# Schroder Oriental Income Fund Limited

Annual Report and Accounts for the year ended 31 August 2016

investors CHRONICLE

**Top 100 Funds 2016**

Schroder Oriental Income

Schroders

## Investment objective

The investment objective of the Company is to provide a total return for investors primarily through investments in equities and equity-related investments, of companies which are based in, or which derive a significant proportion of their revenues from, the Asia Pacific region and which offer attractive yields.

## Investment policy

The investment policy of the Company is to invest in a diversified portfolio of investments, primarily equities and equity-related investments, of companies which are based in, or derive a significant proportion of their revenues from, the Asia Pacific region. The portfolio is diversified across a number of industries and a number of countries in that region. The portfolio may include government, quasi-government, corporate and high yield bonds and preferred shares. A full breakdown of the investment portfolio may be found on pages 9 and 10.

Equity-related investments which the Company may hold include investments in other collective investment undertakings (including real estate investment trusts and related stapled securities), warrants, depositary receipts, participation certificates, guaranteed performance bonds, convertible bonds, other debt securities, equity-linked notes and similar instruments (whether or not investment grade) which give the Company access to the performance of underlying equity securities, particularly where the Company may be restricted from directly investing in such underlying equity securities or where the Manager considers that there are benefits to the Company in holding such investments instead of directly holding the relevant underlying equity securities. Such investments may be listed or traded outside the Asia Pacific region. Such investments may subject the Company to credit risk against the issuing entity. The Company may also participate, subject to regulatory and tax implications, in debt-to-equity conversion programmes.

The Manager may consider writing calls over some of the Company's holdings, as a low risk way of enhancing the returns from the portfolio, although it has not written any to date. The Board has set a limit such that covered calls cannot be written over portfolio holdings representing in excess of 15% of gross assets. However, the Company may only invest in derivatives for the purposes of efficient portfolio management. Investors should note that the types of equity-related investments listed above are not exhaustive of all of the types of securities and financial instruments in which the Company may invest, and the Company will retain the flexibility to make any investments unless these are prohibited by the investment restrictions applicable to the Company.

Although the Company has the flexibility to invest in bonds and preferred shares as described above, the intention of the Directors is that the assets of the Company which are invested (that is to say, which are not held in cash, money funds, debt securities, interest bearing gilts or treasuries) will predominantly comprise Asia Pacific equities and equity-related investments.

## Key financial highlights

| NET ASSET VALUE ("NAV") TOTAL RETURN ONE YEAR | NAV TOTAL RETURN THREE YEARS ANNUALISED | NAV TOTAL RETURN FIVE YEARS ANNUALISED |
|---|---|---|
| 32.1% | 11.5% | 12.5% |
| SHARE PRICE TOTAL RETURN ONE YEAR | SHARE PRICE TOTAL RETURN THREE YEARS ANNUALISED | SHARE PRICE TOTAL RETURN FIVE YEARS ANNUALISED |
| 32.8% | 12.8% | 12.8% |

# Financial Highlights

| Total returns (including dividends reinvested) for the year ended 31 August[1] | 2016 | 2015 | |
|---|---|---|---|
| Net asset value per share ("NAV") total return | **32.1%** | (5.4)% | |
| Share price total return | **32.8%** | (6.1)% | |
| **Shareholders' funds, NAV per share, share price and share price premium at 31 August** | **2016** | **2015** | **% Change** |
| Shareholders' funds (£'000) | **528,662** | 410,090 | 28.9 |
| Shares in issue | **237,541,574** | 233,071,574 | 1.9 |
| NAV per share | **222.56p** | 175.95p | 26.5 |
| NAV per share excluding undistributed current year revenue[2] | **218.26p** | 171.99p | 26.9 |
| Share price | **224.50p** | 176.50p | 27.2 |
| Share price premium to NAV excluding undistributed current year revenue | **2.9%** | 2.6% | |
| **Revenue for the year ended 31 August** | | | |
| Net revenue after taxation (£'000) | **21,296** | 19,660 | 8.3 |
| Earnings per share | **9.03p** | 8.73p | 3.4 |
| Dividends per share | **8.50p** | 8.00p | 6.3 |
| **Gearing[3]** | **0.4%** | 5.5% | |
| **Ongoing Charges[4]** | **0.89%** | 0.87% | |

[1]Source: Morningstar. Total returns are calculated on the basis that any dividends payable are reinvested on the ex-dividend date.
[2]Represents the NAV per share, less the current year undistributed revenue after taxation.
[3]Gearing represents borrowings used for investment purposes, less cash, expressed as a percentage of net assets.
[4]Ongoing Charges represents the management fee and all other operating expenses excluding finance costs, transaction costs, and any performance fee payable, expressed as a percentage of the average daily net asset values during the year.

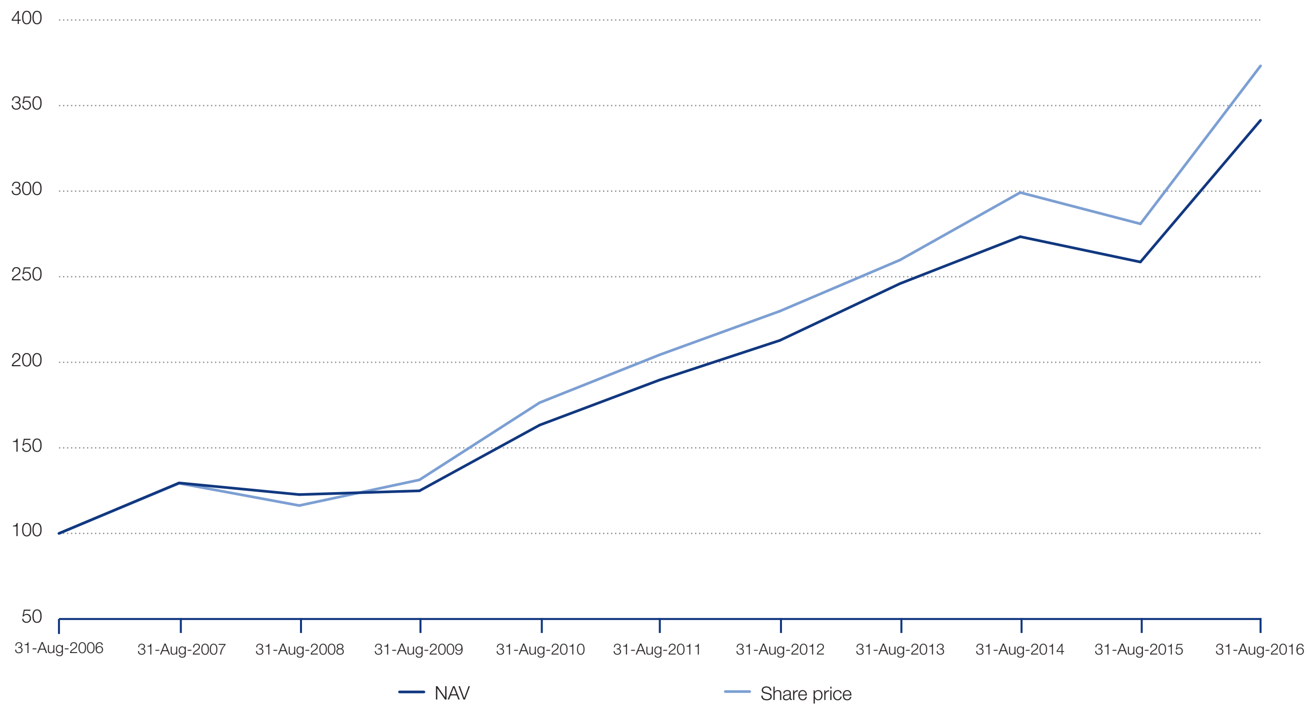
# Ten Year Financial Record

| At 31 August | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Shareholders' funds (£'000) | 197,265 | 179,011 | 167,604 | 219,199 | 254,070 | 290,324 | 395,926 | 428,456 | 410,090 | 528,662 |
| NAV per share (pence) | 125.61 | 115.31 | 109.31 | 136.63 | 152.80 | 165.18 | 181.46 | 193.44 | 175.95 | 222.56 |
| Share price (pence) | 117.75 | 101.50 | 106.00 | 136.25 | 152.00 | 164.00 | 177.00 | 195.50 | 176.50 | 224.50 |
| Share price premium/(discount) to NAV per share (%)[1] | 3.4 | (8.2) | 0.5 | 2.4 | 2.5 | 2.1 | (0.4) | 3.0 | 2.6 | 2.9 |
| Gearing (%)[2] | 12.2 | 9.6 | 3.9 | 7.7 | 2.4 | 2.7 | 2.1 | 5.1 | 5.5 | 0.4 |
| **Revenue for the year ended 31 August** | | | | | | | | | | |
| Net revenue after taxation (£'000) | 9,171 | 11,170 | 9,648 | 9,776 | 11,926 | 12,734 | 16,571 | 17,802 | 19,660 | 21,296 |
| Earnings per share (pence) | 5.84 | 7.14 | 6.27 | 6.25 | 7.22 | 7.44 | 8.74 | 8.12 | 8.73 | 9.03 |
| Dividends per share (pence) | 4.95 | 5.43 | 5.50 | 5.80 | 6.35 | 6.80 | 7.45 | 7.65 | 8.00 | 8.50 |
| Ongoing Charges (%)[3] | 0.96 | 0.95 | 0.98 | 0.98 | 0.92 | 0.93 | 0.93 | 0.88 | 0.87 | 0.89 |

| Performance[4] | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| NAV total return | 100.0 | 129.5 | 122.7 | 124.9 | 163.3 | 189.7 | 213.8 | 246.0 | 273.4 | 258.6 | 341.4 |
| Share price total return | 100.0 | 129.3 | 116.3 | 131.3 | 176.4 | 204.4 | 229.9 | 259.8 | 299.2 | 280.9 | 373.2 |

[1]Share price premium/(discount) to NAV per share, excluding undistributed current year revenue.
[2]Net assets plus borrowings used for investment purposes, less cash, expressed as a percentage of net assets.
[3]Ongoing Charges represents the management fee and all other operating expenses excluding finance costs, transaction costs and any performance fee payable, expressed as a percentage of the average daily NAVs during the year. The figures for 2011 and prior years represent the expenses calculated as above, expressed as a percentage of the average month end net asset values during the year.
[4]Source: Morningstar. Rebased to 100 at 31 August 2006.

## NAV and share price total returns over 10 years to 31 August 2016




Source: Morningstar. Rebased to 100 at 31 August 2006. Data at financial year ends.

Strategic Report
Governance
Financial
Annual General Meeting

# Chairman's Statement

Robert Sinclair

## Performance and growth

It is always pleasing for a Chairman to be able to report on the Company's best year since its launch. Over the year ended 31 August 2016, the Company's net asset value produced a total return of 32.1% (2015: negative total return of 5.4%), the share price produced a total return of 32.8% (2015: negative total return of 6.1%) and the dividend has increased for the 10th year in a row. A large proportion of the net asset value return came from sterling's weakness after the UK's referendum on EU membership but this should not obscure the fact that Asian companies continue to offer many attractive opportunities for your Company to achieve its investment objective.

Since its launch in 2005, the Company has seen continued growth from strong investment performance and issuance of further share capital. The Company now has a market capitalisation well in excess of £500 million and this size for the most part provides shareholders with the benefit of good daily liquidity. The increased size has also reduced the Company's Ongoing Charges, particularly as the Manager reduced its management fee during the year to 0.7% per annum on net assets of the Company in excess of £250 million. Whilst mentioning fees, it is worth highlighting that the performance fee not only has a high water mark and a hurdle but it also has a cap which limits the total performance fee paid to 1% of the Company's net assets in any one year. This year, the cap notably limited the total payment as shareholders enjoyed exceptionally strong returns.

The Manager's Review on pages 6 to 8 provides a more detailed description of performance, market background and investment outlook for the Company.

## Dividends

Revenue earnings per share for the year increased by 3.4% to 9.03 pence per share compared with 8.73 pence per share for the previous year, benefiting from a 7.9% rise in investment income as companies in the portfolio continued to grow their dividends to shareholders.

Three interim dividends totalling 4.70 pence per share have been paid in respect of the year ended 31 August 2016 and the Board has now declared a fourth interim dividend of 3.80 pence per share for the year. This takes total dividends per share for the year ended 31 August 2016 to 8.50 pence, an increase of 6.3% on total dividends of 8.00 pence per share paid in respect of the previous financial year. The fourth interim dividend will be paid on 30 November 2016 to shareholders on the register on 18 November 2016.

## Gearing policy

During the year under review, the Company renewed its revolving £50 million multi-currency credit facility with Scotiabank Europe Plc for a further year. Gearing stood at 5.5% at the beginning of the year and had decreased to 0.4% at 31 August 2016. The level of gearing continues to be monitored closely by the Board and managed as necessary. The Company's gearing continues to operate within pre-agreed limits so it does not represent more than 25% of the Company's net assets.

## Issue of shares and discount control management

Demand for the Company's shares continued to be strong during the year under review and the asset class has remained attractive for investors. During the year, the Board continued to issue shares in order to provide liquidity to investors, reissuing the remaining 3,870,000 shares held in Treasury and issuing a further 600,000 new shares, all at a premium to net asset value.

A further 1,081,450 new ordinary shares have been issued pursuant to a block listing since the end of the year.

## Share issuance and buy back authorities

The Board is seeking to renew the existing authorities to issue pre-emptively and to buy back shares in the Company and appropriate resolutions are included in the Notice of the Annual General Meeting. The Board believes that these authorities are valuable tools in the continuing management of the share price volatility relative to net asset value per share. It is pleasing that, once again, the share price was relatively stable around the net asset value during the year and the shares traded at an average premium of 0.1% to net asset value (excluding undistributed current year revenue).

## Board refreshment

As I reported in my half year statement, Paul Meader joined the Board as a non-executive Director of the Company on 1 January 2016. A resolution for shareholders to appoint Mr Meader as a Director of the Company will be proposed at the Annual General Meeting, details of which are set out at the end of this Statement. Mr Meader's full biographical details can be found on page 19.

Your Board continues to review its composition, balance and diversity. In line with previous disclosures regarding succession plans, one of the longer-serving Directors, Chris Sherwell, will retire at the Annual General Meeting and will not seek re-election. I would like to take this opportunity on behalf of the Board to thank Chris for his invaluable contribution to our deliberations since the Company's launch in 2005.

The Board intends to continue to refresh its composition progressively over the next few years, seeking to balance a fresh perspective with the benefits of continuity. In that regard, a process, led by the Nomination Committee, will commence shortly to recruit an additional Director and it is the Board's intention for a further long-serving Director to retire at the Annual General Meeting to be held in 2017.

In the meantime, I can confirm that the Board has evaluated all the remaining Directors and is of the view that all continue to be independent, notwithstanding the long service of two Directors.

## Outlook

This year continues the Company's history of increasing dividends in every year since its launch. The shares currently yield much the same as the UK stock market, the dividend is well covered by the income reserves and there is the appeal of direct exposure to Asia's growth potential. As the Manager notes in its report, Asia remains a fertile source of companies with well underpinned and growing dividends, combined with the opportunity for capital growth. At a time of such uncertainty in other regions of the globe, these strengths, alongside the inherent diversification benefits for UK investors, support the Board's view that this is a strategy which deserves a place in many sterling portfolios.

## Annual General Meeting

The Company's Annual General Meeting will be held in Guernsey on Wednesday, 14 December 2016 at 4.00 p.m.

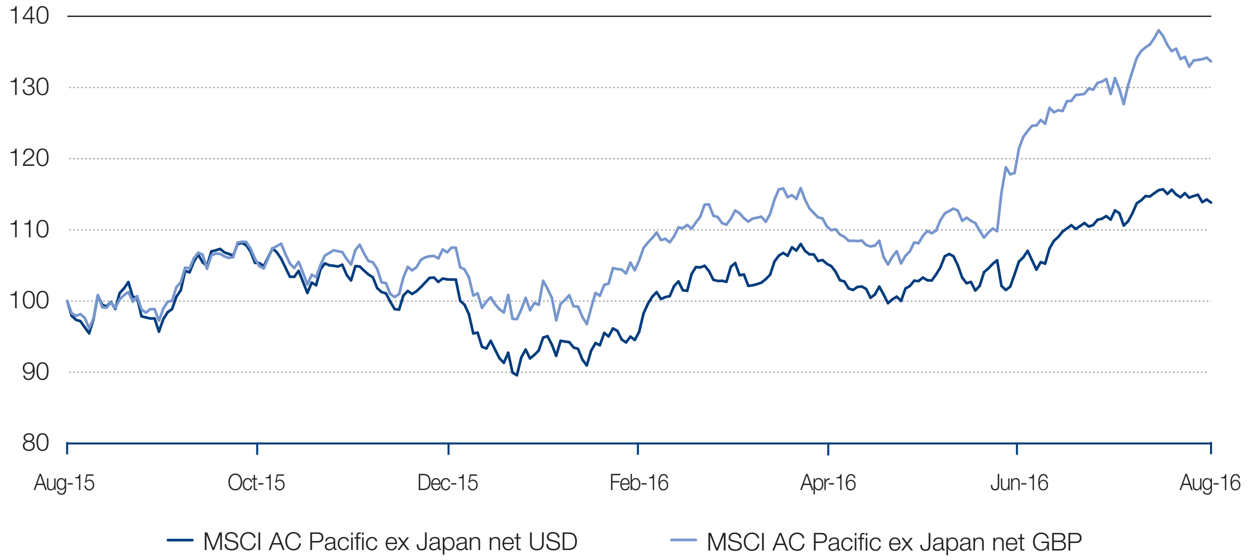
**Robert Sinclair**
Chairman

21 November 2016

# Manager's Review

The net asset value per share of the Company recorded a total return of 32.1% over the 12 months to end August 2016. Dividends totalling 8.50 pence per share have been paid or declared in respect of the year, representing a 6.3% rise from the year before.

