	Acquisition and exploitation of North Sea oil + gas reserves	1,359	1.35
Speedy Hire	Support Services	Tool Hire services	1,351	1.34
Chloride Group	Electronic & Electrical Equip.	Power protection solutions provider	1,348	1.34
Grainger	Real Estate	Purchase, letting, management and refurbishment of tenanted property	1,341	1.33
McAlpine (Alfred)	Support Services	Builds and maintains a diverse range of facilities including schools, hospitals, airports and roads	1,339	1.33
Latchways	Support Services	Production, distribution and installation of industrial safety equipment	1,339	1.33
Shanks Group	Support Services	Provides integrated waste management and disposal services	1,338	1.33
IG Group Holdings	General Financial	Provides contracts for differences and spread betting on financial markets	1,326	1.31
Intermediate Capital Group	General Financial	Provider of mezzanine capital and manager of third party funds	1,307	1.30
Wilmington	Media	Provider of information to business markets and through various media	1,304	1.29
Elementis	Chemicals	Manufacture and sale of chromium chemicals, pigments and other chemicals	1,303	1.29
SIG	Support Services	Leading European distributor of insulation materials	1,299	1.29
Corin Group	Healthcare Equip & Services	Manufacture and marketing of orthopaedic devices	1,297	1.29
Wetherspoon (JD)	Travel & Leisure	Development and management of public houses	1,272	1.26
United Business Media	Media	Market research, news distribution and professional media	1,244	1.23
Informa	Media	Provides business information through magazines, newspapers and electronic media, conference organiser	1,243	1.23
Shaftesbury	Real Estate	Property owner and developer in London's West End	1,238	1.23
Expro International	Oil Equipment & Services	Provider of specialised services to oil and gas industry	1,229	1.22
Spirax-Sarco	Industrial Engineering	Manufacturer of fluid control products	1,225	1.21

Portfolio of Investments continued

As at 30 September 2007

Company	Sector classification	Activity	Market value of holdings £'000	% of shareholders' funds
Fidessa Group	Software & Computer Services	Supplies computer software products to customers in the financial trading systems market	1,225	1.21
Holidaybreak	Travel & Leisure	Provider of camping and short break holidays	1,224	1.21
Emap	Media	Media including magazines, television and radio stations	1,208	1.20
Local Shopping REIT	Real Estate	Property investment focused on local shops throughout the UK	1,198	1.19
Fifty Largest Investments			74,268	73.63
Dana Petroleum	Oil & Gas Producers	Oil and gas exploration and production	1,161	1.15
Inchcape	General Retailers	Imports, distributes, and retails motor vehicles	1,137	1.13
Rensburg	General Financial	Personal asset management and stockbroking services	1,113	1.10
Assetco	Support Services	Vehicle outsourcing for fire brigades	1,104	1.09
Diploma	Support Services	International distributor of specialist equipment	1,103	1.09
Invensys	Electronic & Electrical Equip.	Manufacturer of rail signalling equipment and industrial controls	1,084	1.07
Rathbone Bros	General Financial	Provides private banking, financial advisory and investment management services	1,041	1.03
Cranswick	Food Producers	Manufacturer of pork products	1,018	1.01
Hunting	Oil Equipment & Services	Provides oil and gas services	1,015	1.01
Domestic & General Group	Non-Life Insurance	Domestic appliance insurance services and related activities	999	0.99
Misys	Software & Computer Services	Develops and markets integrated software solutions to the financial and healthcare industries	995	0.99
Victrex	Chemicals	Manufacturer of speciality plastics	990	0.98
Balfour Beatty	Construction & Materials	Engineering and construction	948	0.94
RM	Software & Computer Services	Supplier of ICT software and services to schools	945	0.94
Dicom Group	Software & Computer Services	Provider of information capture and communications solutions	925	0.92
Morson Group	Support Services	Providers of temporary and permanent technical personnel	880	0.87
Cobham	Aerospace & Defence	Development and supply of aerospace and defence systems	872	0.86
Go-ahead Group	Travel & Leisure	Owner and operator of public transport services	835	0.83
Consort Medical	Healthcare Equip & Services	Manufacture and supply of medical devices to pharmaceutical industry	816	0.81
E2V Holdings	Electronic & Electrical Equip.	Manufactures high-technology electronic components	787	0.78
Majestic Wine	Food & Drug Retailers	Operator of wine warehouse chain	780	0.77

