
**SCHRODER
INCOME
GROWTH
FUND plc**



**Report and Accounts
31 August 2006**



Schrodgers



INVESTMENT OBJECTIVE

The Company's principal investment objectives are to provide real growth of income, being growth of income in excess of the rate of inflation, and capital growth as a consequence of the rising income.

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Directors

Sir Paul Judge*†

(Chairman)

Aged 57, was appointed as a Director of the Company on 11 January 1995 and is Chairman of Teachers TV board of governors and President of the Association of MBAs. Formerly he has been a Director of WPP Group plc, ministerial adviser at the Cabinet Office, Director General of the Conservative Party, Chairman of Premier Brands Limited, and Planning Director of Cadbury Schweppes PLC.

Peregrine Banbury*†

Aged 58, was appointed as a Director of the Company on 11 January 1995 and is a Client Group Head, Private Banking at Coutts & Co. He has an extensive background in private client and institutional investments, having been an investment manager with Robert Fleming & Co. and a Director of EBC Amro Asset Management Limited.

Ian Barby*†

Aged 61, was appointed as a Director of the company on 31 October 2005. He practised as a Barrister before joining Warburg Investment Management Ltd in 1985, subsequently becoming a Vice Chairman of Mercury Asset Management plc and latterly, until 2003, a Managing Director of Merrill Lynch Investment Managers. He has wide experience of the investment management industry and of the investment trust sector and is currently Chairman of Invesco Perpetual UK Smaller Companies PLC and of Ecofin Water and Power Opportunities plc as well as being a director of Merrill Lynch World Mining Trust plc, Pantheon International Participations PLC and SR Europe Investment Trust plc.

Peter Readman*†

Aged 59, was appointed as a Director of the Company on 15 December 1999. He is Chairman of Abercromby Property International and the Chamber Orchestra of Europe and a director of a number of other companies including Keystone Investment Trust plc and Pantheon International Participations plc.

Keith Niven†

Aged 58, was appointed as a Director of the Company on 5 January 1995. He is non-executive Chairman of Matrix Income & Growth VCT plc and Matrix Income & Growth 3 VCT plc and a non-executive Director of two other investment trusts, Schroder UK Growth Fund plc and Impax Environmental Markets plc. Mr Niven is a trustee of the Charities Aid Foundation ("CAF"), Chairman of CAF's Investment Advisory Committee and a non-executive Director of CAF BANK Limited. He is also an investment adviser to the Rolls-Royce Pension Fund. Mr Niven was previously a Vice Chairman of Schroder Investment Management Limited and Chairman of Schroder Unit Trusts Limited.

*Member of the Audit and Management Engagement Committees.

†Member of the Nomination Committee.

Mr Banbury is Chairman of the Audit and Management Engagement Committees.

Sir Paul Judge is Chairman of the Nomination Committee.

Advisers

Investment Manager

Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA

Secretary and Registered Office

Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA
Telephone 020 7658 6501

Auditors

Deloitte & Touche LLP
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

Bankers

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

Custodian

JPMorgan Chase Bank
1 Chaseside
Bournemouth
Dorset BH7 7DA

Registrar

Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ
Shareholder Helpline: 0870 601 5366

Solicitors

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Stockbrokers

Teather and Greenwood
Beaufort House
15 St Botolph Street
London EC3A 7QR

Financial Highlights

	31 August 2006	31 August 2005	Change %
Net asset value ("NAV") per ordinary share	220.39p	200.00p*	10.2
Share price	203.75p	186.50p	9.2
Share price premium/(discount)	(7.6)%	(6.8)%	
Shareholders' funds	£160.2m	£149.6m	7.1
Dividends per share declared in respect of the year	6.90p	6.52p***	5.8
Shares in issue ('000)	72,687	74,812	
Revenue return per ordinary share	7.44p	7.16p	3.9
FTSE All-Share Index total return**	3,467.94	2,970.38	16.8
Total return per ordinary share	27.08p	37.87p*	(28.5)
NAV total return**	13.66%	22.89%	
Share price total return**	13.17%	23.93%	
Total expense ratio ****	0.91%	0.94%	

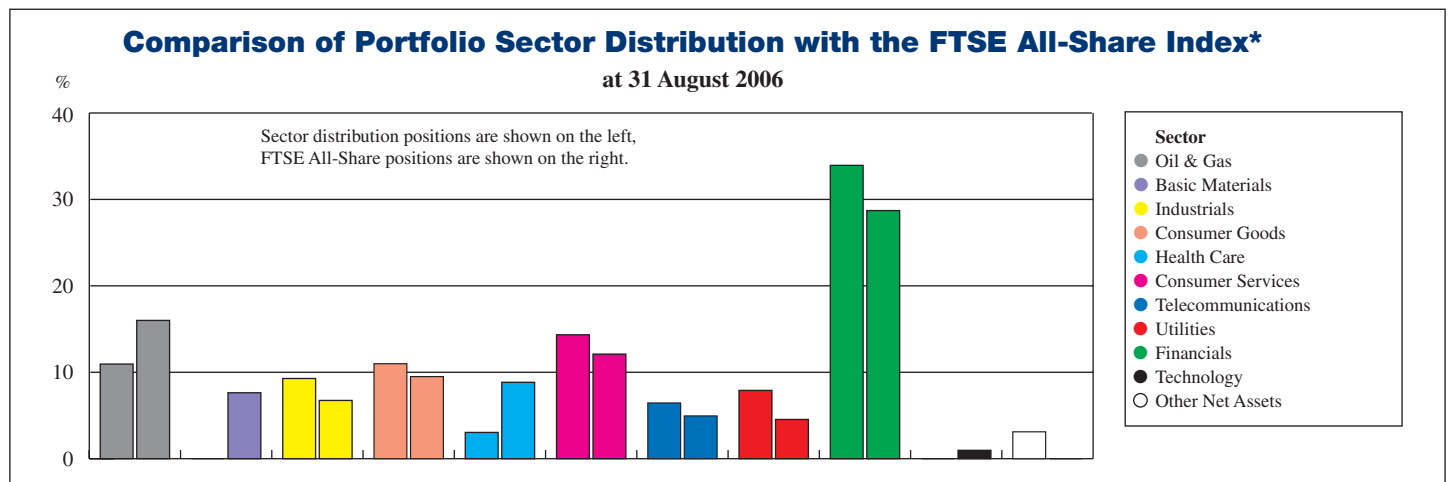
* Restated for the effect of adoption of FRS 21 and FRS 26, see note 1 to the accounts

** Source: Fundamental Data

*** Excludes special dividend of 0.25p

**** Calculated in accordance with Association of Investment Companies (AIC) guidance. Based on operating costs, excluding performance fee and finance costs but after allowing for tax relief and expenses, and expressed as a percentage of average monthly net assets

Sector Analysis



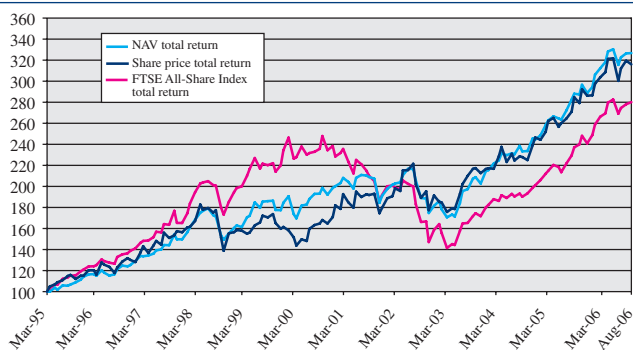
* Sector distributions are shown as a percentage of total assets less current liabilities

Total Return to 31 August 2006

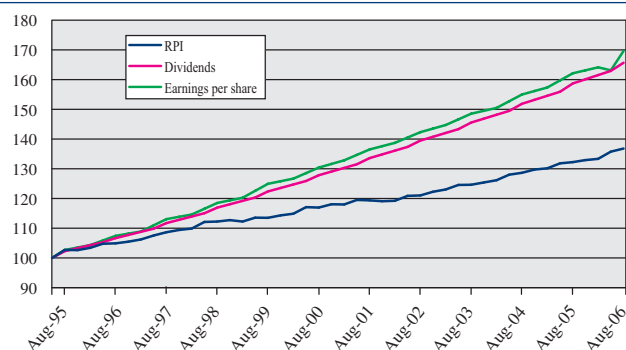
	Share price total return* %	NAV total return* %	FTSE All-Share total return* %
1 year	13.17	13.66	16.75
2 years	40.44	39.84	44.88
3 years	45.33	56.46	60.54
4 years	61.72	73.38	67.99
5 years	63.68	57.53	36.58
6 years	87.98	64.52	13.00
7 years	81.88	75.31	26.11
8 years	108.83	113.03	55.74
9 years	109.21	126.67	71.29
10 years	157.00	169.29	110.83
Since inception (March 1995)	216.00	226.70	180.10

*Source: Fundamental Data.

Share price/NAV/FTSE All-Share Index performance since inception†



Cumulative earnings and total dividends vs inflation since inception†



† Source: Fundamental Data. All figures have been rebased to 100 at the start of the period covered.

