# Schroder
# Income Growth Fund plc

Report and Accounts to 31 August 2011

Schroders

# Investment Objectives

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

# Directors

**Sir Paul Judge** (Chairman)*†
Aged 62, was appointed as a Director of the Company on 11 January 1995 and is President of the Chartered Institute of Marketing and of the Association of MBAs and a director of ENRC plc and of public companies in the US and South Africa. Formerly he has been a Director of WPP Group plc, ministerial adviser at the Cabinet Office, Director General of the Conservative Party, Chairman of Premier Brands Limited, and Planning Director of Cadbury Schweppes PLC.

**David Causer***†
Aged 61, was appointed as a Director on 11 December 2008. He is a Chartered Accountant and a member of The Securities Institute. He has held a number of senior positions within financial organisations including Finance Director of Mercury Asset Management Group plc and a Managing Director of Merrill Lynch Investment Managers until 2001. He was Finance Director of The British Red Cross Society until December 2007. He is currently a director and Audit Committee chairman of Fidelity China Special Situations Plc.

**Keith Niven**†
Aged 63, was appointed as a Director of the Company on 5 January 1995. He is non-executive Chairman of Matrix Income & Growth VCT plc and a non-executive Director of one other investment trust, Impax Environmental Markets plc. He is also an investment adviser to the Rolls-Royce Pension Fund. Mr Niven was previously a Vice Chairman of Schroder Investment Management Limited and Chairman of Schroder Unit Trusts Limited.

**Ian Barby***†
Aged 66, was appointed as a Director of the Company on 31 October 2005. He practised as a Barrister before joining Warburg Investment Management Ltd in 1985, subsequently becoming a Vice Chairman of Mercury Asset Management plc and latterly, until 2003, a Managing Director of Merrill Lynch Investment Managers. He has wide experience of the investment management industry and of the investment trust sector and is currently Chairman of Invesco Perpetual UK Smaller Companies PLC and of Ecofin Water and Power Opportunities plc as well as being a director of Merrill Lynch World Mining Trust plc, Pantheon International Participations PLC, Madagascar Oil Limited and SR Europe Investment Trust plc.

**Peter Readman***†
Aged 64, was appointed as a Director of the Company on 15 December 1999. He is Chairman of Abercromby Property International and the Chamber Orchestra of Europe and a director of a number of other companies including Keystone Investment Trust plc and Pantheon International Participations PLC.

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

Mr Causer is Chairman of the Audit Committee.

Sir Paul Judge is Chairman of the Nomination and Management Engagement Committees.

# Advisers

**Investment Manager**
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London EC2V 7QA

**Company Secretary and Registered Office**
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**Custodian**
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**Stockbrokers**
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Shareholder Helpline: 0800 032 0641*
Website: www.shareview.co.uk

*Calls to this number are free of charge from landlines.

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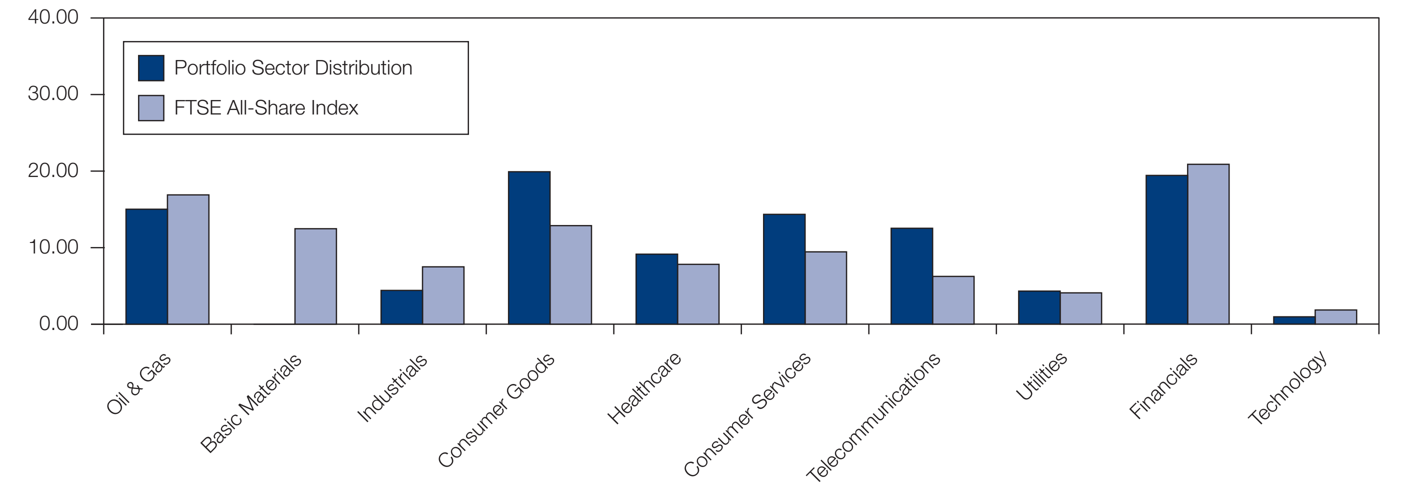
# Financial Highlights

| | As at 31 August 2011 | As at 31 August 2010 | % Change |
|---|---|---|---|
| Net asset Value ("NAV") per ordinary share | **196.23p** | 189.68p | 3.5 |
| Share price | **187.75p** | 184.75p | 1.6 |
| Share price discount | **4.3%** | 2.6% | |
| Shareholders' funds | **£134.79m** | £130.29m | 3.5 |
| Shares in issue ('000) | **68,688** | 68,688 | – |
| | **Year ended 31 August 2011** | Year ended 31 August 2010 | |
| Revenue return per ordinary share | **8.83p** | 7.72p | 14.4 |
| Dividends per share declared in respect of the year | **9.30p** | 9.10p | 2.2 |
| Retail Price Index | **236.10** | 224.5 | 5.2 |
| NAV total return* | **8.4%** | 12.4% | |
| FTSE All-Share Index total return** | **7.3%** | 10.6% | |
| FTSE 350 Higher Yield total return** | **9.4%** | 4.0% | |
| Share Price total return* | **6.4%** | 19.4% | |
| Total expense ratio*** | **0.97%** | 0.99% | |

