Schroder
Oriental Income Fund Limited

Report and Accounts to 31 August 2010

Schroders

Investment Objective

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.

Directors

Robert Sinclair*† (Aged 61)
(Chairman)
was appointed as a non-executive Director of the Company on 17 June 2005.
Mr Sinclair is the Managing Director of Artemis Trustees Limited. Mr Sinclair has over 42 years experience in finance and accountancy of which 32 years have been spent in the Guernsey Financial Services industry. Mr Sinclair is a director of several companies which are quoted on the London Stock Exchange and 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.

Fergus Dunlop*† (Aged 52)
was appointed as a non-executive Director of the Company on 21 April 2008.
Mr Dunlop is a Director of Resolution Limited and of several Channel Island based investment funds. He has over 20 years experience in investment companies in London, Frankfurt, Munich and the Channel Islands. Mr Dunlop joined Mercury Asset Management in 1987 in London, and managed their joint venture with Munich Reinsurance, and its Jersey subsidiary. This led to the opening of a MAM (now BlackRock) Frankfurt office in 1995, to which he transferred in 1997, developing its institutional business until 2001. From 2002 to 2007 he was a managing director and partner at SÜDPROJEKT in Munich.
Mr Dunlop is a resident of Guernsey.

Peter Rigg*† (Aged 62)
was appointed as a non-executive Director of the Company on 17 June 2005. Mr Rigg is the Chairman of Polarcus, a Dubai-based, Norwegian listed seismic survey company. He is a board director of two private equity funds managed by General Enterprise Management Services Limited ("GEMS") investing principally in Asian companies. 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 the United Kingdom.

Christopher Sherwell† (Aged 62)
was appointed as a non-executive Director of the Company on 17 June 2005.
Mr Sherwell is a non-executive director of a number of investment-related companies. 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 remains a non-executive Director of Burnaby Insurance (Guernsey) Limited, a wholly-owned subsidiary of Schroders plc. His other directorships include chairmanship of Goldman Sachs Dynamic Opportunities Limited, a fund of hedge funds, and of the Hermes Commodities Umbrella Fund. 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.

* member of the Audit and Management Engagement Committees.
† member of the Nomination Committee.

Mr Rigg is chairman of the Audit and Management Engagement Committees.

Mr Sinclair is chairman of the Nomination Committee.

Advisers

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Financial Highlights

	31 August 2010	31 August 2009	% Change
Shareholders' funds	£219.20m	£167.60m	30.8
Net asset value per ordinary share	136.63p	109.31p	25.0
Net asset value per ordinary share (excluding undistributed current year revenue)	133.07p	105.51p	26.1
Share price	136.25p	106.00p	28.5
Premium (based on NAV excluding undistributed current year revenue)	2.4%	0.5%	
Total expense ratio*	0.98%	0.98%	
	For the year ended 31 August 2010	For the year ended 31 August 2009	
Net revenue return per ordinary share	6.25p	6.27p	(0.3)
Dividends per share	5.80p	5.50p	5.5
Share price total return**	39.6%	16.3%	
Net Asset Value total return**	31.2%	3.0%	

* Calculated in accordance with AIC guidance and based on operating costs, excluding performance fees, finance costs and expressed as a percentage of average monthly net assets.

** Source: Morningstar Performance Reporting (net dividends reinvested).

Chairman's Statement

Performance

I am pleased to report that the improvement in the performance of the Company outlined in my Statement in the half-yearly report has continued throughout the second half of the year. During the year ended 31 August 2010 as a whole, the Company's net asset value produced a total return of 31.2% (2009: 3.0%) and the share price produced a total return of 39.6% (2009: 16.3%) as sentiment towards our asset class improved and our shares were re-rated by the market.

Investment Policy

The Investment Manager's Review provides a more detailed description of the performance of the portfolio during the year under review.

Following the end of the year, markets have continued to rally and, as at 19 November 2010 the net asset value had increased by 11.7% since the year end.

It is also a pleasure to report to shareholders, at what is now five years after the Company's launch, that so far the investment objective has been met. That 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. Since launch the total return on the Company's share price has been 86.0% (source: Morningstar, launch on 28 July 2005 to 30 September 2010 in sterling, net dividends reinvested).

The Board continues to believe that this objective is achievable over the long term and we are keen to ensure that the Investment Manager reviews all the opportunities available. To this end, and as part of the process of efficient portfolio management, the Investment Manager may consider writing calls over some of the Company's holdings, as a low risk way of enhancing the returns from the portfolio. The Board has set a limit such that covered calls cannot be written over portfolio holdings representing in excess of 15% of gross assets.

Dividends

Revenue earnings per share for the year have decreased marginally on the previous year (6.25p per share compared with 6.27p for the previous year). Part of this decline has been due to the increase in the number of shares in issue during the year, more details of which may be found below.

However, future investment income appears to be more certain than has previously been the case and I am pleased to report that your Board has declared a second interim dividend of 3.20p per share for the year ended 31 August 2010. This takes total dividends per share for the year to 5.80p, an increase of 5.5% on total dividends of 5.50p per share paid last year. The second interim dividend will be paid on 16 December 2010 to shareholders on the register on 3 December 2010.

Changes to the Memorandum and Articles of Incorporation

As an overseas company with a primary listing on the Official List of the UK Listing Authority, the Company currently benefits from less onerous requirements in relation to pre-emption rights. All overseas companies with a premium listing are now required under the UK Listing Rules to offer shares to their existing shareholders in proportion to their holdings when they make an offer of new ordinary shares for cash, unless such pre-emption rights are disapplied by special resolution.

At this year's Annual General Meeting, we wish to propose a special resolution to shareholders adopting new memorandum and articles of incorporation (the "New Articles") with immediate effect. These New Articles have been updated for two purposes. Firstly, so as to comply with the Companies (Guernsey) Law, 2008, as amended (the "2008 Law"), which came into force on 1 July 2008 to replace the Companies (Guernsey) Law, 1994, as amended, in its entirety (companies are required to update their memoranda and articles of incorporation to comply with the 2008 Law by 1 July 2011). Secondly, to state that the Company may only offer shares to existing shareholders in proportion to their holdings when it makes an offer of equity securities wholly for cash (in the absence of prior

Chairman's Statement

consent from shareholders to disapply pre-emption rights) in accordance with the above-mentioned new Listing Rules requirements for overseas companies with a primary listing. A summary of the proposed changes incorporated in the New Articles is set out in the Explanatory Notes to the Notice of Meeting on page 41.

A special resolution to disapply pre-emption rights when issuing shares is also included in the Notice of the Annual General Meeting.

Issue of Shares and Discount Management

During the year under review, demand for the Company's shares remained strong and the shares traded at an average premium of 0.2% to the underlying net asset value. The premium rating of the Company's shares reflects the current attractiveness of the asset class for investors.

As part of the Board's active policy on discount management and premium control, we have issued shares at a slight premium to asset value to provide liquidity to investors and a total of 7,100,000 ordinary shares were issued during the year (2009: 175,000). A further 4,095,000 shares have been issued since the end of the year.

A resolution to renew the authority to buy-back shares is also included in the Notice of the Annual General Meeting. The renewal of this authority would allow the Company to purchase up to 14.99% of the issued share capital of the Company for cancellation for a further year and the Directors to continue to implement an active discount management policy. It remains the intention of the Board to issue shares in the Company at a premium to net asset value where there is demand.

Gearing

During the year under review, the Company maintained its £24.5 million multi-currency credit facility with ING. Following the end of the year, the facility was replaced with a £25 million multi-currency revolving credit facility with Scotiabank Europe PLC and was provided on a secured basis in order to reduce costs. Net effective gearing stood at 3.9% at the beginning of the year and had increased to 7.7% at 31 August 2010. The level of gearing continues to be monitored closely by the Board.

Outlook

In many ways the last 18 months have been a vindication for the validity of an Asian income-orientated investment approach. The issue for investors is whether Asia's well recognised economic success will lead to further stock market gains in the short term, not least because the Company's share price today is more than a quarter higher than a year ago.

While recognising the difficulty of anticipating short term market movements, your Board continues to believe in the logic of an income-orientated approach. In Asia long term dividend growth should match and possibly beat Asian economic growth, and we expect both to rise faster than in the West.

Annual General Meeting

The Annual General Meeting will be held in Guernsey at 12.00 noon on Friday 17 December 2010 and shareholders are invited to attend.

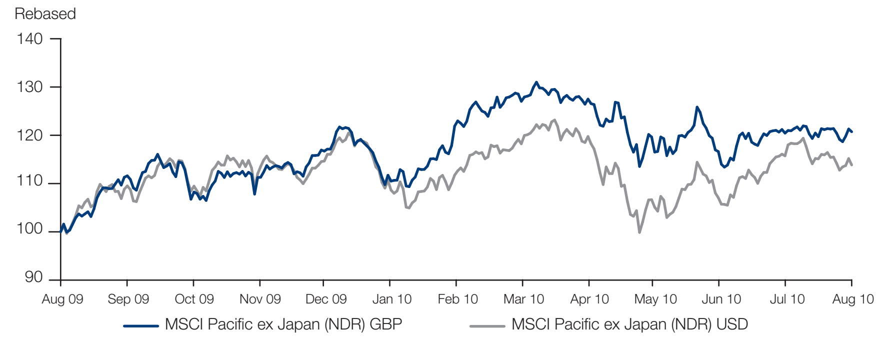
Robert Sinclair
Chairman

24 November 2010

Investment Manager's Review

The net asset value of the Company recorded a total return of 31.2% over the year to 31 August 2010. A second interim dividend of 3.20p is proposed making 5.80p for the year.

Performance of the MSCI AC Pacific ex Japan Index 31 August 2009 to 31 August 2010

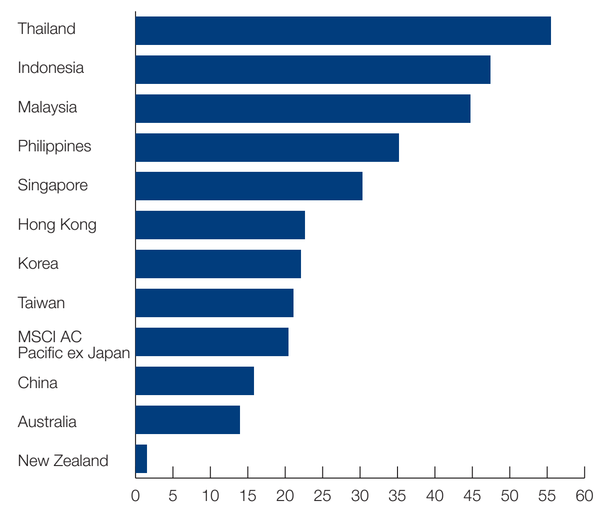


Source: Thomson Financial Datastream as at 31 August 2010

Regional markets continued to make progress over the period, with returns enhanced for sterling based investors by the overall weakness in the pound. Markets have been supported by continued benign monetary conditions, corporate earnings generally ahead of expectations, and reasonable valuations. Some of the regional currencies have been notably strong (the Indonesian rupiah, the Philippine peso) as international investors re-appraised the risks – political and financial – of the region.

However, most of the gains were seen in the first half of the financial year. Over the last six months, markets struggled to make much progress with the exception of ASEAN. The more export sensitive markets (for example Taiwan and Korea) and sectors made limited progress, reflecting evidence in the Summer that global recovery was faltering partly as a result of the withdrawal of temporary stimulus measures in the West (auto scrapping schemes, support for first time house buyers) and an end to inventory rebuilding.