Long Term Record

As at 31 August	Shareholders' funds* £'000	Diluted NAV per share** p	Undiluted NAV per share p	Share price p	Warrant price** p	Share price (discount)/premium %
2006	160,195	220.4	220.4	203.8	N/A	(7.6)
2005	149,626	200.0	200.0	186.5	N/A	(6.8)
2004	125,433	166.1	166.1	156.0	N/A	(6.1)
2003	114,246	154.1	159.9	156.8	55.5	1.7
2002	105,192	145.2	150.3	147.0	46.3	1.2
2001	121,093	165.8	174.7	151.0	52.0	(8.9)
2000	122,598	164.4	174.9	136.8	42.0	(16.8)
1999	136,927	159.8	168.7	147.3	50.0	(7.8)
1998	114,899	136.4	142.6	133.5	38.0	(2.1)
1997	110,224	132.8	139.3	138.0	34.0	3.9

* The figures for 2005 have been restated in accordance with FRS 26. The figures for the earlier years have not been restated.

** Warrants lapsed on 31 December 2003.

Long Term Record (continued)

For the period ended 31 August	Share price total return# %	NAV total return# %	FTSE All-Share total return# %	Earnings per share p	Net dividends per share p	Cost of running trust† £'000
2006	13.17	13.66	16.75	7.44	6.90	1,510
2005	24.09	23.03	24.09	7.16	6.77*	1,429
2004	3.49	11.89	10.81	6.39	6.25	1,301
2003	11.27	10.81	4.64	6.15	6.00	1,161
2002	1.21	(9.14)	(18.70)	5.67	5.85	1,143
2001	14.85	4.44	(17.27)	6.04	5.70	1,200
2000	(3.24)	6.56	11.60	5.41	5.40	1,144
1999	14.82	21.51	23.49	6.38	5.40**	1,249
1998	0.18	6.40	9.99	5.39	5.15***	1,294
1997	22.84	18.81	23.08	5.56	5.00****	1,100

Source: Fundamental Data. Changes to returns previously reported are attributable to a change in data source from Micropal during the year under review.

† Based on operating expenses excluding finance costs and any performance fees or rebates (if applicable)

* Includes special dividend of 0.25p

** Includes special dividend of 0.3p

*** Includes special foreign income dividend of 0.3p

**** Includes special dividend of 0.4p

Chairman's Statement

I am pleased to submit my first full year's Chairman's Statement since succeeding Mr John Hignett as Chairman in December 2005.

Results for the Year and Dividends

During the year ended 31 August 2006, the Company's revenue return was 7.44 pence per share, a rise of 3.9% when compared with 7.16 pence per share for the previous year.

The Board has declared total dividends of 6.90 pence per share for the year ended 31 August 2006, representing an increase of 5.8% over the 6.52 pence per share (excluding the special dividend of 0.25 pence) paid in respect of the previous year. The increase in the Retail Price Index for the same period was 3.4%.

Investment Performance

Whilst the increase in net assets in absolute terms was once again encouraging, the Company under-performed the FTSE All-Share Index during the year. The Company produced a net asset value total return of 13.7%* compared with a total return of 16.8%* from the Index. As a result of this under-performance against the benchmark, the Company received a performance fee rebate amounting to approximately £163,000 including VAT for the year ended 31 August 2006.

At 31 August 2006, the Company's share price was trading at a discount to net asset value of 7.6% compared to 6.8% at the start of the year. Since the year end, the discount has narrowed to 5.4% as at 13 October 2006. The share price total return for the year was 13.2%*.

An outline of performance during the year may be found in the Investment Manager's Review.

Share Purchases and Treasury Shares

During the year ended 31 August 2006, the Board continued to operate its share buy-back facility and a total of 2,125,000 ordinary shares were purchased for cancellation, equal to approximately 2.8% of the shares in issue on 1 September 2005. The buy back programme was successful in managing the volatility of the discount, which ranged between 3.6% and 7.6% during the year.

Your Directors continue to consider share buy backs as one of a number of tools that may be used to enhance shareholder value. The Board is proposing at the Annual General Meeting that the Company renew and expand its existing authorities and be granted the authority to hold repurchased shares in treasury for subsequent reissue. The proposed authority would permit up to 10% of the share capital (including shares held in treasury) to be issued without being first offered to existing shareholders, an increase from the 5% limit that has been granted until now. A number of minor technical changes to the Articles, designed to facilitate the proposed use of treasury shares, will also be proposed.

The Board's intention is that shares to be held in treasury may be reissued at any time but only at a premium to net asset value per share. Any shares held in treasury for 12 months will be cancelled and so not reissued.

The Board believes that this proposal, if approved by shareholders, could provide a useful source of additional liquidity for the Company's shares in the secondary market.

Chairman's Statement continued

Appointment of New Fund Manager

During July 2006, Sonja Schemmann took responsibility within Schroders for the investment management of the Company's portfolio. Sonja joined Schroders in 2005 and is a senior portfolio manager specialising in equity income portfolio management. Prior to joining Schroders, Sonja worked for DWS Investment GmbH where she was a senior fund manager in the global equity team.

Change in Custodian

The Company changed custodian from Schroders to JPMorgan Chase Bank in August 2006.

Changes to UK Accounting Standards

As stated in the Interim Report, the Company has adopted a number of new accounting standards as a result of the Accounting Standards Board's convergence programme with International Accounting Standards applicable to investment trusts which prepare their financial statements under UK Generally Accepted Accounting Practice. These are the first full year accounts which have been prepared pursuant to these new accounting standards and their impact is set out in the notes to these accounts. In addition, the Directors' Report contains a Business Review for the first time this year, as required under the European Union's Accounts Modernisation Directive for all UK listed companies for financial years beginning on or after 1 April 2005.

Continuation Vote

At the Annual General Meeting held on 8 December 2005, shareholders voted in favour of the continuation of the Company as an investment trust for a further period of five years. I should once again like to thank shareholders for demonstrating their support. A further continuation vote will be put to shareholders in 2010 and thereafter at five yearly intervals.

Annual General Meeting

The Company's Annual General Meeting will be held at 3.30 p.m. on 7 December 2006. As in previous years, the meeting will include a presentation by the Investment Manager on the Company's investment strategy and market prospects.

Sir Paul Judge

Chairman

3 November 2006

* Source: Fundamental Data

Investment Manager's Review

Market Background

The UK stock market continued to show strong returns during the year despite increasing concern over global growth, inflation and interest rates. Market momentum was only once disrupted by a correction during May and June and that ground was subsequently recovered. For the year to 31 August 2006 the FTSE All Share Index returned 16.8%*.

The main contributor to performance was again the mining sector that produced an impressive 40% return over the year. The Company's limited exposure to this sector has resulted in capital underperformance relative to the index, but given the sector's lack of high-yielding stocks and extended valuations, the Company intends to maintain its underweight position. Successes from bid activity (eg BAA and BOC) and the recovery of stocks such as Marks & Spencer were partially offset by disappointing returns in the telecom sector (eg Cable & Wireless).

Investment Approach

The Company follows a transparent and straightforward investment approach which remains unchanged despite the change of fund manager within the reporting period. We continue to focus on companies that offer an attractive income profile and a promising business model. The emphasis is the balance between payout and reinvestment as we believe that a disciplined use of capital should have a beneficial impact on the operational results in the long term to achieve the Company's objective of providing an income stream growing above the rate of inflation for its shareholders alongside a stable and sustainable performance profile.

Outlook

The market has risen strongly over the past year but the first signs of increased risk aversion are emerging. Investors are expecting global activity to slow although no recession is predicted. Leading indicators have peaked and the US housing market has weakened materially.

As the cycle matures, and companies face increasing pressure on margins, we expect the market to focus more on the quality of individual franchises and balance sheets. These characteristics have been overlooked recently in a market looking mainly at bid candidates and short-term earnings growth. The shares of some of the larger-sized companies that have been left behind in this market now look attractive. The portfolio is full of high yielding stocks with a sound and stable earnings profile that should outperform the market and offer some protection against potentially rising volatility.