Portfolio of Investments continued

As at 30 September 2007

Company	Sector classification	Activity	Market value of holdings £'000	% of shareholders' funds
Travis Perkins	Support Services	Distributes products to the construction and building trade industries	772	0.77
Kesa Electricals	General Retailers	Retails consumer electronics	756	0.75
Alterian	Software & Computer Services	Global provider of database marketing technology	750	0.74
Eaga	Support Services	Provides energy efficient solutions	662	0.66
Whatman	Healthcare Equip & Services	International separations technology business	651	0.65
Hargreaves Lansdown	General Financial	Provides investment management and financial planning services	570	0.57
Imprint	Support Services	Provider of executive search and selection services	536	0.53
Chrysalis Group	Media	Music publisher	523	0.52
Nestor Healthcare	Healthcare Equip & Services	Provision of temporary healthcare personnel and services	519	0.51
Management Consulting Group	Support Services	Consultancy services offering operational improvements to its clients	491	0.49
System C Healthcare	Software & Computer Services	Design and implementation of computer systems for the healthcare market	453	0.45
Renishaw	Electronic & Electrical Equip.	Manufactures and sells high technology precision measuring and calibration equipment	333	0.33
Netplay TV	Media	Interactive gaming and gambling services	306	0.30
Euromoney Institutional Investor	Media	Distributes international financial news and information	168	0.17
CSR	Technology Hardware & Equip.	Designs and manufactures single-chip radio devices	152	0.15
Bango	Software & Computer Services	Provides technology for consumer purchases via internet on mobile telephones	114	0.11
I Mate	Technology Hardware & Equip.	Developer and supplier of high-end wireless integrated pocket pc	77	0.08
Innovision Research Tech	Electronic & Electrical Equip.	Integrated circuits for wireless connections	74	0.07
Pinnacle Staffing Group	Support Services	Providers of temporary healthcare staff	37	0.04
Ludgate 181 Jersey Ltd	Support Services	Venture capital investment fund	0	0.00
Total Investment Portfolio			102,760	101.88
Net Current Liabilities			(1,908)	(1.88)
Equity Shareholders' Funds			100,852	100.00

All investments were equity investments as at 30 September 2007.

Report of the Directors (incorporating the Business Review)

The Directors are pleased to present their Report and the Accounts of the Company for the year ended 30 September 2007.

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 purposes of Section 842 of the United Kingdom Income and Corporation Taxes Act 1988 (as amended). The last accounting period for which the Company has been approved as an investment trust by HM Revenue and Customs was for the year ended 30 September 2006. 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 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.

Investment Policy

In applying the investment objective, the Manager expects the Company to be fully invested and to borrow up to 25% of total assets when appropriate. In addition, in light of the amendments to the Listing Rules which came into force on 1 November 2003, the Company announced on 30 October 2003 that for the purposes of Listing Rule 21.9(1) its investment policy is to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

The Manager has 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 the Manager, carrying out its own research with numerous company contacts. When analysing stocks, it looks for companies with strong management teams with a proven record, good future prospects and a strong business franchise within their markets.

Spread of Investment Risk

Risk in relation to the Company's investments is spread as a result of the Manager monitoring the Company's portfolio on an on-going basis with a view to ensuring that the portfolio retains an appropriate balance to meet the Company's investment objective. The Portfolio of Investments on pages 9 to 12 demonstrates that, as at 31 August 2007, the Manager held 91 investments spread over several sectors. The Board therefore believes that the objective of spreading risk has been achieved in this way.

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.

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.

Report of the Directors continued

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 2007, the Company achieved a total return on net asset value of 17.0% compared to a total return of 11.2% for the benchmark. Charts comparing the Portfolio's sector distribution with the benchmark as at 30 September 2007 and the Company's five-year performance record, 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. 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. During the year under review, a total of 510,000 shares were purchased for cancellation. These guidelines are updated as considered necessary.

At 30 September 2007, the Company's share price stood at a discount of 12.9% to net asset value. During the year under review, the discount reached a high of 15% and a low of 7%.

Control of Total Expenses

The Board has adopted a third KPI which assists in keeping the total expense ratio ("TER") of the Company under review.

An analysis of all costs, including management fees, Directors' fees and general expenses, is submitted to each Board meeting. The 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 service providers including bankers, auditors, insurance providers and printers are also reviewed annually.

The TER for the Company for the year to 30 September 2007 (calculated in accordance with AIC guidance as total annualised net operating expenses after tax divided by average net assets during the year) was 1.07% (excluding performance fee) (2006: 1.40%).

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'

Report of the Directors continued

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 was drawn down at the year-end. On 18 December 2007, £5 million was repaid and the facility is currently undrawn. In falling markets, any reduction in net asset value and share price is amplified by the gearing. The Directors keep the Company's gearing strategy 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 legislation or regulation such as the Companies Acts 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 pages 17 and 18.

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 return for the year, after finance costs and taxation, was £15,155,000 (2006: £19,559,000).

The net revenue return for the year, after finance costs and taxation, was £1,817,000 (2006: £1,281,000), equivalent to a revenue return per ordinary share of 4.97p (2006: 3.48p).

For the year ended 30 September 2007, the Directors have recommended a final dividend of 4.11p per share (2006: 2.85p). The dividend, if approved, will not be accounted for until it is paid.

Report of the Directors continued

Net Asset Value

During the year under review, the net asset value per share of the Company rose to 278.30p per share from 239.61p per share.

Directors

The Directors of the Company and their beneficial and family interests in the Company's share capital at the beginning and end of the financial year ended 30 September 2007 were as follows:

Director	Ordinary Shares of 25p each at 30 September 2007	Ordinary Shares of 25p each at 1 October 2006
Peter Timms	10,000	10,000
Rachel Beagles	5,717	5,717
Malcom Coubrough	1,725	1,725
Chris Jones	10,000	10,000
Maxwell Packe	40,660	40,660

There have been no changes in the above holdings between the financial year end and the date of this report.