## Performance of the MSCI AC Pacific ex Japan Index – 31 August 2015 to 31 August 2016

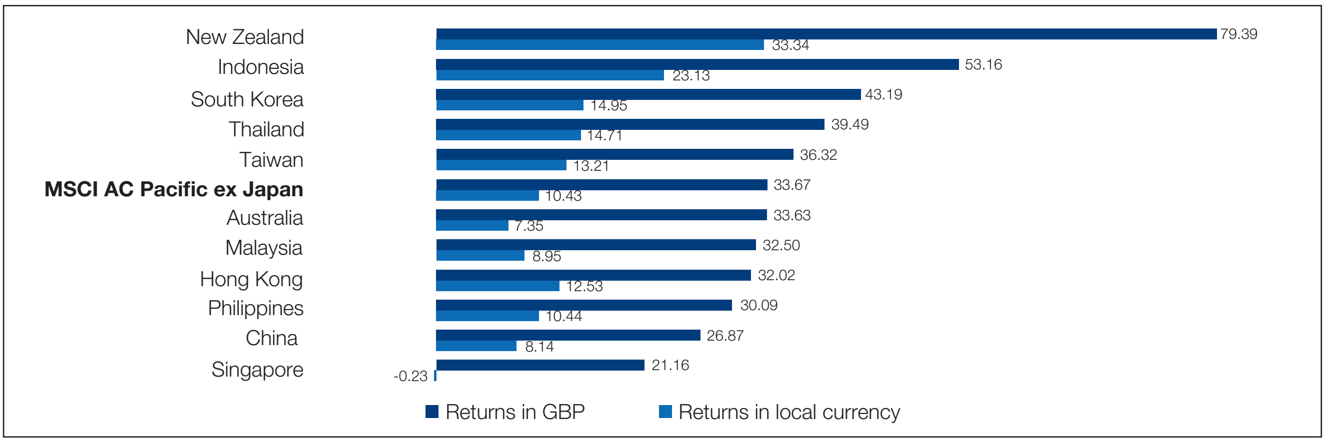



Source: Thomson Reuters as at 31 August 2016; rebased to 100 at 31 August 2016.

The scale of returns over the year has been materially influenced by the weakness of sterling in response to the uncertainty caused by the result of the UK referendum on EU membership. This somewhat disguised the extent to which regional markets made steady progress in local currency terms over the second half of the fiscal year.

Much of this represented a recovery from the very severe falls seen in the summer of 2015. More tangible support has come from continued accommodative monetary policies worldwide. This has been mirrored in the region, with reductions in policy rates in Korea, India and China. Concerns over the direction of the Chinese Renminbi exchange rate and dwindling foreign currency reserves have been calmed through concerted policy action including a restructuring of local government debt, proactive interest rate cuts and discouragement of capital outflows. Credit has continued to expand, resulting in a stabilisation in growth and a recovery in commodity prices.

## Country returns – 31 August 2015 to 31 August 2016




Source: Schroders, Factset

New Zealand has been the strongest market, with particular strength in the currency. Indonesia also performed well thanks to a recovery in commodity prices, a stabilisation in the rupiah and increasing confidence in the reform agenda of President Jokowi. South Korea and Thailand benefited from an upturn in corporate earnings revisions.

In contrast, Singapore yielded subpar returns with key financial and offshore and marine stocks out of favour. Although Chinese growth has stabilised, the overall index has been hampered by its heavy weighting towards State Owned Enterprises where national policy dictates have priority over shareholder returns, while the private sector remains under pressure.

## Positioning and performance

The Company's performance has broadly matched the rise in the Reference Index, the MSCI All Country Pacific ex Japan Index. Stock selection was generally strong, with notable contributions from our holdings in Hong Kong, Singapore and Taiwan. The only material exception was Thailand where regulatory and competition concerns weighed on the telecom holdings. Country allocation was a modest headwind due to the underweight in South Korea (one of the best performing markets) and the overweight in Singapore.

Australia, Hong Kong, Taiwan, China and Singapore have remained the main country exposures in the Company. In terms of changes, we reduced Singapore, Australia and the Philippines, while adding to Hong Kong and South Korea, although the latter market, along with China, remained the principal areas of under exposure compared to the Reference Index.

Real estate, banks, information technology and telecommunications account for almost two thirds of the Company's investments. In terms of changes over the year, we added to materials on valuations grounds, while reducing real estate, particularly REITs.

## Investment outlook

The prospects for global growth remain somewhat muted. Policy settings are likely to remain supportive, though whether the concentration on monetary tools gives way to greater fiscal activism remains to be seen. Headwinds to growth include still elevated levels of indebtedness, limited pricing power and generally low levels of private capital investment. A number of major industries such as energy, financials and auto manufacturing are facing potentially destabilising levels of disruption, further contributing to caution. This is as true within the region as elsewhere.

Meanwhile, events in China will remain very influential for investor sentiment. Structural issues remain, with the private sector cutting investment and conserving cash, while the government influenced parts of the economy are being encouraged to invest, primarily in infrastructure and other "priority" projects. The sources of this funding have become increasingly opaque, the latest mechanism being the encouragement of public private partnerships (PPPs) with return on investment considerations likely to be subordinate to other aims such as sustaining growth and employment. Despite poor affordability, particularly in the largest cities, we also see little appetite to seriously disrupt the real estate market.

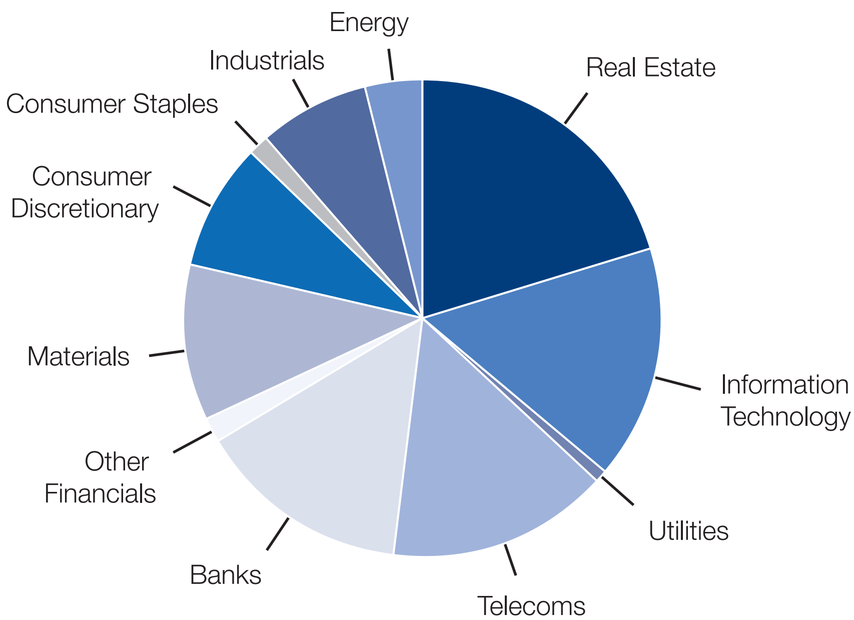
The continued expansion of credit in excess of nominal growth is clearly not sustainable, but given the priority for social cohesion and the leadership transition in prospect in 2017, stability is the priority rather than inherently risky restructuring and capital discipline, however desirable they may be. While we continue to see the situation in China as the main source of domestic risk facing the region, we expect relative stability over the next year given a modest recovery in growth, a steady decline in the currency, and further credit growth enabled by low nominal interest rates, high household savings and government direction.

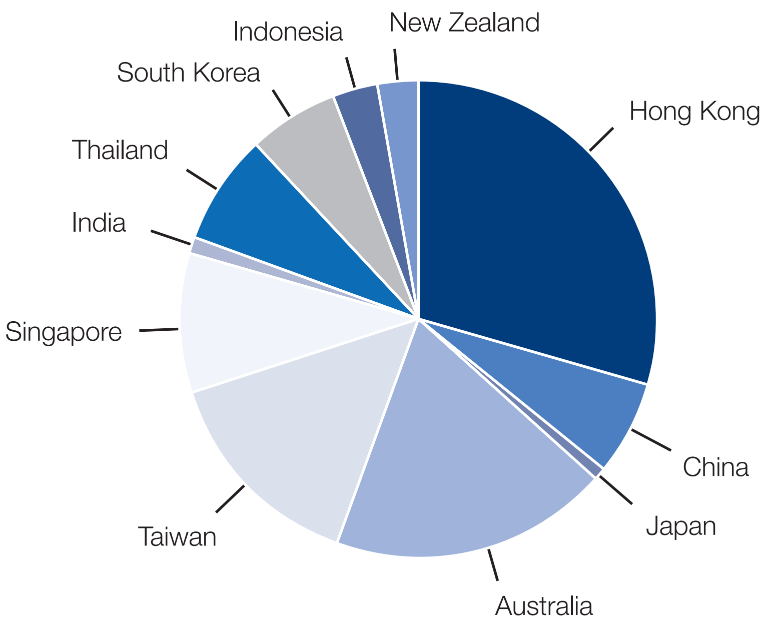
Regional equity valuations have partially recovered the steep falls seen in the second half of 2015. They are not expensive by historic standards, but earnings expansion is likely to remain modest given the global backdrop and subdued demand drivers across the region. The latter continues to be a function of relatively high aggregate debt levels compared to history, although in general they are well below those pertaining in developed markets, including the United Kingdom.

However, the aggregate position disguises the variations at a sector, market and stock level. Looking at our own portfolio, we see many companies that have (rightly in our view) been cautious and disciplined about investment spending, preferring to conserve cash and retire debt. Consequently, many companies are lowly geared, and generating excess cash. While the process will inevitably be gradual, this does leave us optimistic on dividends and the prospect of higher distributions to shareholders, absent some sort of severe economic dislocation.

## Sector and country weights

Investments are classified by the Manager.




**Schroder Unit Trusts Limited**

21 November 2016

# Investment Portfolio

## At 31 August 2016

Investments are classified by the Manager in the country of their main business operations. Stocks in bold are the 20 largest investments, which by value account for 51.4% (2015: 50.7%) of total investments and derivative financial instruments.

| | £'000 | % |
|---|---|---|
| **Hong Kong** | | |
| **HSBC** | **23,287** | **4.4** |
| **Fortune Real Estate Investment Trust** | **16,042** | **3.0** |
| **Hopewell** | **15,390** | **2.9** |
| **BOC Hong Kong** | **15,128** | **2.8** |
| **HKT Trust and HKT** | **13,028** | **2.4** |
| **Swire Pacific** | **11,445** | **2.1** |
| **PCCW** | **10,801** | **2.0** |
| Kerry Properties | 7,746 | 1.5 |
| Texwinca | 7,413 | 1.4 |
| FIH Mobile | 6,117 | 1.1 |
| Cheung Kong Property | 5,649 | 1.1 |
| Sun Hung Kai Properties | 5,627 | 1.1 |
| Sands China | 4,178 | 0.8 |
| Pacific Textiles | 4,165 | 0.8 |
| Prada | 2,942 | 0.6 |
| Jardine Strategic[1] | 2,718 | 0.5 |
| Hysan Development | 2,510 | 0.5 |
| Yue Yuen Industrial | 1,592 | 0.3 |
| Dah Chong Hong | 1,298 | 0.2 |
| Giordano | 1,102 | 0.2 |
| Glorious Sun Enterprise | 394 | 0.1 |
| **Total Hong Kong** | **158,572** | **29.8** |
| **Australia** | | |
| **National Australia Bank** | **14,639** | **2.7** |
| **BHP Billiton[2]** | **13,308** | **2.5** |
| **Mirvac** | **10,570** | **2.0** |
| **Transurban** | **10,314** | **1.9** |
| Australia & NZ Banking | 8,191 | 1.5 |
| Woolworths | 7,367 | 1.4 |
| Amcor | 7,183 | 1.3 |
| Brambles | 5,915 | 1.1 |
| Orica | 4,909 | 0.9 |
| Iluka Resources | 4,444 | 0.8 |
| AMP | 4,267 | 0.8 |
| Scentre | 4,128 | 0.8 |
| Incitec Pivot | 3,897 | 0.7 |
| Computershare | 1,614 | 0.3 |
| **Total Australia** | **100,746** | **18.7** |
| **Taiwan** | | |
| **Taiwan Semiconductor Manufacturing** | **33,873** | **6.3** |
| **Far EasTone Telecommunications (including GDR)** | **11,208** | **2.1** |
| Asustek Computer | 7,811 | 1.5 |
| Taiwan Mobile | 7,514 | 1.4 |
| Hon Hai Precision Industry | 7,506 | 1.4 |
| Mega Financial | 7,395 | 1.4 |
| Delta Elt Industrial | 2,798 | 0.5 |
| **Total Taiwan** | **78,105** | **14.6** |

| | £'000 | % |
|---|---|---|
| **Singapore** | | |
| **Venture** | **14,114** | **2.6** |
| **Singapore Telecommunications** | **8,465** | **1.6** |
| Mapletree Commercial Trust | 5,642 | 1.1 |
| Frasers Commercial Trust | 5,420 | 1.0 |
| Comfortdelgro | 4,814 | 0.9 |
| Soilbuild Business Space REIT | 4,130 | 0.8 |
| Mapletree Greater China Commercial Trust REIT | 3,743 | 0.7 |
| Ascott Residence REIT | 2,160 | 0.4 |
| Far East Hospitality Trust REIT | 2,125 | 0.4 |
| **Total Singapore** | **50,613** | **9.5** |
| **Thailand** | | |
| **Intouch (including NVDR)** | **12,709** | **2.4** |
| **BTS Rail Mass Transit Growth Infrastructure** | **8,685** | **1.6** |
| CPN Retail Growth Property Fund | 7,201 | 1.3 |
| Bangkok Bank | 4,558 | 0.9 |
| Glow Energy | 3,563 | 0.7 |
| Advanced Information Services | 1,716 | 0.3 |
| LPN Development | 926 | 0.2 |
| **Total Thailand** | **39,358** | **7.4** |
| **China** | | |
| China Petroleum & Chemical[3] | 8,061 | 1.5 |
| China Mobile[3] | 7,780 | 1.5 |
| Belle[3] | 5,683 | 1.1 |
| Anta Sports Products[3] | 3,793 | 0.7 |
| Midea Group (warrants) | 3,583 | 0.7 |
| Shimao Property[3] | 2,484 | 0.5 |
| 361 Degrees International[3] | 2,113 | 0.4 |
| **Total China** | **33,497** | **6.4** |
| **South Korea** | | |
| **Samsung Electronics** | **9,736** | **1.8** |
| **LG Chemical** | **9,141** | **1.7** |
| SK Telecom | 6,936 | 1.3 |
| Hyundai Motor | 6,618 | 1.2 |
| **Total South Korea** | **32,431** | **6.0** |
| **New Zealand** | | |
| **Fletcher Building** | **13,629** | **2.6** |
| **Total New Zealand** | **13,629** | **2.6** |
| **Indonesia** | | |
| United Tractor | 6,729 | 1.3 |
| **Total Indonesia** | **6,729** | **1.3** |
| **India** | | |
| Reliance Industries | 6,135 | 1.1 |
| **Total India** | **6,135** | **1.1** |

# Investment Portfolio

| | £'000 | % |
|---|---|---|
| **Japan** | | |
| Tokai Tokyo Securities | 3,752 | 0.7 |
| **Total Japan** | **3,752** | **0.7** |
| **Total Equities and Warrants** | **523,567** | **98.1** |
| **Fixed Interest Securities** | | |
| Indonesia Government Bond 7% 15/05/2022 | 2,731 | 0.5 |
| Indonesia Government Bond 8.375% 15/03/2024 | 5,027 | 0.9 |
| Indonesia Government Bond 6.125% 15/05/2028 | 2,768 | 0.5 |
| **Total Fixed Interest Securities** | **10,526** | **1.9** |
| **Total Investments** | **534,093** | **100.0** |
| **Derivative Financial Instruments** | | |
| Forward currency contract[4] | (73) | – |
| **Total Investments and Derivative Financial Instruments** | **534,020** | **100.0** |

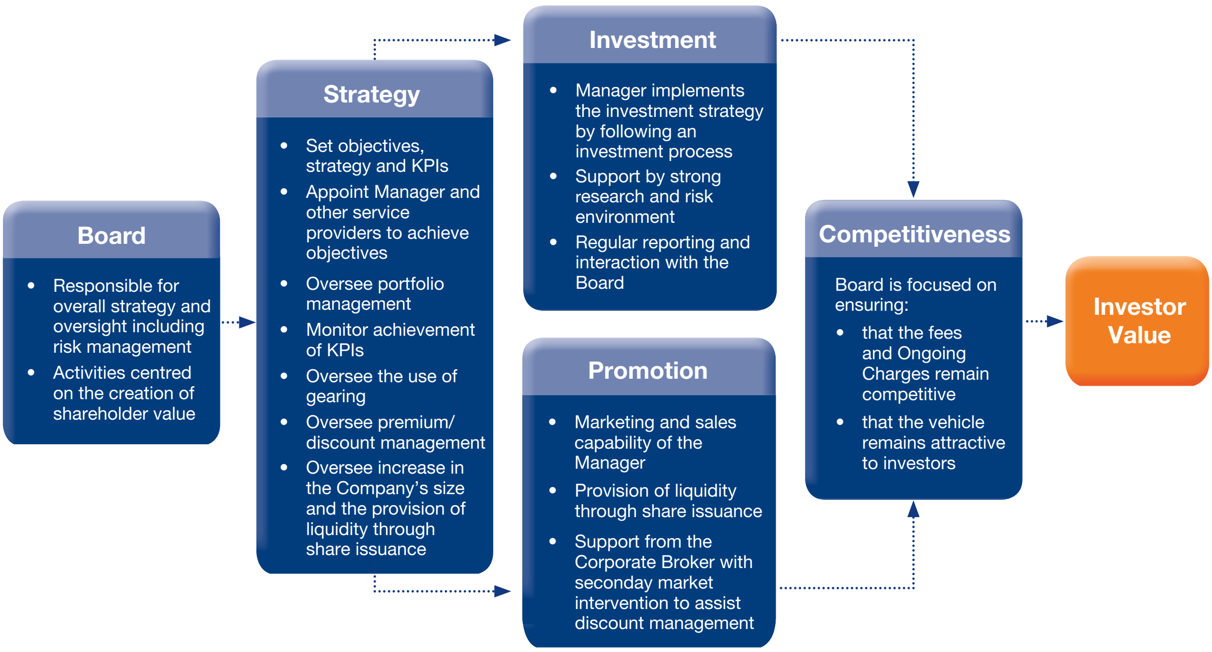
[1]Listed in Singapore.
[2]Listed in UK.
[3]Listed in Hong Kong.
[4]Comprises a single contract to purchase USD108.55 million for HKD842.54 million, for settlement on 22 September 2016. The contract is valued at fair value, being the cost of closing out the contract at 31 August 2016.