Schroder Investment Management Limited

3 November 2006

* Source: Fundamental Data

Investment Portfolio

At 31 August 2006

Company	Sector Classification	Principal Activity	Market Value of Holding £'000	% of Shareholders' Funds
HSBC	Financials	International banking and financial services group	11,450	7.15
Royal Dutch Shell ('B' Shares)	Oil & Gas	Integrated oil company	10,908	6.81
Royal Bank of Scotland	Financials	Banking and financial services group	7,383	4.61
Vodafone	Telecommunications	Global mobile telephone service provider	6,350	3.96
Barclays	Financials	Banking and financial services group	5,927	3.70
Lloyds TSB	Financials	Banking and financial services group	5,619	3.51
British American Tobacco	Consumer Goods	International cigarette company	5,612	3.50
GlaxoSmithKline	Health Care	Global pharmaceutical company	4,870	3.04
BP	Oil & Gas	Integrated oil company	4,466	2.79
GKN	Consumer Goods	Produces automotive components, aerospace vehicles and supplies a variety of industrial services	4,063	2.54
BT	Telecommunications	UK fixed line telecommunications provider	3,981	2.49
Pearson	Consumer Services	International media company with market-leading in education, business information and consumer publishing	3,884	2.42
Kingfisher	Consumer Services	Retail operations	3,883	2.42
Legal & General	Financials	UK financial services group	3,870	2.42
Centrica	Utilities	Provider of gas and energy related products and services to residential and business customers	3,721	2.32
United Utilities	Utilities	International multi-utility business	3,553	2.22
Scottish & Newcastle	Consumer Goods	International breweries, with significant operations in the UK, France and Russia	3,544	2.21
Aviva	Financials	International insurance and financial services	3,508	2.19
Royal & Sun Alliance Insurance	Financials	UK financial services business with significant US operations	3,486	2.17
BAE Systems	Industrials	Manufactures and supports defence and aerospace systems	3,447	2.15
Twenty Largest Investments			103,525	64.62
HBOS	Financials	Diversified financial services	3,295	2.06
Tomkins	Industrials	Diversified operations	3,254	2.03
Boots	Consumer Services	Manufactures and sells health and personal care products	3,126	1.95
Reuters	Consumer Services	Multi media offers news and financial information	3,119	1.95
Rentokil Initial	Industrials	Global consumer services	2,780	1.74
National Grid	Utilities	Operates and develops electricity and gas networks	2,643	1.65
Associated British Foods	Consumer Goods	Manufactures and processes food products	2,520	1.57
Alliance & Leicester	Financials	Banking and financial services group	2,506	1.56
EMAP	Consumer Services	International media group	2,491	1.56
Amlin	Financials	Insurance and reinsurance business	2,481	1.55
Compass	Consumer Services	International food catering group	2,455	1.53
Reed Elsevier	Consumer Services	International publishing group	2,395	1.49
Bunzl	Industrials	International group providing consumer services	2,333	1.46
IMI	Industrials	Diversified manufacturing	2,310	1.44
Standard Chartered	Financials	International banking group	2,234	1.39
Royal Dutch Shell ('A' Shares)	Oil & Gas	Integrated oil company	2,157	1.35
Gallaher	Consumer Goods	International cigarette company	1,881	1.17
Provident Financial	Financials	International finance group	1,787	1.12
Sainsbury (J.)	Consumer Services	Retail supermarket	1,621	1.02
Kelda	Utilities	Utility services	1,524	0.95
AWG	Utilities	Utility services	1,220	0.76
Jardine Lloyd Thompson	Financials	Insurance and reinsurance broking company	823	0.51
Metalrax	Industrials	Diversified manufacturing	734	0.46
Total Investments			155,214	96.89
Net current assets			4,981	3.11
Equity Shareholders' Funds			160,195	100.00

Report of the Directors (Incorporating the Business Review)

The Directors submit their Report and the audited Accounts of the Company for the year ended 31 August 2006.

Business Review

Company's Business

The Company carries on business as an investment trust and is an investment company within the meaning of section 266 of the Companies Act 1985 (as amended). The Company was established in 1995 and its ordinary shares are listed on the London Stock Exchange.

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. Such approval has been granted from the Inland Revenue for the year ended 31 August 2005 and the Company has subsequently conducted its affairs so as to enable it to continue to qualify for such approval.

Investment Objectives

The Company's principal investment objectives are to provide real growth of income, being growth of income in excess of the rate of inflation, and capital growth as a consequence of the rising income.

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 on page 7.

Investment Strategy

The Board has delegated management of the Company's portfolio to Schroder Investment Management Limited (the "Manager"). The Manager manages the portfolio with the aim of helping the Company to achieve its investment objectives. Details of the Manager's approach, along with other factors that have affected performance during the year, are set out in the Investment Manager's Review on page 7.

Measuring Success – Key Performance Indicators ("KPIs")

KPIs are the method through which the Board measures the development and success of the Company's business. The Board considers achievement of the Company's investment objectives as stated above to be the most significant KPI for the Company.

In order to allow the Board to measure performance against the Company's investment objectives, the Board is provided with quarterly reports from the Manager. These reports provide commentary on markets, portfolio activity, performance and strategy, including the impact of stock selection decisions and other attribution analysis, together with the outlook for the portfolio and markets. This information forms the basis of discussions at each Board meeting. On a regular basis, the Board also reviews the investment approach and processes of the Manager and considers reports from its broker on the perception of shareholders and the market on the

Report of the Directors (Incorporating the Business Review) continued

Manager's performance and the Company's strategy, together with statistics on peer group performance.

For the year ended 31 August 2006, the Company achieved a total return on net assets of 13.66% compared to a total return of 16.75% for the benchmark Index. Full analysis of the Company's performance for the year under review and over the longer-term, together with the portfolio sector distribution relative to the benchmark Index as at 31 August 2006, can be found on pages 3 and 4 of this Report.

Principal Risks and Uncertainties

The Board has adopted a matrix of key risks which affect its business together with a robust framework of internal control which is designed to monitor those risks and to provide a system to enable the Directors to mitigate those risks as far as possible. A full analysis of the Company's system of internal control is set out in the Corporate Governance Statement on page 20. The principal risks to the business are considered to be as follows:

Market Risk

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

Discount

Investment vehicles and asset classes can fall out of favour with investors, or investment trusts may fail to meet their investment objectives. This may result in a wide discount. The Board periodically reviews whether the Company's investment remit remains appropriate and continually monitor the success of the Company in meeting its stated objectives.

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 ("S842") of the United Kingdom Income and Corporation Taxes Act 1988 could result in the Company being subject to capital gains tax on the sale of its portfolio investments. Breaches of other laws and regulations such as the Companies Act 1985 and the UK Listing Authority's Listing Rules could lead to a number of detrimental outcomes and damage the Company's reputation.

Resources

The Company has no employees; its investments are managed by Schroder Investment Management Limited, 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 13 and 14.

Report of the Directors (Incorporating the Business Review) continued

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 on page 20.

Changes to UK Accounting Standards

As described in greater detail in the notes to the Financial Statements, the Company has adopted new Accounting Standards and a revised Statement of Recommended Practice for Investment Trust Companies during the year ended 31 August 2006. Full details of the changes in the Company's accounting policies and presentation of the accounts are set out in note 1 to the accounts.

Dividends

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

For the year ended 31 August 2006, the Directors have declared ordinary dividends amounting to 6.90 pence per share (2005: 6.52 pence per share, excluding a special dividend of 0.25 pence per share).

Net Asset Value

Over the year under review the net asset value per share of the Company increased to 220.39 pence per share from 200.00 pence per share.

Policy for the Payment of Creditors

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant market in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. There were no outstanding trade creditors, other than purchases for future settlement, at 31 August 2006 (2005: nil).

Share Buy Backs and Treasury Share Authority

During the year ended 31 August 2006, the Board continued to operate the Company's share buy back facility. A total of 2,125,000 ordinary shares were purchased for cancellation during the year, equal to approximately 2.8% of the shares in issue on 1 September 2005.

The Directors continue to consider share buy backs to be one of a number of tools that may be used to enhance shareholder value. We are now proposing that the Company renew and expand its existing authorities and at the same time be granted the authority to hold repurchased shares in treasury for potential subsequent re-issue (rather than for immediate cancellation). The Board believes that this will give the Company flexibility to provide a source of additional liquidity for its shares in the secondary market. These authorities will permit up to 10% of the Company's share capital (including shares held in treasury) to be issued without being first offered to existing shareholders, an increase from the existing 5% limit. The Board's intention is that shares

Report of the Directors (Incorporating the Business Review) continued

held in treasury may be re-issued at any time, provided that the prevailing market price represents a premium to the prevailing net asset value per share. Any shares held in treasury for 12 months will be cancelled and so not re-issued.

The powers relating to treasury shares will be in addition to the powers to repurchase shares for immediate cancellation and to issue new shares at a premium to net asset value. Accordingly, resolution 8 in the Notice of Annual General Meeting, to be proposed as an ordinary resolution, and resolution 9, to be proposed as a special resolution, renew the existing authorities that allow the Directors to issue a limited number of shares without the normal pre-emption rights which require that such shares first to be offered pro rata to existing shareholders. However, the limitation in the number of shares which can be issued under these authorities has been increased from 5% to 10% of the Company's issued share capital. This new limit applies not only to the issue of new shares but also to the sale of shares held in treasury. Resolution 10, also to be proposed as a special resolution, renews the existing authority for the Company to buy back up to 14.99% of its issued share capital.

The new authorities, if approved, will last until the next Annual General Meeting. The Board expects that it will seek renewal of these authorities at that and each subsequent Annual General Meeting, or more frequently if the interests of the Company so require.

The use of treasury shares raises a number of issues as to whether shares held in treasury should be counted as issued share capital for certain purposes, for example levels of shareholding which, if not disclosed, trigger the right of the Company to implement restrictions on the voting rights attached to the relevant shares. The Directors are accordingly recommending that the Company's Articles of Association be amended to clarify that shares held in treasury do not count for this and for similar purposes, and to provide that, for example, shares held in treasury do not carry the right to any distribution of assets in a liquidation. These amendments will include a number of additional minor updates to the current Articles of Association. Resolution 11 will accordingly be proposed as a special resolution to adopt amended Articles of Association which incorporate these changes.