MSCI AC Pacific ex Japan net returns by country (GBP)(%) 31 August 2009 to 31 August 2010



Source: Factset

Although offering positive returns, Chinese equities have also performed relatively poorly. Following the massive fiscal and monetary stimulus seen in 2009, the authorities signalled clearly their intention to rein in excessive credit growth and property speculation (primarily in the major Eastern cities) and to dampen local government infrastructure spending. Concern over rising inflation also triggered a number of direct policy measures which have impacted sentiment and returns, notably in the power and energy sectors. Along with these Government policy measures, heavy equity supply was a further factor depressing the Shanghai A share market, where some stocks fell to significant discounts relative to the equivalent H shares in Hong Kong.

Fears of a slowdown in China also impacted Australia where Chinese demand is clearly the key support to buoyant commodity prices and volumes. Signs of an early reversal of interest rate cuts by the Reserve Bank of Australia further dampened sentiment (particularly in the consumer related sectors).

Performance and Portfolio Activity

The portfolio return of 31.2% is substantially in excess of the 20.4% return registered by the reference benchmark. Positive contributions came from both stock selection and country positioning. Selection was particularly strong in Hong Kong, China, Singapore, Indonesia and the Philippines, with Australia the sole significant area of

Investment Manager's Review

disappointment. Allocation was impacted by the overweighting in Singapore and the Philippines, and the under-weightings in Australia and China.

In terms of activity, the key regional exposures continued to be Australia, Hong Kong, Singapore and Taiwan, along with an 11.6% exposure across emerging ASEAN. A lack of income opportunities continued to constrain exposures to Korea and China, though we did add to the latter as relative values became more attractive and some yield opportunities emerged. We steadily reduced fixed income positions in favour of equity exposure. The main sector allocations were real estate, telecommunications, banks, other financials and materials.

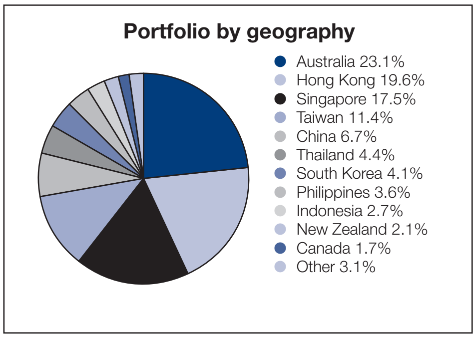
Investment Outlook

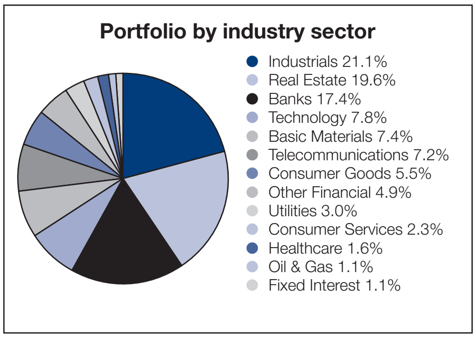
In our view, the prospect for the developed world is that economies continue to do little more than muddle through. Growth prospects will be capped by the high levels of household and government indebtedness, partly offset by continued low interest rates. Low capacity utilisation suggests little in the way of inflationary pressure.

Following a significant rally in the regional markets since the year end, valuations are not obviously cheap relative to their history in the way that some Western markets are. However, we believe this is justified given the region's superior financial metrics including high foreign exchange reserves, low debt, and generally undervalued currencies. Accompanied by the generally loose global monetary conditions in prospect we believe regional assets and markets will be well supported. In uncertain times, we take comfort from the fact that the region continued to grow through the global financial crisis, suggesting that the regional economies are less dependent than previously perceived upon Western export markets.

In terms of income, dividend pay-outs, having peaked at 90% in the depths of the global crisis, are back to comfortable levels (less than 50%), and with consensus earnings growth expectations of around 15% in 2011, we would expect dividend growth to be broadly in line. Meanwhile the region continues to offer a broad range of income opportunities – over a quarter of the companies in the MSCI global indices with historic yields over 4% are listed in Asia ex Japan. Our cautiously optimistic stance is reflected in the gearing of 7.7% at the end of the financial year.

Sector and Country Weights





Source: Schroders as at 31 August 2010

*Other includes India and Malaysia

Schroder Investment Management Limited

24 November 2010

Investment Portfolio

As at 31 August 2010

Company	Industrial Classification	Location and Activity	Market Value of Holding £'000	% of Shareholders' Funds
Fortune Real Estate Investment Trust	Real Estate Investment Trust	Singapore based REIT, with shopping malls in Hong Kong	13,444	6.13
Glow Energy	Electricity	Supplier of electricity and steam, based in Thailand	7,090	3.23
Jardine Matheson	General Industrials	Hong Kong holding company	6,863	3.13
Ascendas Real Estate Investment Trust	Real Estate Investment Trust	Singapore based REIT	6,699	3.06
Australia & New Zealand Banking Group	Banks	Australian banking group	6,462	2.95
QBE Insurance Group	Reinsurance	Australian based global insurance company	6,394	2.92
Suncorp-Metway	Banks	Australian bank and general insurance group	6,344	2.89
Taiwan Semiconductor Manufacturing	Technology Hardware & Equipment	Taiwanese manufacturer of semiconductor products	6,184	2.82
Swire Pacific	General Industrials	Hong Kong holding company	5,873	2.68
Semirara Mining Corporation	Mining	Coal producer in the Philippines	5,606	2.56
BOC Hong Kong Holdings	Banks	Financial products	5,398	2.46
Fletcher Building	Construction & Materials	New Zealand based building materials	4,980	2.27
M1	Mobile Telecommunications	Provider of mobile telecommunications in Singapore	4,949	2.26
Amcor	General Industrials	International integrated packaging company	4,609	2.10
Texwinca Holdings	Clothing & Accessories	Hong Kong producer of dyes and yarn	4,551	2.08
Frasers Centrepoint Trust REIT	Real Estate Investment Trust	Singapore REIT investing in retail properties	4,517	2.06
Chunghwa Telecom	Telecommunications	Taiwanese provider of telecommunication services	4,502	2.06
Orica	Chemicals	Australian mining services and consumer products	4,330	1.98
GZI Real Estate Investment Trust	Real Estate Investment Trust	Guangdong properties	4,319	1.97
China Construction Bank	Banks	Chinese bank	3,867	1.76
Twenty largest investments			**116,981**	**53.37**
Rio Tinto	Mining	International mining company	3,790	1.73
China Steel	Industrial Metals	Taiwan based manufacturer of steel	3,754	1.71
Hang Seng Bank	Banks	Banking and related financial services	3,638	1.66
Hopewell Holdings	Real Estate and Investment Services	Develops and invests in properties	3,366	1.54
National Australia Bank	Banks	Australian banking group	3,298	1.50
Westpac Banking	Banks	Australian banking group	3,155	1.44
Keppel Corporation	General Industrials	Holding company	3,061	1.40
Samsung Electronics	Technology Hardware & Equipment	Producer of memory semiconductors	3,058	1.40
Philippine Long Distance Telecom	Mobile Telecommunications	Telephone company	2,998	1.37
Macquarie Korea Infrastructure Fund	Industrial Transportation	Roads, tunnels and bridges	2,951	1.35
Hanjaya Mandala Sampoerna	Tobacco	Leading tobacco company in Indonesia	2,837	1.29
Zhejiang Expressway	Industrial Transportation	Manages high grade roads	2,825	1.29
DBS Group	Banks	Singapore bank	2,809	1.28
Shanghai Industrial Holdings	General Industrials	Holding company	2,770	1.26
Venture Corp	Electronic & Electrical Equipment	Contract manufacturing services to electronics companies worldwide	2,765	1.26
Westfield Group	Real Estate & Investment Services	Australian retail shopping centres	2,691	1.23
Bank of China	Banks	Chinese bank	2,614	1.19
Niko Resources	Oil & Gas Producers	Indian based oil and gas producer	2,550	1.16
Jiangsu Expressway	Transportation Services	Manages and operates toll expressways in China	2,545	1.16
Acer	Technology Hardware & Equipment	Computers	2,469	1.13
Mitsui	Support Services	General trading company	2,401	1.10
China Vanke	Real Estate & Investment Services	Property development company	2,376	1.08
Ping An Insurance	Life Insurance	Insurance service providers in China	2,299	1.05
Siliconware Precision	Technology Hardware & Equipment	Taiwanese semiconductor testing group	2,288	1.04
Crown	Travel & Leisure	Australian entertainment group	2,265	1.03
Sims Metal Management	Support Services	Australian based metal recycling company	2,236	1.02

Investment Portfolio

As at 31 August 2010

Company	Industrial Classification	Location and Activity	Market Value of Holding £'000	% of Shareholders' Funds
CPN Retail Growth	Real Estate Investment Trust	Shopping projects in Thailand	2,205	1.01
Hyundai Motor Company	Automobiles & Parts	Cars, trucks and commercial vehicles	2,070	0.94
Ansell	Medical Supplies	Australian latex manufacturing company	2,059	0.94
Vtech Holdings	Technology Hardware & Equipment	Consumer electronics	1,851	0.84
The Link Real Estate Investment Trust	Real Estate Investment Trust	Hong Kong shopping centres	1,850	0.84
Far Eastern New Century	Personal Goods	Manufactures, processes and markets textile products	1,824	0.83
Sonic Healthcare	Healthcare Provider	Medical diagnostics	1,805	0.82
Bank Mandiri	Banks	Indonesian bank	1,805	0.82
Industrial & Commercial Bank of China	Banks	Chinese bank	1,804	0.82
Far EasTone Telecommunications	Mobile Telecommunications	Taiwanese provider of mobile communications services	1,799	0.82
Capitacommercial Trust	Real Estate Investment Trust	Singapore commercial real estate	1,796	0.82
Computershare	Computer Services	Share registries and shareholder communications	1,779	0.81
Telekomunikasi	Fixed Line Telecommunications	Indonesian telecommunications company	1,726	0.79
Sino Forest Corporation 10.25% Bonds 28/7/2014	Fixed Interest	Chinese forest plantation operator	1,559	0.71
Charm Communications	Media	Television advertising agency in China	1,554	0.71
Boral	Building Materials & Fixtures	Building and construction materials	1,534	0.70
WPG Holdings	Technology Hardware & Equipment	Electronic components distributing company	1,508	0.69
Techtronic Industries	Household Goods	Electrical and electronic products	1,376	0.63
Mirvac	Real Estate & Investment	Property in Australia and New Zealand	1,280	0.58
GS Engineering and Construction	Construction & Materials	Civil engineering and building construction company	1,266	0.58
Crane Group	Construction & Materials	Non-ferrous metal based products	1,228	0.56
Advanced Information	Mobile Telecommunications	Thai provider of mobile communication services	1,225	0.56
Pegatron Corp	Technology Hardware & Equipment	Design, manufacturing and service company	1,188	0.54
Adelaide Brighton	Construction & Materials	Australian construction company	1,179	0.54
MGTI Finance Co Ltd 9.125% Bonds 15/09/2010	Fixed Interest	Indonesian telecommunications company	1,165	0.53
Hung Poo Real Estate Development	Real Estate & Investment Services	Residential and commercial buildings	898	0.41
GuocoLeisure	Travel & Leisure	Hotels and resorts	864	0.40
Myer Holdings	General Retailers	Australian department store	786	0.36
Australand Holdings	Real Estate Investment Trust	Australia residential housing	736	0.34
KGI Securities	Financial Services	Securities company	688	0.31
K-Green Trust	General Industrials	Green infrastructure assets	512	0.23
Duluxgroup	Construction & Materials	Paints	450	0.21
Ping An Insurance Warrants	Life Insurance	Insurance service providers in China	379	0.17
LG Household and Health Care Preference	Personal Goods	Household cleaning and personal care products	371	0.17
Cheuk Nang Holdings	Real Estate & Investment Services	Hong Kong based property development	323	0.15
Cheuk Nang Holdings warrants	Real Estate & Investment Services	Hong Kong based property development	12	0.01
Total Investments			**237,244**	**108.23**
Net current liabilities			**(18,045)**	**(8.23)**
Total equity shareholders' funds			**219,199**	**100.00**

At 31 August 2009, the twenty largest investments represented 52.01% of shareholders' funds.