In accordance with the Company's Articles of Association and the Company's policy on tenure, outlined in the Corporate Governance statement on page 22, Mr Coubrough and Mr Packe will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. In addition, in accordance with the Company's policy on tenure, Mr Jones and Mr Timms, who have both served on the Board for more than nine years, will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Board supports the re-elections of each of Mr Timms, Mr Coubrough, Mr Packe and Mr Jones who it considers continue to contribute valuable input to the deliberations of the Board and 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 the date of this Report, the Company has received notifications in accordance with the FSA's Disclosure and Transparency Rule 5.1.2R of the following interests in 3% or more of the voting rights attending to the Company's issued share capital.

	Number of ordinary shares held	Percentage of total voting rights
Barclays Plc	3,676,470	10.1%
HBOS Plc	3,015,718	8.3%

Purchase of Shares for Cancellation

The total number of shares in issue on 21 December 2007 was 36,238,690. At the Annual General Meeting held on 22 January 2007, an authority for the Directors to purchase up to 14.99% of the issued share capital of the Company for cancellation was renewed by shareholders. The Company purchased 510,000 ordinary shares for cancellation during the year under review and 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% of the share capital in issue on 21 December 2007 will be proposed at the forthcoming Annual General Meeting for which notice is given on pages 47 and 48.

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

Report of the Directors continued

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 2009 unless renewed earlier.

Treasury Shares

The Company is also permitted to purchase up to 10% 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 Annual General Meeting held on 22 January 2007, the Directors were given the power to allot new ordinary shares for cash. Whilst these powers were not exercised during the year, the Directors wish to renew them at the forthcoming Annual General Meeting, notice of which is set out on pages 47 and 48.

The Directors intend to use this authority to issue new shares whenever they believe that to do so would be advantageous to both new investors and the Company's existing shareholders. 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 2009 unless renewed or revoked at an earlier date.

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 £905,967 (equivalent to 3,623,869 ordinary shares of 25p and 10% of the Company's existing issued ordinary share capital at 21 December 2007), as if Section 89(1) of the Companies Act 1985 did not apply. This authority will lapse at the conclusion of the Company's Annual General Meeting in 2009 unless renewed or revoked earlier.

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 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.

Report of the Directors continued

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% on assets up to and including £75 million, and 0.6% 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% of average monthly assets for each 1% out-performance of the benchmark (FTSE All-Share, ex Investment Companies, ex FTSE 100 Total Return Index) over and above 0.8%, to a maximum performance fee of 1% of average assets in any given year. For the year to 30 September 2007, a performance fee of £596,000 (including VAT) was payable under the terms of the agreement (2006: Nil).

Schroder Investment Management Limited also is entitled to a secretarial fee amounting to £96,000 (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 2007.

Auditors

The Company's 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 forthcoming Annual General Meeting.

The Audit Committee has approved a pre-approval policy on the engagement of the Auditors to supply non-audit services. During the year under review, the Auditors supplied tax services to the Company. Details may be found in note 5 on page 37.

Annual General Meeting

The Annual General Meeting will be held at 12.00 noon on Tuesday 29 January 2008. The Notice of Meeting is set out on pages 47 and 48.

By Order of the Board
Schroder Investment Management Limited
Company Secretary

Registered Office:
33 Bothwell Street
Glasgow G2 6NL

Registered in Scotland Number: 82551
21 December 2007

Directors' Remuneration Report for the year ended 30 September 2007

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. Following an annual review, the fees paid to Directors have been increased to £20,000 per annum and the fee paid to the Chairman to £25,000, with effect from 1 October 2007. An ordinary resolution is proposed at the Annual General Meeting pursuant to Article 80 of the Articles of Association to increase the maximum aggregate remuneration payable to Directors to £150,000 per annum.

No element of the Directors' remuneration is performance related.

No Director has a service contract with the Company.

No Director past or present has any entitlement to company pension arrangements, and the Company has not awarded any share options or long-term performance incentives to any of the Directors.

The Board believes that the principles set out 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 location of the Annual General Meeting for the duration of that 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, 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 2007 continued

Directors' Remuneration	For the year ended 30 September 2007	For the year ended
Director	£'000	30 September 2006 £'000
P K Timms	20	20
R Beagles*	15	8
M Coubrough	15	15
C Jones	15	15
M Packe	15	15
Total	80	73

*Mrs Beagles was appointed on 27 March 2006.

The information in the above table has been audited (see the Independent Auditors' Report on pages 30 and 31).

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

By Order of the Board

Schroder Investment Management Limited
Company Secretary
21 December 2007

Corporate Governance

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 2003 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 29, indicates how the Company has complied with the principles of good governance of the Code and its requirements on internal control.

Compliance Statement

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

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.

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 2007. 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. 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
P K Timms	4	3
R Beagles	4	4
M Coubrough	4	4
C Jones	4	4
M Packe	4	4

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

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 47 and 48 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 does, 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 29 and a statement of going concern is set out below. The independent auditors' report can be found on pages 30 and 31.

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, the Directors 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

the systems of internal control, including any whistleblowing policies where appropriate, adopted by the Investment Manager and other major service providers, and ensures regular communication of the results of monitoring by third parties to the Board, the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition. No significant control failings or weaknesses were identified during the course of the year and up to the date of this report, from the Board's continuing risk assessment.