Directors and their Interests

The Directors of the Company and their profiles can be found on page 2. All Directors held office throughout the year under review with the exception of Mr Ian Barby, who was appointed on 31 October 2005. Mr John Hignett resigned as a Director and Chairman on 8 December 2005.

In accordance with the Company's Articles of Association, Sir Paul Judge will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election. He also retires in accordance with the Company's policy on tenure outlined in the following Corporate Governance Statement on page 18 as he has served as a non-executive Director for more than nine years. In addition, Mr Banbury and Mr Niven retire in accordance with the Company's policy on tenure, having both served as non-executive Directors for more than nine years, and, being eligible, offer themselves for re-election. The Board has assessed the independence of all Directors. Sir Paul Judge and Mr Banbury are considered to be independent in character and judgement, notwithstanding that they have served on the Board for more than nine years. Mr Niven is not considered to be independent.

Report of the Directors (Incorporating the Business Review) continued

The Board supports the re-elections of Sir Paul Judge, Mr Banbury and Mr Niven, who it considers continue to demonstrate commitment to their roles and who provide a valuable contribution to the deliberations of the Board. It therefore recommends that shareholders vote in favour of their re-elections.

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

The Directors' interests in the Company's share capital at the beginning and end of the financial year ended 31 August 2006, all of which were beneficial, were as follows:

Director	Ordinary shares of 10p each 31 August 2006	Ordinary shares of 10p each 31 August 2005
Sir Paul Judge	1,000	1,000
Peregrine Banbury	1,000	1,000
Ian Barby	Nil	N/A*
Keith Niven	72,441	71,372
Peter Readman	Nil	Nil

Notes

*Mr Barby was appointed on 31 October 2005.

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

Substantial Share Interests

At 14 November 2006, the Company had not been notified of any material interests of 3% or above of its issued share capital. The Directors are however aware that 36,523,712 Ordinary shares, representing 50.6% of the Company's issued share capital, were held by investors in the Schroder PEP/ISA Scheme at 14 November 2006.

Investment Manager

During the year under review the Board considered the services provided by the Investment Manager, Schroder Investment Management Limited. The Board continues to consider that the Manager provides the Company with considerable investment management resource and experience, thereby enhancing the ability of the Company to achieve its investment objective. The Board therefore considers that the Manager's continued appointment under the terms of the current Investment Management Agreement, further details of which are set out below, remains in the interests of shareholders.

The Investment Manager provides investment management, accounting and company secretarial services to the Company pursuant to an Investment Management Agreement. This Agreement can be terminated by either party on 12 months' written notice or on immediate notice in the event of certain breaches of its terms or the insolvency of either party. At the date of this Report, no such notice had been given.

Report of the Directors (Incorporating the Business Review) continued

During the year ended 31 August 2006, the Investment Manager was entitled to a fee at the rate of 10% of the net revenue return for the year after taxation plus 0.375% on assets up to and including £75 million, 0.35% on the next £50 million and 0.325% on assets in excess of £125 million.

With effect from 1 September 2000, a performance fee was introduced. The fee is symmetrical in nature, so that the Manager is rewarded for out-performance but penalised for under-performance. The performance fee, or rebate, is based on the Company's net asset value total return compared with the total return of the FTSE All-Share Index over a rolling three-year period and is subject to a cap of 25% of the asset-based management fee (plus VAT) for the year then ended. The performance fee, or rebate, is calculated and paid annually. The fee, or rebate, in respect of any period will be calculated as 5% of the value (based on opening net assets for the relevant period) of the out-performance, or under-performance, of the Company's net asset value over the return on the FTSE All-Share Index, with performance measured in terms of total return. For the year ended 31 August 2006, the Company was entitled to a performance fee rebate amounting to £163,000 including VAT (2005: performance fee of £149,000 including VAT).

The Investment Manager is authorised and regulated by the Financial Services Authority.

Auditors

The Company's auditors, Deloitte & Touche LLP, have expressed their willingness to remain in office and a resolution to re-appoint them as auditors to the Company and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

The Audit Committee has adopted a policy on the engagement of the auditors to supply non-audit services to the Company. The auditors charged £3,250 plus VAT for the supply of non-audit services during the year under review in relation to work performed at the time of the announcement of the 2006 interim results.

Annual General Meeting

The Annual General Meeting will be held at 3.30 pm on Thursday, 7 December 2006. The Notice of Meeting is set out on pages 45 and 46.

By Order of the Board
Schroder Investment Management Limited
Company Secretary

Registered Office:
31 Gresham Street
London EC2V 7QA

14 November 2006

Registered Number: 3008494

Directors' Remuneration Report for the year ended 31 August 2006

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 currently limit the aggregate fees payable to the Board of Directors to a total of £80,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and time committed to the Company's affairs. During the year ended 31 August 2006, the Chairman was entitled to receive a fee of £18,500 per annum and the other members of the Board were entitled to fees of £14,000 per annum.

The limit of the aggregate annual fees which may be paid to Directors provided for in the Company's Articles of Association was set at incorporation and has remained unchanged since. The aggregate level of annual Directors' fee payments is now approaching the current limit. Therefore, to allow for any future changes in remuneration, an ordinary resolution is proposed at the Annual General Meeting pursuant to Article 98 of the Articles of Association to increase the maximum aggregate remuneration which may be paid to Directors to £100,000 per annum.

No element of Directors' remuneration is performance-related.

No Director has a service contract with the Company.

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

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

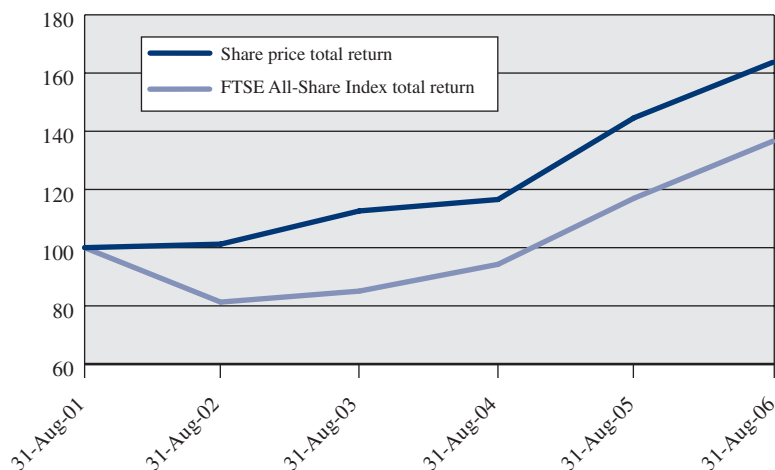
All Directors have a letter of appointment with the Company under which they are entitled to one month's notice in the event of termination. The Directors' terms of appointment are available for inspection at the Company's Registered Office address during normal business hours and at the Annual General Meeting.

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

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

Directors' Remuneration Report for the year ended 31 August 2006 continued**Performance Graph**

A graph showing the Company's share price total return compared with its benchmark, the FTSE All-Share Index, over the last five years, is shown below.



Source: Fundamental Data (data rebased to 100 at 31 August 2001)

Remuneration

The following amounts were paid by the Company to the Directors for services as non-executive Directors during the year ended 31 August 2006.

Director	Year ended 31 August 2006	Year ended 31 August 2005
Sir Paul Judge*	£17,213	£12,000
N G C P Banbury	£14,000	£12,000
I Barby**	£11,689	N/A
J N Hignett***	£5,030	£16,500
K M Niven	£14,000	£12,000
J P A Readman	£14,000	£12,000
Total	£75,932	£64,500

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

* Sir Paul Judge became Chairman on 8 December 2005.

** Mr Barby was appointed on 31 October 2005.

*** Mr Hignett resigned on 8 December 2005.

By Order of the Board
Schroder Investment Management Limited
Company Secretary
14 November 2006

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 Combined Code on Corporate Governance (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 25, indicates how the Company has complied with the best practice provisions set out in Section 1 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.

Application of the Code’s 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.

Board Composition and Independence

The Board currently consists of five non-executive Directors. Mr Ian Barby was appointed a non-executive Director with effect from 31 October 2005. In addition, Mr John Hignett resigned as a non-executive Director and Chairman of the Company on 8 December 2005 and Sir Paul Judge assumed the role of Chairman from the same date. Profiles of each serving Director, including their age and length of service, may be found on page 2. The Board considers each of the Chairman, Peregrine Banbury, Ian Barby and Peter Readman to be independent of the Company’s Investment Manager. Keith Niven is not considered to be independent. He was, until his retirement in October 2001, an executive director of Schroder Investment Management Limited, which receives fees from the Company in accordance with the Investment Management Agreement. The independence of each Director is considered on a continuing basis.

Corporate Governance continued

The Board has no executive Directors and has not appointed a chief executive officer as the Company has contractually delegated management of the Company's investment portfolio, together with the provision of accounting and company secretarial services, to its Investment Manager.

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

Senior Independent Director

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

Tenure

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

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

Induction and Training

When a Director is appointed he or she receives a full, formal and tailored induction, which is administered by the Company Secretary. Directors are thereafter 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. In addition, other advisers to the Company provide relevant reports to the Board from time to time. Directors may attend ad hoc seminars and events covering issues and developments relevant to the investment trust industry.