## Business model

The Company carries on business as a Guernsey-based closed-ended investment company.

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

The Company's business model may be demonstrated by the diagram below.



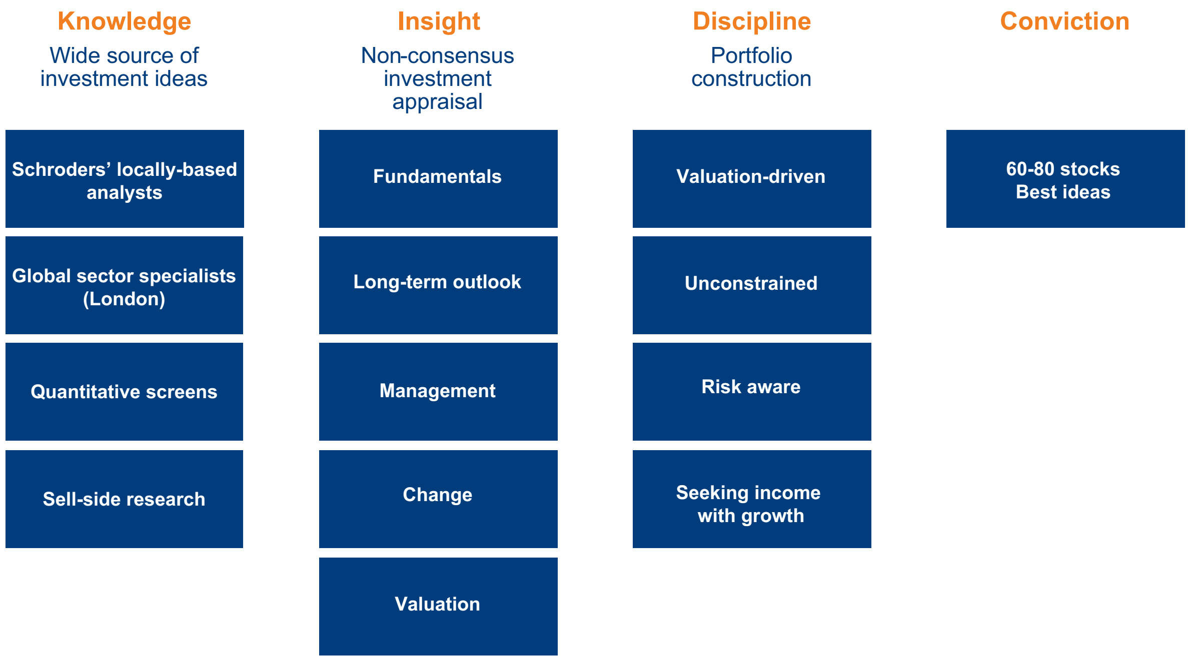

## Investment objective and policy

Details of the Company's investment objective and policy may be found on the inside front cover.

The Board has appointed the Manager, Schroder Unit Trusts Limited, to implement the investment strategy and to manage the Company's assets in line with the appropriate restrictions placed on it by the Board, including limits on the type and relative size of holdings which may be held in the portfolio and on the use of gearing, cash, derivatives and other financial instruments as appropriate.

## Investment philosophy and process

Stock selection is at the heart of the investment approach for the Company, with income and capital growth the key features taken into consideration. One of the Manager's strengths is its network of analysts based in Asia whose focus is on identifying companies able to grow shareholder value in the long term. Although the in-house analysts are the primary source of stock ideas, the portfolio manager also generates stock ideas through his own research and draws on a number of other sources including a proprietary quantitative screen, sell-side analysts, other investment professionals within Schroders and his own contacts in the market. A country allocation process is carried out on a monthly basis, combining the output of a proprietary quantitative model and the qualitative views of the portfolio manager.




## Stock research

The majority of the Manager's analysis is done using internal research and company valuation models. The analysts typically use standard formats to construct models and to forecast company earnings which have been developed by the Manager's global research team. This means that outputs from the models are standardised so that differences in accounting regimes are as far as possible eliminated and that comparisons can be made between companies in the same industry across the region or globally.

Stock gradings reflect a balance between the Manager's analysts' view of the quality of the company and its fair value in the marketplace, and their level of conviction.

## Stock selection/portfolio construction

When constructing the portfolio for the Company, the portfolio manager focuses on stocks which have strong income and capital growth potential. Many of the stocks will already have attractive yields, but the portfolio manager also looks to exploit opportunities in stocks which are set to benefit from improving capital efficiency, rising returns and increasing shareholder distributions.

There is no minimum yield requirement applied to every stock, but portfolio construction is done with reference to an overall yield requirement.

The portfolio manager focuses on the following factors when deciding which companies to invest in:

- Valuation and potential catalyst;
- Ability to increase or sustain dividend payout;
- Upside to the internal estimate of fair value;
- Any grade awarded by Schroders' analysts; and
- Relative attractiveness of other available opportunities.

The resulting portfolio is well-balanced, with a notable yield orientation, and well-diversified at both a country and sector level. The portfolio manager also sets, in conjunction with the Board, the gearing of the Company.

## Investment restrictions and spread of investment risk

Risk in relation to the Company's investments is spread as a result of the Manager monitoring the Company's portfolio with a view to ensuring that it retains an appropriate balance to meet the Company's investment objective.

In order to comply with the Listing Rules, the Company will not invest more than 10%, in aggregate, of the value of its total assets (calculated at the time of any relevant investment) in other investment companies or investment trusts which are listed on the Official List of the London Stock Exchange (the "Official List") (save to the extent that those investment companies or investment trusts have stated investment policies to invest no more than 15% of their gross assets in other investment companies or investment trusts which are listed on the Official List). Additionally, the Company will not:

(i) invest more than 15% of its gross assets in other investment companies or investment trusts which are listed on the Official List;

(ii) invest, either directly or indirectly, or lend more than 20% (calculated at the time of any relevant investment or loan) of its gross assets to any single underlying issuer (including the underlying issuer's subsidiaries or affiliates);

(iii) invest more than 20% (calculated at the time of any relevant investment) of its gross assets in one or more collective investment undertakings which may invest more than 20% of its gross assets in other collective investment undertakings;

(iv) invest more than 40% (calculated at the time of any relevant investment) of its gross assets in another collective investment undertaking;

(v) expose more than 20% of its gross assets to the creditworthiness or solvency of any one counterparty;

(vi) invest in physical commodities; or

(vii) invest in derivatives except for the purposes of efficient portfolio management.

In the event of any breach of the investment restrictions applicable to the Company, shareholders will be informed of the actions to be taken by the Manager by notice sent to the registered addresses of the shareholders in accordance with the Company's Articles of Incorporation or by an announcement issued through a regulatory information service approved by the Financial Conduct Authority ("FCA").

No breaches of these investment restrictions took place during the year ended 31 August 2016.

The Investment Portfolio on pages 9 and 10 and the Manager's Review on pages 6 to 8 demonstrate that, as at 31 August 2016, the portfolio was invested in 11 countries and in 9 different industry sectors within such countries. There were 73 holdings in the portfolio at the year end. The Board therefore believes that the objective of spreading investment risk has been achieved in this way.

## Gearing

The Company's policy is to permit net borrowings (including foreign currency borrowings) of up to 25% of the Company's net assets (measured when new borrowings are incurred). It is intended that the Manager should have the flexibility to utilise this power to leverage the Company's portfolio in order to enhance returns where and to the extent that this is considered appropriate by the Directors. Full details of the gearing employed by the Company are set out on page 54.

## Promotion

The Company promotes its shares to a broad range of investors which have the potential to be long term supporters of the investment strategy. The Company seeks to achieve this through its Manager and corporate broker, which promote the shares of the Company through regular contact with both current and potential shareholders.

Promotion is focused via three channels:

- Discretionary fund managers. The Manager promotes the Company via both London and regional teams. This market is the largest channel by a significant margin.
- Execution-only investors. The Company promotes its shares via engaging with platforms and through its website. Volume is smaller but platforms have experienced strong growth in recent times and are an important focus for the Manager.
- The Company also promotes its shares to institutional investors.

The Board also seeks active engagement with investors and meetings with the Chairman are offered to professional investors where appropriate. These activities consist of investor lunches, one-on-one meetings, regional road shows and attendances at conferences for professional investors. In addition, the Company's shares are supported by the Manager's wider marketing of investment companies targeted at all types of investors; this includes maintaining close relationships with adviser and execution-only platforms, advertising in the trade press, maintaining relationships with financial journalists and the provision of digital information on Schroders' website.

In order to support the promotion of the Company, the Board seeks to manage the share price relative to net asset value. This is achieved by assisting in providing liquidity to the market through the issuance of shares to meet investor demand. In addition, to reduce the volatility of any share price discount, the Board monitors the Company's share price relative to its underlying net asset value and the discounts of peer group companies and regularly considers the use of the Company's share buy back authority. At times when the ordinary shares have traded at a discount, the Board has sought to maintain the price at which the ordinary shares trade relative to their net asset value at no greater than 5% over the longer term.

Details of the Board's approach to share issuance and discount management may be found in the Chairman's Statement on page 5 and in the Explanation of Special Business at the AGM on page 55.

## Key performance indicators

The Board measures the development and success of the Company's business through achievement of the Company's investment objective, which is considered to be the most significant key performance indicator for the Company.

The Board continues to review the Company's Ongoing Charges to ensure that the total costs incurred by shareholders in the running of the Company remain competitive when measured against peer group funds. An analysis of the Company's costs, including management fees, Directors' fees and general expenses, is submitted to each Board meeting. The management fee is reviewed at least annually.

## Corporate and Social Responsibility

### Board gender diversity

As at 31 August 2016, the Board comprised five men. The Board's approach to diversity is that candidates for Board vacancies are selected based on their skills and experience, which are matched against the balance of skills and experience of the overall Board taking into account the specific criteria for the role being offered. Candidates are not specifically selected on the grounds of their gender but this is taken into account in terms of overall balance.

### Responsible investment policy

The Company delegates to its Manager the responsibility for taking environmental, social and governance ("ESG") issues into account when assessing the selection, retention and realisation of investments. The Board expects the Manager to engage with investee companies on social, environmental and business ethics issues and to promote best practice. The Board expects the Manager to exercise the Company's voting rights in consideration of these issues.

A description of the Manager's policy on these matters can be found on the Schroders website at www.schroders.com/ri. The Board notes that Schroders believes that companies with good ESG management often perform better and deliver superior returns over time. Engaging with companies to understand how they approach ESG management is an integral part of the investment process. Schroders is compliant with the UK Stewardship Code and its compliance with the principles therein is reported on its website.

The Board monitors the implementation of this policy through regular reporting by the Manager on its engagement activity, how it is integrated into the investment process, and the outcomes of the activity.

### Anti-bribery and corruption policy

The Company continues to be committed to carrying out its business fairly, honestly and openly and continues to operate an anti-bribery policy.

### Greenhouse gas emissions

As the Company outsources its operations to third parties, it has no greenhouse gas emissions to report.

## Principal risks and uncertainties

The Board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness. The Board has adopted a detailed matrix of principal risks affecting the Company's business as an investment company and has established associated policies and processes designed to manage and, where possible, mitigate those risks, which are monitored by the Audit Committee on an ongoing basis. This system assists the Board in determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. Both the principal risks and the monitoring system are also subject to robust review at least annually. The last review took place in November 2016.

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.

A summary of the principal risks and uncertainties faced by the Company which have remained unchanged throughout the year, and actions taken by the Board and, where appropriate, its Committees, to manage and mitigate these risks and uncertainties, is set out below.

| Risk | Mitigation and management |
|---|---|
| **Strategic and competitiveness risk** | |
| The Company's investment objectives may become out of line with the requirements of investors, resulting in a wide discount of the share price to underlying net asset value. | Appropriateness of the Company's investment remit periodically reviewed and success of the Company in meeting its stated objectives is monitored.<br>Share price relative to net asset value monitored and use of buy back authorities considered on a regular basis.<br>Marketing and distribution activity is actively reviewed. |
| The Company's cost base could become uncompetitive, particularly in light of open ended alternatives. | Ongoing competitiveness of all service provider fees subject to periodic benchmarking against competitors.<br>Annual consideration of management fee levels. |
| **Investment management risk** | |
| The Manager's investment strategy and levels of resourcing, if inappropriate, may result in the Company underperforming the market and/or peer group companies, leading to the Company and its objectives becoming unattractive to investors. | Review of the Manager's compliance with the agreed investment restrictions, investment performance and risk against investment objectives and strategy; relative performance; the portfolio's risk profile; and appropriate strategies employed to mitigate any negative impact of substantial changes in markets.<br>Annual review of the ongoing suitability of the Manager, including resources and key personnel risk. |
| **Financial and currency risk** | |
| The Company is exposed to the effect of market and currency fluctuations due to the nature of its business. A significant fall in regional equity markets could have an adverse impact on the market value of the Company's underlying investments and, as the Company invests predominantly in underlying assets which are denominated in a range of currencies, its exposure to changes in the exchange rate between sterling and other currencies has the potential to have a significant impact on returns. | Risk profile of the portfolio considered and appropriate strategies to mitigate any negative impact of substantial changes in markets or currency discussed with the Manager.<br>Having regard to the exposure to non-sterling assets, the Board considers the overall hedging policy on a regular basis. |

| Risk | Mitigation and management |
|---|---|
| **Custody risk** | |
| Safe custody of the Company's assets may be compromised through control failures by the Depositary, including cyber hacking. | Depositary reports on safe custody of the Company's assets, including cash and portfolio holdings, are independently reconciled with the Manager's records.<br>Review of audited internal controls reports covering custodial arrangements.<br>Annual report from the Depositary on its activities, including matters arising from custody operations. |
| **Gearing and leverage risk** | |
| The Company utilises credit facilities. These arrangements increase the funds available for investment through borrowing. While this has the potential to enhance investment returns in rising markets, in falling markets the impact could be detrimental to performance. | Gearing is monitored and strict restrictions on borrowings imposed: gearing continues to operate within pre-agreed limits so as not to exceed 25% of the Company's net assets. |
| **Accounting, legal and regulatory risk** | |
| Breaches of the UK Listing Rules, the Companies (Guernsey) Law, 2008 (as amended) or other regulations with which the Company is required to comply, could lead to a number of detrimental outcomes. | Confirmation of compliance with relevant laws and regulations by key service providers.<br>Shareholder documents and announcements, including the Company's published Annual Report, are subject to stringent review processes.<br>Procedures have been established to safeguard against disclosure of inside information. |
| **Other service provider risk** | |
| The Company has no employees and has delegated certain functions to a number of service providers. Failure of controls and poor performance of any service provider could lead to disruption, reputational damage or loss. | Service providers appointed subject to due diligence processes and with clearly-documented contractual arrangements detailing service expectations.<br>Regular reporting by key service providers and monitoring of the quality of services provided.<br>Review of annual audited internal controls reports from key service providers, including confirmation of business continuity arrangements. |

## Risk assessment and internal controls

Risk assessment includes consideration of the scope and quality of the systems of internal control operating within key service providers, and ensures regular communication of the results of monitoring by such providers to the Audit Committee, including the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition. No significant control failings or weaknesses were identified from the Audit Committee's ongoing risk assessment which has been in place throughout the financial year and up to the date of this Report.

A full analysis of the financial risks facing the Company is set out in note 20 on pages 49 to 54.

## Viability statement

The Directors have assessed the prospects of the Company over the period to 31 August 2019 which it considers to be an appropriate timeframe over which to judge the viability of an investment company, taking into account the factors outlined below.

In their assessment, the Directors have considered each of the Company's principal risks and uncertainties detailed on pages 16 and 17 and in particular the impact of a significant fall in regional equity markets on the value of the Company's investment portfolio. The Directors have also considered the Company's income and expenditure projections and the fact that its investments comprise readily realisable securities that can be expected to be sold to meet funding requirements if necessary.