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

Audit Committee

The members of the Committee as at 30 September 2007 were:

Maxwell Packe FCA (Chairman)

Rachel Beagles

Malcolm Coubrough

Chris Jones

Peter Timms

The Board considers each member of the Committee to be independent. The Board also considers that members of the Committee have recent and relevant financial experience.

Terms of Reference

The 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 at 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.

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

Board Committees continued**Report on the Committee's Activities**

To discharge its duties, the Committee met on two occasions during the year ended 30 September 2007 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;
- internal controls operating within the management company and the custodian; and
- whether an internal audit function for the Company is required.

Meeting Attendance

Both of the meetings held during the year ended 30 September 2007 were attended by all members of the Committee, with the exception of Mr Timms, who was unable to attend one meeting.

Management Engagement Committee

The members of the Committee as at 30 September 2007 were:

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

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

Terms of Reference

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.

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

Board Committees continued**Report on the Committee's Activities**

To discharge its duties, the Committee met on one occasion during the year ended 30 September 2007 and considered the following:

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

Meeting Attendance

This meeting was attended by all members of the Committee.

Nomination Committee

The members of the Committee as at 30 September 2007 were:

Peter Timms (Chairman)

Rachel Beagles

Malcolm Coubrough

Chris Jones

Maxwell Packe

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

Terms of Reference

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.

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

Report on the Committee's Activities and Meeting Attendance

The Committee did not have occasion to meet during the year ended 30 September 2007.

Statement of Directors' Responsibilities

The Directors are responsible for preparing accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period, and are in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Principles (UK GAAP).

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

The Directors at the date of approval of this report confirm that:

- (a) so far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- (b) each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provision of S234 ZA of the Companies Act 1985.

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

The Directors believe that they have complied with these responsibilities.

The financial statements are published on the www.schroders.co.uk 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.

Independent Auditors' Report

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 2007 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. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law 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 only Directors and Advisers, Financial Highlights and Sector Analysis, Ten Year Record and Performance Analysis, Chairman's Statement, Investment Manager's Review, Portfolio of Investments, Report of the

Independent Auditors' Report continued

Directors (incorporating the Business Review), Directors Remuneration Report, Corporate Governance, Board Committees, Statement of Directors' Responsibilities, Company Summary and Shareholder Information and Notice of 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 2007 and of its net return for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP
Registered Auditor
London
21 December 2007

Income Statement

	Note	For the year ended 30 September 2007			For the year ended 30 September 2006		
		Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000
Gains on investments held at fair value	2	–	14,692	14,692	–	19,202	19,202
Income	3	2,262	343	2,605	1,720	–	1,720
Investment management fee	4	(92)	(828)	(920)	(77)	(691)	(768)
Performance fee		–	(596)	(596)	–	–	–
Administrative expenses	5	(321)	–	(321)	(336)	–	(336)
Net return before finance costs and taxation		1,849	13,611	15,460	1,307	18,511	19,818
Interest payable and similar charges	6	(32)	(273)	(305)	(26)	(233)	(259)
Net return on ordinary activities before taxation		1,817	13,338	15,155	1,281	18,278	19,559
Taxation on ordinary activities	7	–	–	–	–	–	–
Net return attributable to equity shareholders		1,817	13,338	15,155	1,281	18,278	19,559
Net return per ordinary share	9	4.97p	36.48p	41.45p	3.48p	49.65p	53.13p

The Total column of this statement is the profit and loss account of the Company. The Revenue Return and Capital Return columns are both provided in accordance with guidance issued by the Association of Investment 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 and 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.

The notes on pages 36 to 44 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

	Note	Called up Share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Merger reserve £'000	Share purchase account £'000	Capital reserves £'000	Revenue reserve* £'000	Total £'000
At 30 September 2005		9,206	50	13,971	2,184	17,095	25,891	1,074	69,471
Net return on ordinary activities		–	–	–	–	–	18,278	1,281	19,559
Ordinary Dividend paid	8	–	–	–	–	–	–	(829)	(829)
Purchase of shares for cancellation		(19)	19	–	–	(146)	–	–	(146)
At 30 September 2006		9,187	69	13,971	2,184	16,949	44,169	1,526	88,055
At 30 September 2006		9,187	69	13,971	2,184	16,949	44,169	1,526	88,055
Net return on ordinary activities		–	–	–	–	–	13,338	1,817	15,155
Ordinary Dividend paid	8	–	–	–	–	–	–	(1,047)	(1,047)
Purchase of shares for cancellation		(127)	127	–	–	(1,311)	–	–	(1,311)
At 30 September 2007		9,060	196	13,971	2,184	15,638	57,507	2,296	100,852

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

Balance Sheet

	Note	At 30 September 2007 £'000	At 30 September 2006 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	102,760	90,023
		102,760	90,023
Current assets			
Debtors	11	1,736	118
Cash at bank and short-term deposits		2,495	3,480
		4,231	3,598
Current liabilities			
Creditors – amounts falling due within one year	12	(6,139)	(5,566)
Net current liabilities		(1,908)	(1,968)
Net assets		100,852	88,055
Capital and reserves			
Called-up share capital	14	9,060	9,187
Capital redemption reserve	15	196	69
Share premium account	16	13,971	13,971
Merger reserve	17	2,184	2,184
Share purchase reserve	18	15,638	16,949
Capital reserves	19	57,507	44,169
Revenue reserve	20	2,296	1,526
Equity shareholders' funds		100,852	88,055
Net asset value per ordinary share	21	278.30p	239.61p

The Accounts were approved by the Board of Directors and authorised for issue on 21 December 2007 and signed on behalf of the Board by:

Peter Timms
Director

The notes on pages 36 to 44 form an integral part of these accounts.