Report of the Directors

Business Review

Company's Business
The Company carries on business as a Guernsey closed-ended investment company.

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.

Resources
The Company has no employees; its investments are managed by Schroder Investment Management Limited, ("Schroders" and/or the "Manager") which also acts as Company Secretary and provides accounting and administration services to the Company. The principal terms of the Investment Management Agreement are set out on page 14.

Investment Strategy
The Board has delegated management of the Company's portfolio to Schroders. The Manager manages the portfolio with the aim of helping the Company to achieve its investment objective. Details of the Manager's strategy, and other factors that have affected performance during the year, are set out in the Investment Manager's Review.

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 7 and 8.

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, depository 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 Investment Manager may consider writing calls over some of the Company's holdings, as a low risk way of enhancing the returns from the portfolio. 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 in this paragraph is not an exhaustive list 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.

Report of the Directors

Spread of Investment Risk and Investment Restrictions

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

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 (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, 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);

(ii) 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;

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

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

(v) invest in physical commodities; or

(vi) 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 Articles or by an announcement issued through a regulatory information service approved by the FSA.

No breaches of these investment restrictions took place during the year ended 31 August 2010.

The Investment Portfolio on pages 7 and 8 and the Investment Manager's Review on pages 5 and 6 demonstrate that, as at 31 August 2010, the portfolio was invested in at least 12 countries and in many different industry sectors within such countries. There were 80 equity holdings and 2 fixed interest holdings in the portfolio representing 98.85% and 1.15% of the portfolio respectively at the year end. The Board therefore believes that the objective of spreading risk has been achieved in this way.

Gearing

The Company's policy is to permit borrowings (including foreign currency borrowings) of up to 25% of the Company's net asset value (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.

At the beginning of the year under review, the net effective gearing (as a percentage of the Company's net asset value) was 3.9% and at the end of the year it was 7.7%. The average net effective gearing during the year under review (based on month-end net assets) was 7.2%. The Company's gearing continues to operate within pre-agreed limits so that actual gearing does not represent more than 25% of shareholders' funds.

Performance

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

Measuring Success – Key Performance Indicators ("KPIs")

The Board has adopted key performance indicators which assist it in measuring the development and success of the Company's business. The KPIs focus on the following areas: the success of the Company in achieving its investment objective, the management of the discount and the rate of expenses incurred in the running of the Company.

Report of the Directors

Investment Performance

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

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

For the year ended 31 August 2010, the Company produced a total return on net asset value of 31.2%.

Premium/Discount Management

The shares of the Company trade at a premium or discount to net asset value and the management of the premium/discount is a key factor for the Board.

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

Share buy-backs are a more direct way of managing the discount. The discount of the Company's share price to its underlying net asset value and the discounts of peer group companies are monitored. As indicated in the launch Prospectus, the Directors have implemented an active discount management policy through the use of share buy-backs to seek to maintain the price at which the ordinary shares trade relative to their prevailing net asset value at no greater than a 5% discount over the longer term. No ordinary shares were purchased for cancellation during the year (2009: 2,079,500).

During the year under review the share price traded at an average premium of 0.2%, and has traded at a premium for a sustained period since the year end. Demand for the Company's shares has been strong and the Company issued 7,100,000 ordinary shares (2009: 175,000) during the year and a further 4,095,000 ordinary shares have been issued since the end of the year in order to provide liquidity for investors.

Control of Total Expenses

The Board also keeps the total expense ratio ("TER") of the Company under review.

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

The TER for the Company for the year to 31 August 2010 (calculated in accordance with AIC guidance as total annualised net operating expenses; excluding finance costs and performance fees divided by average net assets during the year) was 0.98% (2009: 0.98%).

Principal Risks and Uncertainties

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

Financial Risk

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

The Company invests predominantly in underlying assets which are denominated in currencies other than Sterling and therefore has an exposure to changes in the exchange rates between Sterling and these currencies which has

Report of the Directors

the potential to have a significant effect on returns. While the Directors consider the Company's hedging policy on a regular basis, the Company did not engage in currency hedging to reduce the risk of currency fluctuations and the volatility of returns which might result from such currency exposure during the year ended 31 August 2010.

A full analysis of the financial risks facing the Company is set out in note 22 on pages 34 to 39.

The Company utilises a loan facility, currently in the amount of £25 million, which increases the funds available for investment through borrowing ("gearing"). Therefore, in falling markets, any reduction in the net asset value and, by implication, the consequent share price movement is amplified by the gearing. The Directors keep the Company's gearing under constant review and impose strict restrictions on borrowings to mitigate this risk. The Company's gearing continues to operate within pre-agreed limits so that net effective gearing does not represent more than 25% of shareholders' funds.

Strategic Risk

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

Accounting, Legal and Regulatory Risk

Breaches of the UK Listing Rules, Guernsey Companies Law or other regulations with which the Company is required to comply, could lead to a number of detrimental outcomes and damage the Company's reputation. Breaches of controls by service providers, including the Manager, could also lead to reputational damage or loss.

The Board's system of internal control seeks to mitigate the potential impact of these risks and it also relies on its Manager and other advisers to assist it in ensuring continued compliance.

Report of the Directors

The Directors submit their Report and the audited Accounts of the Company for the year ended 31 August 2010.

Net Asset Value

Over the year under review the net asset value per share of the Company increased from 105.5 pence to 133.1 pence per share.

Dividend Policy

Dividends on the ordinary shares are expected to be paid twice a year, normally in respect of the six months to 28 February and 31 August. All dividends will be paid as interim dividends. In accordance with the Company's Articles of Association, no dividends can be paid otherwise than out of the profits available for the purpose.

Having already paid a first interim dividend of 2.60p (2009: 2.50p) per share, the Board has now declared a second interim dividend of 3.20p (2009: 3.00p) per share for the year ended 31 August 2010 which is payable on 16 December 2010 to Shareholders on the Register on 3 December 2010. Thus, dividends for the year amount to 5.80p (2009: 5.50p) per share. This represents an increase of 5.5% over the rate of dividends paid in respect of the previous year.

Total dividend payments for the year of £9,328,000 (2009: £8,479,000) would have resulted in retained revenue for the year of £8,226,000 but in accordance with accounting standards, the second interim dividend amounting to £5,265,000 will not be accounted for until it has been paid.

Directors and their Interests

The Directors of the Company and their biographical details can be found on the inside front cover. All Directors held office throughout the year under review.

In accordance with the Company's Articles of Association and its policy on tenure as outlined in the Governance Statement, Mr Peter Rigg will retire by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting.

Mr Christopher 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 remains a non-executive Director of Burnaby Insurance (Guernsey) Limited, a wholly owned subsidiary of Schroders plc. He therefore offers himself for re-election at the Annual General Meeting, in accordance with the Listing Rules.

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

The Board, having reviewed its performance during the year, considers that Mr Rigg and Mr Sherwell continue to demonstrate commitment to their roles and provide valuable contributions to the deliberations of the Board. It therefore recommends that shareholders vote in favour of their re-elections.

The Directors' interests in the Company's share capital at the beginning and end of the financial year ended 31 August 2010, all of which were beneficial, were as follows:

Director	**Ordinary shares of 1p each 31 August 2010**	Ordinary shares of 1p each 1 September 2009
Robert Sinclair	**10,000**	10,000
Fergus Dunlop	**10,000**	10,000
Peter Rigg	**10,000**	60,000
Christopher Sherwell	**10,000**	10,000

There have been no changes in the above holdings between the end of the financial year and 24 November 2010.

As at the date of this Report, the Company had 164,529,500 ordinary shares of 1p each in issue. Accordingly, the total number of voting rights in the Company at the date of this Report is 164,529,500. Full details of the Company's share capital are set out in note 17 on page 32.

Report of the Directors

Substantial Share Interests

As at the date of this report, the Company has received notifications in accordance with the FSA's Disclosure and Transparency Rule 5.1.2 R 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
Rensburg Sheppards Investment Management	17,764,006	10.80
Rathbone Investment Management	11,069,985	6.73
KB Financial Services Holdings Limited	9,395,418	5.71
Charles Stanley & Co Ltd	7,860,051	4.78
Cheviot Asset Management Limited	7,789,750	4.73

Investment Manager

Schroders provides investment management services to the Company in accordance with an Investment Management Agreement.

Under the terms of the Investment Management Agreement, the Manager is entitled to receive a basic management fee of an amount equivalent to 0.75% per annum of the net assets of the Company, payable quarterly in arrears and calculated as at the last business day in February, May, August and November in each year while the agreement remains in force.

The Investment Manager is 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. A performance fee of £2.2m is payable in respect of the year ended 31 August 2010 (2009: £Nil).

Any investment management fees payable to the Investment Manager or to other subsidiaries of Schroders plc ("Schroders") in respect of investments by the Company in collective investment schemes and collective investment trusts managed or advised by Schroders are deducted from the fee payable to the Investment Manager under the Investment Management Agreement. There were no such investments as at 31 August 2010.

The appointment of the Investment Manager is subject to termination by either party giving to the other at any time on not less than 12 months' written notice of termination.

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

Secretarial and Administration Arrangements

Schroders provides administrative, accounting and company secretarial services to the Company. For these services, Schroders receives a quarterly fee, payable in arrears at the rate of £75,000 per annum.

Policy for the Payment of Creditors

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant markets in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. There were no outstanding trade creditors at 31 August 2010 (2009: Nil).

Report of the Directors

Environmental Policy

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

Statement of Directors' Responsibilities and Going Concern

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 and then apply them consistently; and
- make judgments 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.

The Directors are of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the accounts as the assets of the Company consist predominantly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future. Further, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of these accounts and applicable accounting standards have been followed.

The Directors are responsible for the maintenance and integrity of the Company's website. Visitors to the website need to be aware that legislation in Guernsey governing the preparation and dissemination of the report and accounts may differ from legislation in their jurisdiction.

Independent Auditors

The Company's Auditors, Ernst & Young LLP, have expressed their willingness to remain in office and resolutions to re-appoint them as Auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

The Audit Committee remains satisfied with the effectiveness of the audit provided by Ernst & Young LLP and therefore has not considered it necessary to require an independent tender process. The auditors are required to rotate the audit partner every five years and this is the third year that the current audit partner has been in place.

The Audit Committee has adopted a policy on the engagement of the Auditors to supply non-audit services to the Company. The Auditors did not supply any non-audit services during the year under review.

Provision of Information to Auditors

The Directors at the date of approval of this report confirm that, so far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditors are 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 Auditors are aware of that information.

Report of the Directors

Annual General Meeting ("AGM")

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. 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.