Board Evaluation

The Board has adopted a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors. The evaluation takes place in two stages. First, the evaluation of individual Directors is led by the Chairman, and the evaluation of the Chairman's performance is led by the Chairman of the Audit Committee. Secondly, the Board evaluates its own performance and that of its committees. The Directors meet at least once a year without the Chairman present and the Chairman of the Audit Committee chairs this meeting.

The Board has developed evaluation criteria which focuses on each Director's individual contribution to the Board and its Committees and the responsibilities, composition and agenda of the Committees and the Board as a whole.

Corporate Governance continued

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

Board Meetings and Attendance

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

Director	Maximum attendance	Board meetings attended
Sir Paul Judge	4	4
Peregrine Banbury	4	4
Ian Barby	3	3
Keith Niven	4	3
Peter Readman	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, key information on the Company's policies, regulatory requirements and internal controls. Accordingly, the Board receives and considers regular reports from the Investment Manager and other key advisers, supplemented by ad hoc reports and information as required.

Directors' and Officers' Liability Insurance

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

Relations with Shareholders

The Board believes that the maintenance of good relations with both institutional and retail shareholders is important for the long-term prospects of the Company. The Board receives feedback on the views of shareholders from its corporate broker and the Investment Manager.

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

The Board believes that the Company's policy of reporting to shareholders as soon as possible after the Company's year end, and holding the earliest possible Annual General Meeting, is valuable. The Notice of Meeting on pages 45 and 46 sets out the business of the Meeting.

Corporate Governance continued

Environmental Policy

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

Exercise of Voting Powers

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

Going Concern

The Directors believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future. Therefore, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts, in accordance with the provisions of Financial Reporting Standard 18, "Accounting Policies".

Internal Control

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

The Board believes that the key risks identified and the implementation of an on-going system to identify, evaluate and manage these risks are based upon and relevant to the Company's business as an investment trust. The on-going risk assessment, which has been in place throughout the financial year and up to the date of this report, includes consideration of the scope and quality of the systems of internal control, including any whistleblowing policies, where appropriate, adopted by the Investment Manager and other major service providers. The Manager communicates the results of monitoring by third parties to the Board, the incidence of significant control failings or weaknesses that have been identified at any time, and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition.

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

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

Board Committees

Audit Committee

The Company established an Audit Committee in 1995. The members of the Committee as at 31 August 2006 were:

Peregrine Banbury (Chairman)

Ian Barby

Sir Paul Judge

Peter Readman

The Board considers each member of the Committee to be independent. Peregrine Banbury was appointed as Chairman of the Committee on 8 December 2005, in place of Sir Paul Judge. The Board considers that members of the Committee have recent and relevant financial experience.

Terms of Reference

The role of the Audit Committee is to ensure that the Company maintains the highest standards of integrity in financial reporting and internal control. The responsibilities of the Committee include the following:

Financial Statements

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

Internal Control

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

External Audit and Relationship with the External Auditor

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

Board Committees continued

Report on the Committee's Activities

To discharge its duties, the Committee met on two occasions during the year ended 31 August 2006 and considered the following:

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

Attendance

Both of the meetings held during the year were attended by all members of the Committee.

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

Board Committees continued**Management Engagement Committee**

The Company established a Management Engagement Committee in 1996. The members of the Committee as at 31 August 2006 were:

Peregrine Banbury (Chairman)

Ian Barby

Sir Paul Judge

Peter Readman

The Board considers each member of the Committee to be independent. Peregrine Banbury was appointed as Chairman of the Committee in place of John Hignett on 8 December 2005.

Terms of Reference

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

The responsibilities of the Committee include the following:

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

Report on the Committee's Activities

To discharge its duties, the Committee met on one occasion during the year ended 31 August 2006 and considered the following:

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

Attendance

The meeting held during the year was attended by all members of the Committee.

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

Board Committees continued

Nomination Committee

The Company established a Nomination Committee in 1999. The members of the Committee as at 31 August 2006 were:

Sir Paul Judge (Chairman)
 Peregrine Banbury
 Ian Barby
 Keith Niven
 Peter Readman

The Board considers a majority 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 to the Board.

The responsibilities of the Committee include the following:

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

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

Report on the Committee's Activities

To discharge its duties, the Committee met on one occasion during the year ended 31 August 2006 and considered the following:

- an evaluation of the balance of skills, knowledge and experience of the Board;
- a job specification for the role of the Chairman;
- the selection of suitable candidates for a Director; and
- arrangements for selected candidates to be interviewed.

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

Attendance

The meeting held during the year was attended by all members of the Committee.

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

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have chosen to prepare the accounts for the Company in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the Directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed; and
- (d) prepare the financial statements on the going concern basis.

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 financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each of the persons who are Directors of the Company at the date of approval of this Annual Report and Accounts:

- so far as each of the Directors are aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's Auditors are unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

The Directors believe that they have complied with these responsibilities.

Independent Auditors' Report

Independent Auditors' Report to the Members of Schroder Income Growth Fund plc

We have audited the financial statements of Schroder Income Growth Fund plc for the year ended 31 August 2006 which comprise the income statement, the reconciliation of movements in shareholders' funds, the balance sheet, the cash flow statement and the related notes 1 to 24. 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' responsibilities for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom 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 in accordance with the relevant financial reporting framework and whether the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements. We also report to you 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 transactions with the Company is not disclosed.

We also report to you whether, in our opinion, the Company has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

Independent Auditors' Report continued

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2003 Financial Reporting Council (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 statement on internal control covers 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 the Directors' report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report described as having been 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 described as having been 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 31 August 2006 and of its total return for the year then ended;
- the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

14 November 2006

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since publication. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Income Statement

	Notes	For the year ended 31 August 2006			(Restated) For the year ended 31 August 2005		
		Revenue	Capital	Total	Revenue	Capital	Total
		Return £'000	Return £'000	Return £'000	Return £'000	Return £'000	Return £'000
Gains on investments held at fair value	9	–	13,208	13,208	–	23,908	23,908
Income	2	6,381	1,857	8,238	6,214	–	6,214
Investment management fee	3	(650)	(650)	(1,300)	(614)	(614)	(1,228)
Performance fee	4	–	163	163	–	(149)	(149)
Administrative expenses	5	(210)	–	(210)	(201)	–	(201)
Net return before finance costs and taxation		5,521	14,578	20,099	5,399	23,145	28,544
Interest payable and similar charges		–	–	–	–	–	–
Net return on ordinary activities before taxation		5,521	14,578	20,099	5,399	23,145	28,544
Taxation on ordinary activities	6	–	–	–	–	–	–
Net return on ordinary activities after taxation							
attributable to equity shareholders		5,521	14,578	20,099	5,399	23,145	28,544
Net return per ordinary share	8	7.44p	19.64p	27.08p	7.16p	30.71p	37.87p

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

Comparative figures have been extracted from the statutory accounts for the year ended 31 August 2005 and have been restated in accordance with FRS 21 in respect of dividends and FRS 26 in respect of Financial Instruments as disclosed in note 1.

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

The notes on pages 32 to 41 form an integral part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

	Share Capital £'000	Capital Redemption Reserve £'000	Share Premium Account £'000	Share Purchase Reserve £'000	Warrant Exercise Reserve £'000	Capital Reserve £'000	Revenue* Reserve £'000	Total £'000
Balance at 31 August 2005	7,481	1,399	7,404	47,333	1,596	79,568	2,794	147,575
Valuation adjustment from mid to bid	–	–	–	–	–	(6)	–	(6)
Add back accrued dividend	–	–	–	–	–	–	2,057	2,057
Balance at 31 August 2005 (Restated)	7,481	1,399	7,404	47,333	1,596	79,562	4,851	149,626
Dividends paid in respect of 31 August 2005	–	–	–	–	–	–	(2,057)	(2,057)
First interim dividend of 1.40p per share paid 31 January 2006	–	–	–	–	–	–	(1,048)	(1,048)
Second interim dividend of 1.40p per share paid 30 April 2006	–	–	–	–	–	–	(1,043)	(1,043)
Third interim dividend of 1.40p per share paid 31 July 2006	–	–	–	–	–	–	(1,028)	(1,028)
Gains on investments	–	–	–	–	–	13,208	–	13,208
Capitalised dividend	–	–	–	–	–	1,857	–	1,857
Other transfers to reserves	(212)	212	–	(4,354)	–	(487)	5,521	680
Balance at 31 August 2006	7,269	1,611	7,404	42,979	1,596	94,140	5,196	160,195
Balance at 31 August 2004	7,554	1,326	7,404	48,635	1,596	56,436	2,482	125,433
Valuation adjustment from mid to bid	–	–	–	–	–	(19)	–	(19)
Add back accrued dividend	–	–	–	–	–	–	1,775	1,775
Balance at 31 August 2004 (Restated)	7,554	1,326	7,404	48,635	1,596	56,417	4,257	127,189
Dividends paid in respect of 31 August 2004	–	–	–	–	–	–	(1,775)	(1,775)
First interim dividend of 1.34p per share paid 31 January 2005	–	–	–	–	–	–	(1,012)	(1,012)
Second interim dividend of 1.34p per share paid 30 April 2005	–	–	–	–	–	–	(1,012)	(1,012)
Third interim dividend of 1.34p per share paid 30 July 2005	–	–	–	–	–	–	(1,006)	(1,006)
Gains on investments	–	–	–	–	–	23,908	–	23,908
Other transfers to reserves	(73)	73	–	(1,302)	–	(763)	5,399	3,334
Balance at 31 August 2005 (Restated)	7,481	1,399	7,404	47,333	1,596	79,562	4,851	149,626

*Revenue Reserves are the distributable reserves.