Based on the Company's processes for monitoring operating costs, share price discount, the Manager's compliance with the investment objective, asset allocation, the portfolio risk profile, gearing, counterparty exposure, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 August 2019.

## Going concern

Having assessed the principal risks and the other matters discussed in connection with the viability statement set out above, and the "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" published by the Financial Reporting Council ("FRC") in 2014, the Directors consider it appropriate to adopt the going concern basis in preparing the accounts.

By Order of the Board

**Schroder Investment Management Limited**
Company Secretary

21 November 2016

# Board of Directors

**Robert Sinclair**

**Status:** Independent Non-Executive Chairman
**Length of service:** 11 years, appointed a Director and Chairman in June 2005
**Experience:** Mr Sinclair is the Managing Director of Artemis Trustees Limited. Mr Sinclair has over 43 years experience in finance and accountancy of which 33 years have been spent in the Guernsey Financial Services industry. Mr Sinclair is a director of the following publicly listed companies, namely: Chariot Oil & Gas Limited, EF Realisation Company Limited, Picton Property Income Limited and Sirius Real Estate Limited. He is also a director of a number of fund management companies. He is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Institute of Chartered Accountants of Scotland. Mr Sinclair is a resident of Guernsey.
**Committee membership:** Management Engagement and Nomination Committees (Chairman of the Nomination Committee)
**Current remuneration:** £35,000 per annum
**Connections with the Manager:** None
**Material interests in any contract which is significant to the Company's business:** None
**Shared Directorships with any other Directors of the Company:** None
**Date elected/last re-elected:** 2015

**Fergus Dunlop**

**Status:** Independent Non-Executive Director
**Length of Service:** 8 years, appointed a Director in April 2008
**Experience:** Mr Dunlop is also a Director of Princess Private Equity Holding Limited. He has 28 years' experience in investment companies in London, Frankfurt, Munich and the Channel Islands. Mr Dunlop joined Mercury Asset Management (now BlackRock) in London. He managed their joint venture with Munich Reinsurance for nine years, and pioneered risk modelling of investment funds for international institutions, primarily German. He initiated the opening of MAM's German-regulated investment company in Frankfurt, to which he transferred, developing its institutional business. He was also a managing director and partner of an award-winning quantitative fund advisory business in Munich. Mr Dunlop is a resident of Guernsey.
**Committee membership:** Audit, Management Engagement and Nomination Committees
**Current remuneration:** £30,000 per annum
**Connections with the Manager:** None
**Material interests in any contract which is significant to the Company's business:** None
**Shared Directorships with any other Directors of the Company:** None
**Date elected/last re-elected:** 2014

**Paul Meader**

**Status:** Independent Non-Executive Director
**Length of Service:** Appointed a Director in January 2016
**Experience:** Mr Meader, a Guernsey resident, is an independent director of investment companies, insurers and investment funds. Until the autumn of 2012 he was Head of Portfolio Management for Collins Stewart based in Guernsey, prior to which he was Chief Executive of Corazon Capital. He has 30 years' experience in financial markets in London, Dublin and Guernsey, holding senior positions in portfolio management and trading. Prior to joining Corazon he was Managing Director of Rothschild's Swiss private-banking subsidiary in Guernsey. Mr Meader is a Fellow of the Chartered Institute of Securities & Investments, a past Commissioner of the Guernsey Financial Services Commission and past Chairman of the Guernsey International Business Association. He is a graduate of Hertford College, Oxford. Mr Meader also holds a number of directorships in other companies, several of which are publicly quoted, including investment companies Highbridge Multi-Strategy Fund Limited, ICG-Longbow Senior Secured UK Property Debt Investments Limited, JP Morgan Global Convertibles Income Fund Limited and Volta Finance Limited.
**Committee membership:** Audit, Management Engagement and Nomination Committees
**Current remuneration:** £30,000 per annum
**Connections with the Manager:** None
**Material interests in any contract which is significant to the Company's business:** None
**Shared Directorships with any other Directors of the Company:** None
**Date elected/last re-elected:** N/A

# Board of Directors

**Peter Rigg**

**Status:** Independent Non-Executive Director
**Length of Service:** 11 years, appointed a Director in June 2005
**Experience:** Mr Rigg is the non-executive chairman of Polarcus, a Dubai-based, Norwegian listed seismic survey company and of MXC Capital plc, an AIM listed technology investment company. He is a board director of Cartesius Advisory Network, an international corporate finance and strategic advisory business based in Switzerland. Between 1989 and 1995, Mr Rigg worked for the CS First Boston Group in Hong Kong, where he held various roles, including acting as board representative of International Investment Trust Co., a leading Taipei-based fund management company; managing director and Hong Kong-based head of Asian equity capital markets; and managing director and head of investment banking for CS First Boston (Hong Kong) Limited. Prior to that, Mr Rigg worked for Credit Suisse First Boston Limited in London as director for Asian investment banking and as a solicitor in banking and private practice. Mr Rigg is a resident of Monaco.
**Committee membership:** Audit, Management Engagement and Nomination Committees (Chairman of the Audit and Management Engagement Committees)
**Current remuneration:** £32,750 per annum
**Connections with the Manager:** None
**Material interests in any contract which is significant to the Company's business:** None
**Shared Directorships with any other Directors of the Company:** None
**Date elected/last re-elected:** 2015

**Christopher Sherwell**

**Status:** Non-Executive Director
**Length of Service:** 11 years, appointed a Director in June 2005
**Experience:** Mr Sherwell is a non-executive director of a number, of investment-related companies of which the following are publicly quoted: Raven Russia Limited, Baker Street Resources Trust Limited, NB Private Equity Partners Limited and NB Distressed Debt Investment Fund Limited. He was Managing Director of Schroders (C.I.) Limited from April 2000 until January 2004, and served as a director of various Schroder group companies and investment funds. He was a non-executive Director of Burnaby Insurance (Guernsey) Limited, a wholly-owned subsidiary of Schroders plc until December 2014. Before joining Schroders in 1993, Mr Sherwell worked as Far East regional strategist with Smith New Court Securities in London and Hong Kong. Mr Sherwell was previously a journalist, working for the Financial Times. Mr Sherwell is a resident of Guernsey.
**Committee membership:** Nomination Committee
**Current remuneration:** £30,000 per annum
**Connections with the Manager:** Mr Sherwell's previous connections with Schroders are noted above. His last association ceased in December 2014.
**Material interests in any contract which is significant to the Company's business:** None
**Shared Directorships with any other Directors of the Company:** None
**Date elected/last re-elected:** 2015

# Report of the Directors

The Directors submit their Report and the audited financial statements of the Company for the year ended 31 August 2016.

## Dividends and dividend policy

Having already paid interim dividends amounting to 4.70 pence per share, the Board has now declared a fourth interim dividend of 3.80 pence per share for the year ended 31 August 2016, which is payable on 30 November 2016 to Shareholders on the Register on 18 November 2016. Thus, dividends for the year amount to 8.50 pence (2015: 8.00 pence) per share. This represents an increase of 6.3% over the rate of dividends payable in respect of the previous year.

Total dividends declared in respect of the year ended 31 August 2016 of £20,124,000 (2015: £18,346,000) would have resulted in retained revenue for the year of £1,172,000, but in accordance with accounting standards, the fourth interim dividend, amounting to £9,027,000, will not be accounted for until it has been paid.

In line with the Board's policy, it is expected that interim dividends on the Company's ordinary shares will be declared in respect of the quarters ended 30 November, 28 February, 31 May and 31 August in January, April, July and October/November each year.

## Directors and their interests

The Directors of the Company and their biographical details can be found on pages 19 and 20. All Directors held office throughout the year under review with the exception of Mr Meader, who was appointed on 1 January 2016. Details of Directors' share interests in the Company are set out in the Remuneration Report on page 32.

In accordance with the Company's Articles of Incorporation, Mr Meader will seek election at the forthcoming Annual General Meeting, this being the first Annual General Meeting ("AGM") since his appointment during the year. Full biographical details for Mr Meader may be found on page 19. In accordance with the Company's Articles of Incorporation and the UK Corporate Governance Code, Mr Sinclair and Mr Rigg will retire at the AGM, and being eligible, offer themselves for re-election at the AGM.

Mr Sherwell was Managing Director of Schroders (C.I.) Limited from April 2000 until January 2004 and a non-executive director of the company until December 2008. He has also served as a director of various Schroder group companies and investment funds and was, until December 2014, a non-executive Director of Burnaby Insurance (Guernsey) Limited, a wholly owned subsidiary of Schroders plc.

Re-appointment as a Director is not automatic and follows a formal process of evaluation of each Director's performance and Directors who have served for more than six years are subject to particulary rigorous assessment of their independence and contribution.

While the Board does not believe that length of service, by itself, necessarily affects a Director's independence of character or judgment, Directors are also required to retire each year if they have served more than nine years on the Board, but may then offer themselves for re-election at the AGM. The Board has assessed the independence of all Directors. All Directors are considered to be independent in character and judgment.

The Board, having taken all relevant matters into account, considers that Mr Sinclair and Mr Rigg continue to demonstrate commitment to their roles, provide valuable contributions to the deliberations of the Board, and remain free from conflicts with the Company and its Directors. It therefore recommends that shareholders vote in favour of their re-election. It also recommends that shareholders vote in favour of the election of Mr Meader.

Mr Sherwell will retire at the forthcoming AGM and will not seek re-election.

## Share capital

As at the date of this Report, the Company had 238,623,024 ordinary shares of 1p in issue (no shares were held in Treasury). Accordingly, the total number of voting rights in the Company at the date of this Report is 238,623,024. Details of changes to the Company's share capital during the year under review are given in note 13 to the accounts on page 46.

## Substantial share interests

As at the date of this Report, the Company has received notifications in accordance with the FCA Disclosure Guidance and Transparency Rule 5.1.2R of the following interests in 3% or more of the voting rights attaching to the Company's issued share capital.

| | Number of ordinary shares | Percentage of total voting rights |
|---|---|---|
| Investec Wealth & Investment Limited | 30,666,035 | 12.86% |
| Brewin Dolphin Limited | 14,571,888 | 6.11% |
| Rathbone Investment Management | 11,069,985 | 4.64% |
| KB Financial Services Holdings Limited | 9,927,288 | 4.16% |
| Charles Stanley & Co Ltd | 7,860,051 | 3.30% |
| Cheviot Asset Management Limited | 7,789,750 | 3.27% |

## Key service providers

The Board has adopted an outsourced business model and has appointed the following key service providers:

### Manager

The Company is an Alternative Investment Fund as defined by the AIFM Directive and has appointed Schroder Unit Trusts Limited ("SUTL") as the Manager in accordance with the terms of an Alternative Investment Fund Manager ("AIFM") Agreement. The AIFM Agreement, which is governed by the laws of England and Wales, can be terminated by either party on 12 months' notice or on immediate notice in the event of certain breaches or the insolvency of either party. As at the date of this Report no such notice had been given by either party.

SUTL is authorised and regulated by the FCA and provides portfolio management, risk management, accounting and company secretarial services to the Company under the AIFM Agreement. The Manager also provides general marketing support for the Company and manages relationships with key investors, in conjunction with the Chairman, other Board members or the corporate broker as appropriate. The Manager has delegated investment management, accounting and company secretarial services to another wholly owned subsidiary of Schroders plc, Schroder Investment Management Limited. The Manager has in place appropriate professional indemnity insurance cover.

The Schroders Group manages £375 billion (as at 30 September 2016) on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset and alternatives.

Up until 31 December 2015, under the terms of the AIFM Agreement, the Manager was entitled to receive a basic management fee of an amount equivalent to 0.75% per annum of the net assets of the Company. With effect from 1 December 2015, the basic management fee payable on net assets of the Company above £250 million reduced to 0.70% per annum (0.75% per annum continues to be charged on net assets up to that amount). All amounts are payable quarterly in arrears and calculated as at the last business day in February, May, August and November in each year while the AIFM Agreement remains in force.

The Manager is also entitled to receive a performance fee based on the performance of the Company's adjusted net asset value per ordinary share. The performance fee is 10% of the amount by which the adjusted net asset value per ordinary share (adjusted as described below) at the end of the relevant calculation period exceeds a hurdle, being 107% of the adjusted net asset value per ordinary share at the end of the previous calculation period multiplied by the time weighted average of the number of ordinary shares in issue during the period. The net asset value as at the end of the period is adjusted as appropriate to take account of dividends, buy-backs or the issue of ordinary shares and to add back performance fees paid or accrued during the period.

The performance fee is only payable in respect of any period to the extent that the closing adjusted net asset value per ordinary share, taking account of the performance fee, exceeds the higher of 100p or the highest adjusted net asset value per ordinary share (reduced to the level at which any cap as described below applied) in respect of which a performance fee was previously paid. The total amount of any performance fee payable in respect of any one accounting period is capped at 1% of the net assets of the Company calculated at the end of that period.

Any investment management fees payable to the Manager or to other subsidiaries of Schroders in respect of investments by the Company in collective investment schemes and collective investment trusts managed or advised by the Schroders Group are deducted from the fee payable to the Manager under the AIFM Agreement. There were no such investments during the year ended 31 August 2016.

Schroder Investment Management Limited provides administrative, accounting and company secretarial services to the Company. For these services, it receives an annual fee, payable quarterly in arrears, of £150,000, which was increased from £75,000 per annum with effect from 1 December 2015.

The management and performance fees payable in respect of the year ended 31 August 2016 amounted to £3,323,000 (2015: £3,236,000) and £5,287,000 (2015: nil) respectively.

Details of all amounts payable to the Manager are set out in note 17 on page 48.

The Board has reviewed the performance of the Manager, and fees paid to it, during the year under review and continues to consider that it has the appropriate depth and quality of resource to achieve above-average returns in the longer term. Thus, the Board considers that the Manager's appointment under the terms of the AIFM Agreement, further details of which are set out above, is in the best interests of shareholders as a whole.

### Safekeeping and Cashflow Monitoring Agent

HSBC Bank plc, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (the "Safekeeping and Cashflow Monitoring Agent"), has been appointed to carry out certain duties of a depositary specified in the AIFM Directive including, in relation to the Company, as follows:

- safekeeping of the assets of the Company which are entrusted to it;
- cash monitoring; and
- oversight of the Company and the Manager to the extent described in the AIFM Directive.

The Safekeeping and Cashflow Monitoring Agent is liable to the Company for losses suffered by it as a result of the Safekeeping and Cashflow Monitoring Agent's negligence, wilful default, fraud or fraudulent misrepresentation.

The Company, the Manager and the Safekeeping and Cashflow Monitoring Agent may terminate the Depositary Services Agreement pursuant to which the Safekeeping and Cashflow Monitoring Agent provides these services at any time by giving 90 days' notice in writing. The Safekeeping and Cashflow Monitoring Agent may only be removed from office when a new Safekeeping and Cashflow Monitoring Agent is appointed by the Company.

## Corporate Governance Statement

The Guernsey Financial Services Commission's Finance Sector Code of Corporate Governance (the "GFSC Code") came into effect on 1 January 2012 and provides a framework which applies to all companies in the regulated finance sector in Guernsey. The Company reports against the UK Corporate Governance Code, which meets the requirements of the GFSC Code.

The Board is committed to high standards of corporate governance and has implemented a framework for corporate governance that it considers to be appropriate for an investment trust in order to comply with the principles of the UK Corporate Governance Code. The FRC published a revised version of the UK Corporate Governance Code in September 2014 (the "Code") which applies to accounting periods beginning on or after 1 October 2014 and the disclosures in this Statement report against its provisions. The Code is published by the UK Financial Reporting Council and is available to download from www.frc.org.uk.

The Board has noted the publication of a further revised UK Corporate Governance Code in April 2016, which applies to financial years beginning on or after 17 June 2016. This latest update of the Code has been driven by the implementation of the EU's Audit Regulation and Directive and its impact on audit committees, and the Board is considering the Company's governance framework in light of the new provisions.

# Report of the Directors

## Compliance statement

The UK Listing Authority requires all companies listed on the London Stock Exchange to disclose how they have complied with the provisions of the Code. This Corporate Governance Statement, together with the Statement of Directors' Responsibilities on page 29 and the Viability Statement and Going Concern Statement set out on page 18, indicate how the Company has complied with the Code's principles of good governance and its requirements on internal control.

The Board believes that the Company has, throughout the year under review, complied with all relevant provisions set out in the Code, save in respect of the appointment of a Senior Independent Director, where departure from the Code is considered appropriate given the Company's position as an investment company. The Board has considered whether a Senior Independent Director should be appointed. As the Board comprises entirely non-executive Directors, the appointment of a Senior Independent Director is not considered necessary. However, the chair of the Audit Committee effectively acts as the Senior Independent Director, leads the evaluation of the performance of the Chairman and is available to Directors and/or shareholders if they have concerns which cannot be resolved through discussion with the Chairman.

## Operation of the Board

### Chairman

The Chairman is an independent non-executive Director who is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chairman's other significant commitments are detailed on page 19. He has no conflicting relationships.

### Role and operation of the Board

The Board is the Company's governing body; it sets the Company's strategy and is collectively responsible to shareholders for its long term success. The Board is responsible for appointing and subsequently monitoring the activities of the Manager and other service providers to ensure that the investment objectives of the Company continue to be met. The Board also ensures that the Manager adheres to the investment restrictions set by the Board and acts within the parameters set by it in respect of any gearing.

A formal schedule of matters specifically reserved for decision by the Board has been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

The Chairman ensures that all Directors receive relevant management, regulatory and financial information in a timely manner and that they are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. The Board receives and considers reports regularly from the Manager and other key advisers and ad hoc reports and information are supplied to the Board as required.