The AGM will be held on Friday, 17 December 2010 at 12.00 noon. The formal notice of the AGM is set out on page 40.

Special Business to be proposed at the AGM

Resolution 7 – Authority to make market purchases of the Company's own shares (special resolution)

At the AGM on 9 December 2009, the Company was granted authority to make market purchases of up to 24,662,972 ordinary shares for cancellation. No ordinary shares were bought back under this authority and the Company therefore has remaining authority to purchase up to 24,662,972 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 the date of the AGM. 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. The authority to be given at the 2010 AGM will lapse at the conclusion of the AGM in 2011, unless renewed or revoked earlier.

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.

The FSA have revised their requirements for overseas companies with premium listings in relation to pre-emption rights bringing them into line with UK companies. As a result your Company will be required to offer pre-emption rights to existing shareholders when making an offer of new shares for cash unless such pre-emption rights have been disapplied by special resolution.

Resolution 8 – The adoption of new memorandum and articles of incorporation (special resolution)

The Board is proposing that new Memorandum and Articles of Incorporation be adopted which reflect changes to the UK Listing Rules which require the Company to offer shares to existing shareholders in proportion to their holdings when making an offer of shares wholly for cash.

Resolution 9 – Disapplication of pre-emption rights (special resolution)

The Board is also proposing an annual authority be given to Directors to disapply pre-emption rights when issuing shares. This authority will expire 18 months from the date of the resolution or at the conclusion of the AGM in 2011 whichever is the sooner.

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.

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 ordinary resolutions to be proposed at the forthcoming AGM, as they intend to do in respect of their own beneficial holdings.

By Order of the Board
Schroder Investment Management Limited
Company Secretary

24 November 2010

Remuneration Report

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

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £150,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive Directors in the industry generally, the role that individual Directors carry out in respect of Board and Committee responsibilities, and the time committed to the Company's affairs. The Directors' fees are reviewed annually by the Board. During the year ended 31 August 2010, Directors received fees of £20,000 per annum and the Chairman received fees of £25,000 per annum to reflect his more onerous role. The Chairman of the Audit Committee receives an additional £2,500 per annum to reflect his more onerous role.

The last review of Directors' fees were carried out in 2010 and it was agreed that they should remain unchanged for the forthcoming year.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to any of the Directors. No element of the Directors' remuneration is performance related.

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

No Director has a service contract with the Company. However, Directors have a letter of appointment with the Company under which they are entitled to one month's notice in the event of termination. The terms of appointment are available for inspection at the Company's Registered Office address during normal business hours and at the Annual General Meeting ("AGM").

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

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

Remuneration

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

Director	**For the year ended 31 August 2010 £**	For the year ended 31 August 2009 £
Robert Sinclair	**25,000**	25,000
Fergus Dunlop	**20,000**	20,000
Peter Rigg	**22,500**	20,000
Christopher Sherwell	**20,000**	20,000
	87,500	85,000

By order of the Board
Schroder Investment Management Limited
Company Secretary

24 November 2010

Corporate Governance

Compliance with the Combined Code

Due to its Guernsey incorporation the Company is not required to comply with the Combined Code (the "Code") appended to the Rules of the UK Listing Authority. However, the Board is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be appropriate to comply with the principles of the Combined Code. The Financial Reporting Council published a revised version of the Combined Code in 2008, which applies to accounting periods beginning on or after 29 June 2008. The disclosures in this Statement therefore relate to the requirements of the 2008 Combined Code (the "Code"). The Code is published by the FSA and is available to download from www.fsa.gov.uk.

The Board has noted the publication of the UK Corporate Governance Code in May 2010, which applies to financial years beginning on or after 29 June 2010 and the Guernsey Financial Services Commission draft Code of Corporate Governance and is considering the Company's governance framework.

Compliance Statement

The UK Listing Authority requires all UK listed companies to disclose how they have complied with the provisions of the Code. This Corporate Governance Statement, together with the Statement of Directors' Responsibilities set out on page 15, indicates how the Company has complied with the principles of good governance of the Code and its requirements on Internal Control.

The Board considers that the Company has, throughout the year under review, complied with the best practice provisions in Section 1 of the Code, save in respect of the appointment of a Senior Independent Director, 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 Chairman of the Audit Committee leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns which cannot be resolved through discussion with the Chairman.

Application of Code Principles

Role of the Chairman

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

Role of the Board

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

Composition and Independence

The Board currently consists of four non-executive Directors. The biographies of each of these Directors, including their age and length of service, are set out on the inside front cover of this Report. The Board considers each of the Chairman, Mr Dunlop and Mr Rigg to be independent. Mr Sherwell is not deemed independent by virtue of his relationship with the Investment Manager as disclosed on the inside the front cover.

The Board has no executive Directors and has not appointed a Chief Executive Officer as it has contractually delegated responsibility for the management of the Company's investment portfolio, the arrangement of custodial services and the provision of accounting and company secretarial services.

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

Corporate Governance

Board Committees

The Board has delegated certain responsibilities and functions to Committees. Terms of Reference for each of these Committees are available on the Company's website at www.schroderorientalincomefund.com. Details of membership of the Committees at 31 August 2010 may be found on the inside front cover and information regarding attendance at Committee Meetings during the year under review may be found on page 20.

Audit Committee

The role of the Audit Committee is to ensure that the Company maintains the highest standards of integrity in financial reporting and internal control. The Board considers each member of the Committee to be independent. The Board also considers that members of the Committee have competence in accounting.

To discharge its duties, the Committee met on two occasions during the year ended 31 August 2010 and considered the annual and half-yearly report and accounts, the external Auditors' year-end reports, the effectiveness of the audit process, the independence and objectivity of the external Auditor and internal controls operating within the management company and custodian.

Management Engagement Committee

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

To discharge its duties, the Committee met on one occasion during the year ended 31 August 2010 and considered the performance and suitability of the Investment Manager, the terms and conditions of the management contract and the fees paid to Directors.

Nomination Committee

The role of the Committee is to consider and make recommendations to the Board on its composition and balance of skills and experience, and on individual appointments, to lead the process and make recommendations to the Board. The Board considers each member of the Committee, with the exception of Mr Sherwell, to be independent.

The Committee did not have cause to meet during the year ended 31 August 2010.

Before the appointment of a new Director, the Nomination Committee will prepare a description of the role and capabilities required for a particular appointment, having evaluated the balance of skills, knowledge and experience of the Board. When considering whether to replace a Director, the Company's policy on tenure is also taken into account. In light of this evaluation, the Nomination Committee will consider a range of candidates sourced either from recommendation from within the Company or by the use of external consultants.

The Nomination Committee will assess potential candidates on merit against a range of criteria including experience, knowledge, professional skills and personal qualities and independence if this is required for the role. Candidates' ability to commit sufficient time to the business of the Company is also key, particularly in respect of the appointment of the Chairman. The Chairman of the Nomination Committee is primarily responsible for interviewing suitable candidates and a recommendation will be made to the Board for final approval.

Tenure

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

Induction and Training

The Board has adopted a full, formal and tailored induction programme for new Directors, which is administered by the Company Secretary. Directors are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and its internal controls. Regulatory and legislative changes affecting Directors' responsibilities are advised to the Board as they arise along with changes to best practice. Advisers to the Company also prepare reports for the Board from time to time. In addition, Directors attend relevant seminars and events to allow them to continually refresh their skills and knowledge and keep up with changes within the investment company industry.

Corporate Governance

Board Evaluation

The Board has adopted a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. The last evaluation took place in October 2010. The evaluation takes place in two stages, first, the evaluation of individual Directors is led by the Chairman, and the evaluation of the Chairman's performance is led by the Chairman of the Audit Committee. Secondly, the Board evaluates its own performance and that of its Committees. The Directors meet at least once a year without the Chairman present and the Chairman of the Audit Committee chairs this meeting.

Evaluation is conducted utilising a questionnaire combined with one to one meetings if appropriate. The Board has developed criteria for use at the evaluation, which focuses on the individual contribution to the Board and its Committees made by each Director and the responsibilities, composition and agenda of the Committees and of the Board itself.

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

Meetings and Attendance

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

Director	Board	Audit Committee	Management Engagement Committee
Robert Sinclair	4/4	1/2	0/1
Fergus Dunlop	4/4	2/2	1/1
Peter Rigg	4/4	2/2	1/1
Christopher Sherwell	4/4	N/A	N/A

Information Flows

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

Directors' and Officers' Liability Insurance

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

Directors' Indemnities

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.

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 the Board may impose restrictions or refuse to authorise such conflicts if deemed appropriate.

Major Shareholders

Details of the Company's major shareholders are set out in the Report of the Directors on page 14.

Relations with Shareholders

The Board believes that the maintenance of good relations with both institutional and retail shareholders is important for the long-term prospects of the Company. It has, since its launch, sought engagement with investors. Where appropriate the Chairman, and other Directors, discuss governance and strategy with major shareholders

Corporate Governance

and the Chairman ensures communication of shareholders' views to the Board. The Board receives feedback on the views of shareholders from its corporate broker and the Investment Manager.

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

The Board believes that the Company's policy of reporting to shareholders as soon as possible after the Company's year-end and holding the earliest possible Annual General Meeting is valuable. The Notice of Meeting on page 40 sets out the business of the meeting.

Environmental Policy

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

Exercise of Voting Rights and the UK Stewardship Code

The Company has delegated responsibility for voting to Schroders which votes in accordance with its corporate governance policy. A copy of this policy is available on the Company's website. The Board has noted the recent implementation of the UK Stewardship Code, which it considers to be an important tool in shareholder engagement. Schroders' compliance with the principles of the UK Stewardship Code is reported on its website, www.schroders.com.

Internal Control

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

The Board believes that the key risks identified and the implementation of an on-going system to identify, evaluate and manage these risks are based upon and relevant to the Company's business as an investment company. Risk assessment, which has been in place throughout the financial year and up to the date of this report, includes consideration of the scope and quality of the systems of internal control, including any whistleblowing policies where appropriate, adopted by the Investment Manager and other major service providers, and ensures regular communication of the results of monitoring by third parties to the Board, the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition. No significant control failings or weaknesses were identified during the course of the year and up to the date of this report, from our on-going risk assessment.

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

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

Independent Auditor's Report

To the Members of Schroder Oriental Income Fund Limited

We have audited the company's accounts for the year ended 31 August 2010 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet, Cash Flow Statement, Reconciliation of Net Cash Flow to Movement in Net Debt and the related notes 1 to 22. These accounts have been prepared under the accounting policies set out therein.

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the accounts in accordance with applicable Guernsey law as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the company has not kept proper accounting records, the accounts are not in agreement with the accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only Investment Objective, Directors and Advisers, Financial Highlights, the Chairman's Statement, Investment Manager's Review, Investment Portfolio, Report of the Directors, Remuneration Report, Corporate Governance, Notice of Meeting, Explanatory Notes and Company Summary and Shareholder Information. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the company's affairs as at 31 August 2010 and of its profit for the year then ended; and have been properly prepared in accordance with the Companies (Guernsey) Law, 2008.