Cash Flow Statement

	Note	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Operating activities			
Dividends received from investments		2,471	1,704
Interest received on deposits		66	50
Other income		3	–
Investment management fee paid		(806)	(742)
Administrative expenses paid		(395)	(334)
Performance fee paid		–	(484)
Net cash inflow from operating activities	22	1,339	194
Servicing of finance			
Bank overdraft interest paid		(2)	(3)
Bank loan interest paid		(298)	(301)
Net cash outflow from servicing of finance		(300)	(304)
Investment activities			
Acquisition of investments		(39,435)	(28,692)
Disposal of investments		39,769	33,168
Net cash inflow from investment activities		334	4,476
Equity dividends paid			
Ordinary shares		(1,047)	(829)
Net cash inflow before financing		326	3,537
Financing			
Purchase of shares for cancellation		(1,311)	(146)
Net cash outflow from financing		(1,311)	(146)
Net cash (outflow)/inflow		(985)	3,391

Reconciliation of net cash flow to movement in net debt

		For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Net cash (outflow)/inflow		(985)	3,391
Net debt at 1 October		(1,520)	(4,911)
Net debt at 30 September	23	(2,505)	(1,520)

The notes on pages 36 to 44 form an integral part of these accounts.

Notes to the Accounts

1. Accounting Policies

The principal accounting policies have been applied consistently throughout the year ended 30 September 2007 and are set out below.

a Basis of Preparation

The accounts have been prepared in accordance with applicable UK Accounting Standards and with the Statement of Recommended Practice ("SORP") for "Financial Statements of Investment Trust Companies" issued in January 2003 and revised in December 2005 by the Association of Investment Companies (AIC).

b Income

Dividends receivable from equity shares are taken to the revenue return on an ex-dividend basis, except where in the opinion of the Directors the dividend is capital in nature, in which case it is taken to the capital return. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in the capital reserve.

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

c Expenses and interest payable

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

The investment management fee and finance costs on borrowings for investment purposes are apportioned 10% to the revenue return and 90% to the capital return. Performance fees are charged entirely to the capital return as they are primarily attributable to the Capital Performance of the Company's Investments.

All other expenses are charged through the revenue return except those expenses incidental to the acquisition or disposal of investments which are charged to capital return. This allocation is in accordance with the Board's expected long-term split of returns in the form of capital and income profits respectively.

d Investments

All investments are classified as held at fair value through profit or loss. They are initially recognised on the trade date and measured, then and subsequently, at fair value. Fair value is assumed to be the bid value of investments at the close of business on the relevant date.

Changes in fair value are included in the Income Statement as a capital item and are not distributable by way of a dividend.

e Taxation

Deferred tax is provided in full, using the liability method, on all taxable and deductible temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured, without discounting, at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

Due to the company's status as an investment trust company, and the intention to continue to meet the conditions required by section 842 of the Income and Corporation Taxes Act 1988 to obtain approval in the foreseeable future, the company has not provided for deferred tax on any capital gains and losses arising on the revaluation of investments, or current tax on any capital gains on the disposal of investments.

f Capital Reserve – Realised

The following are accounted for in this reserve:

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

Capital Reserve – Unrealised

The following are accounted for in this reserve:

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

2. Gains on investments held at fair value

	For the year ended 30 September 2007	For the year ended 30 September 2006
	£'000	£'000
Net profit on disposal of investments	14,924	10,534
Less: Amounts recognised as unrealised in previous years	(8,474)	(8,404)
Net realised profit based on carrying value at previous balance sheet date	6,450	2,130
Unrealised appreciation of investments arising during the year	8,242	17,072
	14,692	19,202

Notes to the Accounts continued

3. Income

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Income from investments:		
UK dividend income	2,195	1,661
	2,195	1,661
Interest on deposits	64	59
Underwriting commission	3	–
	2,262	1,720
Capital:		
UK special dividend income taken to capital	343	–

4. Investment management fee

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Management fee		
– charged to revenue	78	66
– irrecoverable VAT	14	11
– charged to capital	705	589
– irrecoverable VAT	123	102
	920	768

Until now, UK investment trusts have had to pay UK value added tax (VAT) on the investment management fees paid to their investment managers. As the result of a legal action brought against HM Revenue & Customs (HMRC) it has recently been resolved by the European Court that investment management fees paid to investment managers by investment trust companies should be exempt from VAT, thereby bringing them into line with unit trusts, open ended investment companies (OEICs) and similar investment funds.

Following HMRC's acceptance of this decision, new UK legislation is expected to be introduced, specifically exempting UK investment trusts from paying VAT on management fees, thereby allowing your Company to reclaim VAT previously paid. As yet it is too soon to quantify the likely financial outcome and impact on your Company, but your Board will continue to monitor the situation.