The Board is satisfied that it is of sufficient size with an appropriate balance of diverse skills and experience, independence and knowledge of the Company, its sector and the wider investment trust industry, to enable it to discharge its duties and responsibilities effectively and that no individual or group of individuals dominates decision making.

### Training and development

On appointment, Directors receive a full, formal and tailored induction. Directors are also regularly provided with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars. Training and development needs are included as part of the evaluation process and are agreed with the Chairman.

### Conflicts of interest

The Board has approved a policy on Directors' conflicts of interest. Under this policy, Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and approval. The Board may impose restrictions or refuse to authorise such conflicts if deemed appropriate.

### Board evaluation
In order to review the effectiveness of the Board, the Committees and the individual Directors, a thorough evaluation process is in place. This is implemented by way of a questionnaire and discussions with the Chairman. In respect of the Chairman himself, discussions are held between the Directors and the Chairman of the Audit Committee. The process is considered by the Board to be constructive in terms of identifying areas for improving the functioning and performance of the Board and its Committees, the contribution of individual Directors and building and developing individual and collective strengths. The last evaluation took place in November 2016.

### Directors' and officers' liability insurance and indemnity
Directors' and officers' liability insurance cover was in place in respect of the Directors throughout the year under review. The Company provides a Deed of Indemnity to each Director to the extent permitted by Guernsey law whereby the Company is able to indemnify such Director against any liability incurred in proceedings in which the Director is successful, and for costs in defending a claim brought against the Director for breach of duty where the Director acted honestly and reasonably. The Deeds of Indemnity were in place throughout the year under review for each Director and to the date of this Report as appropriate.

### Directors' attendance at meetings
Four Board meetings are usually scheduled each year to deal with matters including: the setting and monitoring of investment strategy; approval of borrowings and/or cash positions; review of investment performance, the level of discount or premium of the Company's shares to underlying net asset value, promotion of the Company and services provided by third parties. Additional meetings of the Board are arranged as required.

The number of meetings of the Board and its Committees held during the financial year and the attendance of individual Directors is shown below. Whenever possible all Directors attend the Annual General Meeting.

| Director | Board | Nomination Committee | Audit Committee | Management Engagement Committee |
|---|---|---|---|---|
| Robert Sinclair | 3/4 | 2/2 | 2/3 | 1/1 |
| Fergus Dunlop | 4/4 | 2/2 | 3/3 | 1/1 |
| Paul Meader[1] | 2/2 | N/A | 1/1 | N/A |
| Peter Rigg | 4/4 | 2/2 | 3/3 | 1/1 |
| Christopher Sherwell | 4/4 | 2/2 | N/A | N/A |

[1]Appointed as a Director 1 January 2016.

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

## Relations with shareholders
Shareholder relations are given high priority by both the Board and the Manager. The Company communicates with shareholders through its webpage and the Annual Report, which aims to provide shareholders with a clear understanding of the Company's activities and its results.

The Chairmen of the Board and its Committees attend the AGM and are available to respond to queries and concerns from shareholders.

It is the intention of the Board that the Annual Report and Notice of the AGM be issued to shareholders so as to provide at least 20 working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so by writing to the Company Secretary at the address given on the outside back cover.

The Company has adopted a policy which ensures that shareholder complaints and other shareholder communications addressed to the Company Secretary, the Chairman or the Board are, in each case, considered by the Chairman and the Board.

## Committees

In order to assist the Board in fulfilling its governance responsibilities, it has delegated certain functions to Committees. The roles and responsibilities of these Committees, together with details of work undertaken during the year under review, is outlined over the next few pages.

The Committees of the Board have defined Terms of Reference which are available on the webpage www.schroderorientalincomefund.com. Membership of the Committees is set out on pages 19 and 20.

## Nomination Committee

The Nomination Committee is responsible for succession planning bearing in mind the balance of skills, knowledge, experience and diversity existing on the Board and will recommend to the Board when the further recruitment of non-executive Directors is required. The Nomination Committee aims to maintain a balance of relevant skills, experience and length of service of the Directors serving on the Board, taking gender and other diversity factors into account.

Before the appointment of a new Director, the Nomination Committee prepares a description of the role and capabilities required for a particular appointment. While the Committee is dedicated to selecting the best person for the role, the Board also recognises the importance of diversity. The Board agrees that its members should overall possess a range of experience, knowledge, professional skills and personal qualities as well as the independence necessary to provide effective oversight of the affairs of the Company. These qualities are taken into account in considering the appointment of a new Director. The Board does not consider it appropriate or in the interests of shareholders as a whole to establish prescriptive diversity targets.

Candidates are drawn from suggestions put forward either by the use of an external agency or by the Company. Candidates are then interviewed by members of the Committee, which makes a recommendation to the Board.

To discharge its duties the Committee met on two occasions during the year under review to consider its Terms of Reference, the balance of skills, independence and experience of the Board, and succession planning, including the appointment of a new Director. The Committee engaged the services of an external search consultancy, Thomas & Dessain, in the selection of candidates for a new Director, although ultimately the chosen candidate was sourced by the Company. Thomas & Dessain has no other connection with the Company.

## Management Engagement Committee

The role of the Management Engagement Committee is to ensure that the Manager remains suitable to manage the portfolio, that the management contract is competitive and reasonable for the shareholders, and that the Company maintains appropriate administrative and company secretarial support. The Committee also reviews the services provided by other service providers. The members of the Management Engagement Committee, which is chaired by Mr Rigg, are set out on pages 19 and 20. The Board considers each member of the Committee to be independent.

To discharge its duties the Committee met on one occasion during the year to consider its Terms of Reference, the performance and ongoing suitability of the Manager, the terms and conditions of the AIFM Agreement, the performance and suitability of other service providers, and the fees paid to Directors.

By Order of the Board

**Schroder Investment Management Limited**
Company Secretary

21 November 2016

# Report of the Audit Committee

The responsibilities and work carried out by the Audit Committee in the year under review are set out in this Report. The duties and responsibilities of the Committee may be found in its Terms of Reference, which can be found on the Company's webpage, www.schroderorientalincomefund.com. Membership of the Committee is as set out on pages 19 and 20. The Board has satisfied itself that at least one of the Committee's members has recent and relevant financial experience.

The Audit Committee met three times during the year ended 31 August 2016. The Audit Committee discharged its responsibilities by:

- considering its Terms of Reference;
- reviewing the operational controls maintained by the Manager and Depositary;
- reviewing the Half Year and Annual Report and Accounts and related audit plan and engagement letter;
- reviewing the need for an internal audit function;
- reviewing the independence of the Auditor;
- evaluating the Auditor's performance; and
- reviewing the principal risks faced by the Company and the system of internal control.

## Annual report and financial statements

During its review of the Company's financial statements for the year ended 31 August 2016, the Audit Committee, having deliberated the Company's principal risks and uncertainties, considered the following issues, which include those communicated by the Auditor during its reporting:

| Issue considered | How the issue was addressed |
|---|---|
| • Valuation and existence of holdings | • Review of portfolio holdings and assurance reports on controls from the Manager and Depositary. |
| • Recognition of investment income | • Consideration of dividends received against forecast and the allocation of special dividends to income or capital. |
| • Overall accuracy of the Annual Report and Accounts | • Consideration of the draft Annual Report and Accounts and the letter from the Manager in support of the letter of representation to the Auditor. |
| • Calculation of the investment management and performance fee | • Consideration of methodology used to calculate the fee, matched against the criteria set out in the AIFM Agreement. |
| • Internal controls and risk management | • Consideration of several key aspects of internal control and risk management operating within the Manager and Depositary, including assurance reports on their controls. |

As a result of the work performed, the Committee has concluded that the Annual Report for the year ended 31 August 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy, and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 29.

## Effectiveness of the independent audit process

The Audit Committee evaluated the effectiveness of the independent audit firm and audit process prior to making a recommendation on its re-appointment at the forthcoming AGM. This evaluation involved an assessment of the effectiveness of the Auditor's performance against agreed criteria including: qualification; knowledge, expertise and resources; independence policies; effectiveness of audit planning; adherence to auditing standards; and overall competence. As part of the evaluation, the Committee considered feedback from the Manager on the audit process and the year end report from the Auditor, which details compliance with regulatory requirements, on safeguards that have been established, and on their own internal quality control procedures. The members of the Committee also met the Auditor without representatives of the Manager present.

# Report of the Audit Committee

Representatives of the Auditor attend the Audit Committee meeting at which the draft Annual Report and Accounts is considered. Having reviewed the performance of the Auditor as described above, the Committee considered it appropriate to recommend the firm's re-appointment.

The Auditor is required to rotate the Audit Partner every five years. This is the first year that the current Audit Partner has conducted the audit of the Company's financial statements. Ernst & Young LLP has provided audit services to the Company from its incorporation in 2005 to date.

The Statutory Auditors and Third Country Regulations 2016 (the "Regulations") were published on 17 June 2016 and take effect for financial periods commencing on or after that date. While the Regulations are not applicable to Guernsey-domiciled companies, the Audit Committee has agreed to adopt them in order to comply with best practice. The Committee is reviewing the impact of the Regulations on the Company's current policies. In accordance with the requirements, the Audit Committee intends to put the audit contract up for competitive tender in 2017 and to invite proposals from a number of audit firms, including the incumbent, following which a recommendation will be put to the Board for approval.

## Independent Auditor

Ernst & Young LLP has indicated its willingness to continue in office. Accordingly, resolutions to re-appoint Ernst & Young LLP as Auditor to the Company, and to authorise the Directors to determine Ernst & Young's remuneration will be proposed at the AGM.

## Provision of information to the Auditor

The Directors at the date of approval of this Report confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

## Provision of non-audit services

The Audit Committee has reviewed the FRC's Guidance on Audit Committees and has formulated a policy on the provision of non-audit services by the Company's appointed Auditor. The Audit Committee has determined that the Company's Auditor will not be considered for the provision of certain non-audit services, such as accounting and preparation of the financial statements, internal audit and custody. The Auditor may, if required, provide other non-audit services however, and this will be judged on a case-by-case basis.

No non-audit services were provided to the Company during the year (2015: nil).

## Internal audit

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not employ any staff. The Audit Committee will continue to monitor the system of internal control in order to provide assurance that it operates as intended and the Directors will continue to review annually whether an internal audit function is needed.

**Peter Rigg**
Audit Committee Chairman

21 November 2016

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey law and generally accepted accounting principles.

Guernsey Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors should:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008 (as amended). 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.

Each of the Directors, whose names and functions are listed on pages 19 and 20, confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with International Financial Reporting Standards as adopted in the EU and with the Companies (Guernsey) Law, 2008, give a true and fair view of the assets, liabilities, financial position and the net return of the Company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

**Robert Sinclair**
Chairman

21 November 2016

# Remuneration Report

## Introduction

The following Remuneration Policy is currently in force and is subject to a binding vote every three years. The full policy provisions will continue to apply until the AGM to be held in 2017 unless a revised remuneration policy is approved by shareholders prior to such AGM. In addition, the below Directors' annual Report on Remuneration is subject to an annual advisory vote. An ordinary resolution to approve this Report will be put to shareholders at the forthcoming AGM.

At the AGM held on 4 December 2014, 99.88% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Directors' Remuneration Policy were in favour, while 0.12% were against. 13,157 votes were withheld.

At the AGM held on 8 December 2015, 99.84% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Report on Remuneration for the year ended 31 August 2015 were in favour, while 0.16% were against. 8,244 votes were withheld.

## Directors' Remuneration Policy

The determination of the Directors' fees is a matter dealt with by the Board.

It is the Board's policy to determine the level of Directors' remuneration having regard to amounts 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, taking into account the aggregate limit of fees set out in the Company's Articles of Incorporation (currently £200,000). Any increase in the level set out therein requires approval by the Board and the Company's shareholders. The Chairman of the Board and the chairman of the Audit Committee each receives fees at a higher rate than the other Directors to reflect their additional responsibilities. The fees payable to Directors are not performance related. They are set at a level to recruit and retain individuals of sufficient calibre, with the level of knowledge, experience and expertise necessary to promote the success of the Company in reaching its short and long term strategic objectives.

The Board and its Committees exclusively comprise non-executive Directors. No Director past or present has an entitlement to a pension, and the Company has not, and does not intend to, operate a share scheme for Directors or to award any share options or long term performance incentives to any director. No Director has a service contract with the Company, however Directors have a letter of appointment. Directors do not receive exit payments and are not provided with any compensation for loss of office. No other payments are made to Directors other than the reimbursement of reasonable out-of-pocket expenses incurred in attending to the Company's business.

The terms of Directors' letters of appointment are available for inspection at the Company's registered office address during normal business hours and during the AGM at the location of such meeting.

The Board did not seek the views of shareholders in setting this Remuneration Policy. Any comments on the Remuneration Policy received from shareholders would be considered on a case-by-case basis.

As the Company does not have any employees, no employee pay and employment conditions were taken into account when setting this Remuneration Policy and no employees were consulted in its construction.

Directors' fees are reviewed annually and take into account research from third parties on the fee levels of directors of peer group companies, as well as industry norms and factors affecting the time commitment expected of the Directors. New Directors are subject to the provisions set out in this Remuneration Policy.

## Directors' annual Report on Remuneration

This Report sets out how the Remuneration Policy was implemented during the year ended 31 August 2016.

### Fees paid to Directors

The following amounts were paid by the Company to the Directors for services as non-executive Directors in respect of the year ended 31 August 2016 and the previous financial year:

| Director | Salary/fees 2016 £ | 2015 £ |
|---|---|---|
| Robert Sinclair (Chairman) | **35,000** | 30,000 |
| Fergus Dunlop | **30,000** | 25,000 |
| Paul Meader[1] | **20,000** | N/A |
| Peter Rigg | **32,750** | 27,750 |
| Christopher Sherwell | **30,000** | 25,000 |
| **Total** | **147,750** | 107,750 |

[1]Appointed as a Director on 1 January 2016.

### Consideration of matters relating to Directors' remuneration

Directors' remuneration was last reviewed by the Board in November 2016, when the Board agreed that Directors' fees should remain unchanged. The members of the Board at the time that remuneration levels were considered were as set out on pages 19 and 20 of this Annual Report. Although no external advice was sought in considering the levels of Directors' fees, information on fees paid to Directors of other investment trusts managed by Schroders and peer group companies provided by the Manager and corporate broker was taken into consideration.

Directors' fees were last increased with effect from 1 September 2015. From that date, the fee paid to the Chairman increased to £35,000 per annum, the fees paid to Directors increased to £30,000 per annum, and the fee paid to the Chairman of the Audit Committee increased to £32,750 per annum.

### Expenditure by the Company on remuneration and distributions to shareholders

The table below compares the remuneration paid to Directors to distributions made to shareholders during the year under review and the prior financial year. In considering these figures, shareholders should take into account the Company's investment objective.

| | Year ended 31 August 2016 £'000 | Year ended 31 August 2015 £'000 | Change % |
|---|---|---|---|
| Remuneration payable to Directors | **148** | 108 | +37.0[1] |
| Distributions paid to shareholders – dividends | **19,114** | 17,440 | +9.6 |

[1]This includes fees for an additional Director appointed during the year under review.

## Directors' share interests

The Company's Articles of Association do not require Directors to own shares in the Company. The interests of Directors, including those of connected persons, at the beginning and end of the financial year under review are set out below.

| | At 31 August 2016 | At 31 August 2015 |
|---|---|---|
| Robert Sinclair | **12,142** | 12,142 |
| Fergus Dunlop | **12,142** | 12,142 |
| Paul Meader[1] | **11,000** | – |
| Peter Rigg | **23,142** | 12,142 |
| Christopher Sherwell | **12,142** | 12,142 |

[1]Appointed as a Director on 1 January 2016.