Andrew James Offen FCA
For and on behalf of Ernst & Young LLP
Guernsey
24 November 2010

Statement of Comprehensive Income

	Note	For the year ended 31 August 2010 Revenue £'000	Capital £'000	Total £'000	For the year ended 31 August 2009 Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	2	–	45,694	45,694	–	(8,631)	(8,631)
Other currency losses	3	–	(797)	(797)	–	(1,673)	(1,673)
Income	4	11,936	–	11,936	11,520	–	11,520
Investment management and performance fees	5	(444)	(3,192)	(3,636)	(293)	(684)	(977)
Administrative expenses	6	(457)	(8)	(465)	(385)	(4)	(389)
Net profit/(loss) before finance costs and taxation		11,035	41,697	52,732	10,842	(10,992)	(150)
Finance costs							
Interest payable and similar charges	7	(166)	(383)	(549)	(133)	(304)	(437)
Net profit/(loss) on ordinary activities before taxation		10,869	41,314	52,183	10,709	(11,296)	(587)
Taxation on ordinary activities	8	(1,093)	–	(1,093)	(1,061)	–	(1,061)
Profit for the year and Total Comprehensive Income		9,776	41,314	51,090	9,648	(11,296)	(1,648)
Net profit/(loss) per ordinary share	10	6.25p	26.42p	32.67p	6.27p	(7.34)p	(1.07)p

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS as adopted by the European Union. The Company does not have any other comprehensive income and hence the net profit for the year, as disclosed above, is the same as the Company's total comprehensive income.

The Revenue and Capital columns are supplementary to this and are prepared under guidance published 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 during the year.

The notes on pages 27 to 39 form an integral part of these accounts.

Statement of Changes in Equity

	Called-up share capital £'000	Capital redemption reserve £'000	Share premium account £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve* £'000	Total £'000
At 31 August 2008	1,553	18	–	151,914	14,359	11,167	179,011
Total Comprehensive Income:							
Net (loss)/profit on ordinary activities	–	–	–	–	(11,296)	9,648	(1,648)
Transactions with owners, recorded directly to equity:							
Cost of shares bought back for cancellation	(21)	21	–	(1,540)	–	–	(1,540)
Issue of shares	2	–	166	–	–	–	168
Ordinary dividends paid	–	–	–	–	–	(8,387)	(8,387)
At 31 August 2009	1,534	39	166	150,374	3,063	12,428	167,604
At 31 August 2009	1,534	39	166	150,374	3,063	12,428	167,604
Total Comprehensive Income:							
Net profit on ordinary activities	–	–	–	–	41,314	9,776	51,090
Transactions with owners, recorded directly to equity:							
Issue of shares	71	–	9,147	–	–	–	9,218
Ordinary dividends paid	–	–	–	–	–	(8,713)	(8,713)
At 31 August 2010	**1,605**	**39**	**9,313**	**150,374**	**44,377**	**13,491**	**219,199**

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

The notes on pages 27 to 39 form an integral part of these accounts.

Balance Sheet

	Note	At 31 August 2010 £'000	At 31 August 2009 £'000
Non-current assets			
Investments held at fair value through profit or loss	11	237,244	173,027
		237,244	173,027
Current assets			
Other receivables	12	1,548	1,566
Cash and cash equivalents	13	4,225	7,248
		5,773	8,814
Total assets		243,017	181,841
Current liabilities			
Bank loans	14	(21,146)	(13,805)
Other payables	15	(2,672)	(432)
		(23,818)	(14,237)
Net assets		219,199	167,604
Equity attributable to equity holders			
Called-up share capital	17	1,605	1,534
Capital redemption reserve	18	39	39
Share premium account	18	9,313	166
Special reserve	18	150,374	150,374
Capital reserve	18	44,377	3,063
Revenue reserve	18	13,491	12,428
Equity shareholders' funds		219,199	167,604
Net asset value per ordinary share	19	136.63p	109.31p

These accounts were approved and authorised for issue by the Board of Directors on 24 November 2010 and signed on behalf of the Board by:

Robert Sinclair
Director

The notes on pages 27 to 39 form an integral part of these accounts.

Cash Flow Statement

	For the year ended 31 August 2010 £'000	For the year ended 31 August 2009 £'000
Cash flows from operating activities		
Net profit/(loss) before finance costs and taxation	**52,732**	(150)
Other currency losses	**797**	1,673
Overseas taxes paid	**(1,083)**	(1,106)
Adjustments for:		
(Increase)/decrease in investments	**(64,217)**	22,645
Decrease in receivables	**5**	388
Increase/(decrease) in payables	**2,246**	(924)
Net cash (used in)/from operating activities	**(9,520)**	22,526
Cash flows from financing activities		
Equity dividends paid	**(8,713)**	(8,387)
Purchase of shares for cancellation	**–**	(1,540)
Issue of shares	**9,218**	168
Bank overdraft interest paid	**(1)**	(3)
Bank loan interest paid	**(502)**	(437)
Other finance charges	**(49)**	–
Bank loans drawn down/(repaid)	**6,080**	(13,184)
Net cash from/(used in) financing activities	**6,033**	(23,383)
Net decrease in cash and cash equivalents	**(3,487)**	(857)

Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	For the year ended 31 August 2010 £'000	For the year ended 31 August 2009 £'000
Net decrease in cash and cash equivalents		**(3,487)**	(857)
Movement in borrowings		**(6,080)**	13,184
Movement in net debt resulting from cash flows		**(9,567)**	12,327
Net debt at 1 September		**(6,557)**	(17,211)
Realised exchange gains on loan and other currency balances		**464**	2,680
Unrealised exchange losses on the loan facility		**(1,261)**	(4,353)
Net debt at 31 August	**20**	**(16,921)**	(6,557)

The notes on pages 27 to 39 form an integral part of these accounts.

Notes to the Accounts

1. Accounting Policies

The accounts of the Company have been prepared in accordance with International Financial Reporting Standards ('IFRS'), which comprise standards and interpretations approved by the International Accounting Standards Board ('IASB') and International Accounting Standards Committee ('IASC') as adopted by the European Union as effective at 31 August 2010.

The Company's functional currency and the currency used for the presentation of these accounts is pounds sterling, as that is the currency of the primary economic environment in which the Company operates.

(a) Basis of Preparation

The accounts have been prepared on a going concern basis.

Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trusts issued by the Association of Investment Companies ('AIC') in January 2009 is consistent with the requirements of IFRS, the directors have sought to prepare the accounts on a basis compliant with the recommendations of the SORP.

(b) Presentation of the Statement of Comprehensive Income

The principal accounting policies have been applied consistently throughout the year ended 31 August 2010 and are unchanged from 2009 with the exception of compliance with IAS 1 (revised) which, as noted in note 1 (o) (i) below, has resulted in the Company electing to present solely a Statement of Comprehensive Income and amendment to IFRS 57 as noted in note 1 (o) (i) and Financial Instruments Disclosure and note 22(6) on page 39.

In order to better reflect the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income.

(c) Income

Dividends receivable from equity shares are taken to the revenue column of the Statement of Comprehensive Income on an ex-dividend basis, with the exception of dividends of a capital nature, which are credited to the capital column of the Statement of Comprehensive Income.

Interest from fixed income securities is recognised on a time-apportionment basis so as to reflect the effective yield on the fixed income securities.

Where dividends are received in the form of additional shares rather than cash, the amount of cash dividend foregone is recognised as income. Any excess in value of shares received over the amount of cash dividend foregone is recognised as a gain in the Statement of Comprehensive Income.

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

(d) Expenses and interest payable

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

Expenses are split and presented as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated and accordingly the investment management fee and finance costs have been allocated 30% to revenue and 70% to capital, as the directors believe it reflects the long-term nature of the investment returns of the Company.

The performance fee is allocated 100% to capital as the directors believe it reflects capital performance.

Expenses incidental to the acquisition or disposal of investments are charged wholly to capital in the Statement of Comprehensive Income.

(e) Taxation

The Company has been granted an exemption from Guernsey taxation under the Income Tax (Exempt Bodies) Guernsey Ordinance 1989 and is charged an exemption fee of £600.

The tax charged to the Statement of Comprehensive Income relates to overseas withholding tax deducted from investment income.

(f) Non-current asset investments held at fair value

All investments are classified as held at fair value through profit or loss on initial recognition and are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded market price, depending on the convention of the exchange on which the investment is quoted.

All the Company's investments are defined by IFRS as investments held at fair value through profit or loss.

Investments are recognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost.

Gains and losses arising thereon are recognised in the capital column of the Statement of Comprehensive Income.

(g) Foreign exchange

Transactions involving currencies other than sterling are recorded at the exchange rate ruling on the transaction date. The results and financial position of the Company are expressed in sterling, which is the functional and presentational currency of the Company.

At each balance sheet date, monetary items and non-monetary assets and liabilities that are fair valued, which are denominated in foreign currencies, are retranslated at the closing rates of exchange.

Foreign currency exchange differences arising on translation are recognised in the Statement of Comprehensive Income.

(h) Cash and cash equivalents

Cash and cash equivalents comprises cash at bank, short term deposits, and bank overdrafts.

These are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose.

(i) Other receivables

Other receivables do not carry any right to interest and are short-term in nature. Accordingly they are stated at their nominal value reduced by appropriate allowances for estimated irrecoverable amounts.

(j) Other payables

Other payables are not interest-bearing and are stated at their nominal amount.

(k) Short-term borrowings

Short-term borrowings under bank credit facilities are initially recognised at cost, being the fair value of the consideration received. The finance costs of servicing such borrowings are apportioned between revenue and capital in accordance with the policy set out above.

Notes to the Accounts

(l) Accounting estimates and judgements

The preparation of accounts in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods. There were no accounting estimates in the current period.

(m) Single segment reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business.

(n) Reserves

(i) Called up share capital: Represents the nominal value of authorised and allocated, called up and fully paid shares issued.

(ii) Capital redemption reserve: The capital redemption reserve, which is non-distributable, holds the amount by which the nominal value of the Company's issued share capital is diminished when shares are redeemed or purchased out of the Company's profits.

(iii) Share premium account: Non-distributable reserve, representing the premium on shares issued in excess of the nominal value.

(iv) Special reserve: Distributable reserve, which can be used to finance the repurchase of shares in issue.

(v) Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- investment holding gains/(losses) held at the year end;
- realised exchange differences of a capital nature;
- unrealised exchange differences of a capital nature; and
- other capital charges and credits charged to this account in accordance with the above policies.

(vi) Revenue reserve: comprises accumulated undistributed revenue profits available for distribution as dividends.

(o) Accounting developments

(i) Standards, amendments and interpretations becoming effective in the year to 31 August 2010:

- IAS 1 (Revised), 'Presentation of Financial Statements'. Requires the separate presentation of changes in equity attributable to the owners (equity shareholders) and other non-owner changes. Non-owner changes are required to be shown in a performance statement, which can either comprise a Statement of Comprehensive Income or an income statement together with a Statement of Comprehensive Income. The Company has applied IAS 1 (revised) from 1 September 2009 and has elected to present solely a Statement of Comprehensive Income. Where an entity restates or reclassifies comparative information, they are also required to present a restated balance sheet as at the beginning of the comparative period. The adoption of this revised standard has not resulted in a significant change to the presentation of the Company's performance statement, as the Company has no elements of comprehensive income not previously included in its Income Statement.
- IFRS 7 (Amendment), 'Financial Instruments: Disclosures'. Introduces new disclosure requirements, whereby financial instruments must be categorised under a three-level fair value hierarchy. A reconciliation is also required for any investments categorised as Level 3. The additional disclosures resulting from this amendment have been included in Note 22(6) on page 39.
- IFRS 8, 'Operating Segments'. Replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131. The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard has not had a significant effect.
- IAS 23 (Amendment), 'Borrowing Costs'. Requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Not currently relevant to the Company, which has no qualifying assets.
- IAS 32 (amendment), 'Financial Instruments: Presentation' and IAS 1 (amendment), 'Presentation of financial statements– Puttable financial instruments and obligations arising on liquidation'. Provides exemptions from financial liability classification for (a) puttable financial instruments that meet certain conditions; and (b) certain instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rated share of the net assets of the entity only on liquidation. Adoption did not have any impact on the Company's financial statements.
- IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'. Permits an entity to reclassify particular financial assets in some circumstances and the definition of financial asset or liability at fair value through profit or loss as it relates to items that are held for trading was amended. Adoption did not have a significant impact on the Company's financial statements.