The notes on pages 32 to 41 form an integral part of these financial statements.

Balance Sheet

At 31 August

	Note	2006 £'000	(Restated) 2005 £'000
Fixed assets			
Investments held at fair value through profit or loss	9	155,214	146,066
Current assets			
Debtors	10	2,170	773
Cash and cash equivalents		4,014	3,526
		6,184	4,299
Current liabilities			
Creditors: amounts falling due within one year	11	(1,203)	(739)
Net current assets		4,981	3,560
Net assets		160,195	149,626
Capital and reserves			
Called up share capital	13	7,269	7,481
Capital redemption reserve	14	1,611	1,399
Share premium account	15	7,404	7,404
Share purchase reserve	16	42,979	47,333
Warrant exercise reserve	17	1,596	1,596
Capital reserve	18	94,140	79,562
Revenue reserve	19	5,196	4,851
Total equity shareholders' funds		160,195	149,626
Net asset value per ordinary share	20	220.39p	200.00p

Comparative figures have been extracted from the statutory accounts for the year ended 31 August 2005 and have been restated in accordance with FRS 21 in respect of dividends and FRS 26 in respect of Financial Instruments as disclosed in note 1.

The Accounts were approved by the Board of Directors on 14 November 2006 and signed on behalf of the Board by:

Sir Paul Judge
Peregrine Banbury
 Directors

The notes on pages 32 to 41 form an integral part of these financial statements.

Cash Flow Statement

	Note	For the year ended 31 August 2006		For the year ended 31 August 2005	
		£'000	£'000	£'000	£'000
Operating Activities					
Income received from investments		7,606		5,967	
Interest received		244		377	
Administrative expenses paid		(184)		(189)	
Performance fee paid		(149)		(133)	
Investment management fee paid		(1,295)		(1,187)	
Net cash inflow from operating activities	21		6,222		4,835
Returns on investments and servicing of finance					
Interest paid		–		–	
Net cash outflow from returns on investments and servicing of finance			–		–
Financial Investment					
Purchase of investments		(64,932)		(47,125)	
Sale of investments		68,738		39,173	
Net cash inflow/(outflow) from financial investment			3,806		(7,952)
Equity dividends paid			(5,176)		(4,805)
Net cash inflow/(outflow) before financing			4,852		(7,922)
Financing					
Purchase of shares for cancellation		(4,364)		(1,116)	
Net cash outflow from financing			(4,364)		(1,116)
Net cash inflow/(outflow)			488		(9,038)

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

	For the year ended 31 August 2006		For the year ended 31 August 2005	
	£'000	£'000	£'000	£'000
Net cash inflow/(outflow)	488		(9,038)	
Net funds brought forward	3,526		12,564	
Net funds carried forward	4,014		3,526	

The notes on pages 32 to 41 form an integral part of these financial statements.

Notes to the Accounts

1 Accounting policies

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

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

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

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

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

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

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

The accounts for the year ended 31 August 2005 have been restated to reflect these changes and the impact on current and prior years is shown in note 22.

Other than the matters noted above the same accounting policies used for the year ended 31 August 2005 have been applied in preparing the accounts for the year ended 31 August 2006.

b **Income recognition** Dividends received from investments are credited to the revenue return by reference to their ex-dividend date except where, in the opinion of the Directors, the dividend is capital in nature in which case it is taken to the capital return. Other income is recognised on an accruals basis. UK dividends are accounted for net of any tax credits. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in the capital reserve.

c **Investment management fee and performance fee** The investment management fee and finance costs are apportioned equally between the revenue return and the capital return, in line with the Board's expected long-term split of returns from the investment portfolio of the Company. Performance fee rebates and charges are allocated entirely to the capital return as they are primarily attributable to the capital performance of the Company's investments.

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

e **Taxation** Deferred tax is provided in accordance with FRS 19 (Deferred tax) on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that it is more likely than not that they are recoverable.

Notes to the Accounts continued

f Capital reserve – realised The following are accounted for in this reserve:

- gains on losses on the realisation of investments; and
- other capital charges and credits in accordance with the above policies.

Capital reserve – unrealised The following are accounted for in this reserve:

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

2 Income

	For the year ended 31 August 2006	For the year ended 31 August 2005
	£'000	£'000
UK dividend income	6,091	5,794
UK special dividend income taken to capital	1,857	–
Convertible bond interest	36	76
Interest receivable and similar income	254	344
Total	8,238	6,214

3 Investment management fee

	For the year ended 31 August 2006	For the year ended 31 August 2005
	£'000	£'000
Investment management fee:		
– charged to revenue	553	523
– charged to capital	553	523
– irrecoverable VAT	194	182
Total	1,300	1,228

The basis for calculating the investment management fee is set out in the Report of the Directors on page 14.

4 Performance fee

	For the year ended 31 August 2006	For the year ended 31 August 2005
	£'000	£'000
Performance fee:		
– (rebate)/charge to capital	(139)	127
– irrecoverable VAT	(24)	22
Total	(163)	149

The basis for calculating the performance fee is set out in the Report of the Directors on page 14.

5 Administrative expenses

	For the year ended 31 August 2006	For the year ended 31 August 2005
	£'000	£'000
General expenses	111	121
Directors' fees (see the Directors' Remuneration Report on page 16)	76	65
Auditors' remuneration:		
– audit	19	15
– non-audit	4	–
Total	210	201

Notes to the Accounts continued

6 Taxation

The Company has no corporation tax liability in the year to 31 August 2006 (2005: Nil).

(a) Tax attributable to expenses charged to capital

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

(b) Factors affecting tax charge for the year

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

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained below:

	For the year ended 31 August 2006			(Restated) For the year ended 31 August 2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Factors affecting tax charge for the year						
Return on ordinary activities before taxation	5,521	14,578	20,099	5,399	23,145	28,544
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2005: 30%)	1,656	4,373	6,029	1,620	6,943	8,563
Tax effects of:						
UK franked dividends*	(1,827)	(557)	(2,384)	(1,738)	–	(1,738)
Capital returns on investments*	–	(3,962)	(3,962)	–	(7,172)	(7,172)
Management and performance fees capitalised	–	146	146	–	229	229
Revenue expenses not utilised in the year	171	–	171	118	–	118
Total current taxation	–	–	–	–	–	–

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

(c) Provision for deferred taxation

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

(d) Factors that may affect future tax charges

The Company has deferred tax assets in respect of unutilised management expenses of £2,804,000 (2005: £2,487,000) which have not been recognised as it is not certain that the Company will have sufficient profits in the future to utilise these expenses.

Notes to the Accounts continued

7 Dividends

	For the year ended 31 August 2006 £'000	(Restated) For the year ended 31 August 2005 £'000
Amounts recognised as distributions in the period:		
Fourth interim dividend of prior year of 2.75p (2004: 2.35p)	2,057	1,775
First interim dividend of 1.40p (2005: 1.34p)	1,048	1,012
Second interim dividend of 1.40p (2005: 1.34p)	1,043	1,012
Third interim dividend of 1.40p (2005: 1.34p)	1,028	1,006
Total dividends of 6.95p (2005: 6.37p)	5,176	4,805

The first interim dividend of 1.40 pence per share (2005: 1.34 pence per share) was paid on 74,812,343 (2005: 75,537,343) ordinary shares in issue.
The second interim dividend of 1.40 pence per share (2005: 1.34 pence per share) was paid on 74,462,343 (2005: 75,537,343) ordinary shares in issue.

The third interim dividend of 1.40 pence per share (2005: 1.34 pence per share) was paid on 73,437,343 (2005: 75,062,343) ordinary shares in issue.
The fourth interim dividend of prior year of 2.75 pence per share including a special dividend of 0.25 pence per share (2004: 2.35 pence per share) was paid on 74,812,343 (2004: 75,537,343) ordinary shares in issue.

The total dividends 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, is set out below:

	For the year ended 31 August 2006 £'000	For the year ended 31 August 2005 £'000
First interim dividend of 1.40p (2005: 1.34p)	1,048	1,012
Second interim dividend of 1.40p (2005: 1.34p)	1,043	1,012
Third interim dividend of 1.40p (2005: 1.34p)	1,028	1,006
Fourth interim dividend of 2.70p (2005: 2.75p)	1,963	2,057
Total dividends of 6.90p (2005: 6.77p)	5,082	5,087

The first interim dividend of 1.40 pence per share (2005: 1.34 pence per share) was paid on 74,812,343 (2005: 75,537,343) ordinary shares in issue.
The second interim dividend of 1.40 pence per share (2005: 1.34 pence per share) was paid on 74,462,343 (2005: 75,537,343) ordinary shares in issue.