**Robert Sinclair**
Chairman

21 November 2016

# Independent Auditor's Report to the Members of Schroder Oriental Income Fund Limited

## Our opinion on the financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 August 2016 and of its profit for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

## What we have audited

The financial statements of Schroder Oriental Income Fund Limited comprise:

| |
|---|
| Statement of Comprehensive Income for the year ended 31 August 2016 |
| Statement of Changes in Equity for the year ended 31 August 2016 |
| Balance Sheet as at 31 August 2016 |
| Cash Flow Statement for the year ended 31 August 2016 |
| Related notes 1 to 21 to the financial statements |

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

## Overview of our audit approach

| | |
|---|---|
| Risks of material misstatement | • Incorrect valuation of the investment portfolio<br>• Incomplete or inaccurate revenue recognition, including the allocation of special dividends<br>• Performance fees are not calculated correctly |
| Audit scope | • We performed an audit of the financial statements of Schroder Oriental Income Fund Limited |
| Materiality | • Materiality of £5.3m which represents 1% of equity shareholder's funds (2015: £4.1m) |

## Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

| Risk | Our response to the risk | What we concluded to the Audit Committee |
|---|---|---|
| **The incorrect valuation of the investment portfolio** (as described in the Report of the Audit Committee on page 27).<br>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value. As the largest figure on the balance sheet, incorrect asset pricing could therefore have a significant impact on this value.<br>The valuation of the portfolio at 31 August 2016 was £534m (2015: £431m), consisting of listed equities and government bonds. | We compared 100% of the prices used in the valuation of the Company's portfolio to an independent source as at 31 August 2016.<br>For those investments priced in currencies other than sterling we compared the exchange rates to an independent source. | We have no exceptions to report. |

# Independent Auditor's Report to the Members of Schroder Oriental Income Fund Limited

| Risk | Our response to the risk | What we concluded to the Audit Committee |
|---|---|---|
| **Incomplete or inaccurate revenue recognition, including the allocation of special dividends** (as described in the Report of the Audit Committee on page 27).<br>The investment income directly affects the Company's ability to pay a dividend to shareholders. There is also a judgemental element in allocating special dividends between revenue and capital which may be subject to manipulation in order to meet the investment objective of the Company.<br>Most of the Company's income is received in the form of dividends from equity investments, being £24m (2015: £23m) for the year.<br>During the year the Company received one material special dividend with a value of £244k which was allocated to the revenue column of the Statement of Comprehensive Income. | We agreed, on a sample basis, dividend receipts to an independent source and to the Company bank statements.<br>We agreed on a sample basis, investee company dividend announcements from an independent source to the income recorded by the Company.<br>We agreed all accrued dividends to an independent source and ensured these were recorded in the correct period.<br>Based on the underlying circumstances of the special dividend payment, obtained from a review of externally sourced information, we have determined the allocation of the special dividend to be appropriate. | We have no exceptions to report. |
| **Performance fees are not calculated correctly** (as described in the Report of the Audit Committee on page 27).<br>The fee payable by the Company for investment management services is a significant component of the Company's expenses and, therefore, impacts the Company's net profit.<br>The performance fee calculation may be open to interpretation. If the performance fee is not calculated in accordance with the methodology prescribed in the investment management agreement this could have a significant impact on performance.<br>For the year ended 31 August 2016, the performance fee amounted to £5.3m (2015: nil). Given the amount of the performance fee this year, we have considered the calculation as significant to our audit procedures for the current year. | We used the terms contained in the investment management agreement to recalculate the performance fee for the year and agreed the inputs for the calculation to source data. | We have no exceptions to report. |

## The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, changes in the business environment when assessing the level of work to be performed. The Company is a single component and we perform a full audit on this Company.

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

## Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

# Independent Auditor's Report to the Members of Schroder Oriental Income Fund Limited

We determined materiality for the Company to be £5.3 million (2015: £4.1 million), which is 1% (2015: 1%) of equity shareholders' funds. This provided a basis for determining the nature, timing and extent of our risk assessment procedures, identifying and assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. We derived our materiality calculation from a proportion of total equity as we consider that to be the most important financial metric on which shareholders judge the performance of the Company.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75% of planning materiality, being £4.0m (2015: £3.1m). Our objective in adopting this approach was to ensure that total undetected and uncorrected audit differences in all accounts did not exceed our planning materiality level. We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate testing threshold of £1.1m (2015: £1.1m) for the revenue column of the Statement of Comprehensive Income, being 5% of the revenue return on ordinary activities before taxation.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.3m (2015: £0.2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 29, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. 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 auditor's 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.

# Independent Auditor's Report to the Members of Schroder Oriental Income Fund Limited

## Matters on which we are required to report by exception

| | | |
|---|---|---|
| **ISAs (UK and Ireland) reporting** | We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:<br>• materially inconsistent with the information in the audited financial statements; or<br>• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or<br>• otherwise misleading.<br>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed. | We have no exceptions to report. |
| **Companies (Guernsey) Law 2008 reporting** | We are required to report to you if, in our opinion:<br>• proper accounting records have not been kept; or<br>• the financial statements are not in agreement with the accounting records; or<br>• we have not received all the information and explanations we require for our audit. | We have no exceptions to report. |
| **Listing Rules review requirements** | We are required to review:<br>• the Directors' statements in relation to going concern and longer-term viability, both set out on page 18; and<br>• the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. | We have no exceptions to report. |

## Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

| | | |
|---|---|---|
| **ISAs (UK and Ireland) reporting** | We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:<br>• the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;<br>• the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;<br>• the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and<br>• the Directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. | We have nothing material to add or to draw attention to. |

Andrew Dann
for and on behalf of Ernst & Young LLP
Guernsey, Channel Islands
21 November 2016

# Statement of Comprehensive Income

## for the year ended 31 August 2016

| | Note | 2016 Revenue £'000 | 2016 Capital £'000 | 2016 Total £'000 | 2015 Revenue £'000 | 2015 Capital £'000 | 2015 Total £'000 |
|---|---|---|---|---|---|---|---|
| Gains/(losses) on investments at fair value through profit or loss | 2 | – | 123,772 | 123,772 | – | (46,719) | (46,719) |
| Net foreign currency (losses)/gains | | – | (8,116) | (8,116) | – | 5,968 | 5,968 |
| Income from investments | 3 | 24,811 | 244 | 25,055 | 23,002 | – | 23,002 |
| Other income | 3 | 10 | – | 10 | 9 | – | 9 |
| **Total income/(loss)** | | 24,821 | 115,900 | 140,721 | 23,011 | (40,751) | (17,740) |
| Management fee | 4 | (997) | (2,326) | (3,323) | (971) | (2,265) | (3,236) |
| Performance fee | 4 | – | (5,287) | (5,287) | – | – | – |
| Other administrative expenses | 5 | (685) | (5) | (690) | (620) | (5) | (625) |
| **Profit/(loss) before finance costs and taxation** | | 23,139 | 108,282 | 131,421 | 21,420 | (43,021) | (21,601) |
| Finance costs | 6 | (271) | (632) | (903) | (311) | (726) | (1,037) |
| **Profit/(loss) before taxation** | | 22,868 | 107,650 | 130,518 | 21,109 | (43,747) | (22,638) |
| Taxation | 7 | (1,572) | – | (1,572) | (1,449) | – | (1,449) |
| **Net profit/(loss) and total comprehensive income** | | 21,296 | 107,650 | 128,946 | 19,660 | (43,747) | (24,087) |
| **Earnings/(loss) per share** | 9 | 9.03p | 45.66p | 54.69p | 8.73p | (19.43)p | (10.70)p |

The Company does not have any income or expense that is not included in net profit/(loss) for the year. Accordingly the "Net profit/(loss)" for the year is also the "Total comprehensive income" for the year.

The "Total" column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS. The "Revenue and Capital" columns represent supplementary information prepared under guidance issued by the Association of Investment Companies.

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

The notes on pages 41 to 54 form an integral part of these accounts.

# Statement of Changes in Equity

## for the year ended 31 August 2016

| | Share capital £'000 | Treasury share reserve £'000 | Capital redemption reserve £'000 | Special reserve £'000 | Capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| At 31 August 2014 | 148,880 | (29,447) | 39 | 150,374 | 138,851 | 19,759 | 428,456 |
| Reissue of ordinary shares from Treasury | – | 23,161 | – | – | – | – | 23,161 |
| Net (loss)/profit | – | – | – | – | (43,747) | 19,660 | (24,087) |
| Dividends paid in the year | – | – | – | – | – | (17,440) | (17,440) |
| At 31 August 2015 | 148,880 | (6,286) | 39 | 150,374 | 95,104 | 21,979 | 410,090 |
| Issue of ordinary shares | 1,371 | – | – | – | – | – | 1,371 |
| Reissue of ordinary shares from Treasury | – | 6,286 | – | – | 1,083 | – | 7,369 |
| Net profit | – | – | – | – | 107,650 | 21,296 | 128,946 |
| Dividends paid in the year | – | – | – | – | – | (19,114) | (19,114) |
| **At 31 August 2016** | **150,251** | **–** | **39** | **150,374** | **203,837** | **24,161** | **528,662** |

The notes on pages 41 to 54 form an integral part of these accounts.

# Balance Sheet

## at 31 August 2016

| | Note | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Non current assets** | | | |
| Investments at fair value through profit or loss | 10 | **534,093** | 431,088 |
| **Current assets** | | | |
| Receivables | 11 | **3,178** | 3,090 |
| Cash and cash equivalents | | **33,859** | 18,259 |
| | | **37,037** | 21,349 |
| **Total assets** | | **571,130** | 452,437 |
| **Current liabilities** | 12 | | |
| Payables | | **(42,395)** | (42,347) |
| Derivative financial instruments held at fair value through profit or loss | | **(73)** | – |
| | | **(42,468)** | (42,347) |
| **Net assets** | | **528,662** | 410,090 |
| **Equity attributable to equity holders** | | | |
| Share capital | 13 | **150,251** | 148,880 |
| Treasury share reserve | 14 | **–** | (6,286) |
| Capital redemption reserve | 14 | **39** | 39 |
| Special reserve | 14 | **150,374** | 150,374 |
| Capital reserves | 14 | **203,837** | 95,104 |
| Revenue reserve | 14 | **24,161** | 21,979 |
| **Total equity shareholders' funds** | | **528,662** | 410,090 |
| **Net asset value per share** | 15 | **222.56p** | 175.95p |

These accounts were approved and authorised for issue by the Board of Directors on 21 November 2016 and signed on its behalf by:

Director

The notes on pages 41 to 54 form an integral part of these accounts.

Registered in Guernsey

Company registration number: 43298

Strategic Report Governance Financial Annual General Meeting

# Cash Flow Statement

## for the year ended 31 August 2016

| | 2016<br>£'000 | 2015<br>£'000 |
|---|---|---|
| **Operating activities** | | |
| Profit/(loss) before finance costs and taxation | **131,421** | (21,601) |
| Less net foreign currency losses/(gains) | **8,116** | (5,968) |
| Less (gains)/losses on investments at fair value through profit or loss | **(123,772)** | 46,719 |
| Net sales/(purchases) of investments at fair value through profit or loss | **20,287** | (25,666) |
| Less amortisation of discount on fixed interest securities | **(7)** | – |
| Increase in receivables | **(188)** | (631) |
| Increase/(decrease) in payables | **5,497** | (2,564) |
| Overseas taxation paid | **(1,473)** | (1,467) |
| **Net cash inflow/(outflow) from operating activities before interest** | **39,881** | (11,178) |
| Interest paid | **(926)** | (1,114) |
| **Net cash inflow/(outflow) from operating activities** | **38,955** | (12,292) |
| **Financing activities** | | |
| Bank loans drawn down | **91,095** | 40,342 |
| Bank loans repaid | **(106,141)** | (36,248) |
| Reissue of ordinary shares from Treasury | **7,369** | 23,161 |
| Issue of ordinary shares | **1,371** | – |
| Dividends paid | **(19,114)** | (17,440) |
| **Net cash (outflow)/inflow from financing activities** | **(25,420)** | 9,815 |
| **Increase/(decrease) in cash and cash equivalents** | **13,535** | (2,477) |
| Cash and cash equivalents at the start of the year | **18,259** | 20,575 |
| Effect of foreign exchange rate changes on cash and cash equivalents | **2,065** | 161 |
| **Cash and cash equivalents at the end of the year** | **33,859** | 18,259 |

Dividends received during the year amounted to £24,706,000 (2015: £22,397,000) and bond and deposit interest receipts amounted to £449,000 (2015: £10,000).

Minor presentational reclassifications have been made to the prior year column of the Cash Flow Statement to conform with current year presentational requirements.

The notes on pages 41 to 54 form an integral part of these accounts.

# Notes to the Accounts

## 1. Accounting policies

### (a) Basis of accounting

The accounts have been prepared in accordance with the Companies Guernsey Law 2008 and International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ("IASC"), that remain in effect and to the extent that they have been adopted by the European Union.

Where consistent with the requirements of IFRS, the Directors have sought to prepare the accounts on a basis compliant with presentational guidance set out in the statement of recommended practice for investment trust companies (the "SORP") issued by the Association of Investment Companies in November 2014.

The policies applied in these accounts are consistent with those applied in the preceding year.

The Company's share capital is denominated in sterling and this is the currency in which its shareholders operate and expenses are generally paid. The Board has therefore determined that sterling is the functional currency and the currency in which the accounts are presented. Amounts have been rounded to the nearest thousand.

The accounts have been prepared on the going concern basis. The disclosures on going concern in the Directors' Report on page 18 form part of these financial statements. The principal accounting policies adopted are set out below.

### (b) Presentation of the Statement of Comprehensive Income

In order to better reflect the activities of an investment company and in accordance with the recommendations of the SORP, supplementary information has been presented which analyses items in the Statement of Comprehensive Income between those which are income in nature and those which are capital in nature.

### (c) Investments at fair value through profit or loss

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment objective and information is provided internally on that basis to the Company's Board of Directors. Accordingly, investments are designated upon initial recognition as investments at fair value through profit or loss, and are measured at subsequent reporting dates at fair value, which are quoted bid market prices for investments traded in active markets.

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within a timeframe established by the market concerned.

### (d) Accounting for reserves

Gains and losses on sales of investments, including the related foreign exchange gains and losses, are included in the Statement of Comprehensive Income and in capital reserves within "Gains and losses on sales of investments". Increases and decreases in the valuation of investments held at the year end, including the related foreign exchange gains and losses, are included in the Statement of Comprehensive Income and in capital reserves within "Holding gains and losses on investments".

Foreign exchange gains and losses on cash and deposit balances are included in the Statement of Comprehensive Income and in capital reserves within Gains and losses on sales of investments. Unrealised exchange gains and losses on foreign currency loans are included in the Statement of Comprehensive Income and dealt with in capital reserves within Holding gains and losses on investments.

### (e) Income

Dividends receivable from equity shares are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the facts indicate that the dividend is capital in nature, in which case it is included in capital.

Income from fixed interest debt securities is recognised using the effective interest method.

Deposit interest outstanding at the year end is calculated and accrued on a time apportionment basis using market rates of interest.

### (f) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to revenue with the following exceptions:

- The management fee is allocated 30% to revenue and 70% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- Any performance fee is allocated 100% to capital.
- Expenses incidental to the purchase or sale of investments are charged to capital. These expenses are commonly referred to as transaction costs and mainly comprise brokerage commission. Details of transaction costs are given in note 10 on page 45.

**(g) Finance costs**

Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest method.

Finance cost are allocated 30% to revenue and 70% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

**(h) Cash and cash equivalents**

Cash and cash equivalents may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value. Other receivables are non interest bearing, short term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

**(i) Other financial assets and liabilities**

Interest bearing bank loans are initially recognised at cost, being the proceeds received net of direct issue costs, and subsequently at amortised cost.

Forward foreign currency contracts are held at fair value through profit or loss, based on the gain or loss if the contracts had been closed out at the accounting date, at prevailing maket rates.

**(j) Taxation**

The taxation charge in the Statement of Comprehensive Income comprises irrecoverable overseas withholding tax deducted from dividends receivable.

**(k) Foreign currency**

The results and financial position are expressed in sterling. Transactions in currencies other than sterling are recorded at the rates of exchange prevailing on the dates of the transaction. At each balance sheet date, monetary items and non monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at 1600 hours on the balance sheet date. Gains or losses arising on translation are included in net profit or loss for the year and presented as revenue or capital as appropriate.

**(l) Repurchases of shares into Treasury and subsequent reissues**

The cost of repurchasing shares into Treasury is debited to "Treasury share reserve". The sales proceeds of Treasury shares reissued are credited back to Treasury share reserve until the debit balance on that reserve is extinguished and thereafter to capital reserves.

**(m) New and amended Accounting Standards**

No new IFRS, or amendments to IFRS, became applicable in the year which had any impact on the Company's accounts.

At the date of authorisation of these financial statements, the following new and amended IFRSs that potentially impact the Company are in issue but are not yet effective and have not been applied in these accounts:

IFRS 9 (2014) Financial Instruments, effective for periods beginning on or after 1 January 2018.
IAS 1 (amended) Presentation of Financial Statements, effective for periods beginning on or after 1 January 2016.
IAS 34 (amended) Interim Financial Reporting, effective for periods beginning on or after 1 January 2016.

The Directors are currently reviewing the impact that the adoption of the above Standards will have on the Company's accounts in future periods. The Company intends to adopt these Standards and amendments when they become effective. All other IFRSs, which are in issue but are not yet effective, have been considered and will not have a significant effect on the Company's accounts.

## 2. Gains/(losses) on investments held at fair value through profit or loss

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Gains on sales of investments based on historic cost | 27,104 | 13,900 |
| Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold in the year | (8,507) | (7,554) |
| Gains on sales of investments based on the carrying value at the previous balance sheet date | 18,597 | 6,346 |
| Net movement in investment holding gains and losses | 105,175 | (53,065) |
| **Gains/(losses) on investments held at fair value through profit or loss** | **123,772** | (46,719) |

## 3. Income

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Income from investments:** | | |
| Overseas dividends | 24,398 | 22,991 |
| Interest on government bonds | 413 | 11 |
| | 24,811 | 23,002 |
| **Other income:** | | |
| Deposit interest | 10 | 9 |
| **Total income** | **24,821** | 23,011 |
| **Capital:** | | |
| Special dividend allocated to capital | 244 | – |

## 4. Management and performance fee

| | 2016 Revenue £'000 | 2016 Capital £'000 | 2016 Total £'000 | 2015 Revenue £'000 | 2015 Capital £'000 | 2015 Total £'000 |
|---|---|---|---|---|---|---|
| Management fee | 997 | 2,326 | 3,323 | 971 | 2,265 | 3,236 |
| Performance fee | – | 5,287 | 5,287 | – | – | – |
| | 997 | 7,613 | 8,610 | 971 | 2,265 | 3,236 |

The basis for calculating the investment management fee and performance fee is set out in the Report of the Directors on pages 22 and 23.