(ii) Standards, amendments and interpretations to existing standards that become effective in future accounting periods and have not been adopted early by the Company:

- IAS 24 (revised), 'Related Party Disclosures' (effective for financial periods beginning on or after 1 January 2011, subject to EU endorsement). Revises definition of related parties. Unlikely to have a significant effect.
- Improvements to IFRS were issued in May 2008 and April 2009 and comprise numerous amendments to IFRS that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1 September 2009 and 1 September 2010 with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

(iii) The following standards, amendments and interpretations to existing standards become effective in future accounting periods, but are not relevant for the Company's operations:

- IFRS 1 (amendment), 'First-time Adoption of International Financial Reporting Standards' and 'Additional exemptions for first-time adopters' (effective from 1 January 2010).
- IFRS 2 (amendment), 'Group cash-settled share-based payment transactions' (effective from 1 January 2010).
- IFRS 5 (amendment), 'Non-current Assets Held for Sale and Discontinued Operations'
- IAS 17 (amendment), Leases
- IAS 32 (amendment), 'Financial Instruments: Presentation'– Amendments relating to classification of rights issues.

Notes to the Accounts

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

	For the year ended 31 August 2010 £'000	For the year ended 31 August 2009 £'000
Net gains/(losses) on disposal at historic cost	**19,652**	(41,456)
Less fair value adjustments in earlier years	**(3,615)**	14,493
Gains/(losses) based on carrying value at previous balance sheet date	**16,037**	(26,963)
Investment holding gains during the year	**29,657**	18,332
	45,694	(8,631)

3. Other currency losses

	For the year ended 31 August 2010 £'000	For the year ended 31 August 2009 £'000
Exchange gains on currency balances	**464**	2,680
Exchange losses on the credit facility	**(1,261)**	(4,353)
	(797)	(1,673)

4. Income

	For the year ended 31 August 2010 £'000	For the year ended 31 August 2009 £'000
Income from investments:		
Overseas dividends	**11,341**	10,407
Interest on fixed interest securities	**447**	895
Stock dividends	**128**	106
	11,916	11,408
Interest on deposits	**20**	112
	11,936	11,520

5. Investment management and performance fees

	For the year ended 31 August 2010			For the year ended 31 August 2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**444**	**1,036**	**1,480**	293	684	977
Performance fee	**–**	**2,156**	**2,156**	–	–	–
	444	**3,192**	**3,636**	293	684	977

Under the terms of the Management Agreement, the Manager is entitled to receive a basic management fee of an amount equivalent to 0.75% per annum of the net assets of the Company, payable quarterly in arrears and calculated as at the last business day in February, May, August and November in each year while the agreement is in force.

The Manager is also entitled to a performance fee based on the performance of the Company's adjusted net asset value per Ordinary share, full details of which are set out on page 14 of this Report.

Notes to the Accounts

6. Administrative expenses

	For the year ended 31 August 2010			For the year ended 31 August 2009		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
General expenses	**274**	**8**	**282**	205	4	209
Directors' fees	**88**	**–**	**88**	85	–	85
Secretarial fee	**75**	**–**	**75**	75	–	75
Auditors' remuneration:						
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**20**	**–**	**20**	20	–	20
	457	**8**	**465**	385	4	389

7. Interest payable and similar charges

	For the year ended 31 August 2010			For the year ended 31 August 2009		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Bank overdraft interest payable	**1**	**–**	**1**	3	–	3
Borrowing interest payable	**150**	**349**	**499**	130	304	434
Other finance charges	**15**	**34**	**49**	–	–	–
	166	**383**	**549**	133	304	437

8. Taxation

	For the year ended 31 August 2010 £'000	For the year ended 31 August 2009 £'000
Irrecoverable overseas tax	**1,093**	1,061

9. Dividends

	For the year ended 31 August 2010 £'000	For the year ended 31 August 2009 £'000
Amounts recognised as distributions in the year:		
Second interim dividend of prior year of 3.00p (2008: 2.95p)	**4,650**	4,558
First interim dividend of 2.60p (2009: 2.50p)	**4,063**	3,829
Total dividends of 5.60p (2009: 5.45p)	**8,713**	8,387
Total dividends payable in respect of the financial year:		
First interim dividend of 2.60p (2009: 2.50p)	**4,063**	3,829
Second interim dividend of 3.20p (2009: 3.00p)	**5,265**	4,650
Total dividends of 5.80p (2009: 5.50p)	**9,328**	8,479

The first interim dividend of 2.60 pence per share (2009: 2.50 pence per share) is based on 156,259,500 (2009: 153,159,500) ordinary shares in issue.

The second interim dividend of 3.20 pence per share (2009: 3.00 pence per share) is based on 164,529,500 (2009: 154,984,500) ordinary shares in issue.

Dividends are reflected in the accounts in the period in which they are paid.

Notes to the Accounts

10. Net profit/(loss) per ordinary share

	For the year ended 31 August 2010	For the year ended 31 August 2009
Revenue (£'000)	9,776	9,648
Capital (£'000)	41,314	(11,296)
Total (£'000)	51,090	(1,648)
Weighted average number of shares	156,346,281	153,855,853
Revenue	6.25p	6.27p
Capital	26.42p	(7.34)p
Total	32.67p	(1.07)p

11. Investments held at fair value through profit or loss

	For the year ended 31 August 2010 £'000	For the year ended 31 August 2009 £'000
Movements of investments held as non current assets:		
Book cost brought forward	161,130	216,600
Acquisitions at cost	152,405	148,678
Proceeds of disposals	(133,883)	(162,680)
Net gains/(losses) realised on disposals	19,652	(41,456)
Amortisation on fixed interest securities	1	(12)
Book cost	199,305	161,130
Investment holding gains	37,939	11,897
Valuation of investments	237,244	173,027

All investments are listed on a recognised stock exchange.

The following transaction costs, including stamp duty and broker commissions were incurred during the year:

	For the year ended 31 August 2010 £'000	For the year ended 31 August 2009 £'000
On acquisitions	306	263
On disposals	416	385
	722	648

12. Other receivables

	At 31 August 2010 £'000	At 31 August 2009 £'000
Amounts receivable within one year:		
Accrued income	1,532	1,555
Prepaid expenses	16	11
	1,548	1,566

Notes to the Accounts

13. Cash and cash equivalents

	At 31 August 2010 £'000	At 31 August 2009 £'000
Short-term deposits	**3,127**	3,243
Cash at bank	**1,098**	4,005
	4,225	7,248

14. Bank loans

	At 31 August 2010 £'000	At 31 August 2009 £'000
Bank loan	**21,146**	13,805

During the year ended 31 August 2010, the Company had a multi-currency credit facility of £24,500,000 (2009: £24,500,000) in place with ING Bank NV. This facility had a revolving 364-day term, was chargeable at a floating rate linked to LIBOR and was unsecured.

At 31 August 2010, £21,146,000 (2009: £13,805,000) was drawn down as follows:

	2010 £'000	2009 £'000
Sterling equivalent of US Dollar Drawdown	**21,146**	13,805

Since the year end the multi-currency revolving credit facility with ING has been terminated and a new £25,000,000 credit facility placed with Scotiabank Europe PLC secured on the assets of the Company.

15. Other payables

	At 31 August 2010 £'000	At 31 August 2009 £'000
Amounts payable within one year:		
Accrued expenses	**2,654**	411
Overseas taxation payable on stock dividends	**18**	21
	2,672	432

16. Contingent liabilities

A potential CGT liability of £73,000 (2009: nil) exists in relation to the holding of Chinese 'B' shares as the crystallisation of this potential charge remains uncertain.

17. Called-up share capital

	At 31 August 2010 £'000	At 31 August 2009 £'000
Authorised:		
250,000,000 (2009: 250,000,000) ordinary shares of 1p each	**2,500**	2,500
Allotted, called-up and fully paid:		
Balance brought forward : 153,334,500 (2009: 155,239,000) ordinary shares	**1,534**	1,553
Shares bought back for cancellation : nil (2009: 2,079,500) ordinary shares	**–**	(21)
Shares issued: 7,100,000 (2009: 175,000) ordinary shares	**71**	2
Balance carried forward : 160,434,500 (2009: 153,334,500) ordinary shares	**1,605**	1,534

A total of 7,100,000 shares were issued during the year, the proceeds from which were £9,218,000. Since the year end, the Company has issued an additional 4,095,000 shares, the proceeds of which were £6,239,000.

Notes to the Accounts

18. Reserves

	Capital redemption reserve £'000	Share premium account £'000	Special reserve £'000	Capital reserve gains and losses £'000	Capital reserve holding gains and losses £'000	Revenue reserve £'000
Balance brought forward at 1 September 2009	39	166	150,374	(2,634)	5,697	12,428
Issue of ordinary shares	–	9,147	–	–	–	–
Gains on disposal of investments	–	–	–	16,037	–	–
Net change in investment holding gains	–	–	–	–	29,657	–
Transfer on disposal of investments	–	–	–	3,615	(3,615)	–
Realised exchange gains on currency balances	–	–	–	464	–	–
Unrealised exchange losses on the credit facility	–	–	–	–	(1,261)	–
Investment Management Fee	–	–	–	(1,036)	–	–
Performance fee	–	–	–	(2,156)	–	–
Bank loan interest and similar charges	–	–	–	(383)	–	–
Other expenses	–	–	–	(8)	–	–
Net profit after taxation for the year	–	–	–	–	–	9,776
Ordinary dividends paid	–	–	–	–	–	(8,713)
Balance carried forward at 31 August 2010	**39**	**9,313**	**150,374**	**13,899**	**30,478**	**13,491**

19. Net asset value per ordinary share

	At 31 August 2010	At 31 August 2009
Net asset value per ordinary share	**136.63p**	109.31p

The net asset value per ordinary share is based on net assets attributable to ordinary shareholders of £219,199,000 (2009: £167,604,000) and 160,434,500 (2009: 153,334,500) ordinary shares in issue at the year end.

20. Analysis of changes in funds

	At 31 August 2009 £'000	Cash flow £'000	Movement in borrowings £'000	Exchange gain/(loss) £'000	**At 31 August 2010 £'000**
Cash at bank and short-term deposits	7,248	(3,487)	–	464	**4,225**
Net cash at 31 August	7,248	(3,487)	–	464	**4,225**
Bank loan	(13,805)	–	(6,080)	(1,261)	**(21,146)**
Net debt at 31 August	(6,557)	(3,487)	(6,080)	(797)	**(16,921)**

21. Related party transactions

The Company has appointed Schroders to provide investment management, accounting, secretarial and administration services.

Details of the management and secretarial fee arrangements for these services are given in the Report of the Directors on page 14. The total basic management fee payable under this agreement to Schroders in respect of the year ended 31 August 2010 was £1,480,000 (2009: £977,000), of which £404,000 (2009: £307,000) was outstanding at the year end.