The third interim dividend of 1.40 pence per share (2005: 1.34 pence per share) was paid on 73,437,343 (2005: 75,062,343) ordinary shares in issue.
The fourth interim dividend of 2.70 pence per share (2005: 2.75 pence per share) was paid on 72,687,343 (2005: 74,812,343) ordinary shares in issue.

8 Return per ordinary share

	For the year ended 31 August 2006 £'000	(Restated) For the year ended 31 August 2005 £'000
Revenue return (£'000)	5,521	5,399
Capital return (£'000)	14,578	23,145
Total return (£'000)	20,099	28,544
Weighted average number of shares in issue	74,221,932	75,372,343
Revenue return	7.44p	7.16p
Capital return	19.64p	30.71p
Total return	27.08p	37.87p

Notes to the Accounts continued

9 Investments

	For the year ended 31 August 2006 £'000	(Restated) For the year ended 31 August 2005 £'000
Opening book cost	125,877	109,411
Opening unrealised gain	20,189	8,239
Opening valuation	146,066	117,650
Valuation adjustment (see note 22(c))	–	(19)
Opening valuation – restated	146,066	117,631
Purchases at cost	65,520	43,700
Sales proceeds	(69,580)	(39,173)
Realised gains for the year	5,595	2,761
Unrealised gains for the year	7,613	21,147
Closing valuation	155,214	146,066
Closing book cost	134,192	125,877
Closing unrealised gain	21,022	20,189
Closing valuation	155,214	146,066
Gains on investments		
Realised gains based on historical cost	12,375	11,939
Less: amounts recognised as unrealised in previous years (note 18)	(6,780)	(9,178)
Realised gains based on carrying value at previous balance sheet date	5,595	2,761
Net movement in unrealised gains	7,613	21,147
Gains on investments	13,208	23,908

The investments are valued on the basis set out in note 1a and are listed on the London Stock Exchange.

Transaction costs which include stamp duty and broker commissions have been included within the Capital account. Purchase transactions costs for the year to 31 August 2006 amounted to £415,000 and sales transaction costs amounted to £97,000.

10 Debtors

	2006 £'000	2005 £'000
Amounts due within one year:		
Sales for future settlement	842	–
Rebate of stamp duty	14	–
Dividends and interest receivable	1,141	753
Prepayment of expenses	173	20
Total	2,170	773

Notes to the Accounts continued

11 Creditors

	2006 £'000	(Restated) 2005 £'000
Amounts falling due within one year:		
Purchases for future settlement	774	186
Stamp duty accrual	4	–
Other creditors and accrued charges	425	553
Total	1,203	739

12 Contingent liabilities

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

13 Share capital

	2006 £'000	2005 £'000
Authorised:		
312,500,000 ordinary shares of £0.10 each	31,250	31,250
Allotted, Called Up and Fully Paid:		
Opening balance of 74,812,343 ordinary shares (2005: 75,537,343) of £0.10 each	7,481	7,554
Transfer to capital redemption reserve on purchase of 2,125,000 (2005: 725,000) shares for cancellation (note 14)	(212)	(73)
Closing balance of 72,687,343 ordinary shares (2005: 74,812,343) of £0.10 each	7,269	7,481

14 Capital redemption reserve

	2006 £'000	2005 £'000
Capital redemption reserve brought forward	1,399	1,326
Transfer from share capital (note 13)	212	73
Capital redemption reserve carried forward	1,611	1,399

15 Share premium account

	2006 £'000	2005 £'000
Share premium account brought forward	7,404	7,404
Share premium account carried forward	7,404	7,404

16 Share purchase reserve

	2006 £'000	2005 £'000
Share purchase reserve brought forward	47,333	48,635
Purchase of 2,125,000 (2005: 725,000) ordinary shares for cancellation	(4,354)	(1,302)
Share purchase reserve carried forward	42,979	47,333

17 Warrant exercise reserve

	2006 £'000	2005 £'000
Warrant exercise reserve brought forward	1,596	1,596
Warrant exercise reserve carried forward	1,596	1,596

The warrant exercise reserve represents, for warrants that have been exercised, the proceeds received on the original issue of these warrants. In accordance with the SORP this value is maintained in a separate non-distributable reserve within Shareholders' Funds.

Notes to the Accounts continued

18 Capital reserve

	2006		(Restated) Total £'000
	Realised £'000	(Restated) Unrealised £'000	
Balance brought forward	59,373	20,189	79,562
Transfer on disposal of investments	6,780	(6,780)	–
Increase in unrealised gains on investments	–	7,613	7,613
Realised gains on investments sold	5,595	–	5,595
Investment income taken to capital	1,857	–	1,857
Performance fee rebate	139	–	139
Irrecoverable VAT on performance fee rebate	24	–	24
Investment management fee	(553)	–	(553)
Irrecoverable VAT on investment management fee	(97)	–	(97)
Balance carried forward	73,118	21,022	94,140

19 Revenue reserve

	2006	(Restated) 2005
	£'000	£'000
Revenue reserve brought forward	4,851	4,257
Dividends	(5,176)	(4,805)
Transfer from revenue account	5,521	5,399
Revenue reserve carried forward	5,196	4,851

20 Net asset value per ordinary share

	2006	(Restated) 2005
Net asset value per ordinary share	220.39p	200.00p

The net asset value per share is based on the net assets attributable to ordinary shares of £160,195,000 (2005: £149,626,000 (restated)) and on 72,687,343 ordinary shares in issue at 31 August 2006 (2005: 74,812,343).

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

	For the year ended 31 August 2006 £'000	(Restated) For the year ended 31 August 2005 £'000
	Net return before finance costs and taxation	20,099
Gains on investments held at fair value	(13,208)	(23,908)
Movements in accrued income	(388)	129
Movements in other debtors	(153)	3
Movements in other creditors	(128)	67
Net cash inflow from operating activities	6,222	4,835

Notes to the Accounts continued

22 Restatement of opening balances

A reconciliation is given between the closing balances per the 31 August 2005 accounts and the restated balances following adoption of revisions to UK GAAP.

(a) Balance Sheet

	Previously reported 31 August 2005 £'000s	Adjustment £'000s	Restated 31 August 2005 £'000s
Fixed assets			
Investments at fair value through profit or loss	146,072	(6)	146,066 ^(a)
Current assets			
Debtors	773		773
Cash and cash equivalents	3,526		3,526
	4,299		4,299
Creditors: amounts falling due within one year	(2,796)	2,057	(739) ^(b)
Net current assets	1,503	2,057	3,560
Net assets	147,575	2,051	149,626
Capital and reserves			
Called up share capital	7,481		7,481
Capital redemption reserve	1,399		1,399
Share premium account	7,404		7,404
Share purchase reserve	47,333		47,333
Warrant exercise reserve	1,596		1,596
Capital reserves	79,568	(6)	79,562 ^(a)
Revenue reserve	2,794	2,057	4,851 ^(b)
Total equity shareholders' funds	147,575	2,051	149,626
Net asset value per ordinary share	197.26p	2.74p	200.00p

Notes to the restatement of opening balances:

^(a) Effect of revaluation of listed investments from mid to bid value.

^(b) Effect of accounting for dividends in the period when the Company becomes liable to pay them.

Notes to the Accounts continued

(b) Income Statement

	Previously reported 31 August 2005			Adjustment			Restated 31 August 2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value	–	23,895	23,895	–	13	13	–	23,908	23,908*
Income	6,214	–	6,214	–	–	–	6,214	–	6,214
Investment management fee	(614)	(614)	(1,228)	–	–	–	(614)	(614)	(1,228)
Performance fee	–	(149)	(149)	–	–	–	–	(149)	(149)
Administrative expenses	(201)	–	(201)	–	–	–	(201)	–	(201)
Net return before finance costs and taxation	5,399	23,132	28,531	–	13	13	5,399	23,145	28,544
Interest payable	–	–	–	–	–	–	–	–	–
Net return on ordinary activities before taxation	5,399	23,132	28,531	–	13	13	5,399	23,145	28,544
Taxation on ordinary activities	–	–	–	–	–	–	–	–	–
Net return on ordinary activities after taxation attributable to equity shareholders	5,399	23,132	28,531	–	13	13	5,399	23,145	28,544
Net return per ordinary share	7.16p	30.69p	37.85p	–	0.02p	0.02p	7.16p	30.71p	37.87p

Note to the restatement of opening balances:

* Effects of revaluation of listed investments from mid to bid value.

(c) Balance Sheet

	Previously reported 31 August 2004 £'000s	Adjustment £'000s	Restated 31 August 2004 £'000s
Fixed assets			
Investments at fair value	117,650	(19)	117,631 ^(a)
Current assets			
Debtors	905		905
Cash and cash equivalents	12,564		12,564
	13,469		13,469
Creditors: amounts falling due within one year	(5,686)	1,775	(3,911) ^(b)
Net current assets	7,783	1,775	9,558
Net assets	125,433	1,756	127,189
Capital and reserves			
Called up share capital	7,554		7,554
Capital redemption reserve	1,326		1,326
Share premium account	7,404		7,404
Share purchase reserve	48,635		48,635
Warrant reserve	–		–
Warrant exercise reserve	1,596		1,596
Capital reserves	56,436	(19)	56,417 ^(a)
Revenue reserve	2,482	1,775	4,257 ^(b)
Total equity shareholders' funds	125,433	1,756	127,189
Net asset value per ordinary share	166.05p	2.33p	168.38

Notes to the restatement of opening balances:

^(a) Effect of revaluation of listed investments from mid to bid value.