5. Administrative expenses

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Allocated to revenue:		
General expenses	124	133
Directors' fees	80	73
Secretarial fee	96	94
Auditors' remuneration:		
Fees payable to the company's auditors for the audit of the company's annual accounts	18	16
Fees payable to the company's auditor and its associates for other services:		
Other services	3	20
	321	336

Notes to the Accounts continued

6. Interest payable

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Bank interest payable		
– charged to revenue	32	26
– charged to capital	273	233
	305	259

7. Taxation

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
<i>(a) Analysis of charge in the year:</i>		
Irrecoverable overseas tax	–	–
Total current taxation (note 7 (b))	–	–

(b) Factors affecting tax charge for the year

No provision has been made for taxation on any realised gains on investments as the Company has conducted itself so as to achieve investment trust status under Section 842 of the Income and Corporation Taxes Act 1988. The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). Approved investment trust companies are exempt from tax on capital gains within the Company. The differences are explained below:

	For the year ended 30 September 2007			For the year ended 30 September 2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net return on ordinary activities before taxation	1,817	13,338	15,155	1,281	18,278	19,559
Net return on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	545	4,001	4,546	384	5,483	5,867
Effects of:						
Capital returns on investments	–	(4,408)	(4,408)	–	(5,761)	(5,761)
UK dividends not chargeable to corporation tax	(659)	–	(659)	(498)	–	(498)
Expenses not utilised in the year	114	407	521	114	278	392
Current tax charge for the year (note 7(a))	–	–	–	–	–	–

(c) Provision for deferred tax

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

(d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £10,962,000 (2006: £10,706,000) in respect of unutilised management expenses. It is unlikely that these amounts will be utilised in future accounting periods unless the investment policy of the Company or the tax treatment is changed.

Notes to the Accounts continued

8. Dividends

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Amounts recognised as distributions in the period		
Final Dividend of prior year of 2.85p (2006: 2.25p)	1,047	829

The dividend of 2.85p (2006: 2.25p) is based on 36,748,690 (2006: 36,823,690) ordinary shares in issue. The total dividend payable in respect of the financial year which is the basis of 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 2007 £'000	For the year ended 30 September 2006 £'000
Final Dividend 4.11p (2006 : 2.85p)	1,489	1,047

The proposed dividend for the year is based on 36,238,690 (2006: 36,748,690) ordinary shares in issue.

9. Return per ordinary share

	For the year ended 30 September 2007	For the year ended 30 September 2006
Revenue return (£'000)	1,817	1,281
Capital return (£'000)	13,338	18,278
Total return (£'000)	15,155	19,559
Weighted average number of shares	36,565,526	36,811,772
Revenue return	4.97p	3.48p
Capital return	36.48p	49.65p
Total return	41.45p	53.13p

10. Investments held at fair value through profit or loss

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Movements of investments held as fixed assets:		
Book cost brought forward	62,643	55,301
Acquisitions at cost	39,365	28,611
Proceeds of disposals	(41,320)	(31,803)
Net gains realised on disposals	14,924	10,534
Book cost at 30 September	75,612	62,643
Unrealised appreciation of investments	27,148	27,380
Valuation of investments at 30 September	102,760	90,023

All investments are listed on a recognised stock exchange. The following transaction costs, including stamp duty and broker commissions were incurred during the year:

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
On acquisitions	231	176
On disposals	59	50
	290	226

Notes to the Accounts continued

11. Debtors

	At 30 September 2007 £'000	At 30 September 2006 £'000
Amounts receivable within one year:		
Sales for future settlement	1,551	–
Accrued income	176	110
Prepaid expenses	9	8
	1,736	118

12. Creditors

	At 30 September 2007 £'000	At 30 September 2006 £'000
Amounts falling due within one year:		
Bank loan	5,000	5,000
Purchases for future settlement	177	247
Accrued expenses	962	319
	6,139	5,566

The Company has in place a 364 day £10,000,000 loan facility with ING Bank N.V., of which £5,000,000 was drawn down during the year, but repaid on 18 December 2007. The facility is unsecured and was available in 2007 and 2006 and the amounts drawn down were £5,000,000 at each year end.

13. Contingent Liabilities

The Company had no contingent liabilities at the balance sheet date (2006: Nil).

14. Called up share capital

	At 30 September 2007 £'000	At 30 September 2006 £'000
Authorised:		
42,000,000 (2006:42,000,000) ordinary shares of 25p each	10,500	10,500
Allotted, Called up and Fully paid:		
Opening balance 36,748,690 (2006: 36,823,690) ordinary shares of 25p each	9,187	9,206
Transfer to capital redemption reserve on purchase of 510,000 (2006: 75,000) shares for cancellation (note 15)	(127)	(19)
Closing balance 36,238,690 (2006: 36,748,690) ordinary shares of 25p each	9,060	9,187

15. Capital redemption reserve

	At 30 September 2007 £'000	At 30 September 2006 £'000
Balance brought forward	69	50
Transfer from share capital (note 14)	127	19
Balance carried forward	196	69

Notes to the Accounts continued

16. Share premium account

	At 30 September 2007 £'000	At 30 September 2006 £'000
Balance brought forward and carried forward	13,971	13,971

17. Merger reserve

	At 30 September 2007 £'000	At 30 September 2006 £'000
Balance brought forward and carried forward	2,184	2,184