The performance fee payable to Schroders in respect of the year ended 31 August 2010 was £2,156,000 (2009: £nil), all of which was outstanding at the year end (2009: £nil).

The total secretarial fee payable to Schroders in respect of the year ended 31 August 2010 was £75,000 (2009: £75,000), of which £19,000 (2009: £19,000) was outstanding at the year end.

Notes to the Accounts

22. Risk Management

Financial instruments

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 addition, the Company holds cash and short-term deposits and various items such as receivables and payables that arise directly from its operations. The financial instruments held by the Company are generally liquid. The Company's assets and liabilities are all stated at fair value.

The holding of securities, investing activities and associated financing undertaken pursuant to this objective involves certain inherent risks. Events may occur that would result in either a reduction in the Company's net assets or a reduction in revenue profits available for dividend.

The Company invests in securities for the long term. Accordingly, it is the Company's policy that no trading shall be undertaken.

The main risks arising from the Company's financial statements are market risk, liquidity risk and credit risk. The Board reviews and agrees a policy for managing these risks, as summarised below. These policies have remained substantially unchanged throughout the current and preceding year.

1. 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– price risk, currency risk and interest rate risk.

The Company's investment 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.

a. Price Risk

The Company is an investment company and as such its performance is dependent on the valuation of its investments. Consequently price risk is the most significant risk that the Company is exposed to. A detailed breakdown of the investment portfolio is given on pages 7 and 8. Investments are valued in accordance with the Company's accounting policies as stated in note 1. Uncertainty arises as a result of future changes in the market prices of the Company's investments and the effect changes in exchange rates may have on the sterling value of these investments.

Management of the risk

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

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

Price risks exposure

The Company's exposure to other changes in market prices on its quoted equity investments was as follows:

	31 August 2010 £'000	31 August 2009 £'000
Non-current asset investments at fair value through profit or loss	**237,244**	173,027

Concentration of exposure to price risk

The Company normally holds a mixture of equity and fixed interest investments in its portfolio. The portfolio is invested in many different industry sectors within a variety of countries, which significantly spreads the risk of individual investments performing poorly and reduces the concentration of exposure. The classification of investments by sector and region is provided on pages 7 and 8.

Price risk sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and the equity to an increase or decrease of 10% (2009: 10%) in the fair values of the Company's investments. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's investments at each balance sheet date, with all other variables held constant.

	31 August 2010		31 August 2009	
	Increase in fair value £'000	**Decrease in fair value £'000**	Increase in fair value £'000	Decrease in fair value £'000
Effect on revenue return	**(53)**	**53**	(39)	39
Effect on capital return	**23,600**	**(23,600)**	17,212	(17,212)
Effect on total return and on net assets	**23,547**	**(23,547)**	17,173	(17,173)

Notes to the Accounts

b. Currency Risk

The Company is exposed to foreign currency risk through its investment in securities listed on overseas stock markets. Both the amount and the currency split of the financial instruments are expected to fluctuate as cash flow payments and receipts are made on a regular basis in currencies other than sterling.

Management of the risk

The Investment Manager monitors the Company's exposure to foreign currencies on a daily basis, and reports to the board on a regular basis. It is the policy of the Company to consider entering into forward foreign exchange contracts, in addition to foreign currency loans, to hedge against foreign currency movements affecting the value of the investment portfolio. At 31 August 2010 and at 31 August 2009 the Company had no forward foreign exchange contracts in place.

Foreign currency exposure

The fair values of the Company's monetary assets that have foreign currency exposure at 31 August 2010 are shown below.

Where the Company's equity investments (which are not monetary assets) are priced in foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

(i) Financial assets

	At 31 August 2010			At 31 August 2009		
	Non-current asset investments £'000	**Current assets £'000**	**Total £'000**	Non-current asset investments £'000	Current assets £'000	Total £'000
Australian Dollar	**54,620**	**519**	**55,139**	49,657	2,262	51,919
Canadian Dollar	**2,550**	**26**	**2,576**	2,388	–	2,388
Chinese Yuan	**13,655**	**–**	**13,655**	–	–	–
Hong Kong Dollar	**51,595**	**430**	**52,025**	38,813	1,153	39,966
Indonesian Rupiah	**6,368**	**32**	**6,400**	5,152	44	5,196
Japanese Yen	**2,401**	**–**	**2,401**	–	5	5
New Taiwan Dollar	**20,801**	**864**	**21,665**	16,144	715	16,859
New Zealand Dollar	**4,980**	**2**	**4,982**	5,510	–	5,510
Philippine Peso	**8,604**	**67**	**8,671**	3,083	–	3,083
Singaporean Dollar	**27,972**	**221**	**28,193**	21,678	237	21,915
South Korean Won	**9,716**	**–**	**9,716**	5,432	–	5,432
Thai Baht	**10,520**	**186**	**10,706**	7,534	135	7,669
United States Dollar	**19,672**	**264**	**19,936**	17,636	439	18,075
	233,454	**2,611**	**236,065**	173,027	4,990	178,017

(ii) Financial liabilities

The Company's financial liabilities comprise bank loans, overdraft balances and short-term payables. Details of the Company's bank borrowings are disclosed in note 14.

The foreign currency exposure of these financial liabilities was as follows:

	At 31 August 2010			At 31 August 2009		
	Loan facility £'000	**Short-term payable £'000**	**Total £'000**	Loan facility £'000	Short-term payable £'000	Total £'000
New Taiwan Dollar	**–**	**18**	**18**	–	15	15
United States Dollar	**21,146**	**–**	**21,146**	13,805	9	13,814
	21,146	**18**	**21,164**	13,805	24	13,829

Notes to the Accounts

Foreign currency sensitivity

By using the five largest currency exposures from the table above, the following analysis illustrates the sensitivity of the profit after taxation for the year and the equity in regard to the Company's monetary financial assets and financial liabilities.

It is not possible to forecast how much exchange rates might move in the next year, but based on the movements in the five major currencies above in the last two years, it appears reasonably possible that rates could change as noted below.

Assumed exchange rate movements:

Sterling/Australian Dollar +/- 10% (2009: 10%)
Sterling/Hong Kong Dollar +/- 10% (2009: 10%)
Sterling/US Dollar +/- 10% (2009: 10%)
Sterling/Singapore Dollar +/- 10% (2009: 10%)
Sterling/Taiwanese Dollar +/- 10% (2009: 10%)

If Sterling had weakened against the exposure currencies shown, with all other variables held constant, this would have the following effect:

	At 31 August 2010			At 31 August 2009		
	Effect on Revenue return £'000	Effect on Capital return £'000	Total return and net assets £'000	Effect on Revenue return £'000	Effect on Capital return £'000	Total return and net assets £'000
Australian Dollar	57	6,069	6,126	59	5,710	5,769
Hong Kong Dollar	21	5,759	5,780	13	4,427	4,440
US Dollar	47	(182)	(135)	53	420	473
Singapore Dollar	21	3,111	3,132	26	2,409	2,435
Taiwanese Dollar	7	2,398	2,405	(2)	1,873	1,871
	153	17,155	17,308	149	14,839	14,988

If Sterling had strengthened against the exposure currencies shown, with all other variables held constant, this would have the following effect:

	At 31 August 2010			At 31 August 2009		
	Effect on Revenue return £'000	Effect on Capital return £'000	Total return and net assets £'000	Effect on Revenue return £'000	Effect on Capital return £'000	Total return and net assets £'000
Australian Dollar	(47)	(4,965)	(5,012)	(48)	(4,672)	(4,720)
Hong Kong Dollar	(17)	(4,712)	(4,729)	(11)	(3,622)	(3,633)
US Dollar	(39)	149	110	(44)	(344)	(388)
Singapore Dollar	(18)	(2,546)	(2,564)	(22)	(1,971)	(1,993)
Taiwanese Dollar	(6)	(1,962)	(1,968)	1	(1,533)	(1,532)
	(127)	(14,036)	(14,163)	(124)	(12,142)	(12,266)

In the opinion of the directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the currency risk management process used to meet the Company's objectives.

c. Interest Rate Risk

The Company will be affected by interest rate changes as it holds interest-bearing financial assets and liabilities. Interest rate changes will also have an impact in the valuation of investments, although this forms part of price risk, which is considered separately above.

Management of the risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the credit facility. The level of gearing is reviewed by the Board on a regular basis.

The Company, generally, does not hold significant cash balances, with short-term borrowings being used when required.

Derivative contracts are not used to hedge against the exposure to interest rate risk.

Interest rate exposure

The exposure, at 31 August, of financial assets and liabilities to interest rate risk is shown by reference to:

– floating interest rates (i.e. giving cash flow interest rate risk)– when the rate is due to be re-set;

– fixed interest rates (i.e. giving fair value interest rate risk)– when the financial instrument is due for repayment.

Notes to the Accounts

	31 August 2010 Within one year £'000	More than one year £'000	Total £'000	31 August 2009 Within one year £'000	More than one year £'000	Total £'000
Exposure to floating interest rates:						
Cash at bank and short-term deposits	**4,225**	**–**	**4,225**	7,248	–	7,248
Bank loan	**(21,146)**	**–**	**(21,146)**	(13,805)	–	(13,805)
Total exposure to interest rates	**(16,921)**	**–**	**(16,921)**	(6,557)	–	(6,557)
Exposure to fixed interest rates:						
Bonds	**1,165**	**1,559**	**2,724**	–	6,529	6,529
Total exposure to interest rates	**1,165**	**1,559**	**2,724**	–	6,529	6,529

The weighted average interest rate for the fixed rate financial assets held at 31 August 2010 was 9.39% (2009: 5.6%) and the effective average period for which the rate was fixed was 2.1 years (2009: 2.3 years).

The above year end amounts are not representative of the exposure to interest rates during the year, because the level of exposure changes as bonds are traded, borrowings are drawn down and repaid and the level of borrowings and/or cash held change during the year in response to the Board's and Manager's perception of market prospects and the investment opportunities available at any one time.

	31 August 2010 Exposure to Floating rates £'000	Exposure to Fixed rates £'000	Total £'000	31 August 2009 Exposure to Floating rates £'000	Exposure to Fixed rates £'000	Total £'000
Maximum interest rate exposure	**(18,688)**	**7,895**	**(10,793)**	(15,400)	12,332	(3,068)
Minimum interest rate exposure	**(7,961)**	**2,632**	**(5,329)**	(2,497)	6,195	3,698

Interest rate sensitivity

The following table illustrates the sensitivity of the revenue and capital return for the year and shareholders' funds to an increase or decrease of 0.50% (2009: 0.50%) in interest rates in regard to the Company's monetary financial assets and 0.50% (2009: 0.50%) in regard to the Company's monetary liabilities, which are subject to interest rate risk.

This level of change is considered to be reasonably possible based on the observation of current market conditions.

The sensitivity analysis is based on the Company's monetary financial instruments held at each balance sheet date, with all other variables held constant.

	31 August 2010 Increase in rate £'000	Decrease in rate £'000	31 August 2009 Increase in rate £'000	Decrease in rate £'000
Effect on revenue return	**(11)**	**11**	16	(16)
Effect on capital return	**(74)**	**74**	(48)	48
Effect on total return and on net assets	**(85)**	**85**	(32)	32

In the opinion of the Directors, the above sensitivity analyses may not be representative of the year as a whole, since the level of exposure may change in response to the Board's and Manager's perception of market prospects and the investment opportunities available at any one time.

2. Liquidity Risk

Liquidity risk is the possibility of failure of the Company to realise sufficient assets to meet its financial liabilities.