## 5. Other administrative expenses

| | 2016 Revenue £'000 | 2016 Capital £'000 | 2016 Total £'000 | 2015 Revenue £'000 | 2015 Capital £'000 | 2015 Total £'000 |
|---|---|---|---|---|---|---|
| Administration expenses | 381 | 5 | 386 | 412 | 5 | 417 |
| Directors' fees | 148 | – | 148 | 108 | – | 108 |
| Secretarial fee | 131 | – | 131 | 75 | – | 75 |
| Auditor's remuneration for audit services[1] | 25 | – | 25 | 25 | – | 25 |
| | 685 | 5 | 690 | 620 | 5 | 625 |

[1]No amounts are payable to the auditor for non-audit services

## 6. Finance costs

| | 2016 Revenue £'000 | 2016 Capital £'000 | 2016 Total £'000 | 2015 Revenue £'000 | 2015 Capital £'000 | 2015 Total £'000 |
|---|---|---|---|---|---|---|
| Interest on bank loans and overdrafts | **271** | **632** | **903** | 311 | 726 | 1,037 |

## 7. Taxation

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Irrecoverable overseas tax deducted from dividends receivable | **1,572** | 1,449 |

The Company has been granted an exemption from Guernsey taxation, under the Income Tax (Exempt Bodies) Guernsey Ordinance 1989, for which it is charged an annual exemption fee of £1,200 (2015: £1,200).

## 8. Dividends

| Dividends paid and declared | 2016 £'000 | 2015 £'000 |
|---|---|---|
| 2015 fourth interim dividend of 3.40p (2014: 3.15p) | **8,017** | 7,018 |
| First interim dividend of 1.50p (2015: 1.50p) | **3,541** | 3,344 |
| Second interim dividend of 1.60p (2015: 1.50p) | **3,777** | 3,353 |
| Third interim dividend of 1.60p (2015: 1.60p) | **3,779** | 3,725 |
| **Total dividends paid in the year** | **19,114** | 17,440 |

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Fourth interim dividend declared of 3.80p (2015: 3.40p) | **9,027** | 7,924 |

Under the Companies (Guernsey) Law 2008, the Company may pay dividends out of both capital and revenue reserves, subject to passing a solvency test. However all dividends paid and declared to date have been paid, or will be paid, out of revenue profits. The Company has passed the solvency test for all dividends paid to date.

The fourth interim dividend declared in respect of the year ended 31 August 2015 differs from the amount actually paid due to shares issued after the balance sheet date but prior to the share register record date.

## 9. Earnings/(losses) per share

| | 2016 | 2015 |
|---|---|---|
| Net revenue profit (£'000) | **21,296** | 19,660 |
| Net capital profit/(loss) (£'000) | **107,650** | (43,747) |
| Net total profit/(loss) (£'000) | **128,946** | (24,087) |
| Weighted average number of ordinary shares in issue during the year | **235,764,033** | 225,115,369 |
| Revenue earnings per share | **9.03p** | 8.73p |
| Capital earnings/(losses) per share | **45.66p** | (19.43)p |
| **Total earnings/(losses) per share** | **54.69p** | (10.70)p |

## 10. Investments at fair value through profit or loss

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Opening book cost | **420,249** | 380,147 |
| Opening investment holding gains | **10,839** | 71,458 |
| Opening valuation | **431,088** | 451,605 |
| Amortisation of discount on fixed interest securities | **7** | – |
| Purchases at cost | **155,209** | 154,137 |
| Sales proceeds | **(175,983)** | (127,935) |
| Gains on sales of investments based on the carrying value at the previous balance sheet date | **18,597** | 6,346 |
| Net movement in investment holding gains and losses | **105,175** | (53,065) |
| Closing valuation | **534,093** | 431,088 |
| Closing book cost | **426,586** | 420,249 |
| Closing investment holding gains | **107,507** | 10,839 |
| **Total investments at fair value through profit or loss** | **534,093** | 431,088 |

The following transaction costs, mainly comprising brokerage commissions, were incurred during the year:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| On acquisitions | **249** | 275 |
| On disposals | **360** | 251 |
| | **609** | 526 |

## 11. Receivables

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Dividends and interest receivable | **3,163** | 3,077 |
| Other receivables | **15** | 13 |
| | **3,178** | 3,090 |

The Directors consider that the carrying amount of receivables approximates to their fair value.

## 12. Current liabilities

| Payables | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Bank loan | **35,982** | 40,920 |
| Securities purchased awaiting settlement | **–** | 487 |
| Other payables and accruals | **6,413** | 940 |
| | **42,395** | 42,347 |

The bank loan comprises Australian $62.7million (2015: US$62.9 million) drawn down on the Company's £50 million multi-currency credit facility with Scotiabank. The facility is secured and drawings are subject to covenants and restrictions which are customary for a facility of this nature and all of these have been complied with. Further details of the facility are given in note 20(a) (ii) on page 51.

The Directors consider that the carrying amount of payables approximates to their fair value.

| Derivative financial instruments held at fair value through profit or loss | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Forward foreign currency contract | **73** | – |

Details of the Company's strategy for managing currency risk are given in note 20(a) (i) on page 49.

## 13. Share capital

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Ordinary shares of 1p each, allotted, called-up and fully paid:** | | |
| Opening balance of 233,071,574 (2015: 221,491,574) shares | **142,594** | 119,433 |
| Issue of 600,000 (2015: nil) shares | **1,371** | – |
| Reissue of 3,870,000 (2015: 11,580,000) shares from Treasury | **6,286** | 23,161 |
| Closing balance of 237,541,574 (2015: 233,071,574) shares | **150,251** | 142,594 |
| Nil (2015: 3,870,000) shares held in Treasury | **–** | 6,286 |
| Closing balance[1] | **150,251** | 148,880 |

[1]Represented by 237,541,574 (2015: 236,941,574) shares, including nil (2015: 3,870,000) shares held in Treasury.

During the year a total of 3,870,000 ordinary shares, nominal value £38,700, were reissued to the market from Treasury at an average price of 190.4p per share, for a total consideration received of £7,369,000. In addition, a further 600,000 ordinary shares, nominal value £6,000, were issued to the market under a block listing at an average price of 228.5p per share, for a total consideration received of £1,371,000. All share issues were to satisfy demand.

## 14. Reserves

| | Share capital £'000 | Treasury share reserve £'000 | Capital redemption reserve £'000 | Special reserve £'000 | Gains and losses on sales of investments £'000 | Investment holding gains and losses £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|---|---|
| **At 31 August 2014** | **148,880** | **(29,447)** | **39** | **150,374** | **64,315** | **74,536** | **19,759** |
| Gains on sales of investments based on the carrying value at the previous balance sheet date | – | – | – | – | 6,346 | – | – |
| Movement in investment holding gains and losses | – | – | – | – | – | (53,065) | – |
| Transfer on disposal of investments | – | – | – | – | 7,554 | (7,554) | – |
| Realised exchange gains on cash and short term deposits | – | – | – | – | 161 | – | – |
| Exchange gains/(losses) on foreign currency credit facility | – | – | – | – | 9,618 | (3,811) | – |
| Reissue of shares from Treasury | – | 23,161 | – | – | – | – | – |
| Management fee, finance costs and other expenses charged to capital | – | – | – | – | (2,996) | – | – |
| Dividends paid in the year | – | – | – | – | – | – | (17,440) |
| Net revenue profit for the year | – | – | – | – | – | – | 19,660 |
| **At 31 August 2015** | **148,880** | **(6,286)** | **39** | **150,374** | **84,998** | **10,106** | **21,979** |
| Gains on sales of investments based on the carrying value at the previous balance sheet date | – | – | – | – | 18,597 | – | – |
| Movement in investment holding gains and losses | – | – | – | – | – | 105,175 | – |
| Transfer on disposal of investments | – | – | – | – | 8,507 | (8,507) | – |
| Realised exchange gains on cash and short term deposits | – | – | – | – | 2,065 | – | – |
| Unrealised losses on open derivative contracts | – | – | – | – | – | (73) | |
| Exchange losses on foreign currency credit facility | – | – | – | – | (7,986) | (2,122) | – |
| Issue of shares | 1,371 | – | – | – | – | – | – |
| Reissue of shares from Treasury | – | 6,286 | – | – | 1,083 | – | – |
| Management fee, finance costs and other expenses charged to capital | – | – | – | – | (2,963) | – | – |
| Performance fee | – | – | – | – | (5,287) | – | – |
| Dividends allocated to capital | – | – | – | – | 244 | – | – |
| Dividends paid in the year | – | – | – | – | – | – | (19,114) |
| Net revenue profit for the year | – | – | – | – | – | – | 21,296 |
| **At 31 August 2016** | **150,251** | **–** | **39** | **150,374** | **99,258** | **104,579** | **24,161** |

Under the Companies (Guernsey) Law 2008, the Company may buy back its own shares, or pay dividends, out of any reserves, subject to passing a solvency test. This test considers whether, immediately after the payment, the Company's assets exceed its liabilities and whether it will be able to pay its debts when they fall due.

## 15. Net asset value per share

| | **2016** | 2015 |
|---|---|---|
| Net assets attributable to shareholders (£'000) | **528,662** | 410,090 |
| Shares in issue at the year end | **237,541,574** | 233,071,574 |
| Net asset value per share | **222.56p** | 175.95p |

## 16. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments at the balance sheet date (2015: none).

## 17. Transactions with the Manager

The Company has appointed Schroder Unit Trusts Limited ("the Manager"), a wholly owned subsidiary of Schroders plc, to provide investment management, accounting, secretarial and administration services. Details of the management and performance fee agreement are given in the Report of the Directors on pages 22 and 23. The management fee payable in respect of the year amounted to £3,323,000 (2015: £3,236,000), of which £944,000 (2015: £758,000) was outstanding at the year end. The Company Secretarial fee payable to the Manager amounted to £131,000 (2015: £75,000) of which £38,000 (2015: £19,000) was outstanding at the year end. A performance fee is payable in respect of the year amounting to £5,287,000 (2015: nil) and the whole amount of this was outstanding at the year end.

If the Company invests in funds managed or advised by the Manager or any of its associated companies, any fee earned by the Manager from those funds is deducted from the management fee payable by the Company. There have been no such investments during the current or comparative year.

Details of Mr Sherwell's connections with the Manager are given on page 20.

## 18. Related Party transactions

Details of the remuneration payable to Directors and their shareholdings are given in the Remuneration Report on pages 31 and 32. Details of transactions with the Manager are given in note 17 above. There have been no other transactions with related parties during the year (2015: nil).

## 19. Disclosures regarding financial instruments measured at fair value

The Company's portfolio of investments, comprising investments in companies and government bonds, and any derivatives, are carried in the balance sheet at fair value. Other financial instruments held by the Company comprise amounts due to or from brokers, dividends and interest receivable, accruals, cash at bank and drawings on the credit facility. For these instruments, the balance sheet amount is a reasonable approximation of fair value.

Investments and derivatives are categorised into a hierarchy comprising the following three levels:

Level 1 – valued using quoted prices in active markets.
Level 2 – valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1.
Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Details of the valuation techniques used by the Company are given in note 1(c) on page 41, and note 1(i) on page 42.

At 31 August 2016, the Company's investment portfolio and derivative financial instrument were categorised as follows:

| | **2016** | | | |
|---|---|---|---|---|
| | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
| Investments in companies and government bonds | **534,093** | **–** | **–** | **534,093** |
| Derivative financial instrument – forward foreign currency contract | **–** | **(73)** | **–** | **(73)** |
| **Total** | **534,093** | **(73)** | **–** | **534,020** |

The forward foreign curency contract has been valued at the loss which would have been incurred had the contract been closed out at the accounting date, at prevailing market rates.

| | 2015 | | | |
|---|---|---|---|---|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| Investments in companies and government bonds | 431,088 | – | – | 431,088 |
| **Total** | 431,088 | – | – | 431,088 |

There have been no transfers between Levels 1, 2 or 3 during the year (2015: Nil).

## 20. Financial instruments' exposure to risk and risk management policies

The Company's investment objective is to provide a total return for investors primarily through investments in equities and equity-related investments, of companies which are based in, or which derive a significant proportion of their revenues from, the Asia Pacific region and which offer attractive yields. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets. These risks include market risk (comprising currency risk, interest rate risk and market price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Board coordinates the Company's risk management policy.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's classes of financial instruments are as follows:

- investments in shares of companies in the Asia Pacific region which are held in accordance with the Company's investment objective;
- Indonesian government bonds;
- short term debtors, creditors and cash arising directly from its operations;
- a multicurrency credit facility with Scotiabank, the purpose of which is to assist in financing the Company's operations; and
- a forward foreign currency contract, the purpose of which is to manage the currency risk arising from the Company's investment activities.

**(a) Market risk**

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and market price risk. Information to enable an evaluation of the nature and extent of these three elements of market risk is given in parts (i) to (iii) of this note, together with sensitivity analysis where appropriate. The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

**(i) Currency risk**

Certain of the Company's assets, liabilities and income are denominated in currencies other than sterling, which is the Company's functional currency and the presentational currency of the accounts. As a result, movements in exchange rates will affect the sterling value of those items.

**Management of currency risk**

The Manager monitors the Company's exposure to foreign currencies and regularly reports to the Board. The Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. The Company may use foreign currency borrowings or forward foreign currency contracts to limit the exposure to anticipated changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Income denominated in foreign currencies is converted into sterling on receipt. Further details on the management of currency risk are given in the Strategic Review on page 16.

### Foreign currency exposure

The fair value of the Company's monetary items that have foreign currency exposure at 31 August are shown below. The Company's investments (which are not monetary items) have been included separately in the analysis so as to show the overall level of exposure.

| | 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong dollars £'000 | Australian dollars £'000 | Singapore dollars £'000 | Taiwan dollars £'000 | Thai baht £'000 | New Zealand dollars £'000 | US dollars £'000 | Other £'000 | Total £'000 |
| Government bonds | – | – | – | – | – | – | – | 10,526 | 10,526 |
| Current assets | 4,622 | 7,983 | 6,350 | 105 | 687 | – | 12,238 | 385 | 32,370 |
| Current liabilities | – | (35,982) | – | – | – | – | – | – | (35,982) |
| Derivative financial instruments held at fair value through profit or loss | (82,908) | – | – | – | – | – | 82,835 | – | (73) |
| Foreign currency exposure on net monetary items | (78,286) | (27,999) | 6,350 | 105 | 687 | – | 95,073 | 10,911 | 6,841 |
| Investments at fair value through profit or loss[1] | 185,768 | 87,438 | 50,613 | 78,105 | 39,358 | 13,629 | 12,436 | 42,912 | 510,259 |
| **Total net foreign currency exposure** | 107,482 | 59,439 | 56,963 | 78,210 | 40,045 | 13,629 | 107,509 | 53,823 | 517,100 |

| | 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong dollars £'000 | Australian dollars £'000 | Singapore dollars £'000 | Taiwan dollars £'000 | Thai baht £'000 | New Zealand dollars £'000 | US dollars £'000 | Other £'000 | Total £'000 |
| Government bonds | – | – | – | – | – | – | – | 1,725 | 1,725 |
| Current assets | 3,862 | 567 | 141 | 328 | 470 | – | 11,408 | 234 | 17,010 |
| Current liabilities | – | – | (685) | – | – | – | (40,952) | – | (41,637) |
| Foreign currency exposure on net monetary items | 3,862 | 567 | (544) | 328 | 470 | – | (29,544) | 1,959 | (22,902) |
| Investments at fair value through profit or loss[1] | 151,641 | 87,489 | 44,322 | 48,179 | 32,907 | 8,138 | 15,477 | 33,999 | 422,152 |
| **Total net foreign currency exposure** | 155,503 | 88,056 | 43,778 | 48,507 | 33,377 | 8,138 | (14,067) | 35,958 | 399,250 |

[1]Excluding government bonds and any stocks priced in sterling.

The above year end amounts are broadly representative of the exposure to foreign currency risk during the current and comparative year.

### Foreign currency sensitivity

The following tables illustrate the sensitivity of net profit for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and assumes a 10% (2015: 10%) appreciation or depreciation in sterling against the currencies to which the Company is exposed, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

If sterling had weakened by 10% this would have had the following effect:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Statement of Comprehensive Income – net profit | | |
| Net capital profit | 684 | (2,290) |
| **Net assets** | 684 | (2,290) |

Conversely if sterling had strengthened by 10% this would have had the following effect:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Statement of Comprehensive Income – net profit | | |
| Net capital profit | **(684)** | 2,290 |
| **Net assets** | **(684)** | 2,290 |

In the opinion of the Directors, the above sensitivity analysis with respect to monetary financial assets and liabilities is broadly representative of the whole of the current and comparative year. The sensitivity of the Company's investments to changes in foreign currency exchange rates is subsumed into market price risk sensitivity on page 52.

### (ii) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on variable rate borrowings when interest rates are re-set. The fair value of the government bonds held in the Company's portfolio may be affected by interest rate movements or the expectation of such movements in the future. The exposure has been included in other price risk in part (iii) to this note.

#### Management of interest rate risk

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company's gearing policy is to limit gearing to 25% where gearing is defined as borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company draws on the credit facility. However, amounts drawn down on this facility are for short term periods and therefore exposure to interest rate risk is not significant.

#### Interest rate exposure

The exposure of financial assets and financial liabilities to floating interest rates, giving cash flow interest rate risk when rates are re-set, is shown below:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Exposure to floating interest rates: | | |
| Cash and cash equivalents | **33,859** | 18,259 |
| Other payables: drawings on the credit facility | **(35,982)** | (40,920) |
| Total exposure | **(2,123)** | (22,661) |

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2015: same).