18. Share purchase reserve

	At 30 September 2007 £'000	At 30 September 2006 £'000
Balance brought forward	16,949	17,095
Purchase of 510,000 (2006: 75,000) ordinary shares for cancellation	(1,311)	(146)
Balance carried forward	15,638	16,949

19. Capital reserves

	Realised £'000	Unrealised £'000	Total £'000
Balance brought forward	16,789	27,380	44,169
Net realised profit based on carrying values at the previous balance sheet date	6,450	–	6,450
Unrealised appreciation during the year	–	8,242	8,242
Transfer on disposal of investments	8,474	(8,474)	–
Investment income taken to capital	343	–	343
Investment management fee	(828)	–	(828)
Performance fee	(596)	–	(596)
Interest payable	(273)	–	(273)
Balance carried forward	30,359	27,148	57,507

20. Revenue reserve

	At 30 September 2007 £'000	At 30 September 2006 £'000
Balance brought forward	1,526	1,074
Dividends paid	(1,047)	–
Net revenue return for the year	1,817	452
Balance carried forward	2,296	1,526

Notes to the Accounts continued

21. Net asset value per ordinary share

	At 30 September 2007 £'000	At 30 September 2006 £'000
Net asset value per ordinary share	278.30p	239.61p

The net asset value per ordinary share is based on net assets attributable to ordinary shareholders of £100,852,000 (2006: £88,055,000) and 36,238,690 (2006: 36,748,690) ordinary shares in issue at the year-end.

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

	For the year ended 30 September 2007 £'000	For the year ended 30 September 2006 £'000
Net return before finance costs and taxation	15,460	19,818
Gains on investments held at fair value	(14,692)	(19,202)
(Increase)/decrease in accrued income	(66)	33
(Increase)/decrease in prepayments and other debtors	(1)	2
Increase (decrease) in accrued expenses (excl. interest)	638	(457)
Net cash inflow from operating activities	1,339	194

23. Analysis of changes in net debt

	At 30 September 2006 £'000	Cash flow £'000	Movement in borrowings £'000	At 30 September 2007 £'000
Cash at bank & short-term deposits	3,480	(985)	–	2,495
Bank loan	(5,000)	–	–	(5,000)
Net debt at 30 September	(1,520)	(985)	–	(2,505)

24. Related party transactions

The Company has appointed Schroder Investment Management (“SIM”), a wholly owned subsidiary of Schroders plc, to provide investment management, accounting, secretarial and administration services. Details of the management and secretarial fee arrangements for these services are given in the Directors’ Report on pages 17 and 18. The total management fee (including VAT) payable under this agreement to SIM in respect of the year ended 30 September 2007 was £920,000 (2006: £768,000), of which £225,000 (2006: £200,000) was outstanding at the year end. The total secretarial fee (including VAT) payable to SIM in respect of the year ended 30 September 2007 was £96,000 (2006: £94,000), of which £24,000 (£24,000) was outstanding at the year end. With effect from 1 October 2003 an annual performance fee was introduced. Details of the performance fee arrangements are given in the Directors Report on page 18. The performance fee under this agreement payable to SIM in respect of the year ended 30 September 2007 was £596,000 (2006: Nil).

In addition to the above services, SIM also provided investment trust dealing services. The total cost to the Company of this service, payable to Equiniti Limited, for the year ended 30 September 2007 was £1,500 (2006: £4,000), of which £1,000 (2006: £2,000) was outstanding at the year end.

During the year banking facilities were provided by Schroder & Co Limited. At 30 September 2007, the balance held at Schroder & Co Limited was £1,000 (2006: £4,000).

Notes to the Accounts *continued*

25. Risk Management

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. The Board reviews and agrees policy for managing this risk, as summarised below. This policy has remained substantially unchanged since the launch of the Company.

(i) 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 12. Investments are valued in accordance with the Company's accounting policies as stated in Note 1. Uncertainty arises as a result of future changes in the market prices of the Company's equity investments.

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

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

(ii) Credit risk

The Company's transactions in securities expose it to potential counterparty risk, although this is minimised by entering into deals only with brokers pre-approved by a credit committee of Schroder Investment Management Limited. These arrangements were in place throughout the current year and the prior year.

(iii) Foreign currency risk

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

(iv) Liquidity risk

The vast majority of the Company's investments are listed on a recognised 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.

(v) Interest rate risk

The Company has in place a 364 day £10,000,000 loan facility with ING Bank N.V., of which £5,000,000 was drawn down during the year. The borrowings were repaid on 18 December 2007. This facility is unsecured and was available in 2007 and 2006 and the amounts drawn down were £5,000,000 at each year end.

Notes to the Accounts continued

25. Risk Management continued

The carrying amount, by the earlier of contractual re-pricing or maturity date, of the Company's financial instruments was as follows:

	At 30 September 2007 In 1 year or less £'000	At 30 September 2,007 Greater than 1 year £'000	At 30 September 2006 In 1 year or less £'000	At 30 September 2006 Greater than 1 year £'000
Cash Flow Interest Rate Risk				
Loans and Receivables				
Cash at bank and short-term deposits	2,495	–	3,480	–
Financial Liabilities				
Loan facility	(5,000)	–	(5,000)	–
	(2,505)	–	(1,520)	–

	At 30 September 2007 In 1 year or less £'000	At 30 September 2,007 Greater than 1 year £'000	At 30 September 2006 In 1 year or less £'000	At 30 September 2006 Greater than 1 year £'000
No Interest Rate Risk				
Financial assets at fair value through profit or loss				
Fixed asset investments at fair value	–	102,760	–	90,023
Loans and receivables				
Short-term trade receivables	1,551	–	–	–
Financial Liabilities				
Short-term trade payables	(177)	–	(247)	–
	1,374	102,760	(247)	90,023

(vi) Financial Assets

The Company's financial assets comprise equity investments, short-term trade receivables and cash balances.