Management of the risk

The Company's assets mainly comprise readily realisable securities which may be sold to meet funding requirements as necessary.

Liquidity risk exposure

A summary of the Company's financial liabilities is provided below in section 5 of this note below.

Notes to the Accounts

3. Credit Risk

Credit risk is the exposure to loss from the failure of a counterparty to deliver securities or cash for acquisitions or disposals of investments or to repay deposits.

Management of the risk

The Company manages credit risk by entering into deals only with brokers pre-approved by a credit committee of Schroder Investment Management Limited. These arrangements were in place throughout the current year and the prior year.

Credit risk exposure

The exposure to credit risk at the year end comprised:

	31 August 2010 £'000	31 August 2009 £'000
Accrued income	**1,532**	1,555
Fixed Interest Securities	**2,724**	6,529
Cash at bank	**4,225**	7,248
	8,481	15,332

During the year all deposits placed were with banks that had ratings of A or higher.

All fixed interest securities held at the year end were non-investment grade.

The fair values of all of the above are considered to be the same as the values shown and the likelihood of a material credit default is considered to be low.

4. Fair Values of Financial Assets and Financial Liabilities

The Company's financial instruments are stated at their fair values at the year end. The fair value of shares and securities is based on either the bid price or the last traded market price. Borrowings under the credit facility are short term in nature and hence do not have a value materially different from their capital repayment amount.

5. Summary of Financial Assets and Financial Liabilities by Category

The carrying amounts of the Company's financial assets and financial liabilities, as recognised at the balance sheet date of the reporting periods under review, are categorised as follows:

Financial Assets	**31 August 2010 £'000**	31 August 2009 £'000
Financial assets at fair value through profit or loss:		
Non-current asset investments– designated as such on initial recognition	**237,244**	173,027
Loans and receivables:		
Current assets:		
Other receivables (due from brokers, dividends receivable and accrued income)	**1,548**	1,566
Cash at bank and short-term deposits	**4,225**	7,248
	5,773	8,814

Financial Liabilities	**31 August 2010 £'000**	31 August 2009 £'000
Measured at amortised cost		
Creditors: amounts falling due within one year		
Borrowings under the currency credit facility	**21,146**	13,805
Other payables	**2,672**	432
	23,818	14,237

Notes to the Accounts

6. Fair Value Hierarchy

The Company adopted the amendments to IFRS7 'Financial Instruments: Disclosures' effective for periods beginning on or after 1 January 2009. These amendments require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of these inputs used in making the measurements. The fair value hierarchy shall have the following levels:

Level 1– valued using quoted prices in active markets for identical assets.

Level 2– valued by reference to valuation techniques using observable inputs other than quoted 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 of input that is significant to the fair value measurement of the relevant asset as follows:

Financial assets measured at fair value are grouped into the fair value hierarchy at 31 August 2010 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted equities	a	234,520	–	–	234,520
Quoted fixed interest investments	b	2,724	–	–	2,724
Net fair value		237,244	–	–	237,244

a. Quoted equities

The fair value of the Company's investments in quoted equities have been determined by reference to their quoted bid prices or last traded prices at the reporting date. Quoted equities included in Level 1 are actively traded on recognised stock exchanges.

b. Quoted fixed interest investments

The fair value of the Company's fixed interest investments has been determined by reference to their quoted bid prices or last traded prices at the reporting date. Quoted fixed interest investments included in Level 1 are actively traded on recognised stock exchanges.

7. Capital management policies and procedures

The Company's capital is represented by its net assets, which are managed with the aim of achieving the Company's investment objective, set out on the inside front cover.

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

(i) the planned level of gearing through the Company's credit facility;

(ii) the need to buy back or issue equity shares; and

(iii) the determination of dividend payments.

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

Notice of Meeting

NOTICE is hereby given that the Annual General Meeting of Schroder Oriental Income Fund Limited will be held at 12.00 noon on Friday, 17 December 2010 at 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 6 will be proposed as Ordinary Resolutions and resolutions 7 to 9 will be proposed as Special Resolutions:

1. To receive the Report of the Directors and the audited accounts for the year ended 31 August 2010.
2. To approve the Remuneration Report for the year ended 31 August 2010.
3. To re-elect Mr Peter Rigg as a Director of the Company.
4. To re-elect Mr Christopher Sherwell as a Director of the Company.
5. To re-appoint Ernst & Young LLP as Auditors of the Company.
6. To authorise the Board to determine the remuneration of Ernst & Young LLP as Auditors of the Company.
7. 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"), at whatever discount the prevailing market price represents to the prevailing net asset value per share provided that:
   (a) the maximum number of Shares hereby authorised to be purchased shall be 24,662,972, representing 14.99% of the issued share capital as at 24 November 2010;
   (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 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."
8. To consider and, if thought fit, pass the following as a special resolution:
   "To adopt the New Memorandum and Articles of Incorporation produced to the Meeting and initialled by the Chairman of the Meeting for the purposes of identification in substitution for, and to the exclusion of the entirety of, the existing Memorandum and Articles of Association of the Company."
9. To consider and, if thought fit pass the following as a special resolution:
   "Subject to the passing of Resolution 8, the Board be and hereby is authorised in accordance with Section 292 of the Companies (Guernsey) Law, 2008 (as amended) to allot ordinary shares for cash and/or sell treasury shares up to 16,452,950 ordinary shares of 1p each in aggregate representing 10% of the share capital in issue on 24 November 2010 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) immediately prior to the Annual General Meeting of the Company to be held in 2011 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
24 November 2010

Registered Office:
PO Box 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey GY1 3QL

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 Association) 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, C/o Computershare Investor Services C.I. Limited, PO Box 83, Ordnance House, 31 Pier Road, St Helier, Jersey JE4 8PW, 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/re-election are set out on the inside front cover of this Report.

3 As at 24 November 2010, 164,529,500 ordinary shares of 1p were in issue. Accordingly, the total number of voting rights of the Company as at 24 November 2010 is 164,529,500.

4 The following is a summary of some of the material amendments to be made to the existing memorandum and articles of incorporation of the Company:

Memorandum of Incorporation

- The 2008 Law provides that a company's objects are unrestricted unless restricted in its memorandum. It is therefore proposed to remove the existing objects clause of the current memorandum making the Company's objects unlimited providing maximum flexibility.
- Any provisions relating to the Company's share capital are to be moved from the Company's memorandum to the articles.
- The provision relating to the Company's common signature is now to appear in the Company's articles.

Articles of Incorporation

It is proposed to make the following changes:

- Update the definitions so that they are consistent with the 2008 Law.
- Insert a new Article 3.22 as the 2008 Law states that where a company limited by shares has only one class of shares, the directors may exercise the powers of the company (a) to issue shares of that class, or (b) to grant rights to subscribe for or to convert any security into such shares, except to the extent that they are prohibited from doing so by the company's memorandum, articles or any resolution of the company. For the avoidance of doubt therefore, it is proposed to insert an article expressly stating that the Directors have authority to allot shares.
- Insert a new Article 3.23 as the 2008 Law requires that where companies have more than one class of shares, directors must be authorised by the company's memorandum or articles or by resolution of the company to (a) to issue shares in the company, or (b) to grant rights to subscribe for or to convert any security into, shares in the company. The 2008 Law goes on to state that this authorisation must state the maximum amount of shares that may be issued under it and specify the date on which it will expire which must not be more than 5 years after (i) in the case of authorisation contained in the company's memorandum or articles at the time of its original incorporation or (ii) in any other case, the date on which the resolution is passed by virtue of which the authorisation is given.
- Insert new Articles 3.24 – 3.26 incorporating pre-emption provisions required by the Listing Rules.
- Delete Article 20.1 (ability to increase share capital) and Article 20.6 (ability to reduce share capital) given that such capital maintenance concepts are not contained in the 2008 Law (on the basis that the 2008 Law no longer recognises the concept of "authorised" share capital). Under the 2008 Law, reduction of capital is now equated with the making of distributions and as such require the authorisation of the directors who must be satisfied on reasonable grounds that the company will, immediately after the distribution satisfy a solvency test prescribed in the 2008 Law in addition to any other requirements of the memorandum and articles of incorporation. A special resolution is no longer required.
- Amend article 9.2 so that it mirrors the provisions of the 2008 Law.
- Delete the first sentence of Article 10.1 given that the first general meeting of the Company has already been held.
- Amend Articles 13.7 – 13.8 as the 1994 Law was silent on the timing of delivery of proxies to the company in the run up to a general meeting. Section 224 of the 2008 Law changes this however by setting a uniform timescale for all companies. It operates by making void any provision of a company's articles which would have the effect of requiring a proxy to be received by the company or another person earlier than:
  - in the case of a meeting or adjourned meeting, 48 hours before the time for holding the meeting or adjourned meeting;
  - in the case of a poll taken more than 48 hours after it was demanded, 24 hours before the time appointed for the taking of the poll; and
  - in the case of a poll taken not more than 48 hours after it was demanded, the time at which it was demanded.

- Delete the first sentence of Article 14.1 as the first directors of the Company have been appointed.
- Amend Articles 14.2, 14.5, 14.6, and 16.1 as under the 2008 Law, neither directors nor alternate directors may be appointment without delivering a consent to act and eligibility statement.
- Delete Articles 26 and 27 as reserves are no longer required given that under the 2008 Law, a company may make a dividend so long as the company can pass the new “solvency test”.
- Update Article 25 to mirror the provisions of the 2008 Law. A company is longer required to pay dividends out of profits but may pay dividends out of any source of funds provided that the procedure set out in the 2008 Law is followed and that the company will pass the solvency test as prescribed by the 2008 Law.
- Delete Article 26.4: a copy of the balance sheet and documents annexed thereto including the report of the directors and the auditors shall be sent to shareholders within 12 months after the end of the financial year to which they relate rather than at least 21 days before the date of the meeting.
- Update Article 28.2 to mirror the provisions of the 2008 Law regarding deemed receipt of notices.
- Amend Articles 30 and 31 to provide that the Company may indemnify and insure the directors, managers, agents and officers of the Company to the maximum extent permitted by the 2008 Law. Section 157 of the 2008 Law provides that “any provision that purports to exempt a director of a company (to any extent) from any liability that would otherwise attach to him in connection with any negligence, default, breach of duty or breach of trust in relation to the company is void”.
- Include a new Article 34 (common signature). The Common Signature provision previously appeared in the Memorandum of Incorporation. This has now been moved to the Articles. Such a provision is no longer required to be in the Memorandum of Incorporation under the 2008 Law.
- Include a new Article 35 (Electronic Communications) so that the Company may communicate electronically with its members.

Company Summary and Shareholder Information

The Company

Schroder Oriental Income Fund Limited is an independent, Guernsey resident company, whose shares are listed on the London Stock Exchange. As at 24 November 2010, the Company had 164,529,500 ordinary shares of 1p each in issue. The Company's assets are managed and it is administered by Schroders.

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

Website and Price Information

The Company has a dedicated website, which may be found at www.schroderorientalincomefund.com. The website 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 (subject to a delay of 15 minutes) 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. There is also a section entitled "How to Invest" which provides details of the Schroder ISA.

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.

Registrar Services

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 Northern Trust International Fund Administration Services (Guernsey) Limited, PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL.

Dealing Codes

The dealing codes for the shares in the Company are as follows:

ISIN:	GB00B0CRWN59
SEDOL:	BOCRWN5
Ticker:	SOI

www.schroderorientalincomefund.com

Schroders