During the year, the Company extended its 364 day multicurrency revolving credit facility with Scotiabank, which now expires on 26 April 2017. Amounts are normally drawn down on this facility for one month periods. Interest is payable at a rate of LIBOR as quoted in the market for the relevant currency and loan period plus a margin, plus Mandatory Costs, which are the lender's costs of complying with certain regulatory requirements of the Bank of England. At the year end, the Company had drawn down Australian $62.7million (£36.0 milllion) on this facility at an interest rate of 2.22% per annum (2015: US$62.9 million (£40.9 million) at an interest rate of 0.84% per annum).

The above year end amounts are not representative of the exposure to interest rates during the year as the level of cash balances and drawings on the credit facility has fluctuated. The maximum and minimum net interest rate exposure during the year has been as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Maximum interest rate exposure during the year – net debt | **(40,108)** | (29,873) |
| Minimum interest rate exposure during the year – net debt | **(2,123)** | (20,452) |

#### Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 0.5% (2015: 0.5%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date with all other variables held constant.

| | 2016 0.5% increase in rate £'000 | 2016 0.5% decrease in rate £'000 | 2015 0.5% increase in rate £'000 | 2015 0.5% decrease in rate £'000 |
|---|---|---|---|---|
| Statement of Comprehensive Income – net profit | | | | |
| Net revenue profit | **115** | **(115)** | 30 | (30) |
| Net capital profit | **(126)** | **126** | (143) | 143 |
| Net total profit | **(11)** | **11** | (113) | 113 |
| **Net assets** | **(11)** | **11** | (113) | 113 |

In the opinion of the Directors, this sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to fluctuations in the level of cash balances and drawings on the credit facility.

### (iii) Market price risk

Market price risk includes changes in market prices, other than those arising from interest rate risk, which may affect the value of the Company's investments.

#### Management of market price risk

The Board meets regularly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objective and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

#### Market price risk exposure

The Company's total exposure to changes in market prices at 31 August comprised the following:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Investments at fair value through profit or loss | **534,093** | 431,088 |

The above data is broadly representative of the exposure to market price risk during the year.

#### Concentration of exposure to market price risk

An analysis of the Company's investments is given on pages 9 and 10. This shows that the portfolio principally comprises investments quoted on Asian stockmarkets. Accordingly there is a concentration of exposure to that region. However it should be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

#### Market price risk sensitivity

The following table illustrates the sensitivity of the net profit for the year and net assets to an increase or decrease of 10% (2015: 10%) in the fair values of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's investments, adjusting for changes in the management fee, but with all other variables held constant.

| | 2016 10% increase in fair value £'000 | 2016 10% decrease in fair value £'000 | 2015 10% increase in fair value £'000 | 2015 10% decrease in fair value £'000 |
|---|---|---|---|---|
| Statement of Comprehensive Income – net profit | | | | |
| Net revenue profit | **(112)** | **112** | (97) | 97 |
| Net capital profit | **53,148** | **(53,148)** | 42,882 | (42,882) |
| **Net total profit for the year and net assets** | **53,036** | **(53,036)** | 42,785 | (42,785) |

**(b) Liquidity risk**

This is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

### Management of the risk

Liquidity risk is not significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of a credit facility.

The Board's policy is for the Company to remain fully invested in normal market conditions and that the credit facility be used to manage working capital requirements and to gear the Company as appropriate.

### Liquidity risk exposure

Contractual maturities of financial liabilities, based on the earliest date on which payment can be required are as follows:

| | **Three months or less 2016 £'000** | Three months or less 2015 £'000 |
|---|---|---|
| Other payables | | |
| Bank loan – including interest | **36,051** | 40,952 |
| Other creditors and accruals | **6,411** | 1,401 |
| Open forward currency contracts | **73** | – |
| | **42,535** | 42,353 |

**(c) Credit risk**

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Company.

### Management of credit risk

This risk is managed as follows:

### Portfolio dealing

The Company invests in markets that operate a "Delivery Versus Payment" settlement process which mitigates the risk of losing the principal of a trade during settlement. The Manager continuously monitors dealing activity to ensure best execution, which involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparties must be pre-approved by the Manager's credit committee.

The Company may sometimes invest in equity linked securities, such as warrants, participatory notes and depositary receipts which provide synthetic equity exposure where the Company may otherwise find it problematic to invest in the underlying asset directly. They have the same economic risks as a direct investment, except that there is a counterparty risk to the issuing investment bank. Counterparties must be approved by the Manager's Credit Risk Team based on a list of criteria and are monitored on an ongoing basis by Schroders' Portfolio Compliance Team.

The Company's investment portfolio includes holdings in Indonesian government bonds. The government debt credit rating for Indonesia is BBB- with Fitch and Baa3 with Moody's, both with stable outlook.

### Exposure to the custodian

The custodian of the Company's assets is HSBC Bank plc which has Long Term Credit Ratings of AA- with Fitch and A1 with Moody's.

The Company's investments are held in accounts which are segregated from the custodian's own trading assets. If the custodian were to become insolvent, the Company's right of ownership of its investments is clear and they are therefore protected. However the Company's cash balances are all deposited with the custodian as banker and held on the custodian's balance sheet. Accordingly, in accordance with usual banking practice, the Company will rank as a general creditor to the custodian in respect of cash balances.

### Credit risk exposure

The following amounts shown in the Balance Sheet, represent the maximum exposure to credit risk at the current and comparative year end.

| | 2016 Balance sheet £'000 | 2016 Maximum exposure £'000 | 2015 Balance sheet £'000 | 2015 Maximum exposure £'000 |
|---|---|---|---|---|
| Non current assets | | | | |
| Indonesian government bonds | **10,526** | **10,526** | 1,725 | 1,725 |
| Current assets | | | | |
| Receivables – dividends and interest receivable, securities sold awaiting settlement and other debtors | **3,163** | **3,163** | 3,077 | 3,077 |
| Cash and cash equivalents | **33,859** | **33,859** | 18,259 | 18,259 |
| | **47,548** | **47,548** | 23,061 | 23,061 |

No items included in "Receivables" are past their due date and none have been provided for.

## 21. Capital management policies and procedures

The Company's objectives, policies and processes for managing capital are unchanged from the preceding year.

The Company's debt and capital structure comprises the following:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Debt** | | |
| Bank loan | **35,982** | 42,920 |
| **Equity** | | |
| Share capital | **150,251** | 148,880 |
| Reserves | **378,411** | 261,210 |
| | **528,662** | 410,090 |
| **Total debt and equity** | **564,644** | 453,010 |

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise total return to its equity shareholders through an appropriate level of gearing.

The Board's policy is to limit gearing to 25%. Gearing for this purpose is defined as borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Borrowings used for investment purposes, less cash | **2,123** | 22,661 |
| Net assets | **528,662** | 410,090 |
| **Gearing** | **0.4%** | 5.5% |

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

– the planned level of gearing, which takes into account the Manager's views on the market;
– the need to buy back the Company's own shares for cancellation or to hold in Treasury, which takes into account the share price discount;
– the opportunities for issues of new shares or to reissue shares from Treasury; and
– the amount of dividend to be paid.

# Annual General Meeting – Explanation of Special Business

**The Annual General Meeting ("AGM") of the Company will be held on Wednesday, 14 December 2016 at 4.00 p.m. The formal Notice of Meeting is set out on page 56.**

**The following information is important and requires your immediate attention. If you are in any doubt about the action you should take, you should consult an independent financial adviser, authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your ordinary shares in the Company, please forward this document with its accompanying form of proxy at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.**

### Resolution 8 – authority to make market purchases of the Company's own shares (special resolution)

At the AGM on 8 December 2015, the Company was granted authority to make market purchases of up to 35,207,248 ordinary shares for cancellation or holding in Treasury. No ordinary shares were bought back under this authority and the Company therefore has remaining authority to purchase up to 35,207,248 ordinary shares. This authority will expire at the forthcoming AGM.

The Directors believe it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy-back its ordinary shares in the market as they keep under review the share price discount to net asset value and the purchase of ordinary shares. A special resolution will be proposed at the forthcoming AGM to give the Company authority to make market purchases of up to 14.99% of the ordinary shares in issue at 21 November 2016 (excluding Treasury shares). The Directors will exercise this authority only if the Directors consider that any purchase would be for the benefit of the Company and its shareholders, taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled or held in Treasury for potential re-issue.

The maximum purchase price that may be paid for an ordinary share will not be more than 105% of the average of the middle market values of the shares, as taken from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase and the higher of the price of the last independent trade in the shares and the highest then current independent bid for the shares on the London Stock Exchange. The minimum price will be 1p, being the nominal value per ordinary share.

### Resolution 9 – disapplication of pre-emption rights (extraordinary resolution)

As last year the Board is proposing an annual authority be given to Directors to disapply pre-emption rights when issuing shares.

The approval of this authority will allow the Company to continue to issue shares on the current basis and provide sufficient liquidity to meet demand for shares in the market. The Directors intend to issue new ordinary shares pursuant to these authorities if investor demand for them is strong. However, the Directors will issue ordinary shares only when they believe it to be advantageous to the Company's existing shareholders to do so. The issue of new ordinary shares will only be made at a premium to net asset value.

If renewed, both the above authorities will expire at the conclusion of the AGM in 2017 unless renewed or revoked earlier.

## Recommendation

The Board considers that the resolutions relating to the above items of special business are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommends to shareholders that they vote in favour of the above resolutions and the other resolutions to be proposed at the forthcoming AGM, as they intend to do in respect of their own beneficial holdings.

# Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of Schroder Oriental Income Fund Limited will be held at 4.00 p.m. on Wednesday, 14 December 2016 at 2nd Floor, East Wing, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL to consider and, if thought fit, to pass the following resolutions, of which resolutions 1 to 7 will be proposed as ordinary resolutions and resolutions 8 and 9 will be proposed as special and extraordinary resolutions respectively:

1. To receive the Report of the Directors and the audited accounts for the year ended 31 August 2016.
2. To approve the Directors' Annual Report on Remuneration for the year ended 31 August 2016.
3. To elect Mr Paul Meader as a Director of the Company.
4. To re-elect Mr Robert Sinclair as a Director of the Company.
5. To re-elect Mr Peter Rigg as a Director of the Company.
6. To re-appoint Ernst & Young LLP as Auditor of the Company.
7. To authorise the Board to determine the remuneration of Ernst & Young LLP as Auditor of the Company.
8. To consider and, if thought fit, to pass the following resolution as a special resolution:

   "That the Company be and is hereby generally and unconditionally authorised in accordance with Section 315 of the Companies (Guernsey) Law 2008 (as amended), to make market purchases of ordinary shares of 1p each in the capital of the Company ("Shares"), provided that:

   (a) the maximum number of shares hereby authorised to be purchased shall be 35,769,591, representing 14.99% of the issued share capital as at 21 November 2016;

   (b) the minimum price which may be paid for a share is 1p;

   (c) the maximum price which may be paid for a share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a Share of the class being purchased taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased and (ii) the higher of the price of the last independent trade in the Shares of that class and the highest then current independent bid for the Shares of that class on the London Stock Exchange;

   (d) purchases may only be made pursuant to this authority if the Shares are (at the date of the proposed purchase) trading on the London Stock Exchange at a discount to the net asset value;

   (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed or revoked prior to such time; and

   (f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract."

9. To consider and, if thought fit pass the following as an extraordinary resolution:

   "That the Board be and hereby is authorised in accordance with Section 291 of the Companies (Guernsey) Law, 2008 (as amended) to allot ordinary shares for cash and/or sell Treasury shares up to 23,862,302 ordinary shares of 1p each in aggregate, representing 10% of the share capital in issue on 21 November 2016 for cash and the right of shareholders to receive a pre-emptive offer in respect of such ordinary shares shall be excluded pursuant to Article 3.24 of the Company's Articles of Incorporation, provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) from the conclusion of the Annual General Meeting of the Company to be held in 2017 save that the Board may allot ordinary shares for cash or sell Treasury shares after the expiry of this authority in pursuance of an offer or agreement made by the Company before such expiry that would or might require ordinary shares to be allotted or Treasury shares to be sold after such expiry.

By Order of the Board
Schroder Investment Management Limited
Company Secretary
Registered Number: 43298

Registered Office:
Arnold House
St Julian's Avenue
St Peter Port
Guernsey GY1 3NF

21 November 2016

**Explanatory notes**

1 An ordinary shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and (insofar as permitted by the Company's Articles of Incorporation) to vote instead of him.

  A proxy need not be a member. A form of proxy is enclosed for ordinary shareholders which should be completed and returned to the Company's registrar, care of Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, not later than 48 hours before the time fixed for the meeting. Completion of the proxy will not preclude an ordinary shareholder from attending and voting in person.

2 The biographies of each of the Directors offering themselves for election and re-election are set out on pages 19 and 20 of the Annual Report and Accounts for the year ended 31 August 2016.

3 As at 21 November 2016, the Company had 238,623,024 ordinary shares of 1p each in issue (no shares were held in Treasury). Accordingly, the total number of voting rights in the Company on 21 November 2016 is 238,623,024.

# Shareholder Information

## Webpage and share price information

The Company has a dedicated webpage, which may be found at www.schroderorientalincomefund.com. The webpage has been designed to be utilised as the Company's primary method of electronic communication with shareholders. It contains details of the Company's share price and copies of Report and Accounts and other documents published by the Company as well as information on the Directors, Terms of Reference of Committees and other governance arrangements. In addition, the site contains links to announcements made by the Company to the market and Schroders' website. There is also a section entitled "How to Invest".

The Company releases its net asset value on both a cum and ex-income basis to the market on a daily basis.

Share price information may also be found in the Financial Times and on Schroders' website at www.schroders.co.uk/its.

A glossary of terms used in this Annual Report may be found on the Company's webpage at www.schroderorientalincomefund.com.

## Association of Investment Companies

The Company is a member of the Association of Investment Companies. Further information on this association can be found on its website, www.theaic.co.uk.

## ISA status

The Company's shares are eligible for stocks and shares ISAs.

## Non-Mainstream Pooled Investments status

The Company currently conducts its affairs so that its shares can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because the returns to investors are predominantly based on exposure to listed equities and equity-based instruments.

## Financial calendar

| | |
|---|---|
| First interim dividend paid | January |
| Second interim dividend paid | May |
| Half year results announced | April/May |
| Third interim dividend paid | July |
| Financial year end | 31 August |
| Annual results announced | November |
| Fourth interim dividend paid | November/December |
| Annual General Meeting | December |

## Alternative Investment Fund Managers ("AIFM") Directive

Certain pre-sale, regular and periodic disclosures required by the AIFM Directive may be found either in this Annual Report or on the website www.schroders.co.uk/its.

The Company's leverage policy and details of limits on leverage required under the AIFM Directive are published on the website at www.schroders.co.uk/its.

### Preferential treatment of investors

The Company's investors purchase shares on the open market and therefore the Company is not in a position to influence the treatment of investors. No investor receives preferential treatment.

### Liquidity risk management

The Company's shares are traded on the London Stock Exchange through market intermediaries. There are no special rights to redemption.

### Periodic and regular disclosure under the Directive

(a) none of the Company's assets are subject to special arrangements arising from their illiquid nature;
(b) there are no new arrangements for managing the liquidity of the Company including, but not limited to, any material changes to the liquidity management systems and procedures employed by the Manager in place. Shareholders will be notified immediately where the issue, cancellation, sale and redemption of shares is suspended, when redemptions are suspended or where other similar special arrangements are activated;
(c) the current risk profile of the Company and the risk management systems employed by the Manager to manage those risks can be found in the Strategic Review; and
(d) the total amount of leverage employed by the Company may be found in the AIFM disclosures on the website www.schroders.co.uk/its.

Any changes to the following information will be provided through a regulatory news service without undue delay and in accordance with the Directive:

(a) the maximum level of leverage which the Manager may employ on behalf of the Company; and
(b) the right of re-use of collateral or any changes to any guarantee granted under any leveraging arrangement.

### Remuneration disclosures

The information required under the AIFM Directive to be made available to investors in the Company on request in respect of remuneration paid by the AIFM to its staff, and, where relevant, carried interest paid by the Company, can be found on the website www.schroders.co.uk/its.

www.schroderorientalincomefund.com

www.schroders.co.uk/its

# Advisers

### Alternative Investment Fund Manager (the "Manager")
Schroder Unit Trusts Limited
31 Gresham Street
London EC2V 7QA
United Kingdom

### Company Secretary and Administrator
Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA
United Kingdom
Telephone: 020 7658 6501

### Registered Office
Arnold House
St Julian's Avenue
St Peter Port
Guernsey GY1 3NF

### Lending Bank
Scotiabank Europe Plc
201 Bishopsgate
London EC2M 3NS
United Kingdom

### Safekeeping and Cashflow Monitoring Agent
HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

### Independent Auditor
Ernst & Young LLP
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey GY1 4AF

### Registrar
Computershare Investor Services (Guernsey) Limited
1st Floor
Tudor House
La Bordage
St Peter Port
Guernsey GY1 1DB

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to shareholdings, including a change of address or other amendment should be directed to Computershare Investor Services (Guernsey) Limited, 1st Floor, Tudor House, La Bordage, St Peter Port, Guernsey GY1 1DB.

### Corporate Broker
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT
United Kingdom

### Designated Manager
HSBC Securities Services (Guernsey) Limited
Arnold House
St Julian's Avenue
St Peter Port
Guernsey GY1 3NF

### Shareholder enquiries
General enquiries about the Company should be addressed to the Company Secretary at the address set out above.

### Dealing codes

| | |
|---|---|
| ISIN: | GB00B0CRWN59 |
| SEDOL: | B0CRWN5 |
| Ticker: | SOI |

### Global Intermediary Identification Number (GIIN)

1TVP6A.99999.SL.831



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