(vii) Financial Liabilities

The Company's financial liabilities comprise bank loans, overdraft balances and short-term trade payables. Details of the Company's bank facility are disclosed in note 12.

Company Summary and Shareholder Information

Company Status

Schroder UK Mid & Small Cap Fund plc was established in April 1983 under the name of Murray Technology Investments plc, and Schroders took over investment management on 1 May 2003, when the name was changed to Schroder UK Mid & Small Cap Fund plc. The Company is an investment trust whose ordinary shares 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 and The Times.

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

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

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

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

Shares in Issue

As at 21 December 2007, the Company had 36,238,690 Ordinary Shares of 25p each in issue.

Capital Gains Tax Information

For the 2007/2008 tax year the annual capital gains (after adjusting for indexation and taper relief) of private individuals in excess of £9,200 (2006/2007: £8,800) are assessed for capital gains tax.

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 Oriental Income Fund Limited, Schroder Japan Growth Fund plc, Schroder UK Growth Fund plc, SVG Capital plc and International Biotechnology Trust plc.

Individual Savings Account – Schroder Maxi ISA Plan

The Schroder ISA offers investors:

- lump sum investments in the ordinary shares of the Company from a minimum of £1,000 to a maximum of £7,000 in the current tax year
- a regular investment option from a minimum of £50 per month
- competitive charges
- the option to reinvest income
- the option to include other investment 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 the Company's registrars, Equiniti Limited, at PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ. The telephone number of Equinity is 0870 601 5366.

Equinity maintains 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 for more details.

Notice of Meeting

Notice is hereby given that the twenty-sixth Annual General Meeting of Schroder UK Mid & Small Cap Fund plc will be held at 12.00 noon on Tuesday 29 January 2008 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 to 13 will be proposed as Special Resolutions:

1. To receive the Report of the Directors and the audited Accounts for the year ended 30 September 2007.
2. To approve a final dividend of 4.11 pence per share for the year ended 30 September 2007.
3. To approve the Directors' Remuneration Report for the year ended 30 September 2007.
4. To re-elect Mr Malcolm Coubrough as a Director of the Company.
5. To re-elect Mr Maxwell Packe as a Director of the Company.
6. To re-elect Mr Peter Timms as a Director of the Company.
7. To re-elect Mr Chris Jones as a Director of the Company.
8. To re-appoint Ernst & Young LLP as Auditors of the Company and to authorise the Directors to determine their remuneration.
9. To consider, and if thought fit, to pass, the following resolution as an ordinary resolution: "That the aggregate limit of all fees payable to Directors, as set out in Article 80 of the Company's Articles of Association, be increased to £150,000 per annum."
10. To consider, and if thought fit, to pass, the following resolution as an ordinary resolution: "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 £905,967 (representing 10% of the aggregate nominal amount of the share capital in issue on 21 December 2007) provided that this authority shall expire on the date of the next Annual General Meeting of the Company, but so that this authority shall allow the Company to make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry."
11. To consider, and if thought fit, to pass, the following resolution as a special resolution: "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 £905,967 (representing 10% of the aggregate nominal amount of the share capital in issue on 21 December 2007); 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. To consider, and if thought fit, to pass, the following resolution as a special resolution: "That the Company be and is hereby generally and unconditionally authorised in accordance with Section 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 5,432,179 (equivalent to 14.99 of the share capital in issue on 21 December 2007);
 - (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 (i) 105% of the average of the middle market quotations for a share of the class being purchased taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased and (ii) the higher of the price of the last independent trade in the shares of that class and the highest then current independent bid for the shares of that class on the London Stock Exchange;
- (d) purchases may only be made pursuant to this authority if the Shares are (at the date of the proposed purchase) trading on the London Stock Exchange at a discount to the net asset value;
- (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed or revoked prior to such time; and
- (f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

13. To consider, and if thought fit, to pass, the following resolution as a special resolution:

“That the document presented to the meeting and signed by the Chairman for the purposes of identification be and is hereby adopted as the Articles of Association of the Company in substitution for the existing Articles.”

Registered Office:

33 Bothwell Street

Glasgow G2 6NL

Registered in Scotland Number: SC82551

21 December 2007

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 to vote in his or her stead provided that each proxy is appointed to exercise the rights attached to (a) different share(s) held by that member. 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 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 6.00 pm on 27 January 2008 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 6.00 pm on 27 January 2008 shall be disregarded in determining the right of any person to attend and vote at the meeting.
- 4 Profiles of each of the Directors offering themselves for re-election are on page 2 of this report.
- 5 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by a particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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

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

Worldwide, as at end September 2007, Group assets under management were valued at £137.7 billion.

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

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

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

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



Schroders