^(b) Effect of accounting for dividends in the period when the Company becomes liable to pay them.

Notes to the Accounts *continued*

23 Related party transactions

The Company has appointed Schroder Investment Management Limited (“SIM”), a wholly owned subsidiary of Schroders plc, to provide investment management, accounting and administrative services. Details of the management fee arrangements for these services are given in the Report of the Directors on page 14. The total management fee payable under this agreement to SIM in respect of the year ended 31 August 2006 were £1,300,000 (2005: £1,377,000), of which £350,000 was outstanding at the year end (2005: £493,000). In addition to the above services, SIM also provided investment trust dealing services. The total cost to the Company for this service, payable to Lloyds TSB Registrars, for the year ended 31 August 2006 was £4,000 (2005: £7,000).

With effect from 1 September 2000, an annual performance fee was introduced. The fee is symmetrical in nature, so that the Manager will be rewarded for out-performance but penalised for under-performance. Details of the performance fee arrangements are given in the Report of the Directors on page 14. The total performance fee rebate under this agreement payable by SIM in respect of the year ended 31 August 2006 was £163,000 (2005: £149,000 fee paid to SIM).

24 Risk

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

Financial instruments and risk profile

The Company’s investment objective is to provide real growth of income, being growth of income in excess of the rate of inflation and capital growth as a consequence of the rising income. 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 unchanged since the launch of the Company.

Currency risk

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

Interest rate risk

The Company will not be materially affected by changes in prevailing interest rates since the majority of its financial assets are equity shares, which pay dividends, not interest. The effect of interest rate changes on the valuation of equities forms part of market price risk, which is considered separately below.

The Company does not have any borrowings.

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 page 8. In accordance with the Company’s accounting policies all investments are stated at bid value. The Company does not hedge against movements in the value of these investments, although sensitivity to market price risk will be affected by change in liquidity. At 31 August 2006, a 10 per cent. movement in the market value of the Company’s investments would result in a 10 per cent. change in net asset value per share. These arrangements were in place throughout the current year and the prior year.

Credit risk

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

Company Summary and Shareholder Information

The Company

Schroder Income Growth Fund plc was established in March 1995 and is an independent 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.

Duration

It is not intended that the Company should have a limited life, but the Directors consider it desirable that shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, the Articles of Association of the Company contain provisions requiring the Directors to put forward a proposal for the continuation of the Company to shareholders at five yearly intervals. The next proposal will be put forward at the Annual General Meeting in 2010.

Share Price and Net Asset Value Information

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

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

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

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

Financial Calendar

31 January	First interim dividend payable
March	Interim Results announced
	Second interim dividend announced
30 April	Second interim dividend payable
June	Third interim dividend announced
31 July	Third interim dividend payable
31 August	Company's year end
September	Fourth interim dividend announced
31 October	Fourth interim dividend payable
November	Preliminary Results announced
	Annual Report and Accounts published
December	Annual General Meeting
	First interim dividend announced

Company Summary and Shareholder Information continued**Shares in Issue**

As at 14 November 2006, the Company had 72,187,343 Ordinary Shares of 10p each in issue.

Analysis of Shareholder Register

at 31 August 2006

Total number of registered holders:	2,238
Investor category	% of issued share capital held
Private individuals	6.4
Banks/Nominees (excluding Schroder PEP/ISA/Dealing Service)	38.6
Schroder PEP/ISA/Dealing Service participants	50.0
Other institutions	5.0
Total	100.0

Five Year Dividend History

	Net dividend paid per share					Payment date
	2002	2003	2004	2005	2006	
1st Interim	1.25p	1.27p	1.30p	1.34p	1.40p	31 January
2nd Interim	1.25p	1.27p	1.30p	1.34p	1.40p	30 April
3rd Interim	1.25p	1.27p	1.30p	1.34p	1.40p	31 July
4th Interim	2.10p	2.19p	2.35p	2.50p	2.70p	31 October
Special	–	–	–	0.25p	–	31 October
Total dividends for the year	5.85p	6.00p	6.25p	6.77p	6.90p	

Investing in Schroder Income Growth Fund plc

Schroder Investment Trust Dealing Service

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

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

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

Individual Savings Account – Schroder Maxi ISA Plan

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

The Schroder ISA offers investors:

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

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

Capital Gains Tax Information

For the benefit of those shareholders who acquired their holdings in the Offer for Subscription, acquisition costs of the shares for capital gains tax purposes based upon initial dealings on 24 April 1995 are as follows:

Each ordinary share of 10p each	94.78p
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For the 2006/2007 tax year, the annual capital gains (after adjusting for indexation and taper relief) of private individuals in excess of £8,800 (2005/2006: £8,500) are assessed for capital gains tax.

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

Registrar Services

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

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

Visit www.shareview.co.uk for more details.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Schroder Income Growth Fund plc will be held at 3.30 p.m. on Thursday, 7 December 2006 at 31 Gresham Street, London EC2V 7QA, to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 8 will be proposed as Ordinary Resolutions and resolutions 9 to 11 will be proposed as Special Resolutions:

Ordinary Resolutions

1. To receive the Report of the Directors and the audited Accounts for the year ended 31 August 2006.
2. To approve the Directors' Remuneration Report for the year ended 31 August 2006.
3. To re-elect Sir Paul Judge as a Director of the Company.
4. To re-elect Mr Peregrine Banbury as a Director of the Company.
5. To re-elect Mr Keith Niven as a Director of the Company.
6. To re-appoint Deloitte & Touche LLP as Auditors of the Company and to authorise the Directors to fix their remuneration.
7. That the aggregate limit of all fees payable to Directors, as set out in Article 98 of the Company's Articles of Association, be increased to £100,000 per annum.
8. That the Directors be and are hereby generally and unconditionally authorised, in substitution for all subsisting authorities in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £721,873 (representing 10% of the share capital in issue on 14 November 2006); provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company but so that this authority shall enable the Company to make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry.

Special Resolutions

9. That, subject to the passing of Resolution 8 set out above, the Directors be and are hereby empowered, pursuant to Section 95 of the Act, to allot equity securities (including any shares held in treasury) (as defined in Section 94 of the Act) pursuant to the authority given by Resolution 8 above and/or where such allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the Act as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £721,873 (representing 10% of the aggregate nominal amount of the share capital in issue on 14 November 2006); and provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry.
10. That the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Act, to make market purchases (within the meaning of section 163(3) of the Act) of Ordinary Shares of 10p each in the capital of the Company ("Shares"), at whatever discount the prevailing market price represents to the prevailing

Notice of Meeting continued

net asset value per share provided that:

- (a) the maximum number of Shares hereby authorised to be purchased shall be 10,820,882, representing 14.99% of the issued share capital as at 14 November 2006;
 - (b) the minimum price which may be paid for a share is 10p;
 - (c) the maximum price which may be paid for a Share is an amount equal to 105% of the average of the middle market quotations for a Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased;
 - (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 net asset value;
 - (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
 - (f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.
11. That the document presented to the meeting and signed by the Chairman for the purposes of identification be and is hereby adopted as the Articles of Association of the Company in substitution for the existing Articles.

By Order of the Board
Schroder Investment Management Limited
Company Secretary
Registered Number: 3008494
14 November 2006

Registered Office:
31 Gresham Street
London EC2V 7QA

Notice of Meeting continued

Notes

- 1 A member of the Company entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend and on a poll to vote in his or her stead. A proxy need not be a member of the Company. Forms appointing proxies must be lodged with the Company's Registrar not less than 48 hours before the time appointed for the Meeting. The completion and return of a form of proxy will not preclude a holder entitled to attend and vote in person at the Meeting from doing so if he or she wishes.
- 2 In accordance with the requirements of the Companies Act 1985, a statement of all transactions of each Director and of his family interests in the shares of the Company will be available for inspection by any member of the Company at the registered office of the Company, 31 Gresham Street, London EC2V 7QA, during normal business hours on any weekday (public holidays excepted) and, by any person attending the Annual General Meeting, during the continuance of the Meeting. None of the Directors has a contract of service with the Company.
- 3 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those Shareholders registered in the Register of Members of the Company at 5.00 p.m. on 5 December 2006 shall be entitled to attend and vote at the meeting in respect of the number of Shares registered in their name at the time. Changes to the Register of Members after 5.00 p.m. on 5 December 2006 shall be disregarded in determining the right of any person to attend and vote at the meeting.
- 4 Profiles of each of the Directors offering themselves for re-election are on page 2 of this Report.
- 5 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

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

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

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

- 6 Copies of the proposed new Articles of Association and a document detailing the changes from the existing Articles of Association are available from the Company Secretary and will be on display at the registered office on any weekday (excluding public holidays) from the date of this document until the completion of the meeting and at the meeting itself.

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 June 2006, Group assets under management were valued at £122.3 billion.

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

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

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

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



Schroders