* Source: Morningstar (www.morningstar.co.uk).
** Source: Thomson Financial Datastream.
*** Calculated in accordance with the Association of Investment Companies (AIC) guidance. Based on operating costs, excluding performance fees and finance costs but after allowing for tax relief and expenses, and expressed as a percentage of monthly net assets.

# Comparison of Portfolio Sector Distribution with the FTSE All-Share Index* at 31 August 2011



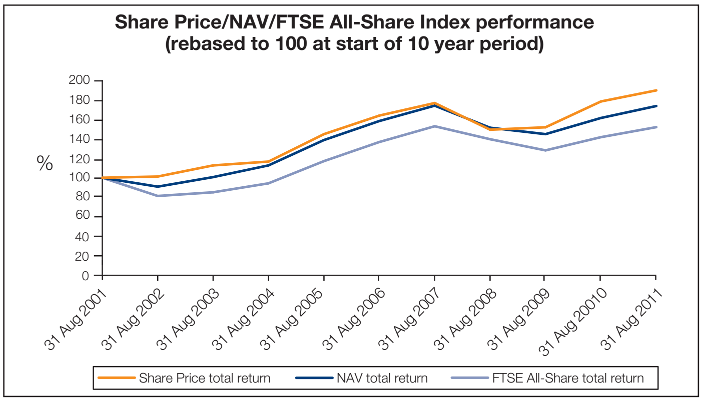

Source: Schroders.
*Sector distributions are shown as a percentage of total assets less current liabilities.

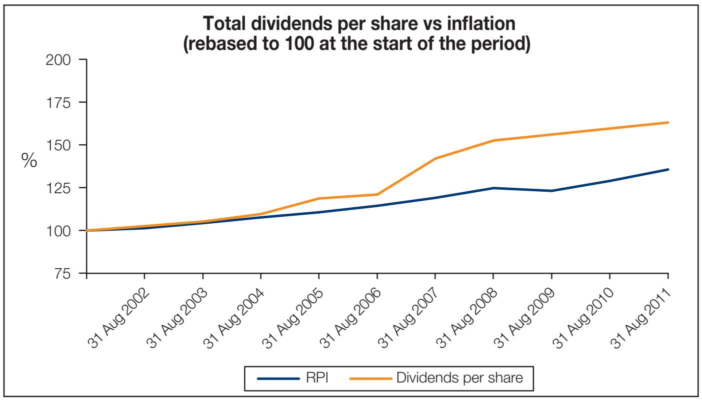
# Total Returns to 31 August 2011

| | Share price total return* % | NAV total return* % | FTSE All-Share total return** % | FTSE 350 Higher Yield total return** % |
|---|---|---|---|---|
| 1 year | 6.4 | 8.4 | 7.3 | 9.4 |
| 2 years | 24.9 | 19.3 | 18.6 | 13.9 |
| 3 years | 27.0 | 14.7 | 8.9 | 3.4 |
| 4 years | 7.3 | (0.2) | (0.6) | (9.4) |
| 5 years | 15.8 | 9.7 | 11.2 | (0.7) |
| 6 years | 31.0 | 25.2 | 29.8 | 13.0 |
| 7 years | 62.6 | 54.0 | 61.1 | 40.4 |
| 8 years | 68.3 | 72.3 | 78.5 | 58.4 |
| 9 years | 87.2 | 91.0 | 86.8 | 64.0 |
| 10 years | 89.5 | 73.5 | 51.8 | 45.1 |
| Since Inception (March 1995) | 265.8 | 259.9 | 211.4 | 276.2 |

* Source: Morningstar (www.morningstar.co.uk).
** Source: Thomson Financial Datastream.

# Ten-Year Record




| As at 31 August | Shareholders' funds* £'000 | Diluted NAV per share pence | Undiluted NAV per share pence | Share price pence | Share price (discount)/ premium % |
|---|---|---|---|---|---|
| 2011 | 134,787 | 196.2 | 196.2 | 187.8 | (4.3) |
| 2010 | 130,288 | 189.7 | 189.7 | 184.8 | (2.6) |
| 2009 | 123,479 | 179.8 | 179.8 | 165.3 | (8.1) |
| 2008 | 136,104 | 198.2 | 198.2 | 172.0 | (13.2) |
| 2007 | 168,975 | 235.7 | 235.7 | 212.5 | (9.8) |
| 2006 | 160,195 | 220.4 | 220.4 | 203.8 | (7.6) |
| 2005 | 149,626 | 200.0 | 200.0 | 186.5 | (6.8) |
| 2004 | 125,433 | 166.1** | 166.1 | 156.0 | (6.1) |
| 2003 | 114,246 | 154.1 | 159.9 | 156.8 | 1.7 |
| 2002 | 105,192 | 145.2 | 150.3 | 147.0 | 1.2 |

* The figures for 2005 have been restated in accordance with FRS26. The figures for the earlier years have not been restated.
** Warrants lapsed on 31 December 2003.

| As at 31 August | Share price total return# % | NAV total return# % | FTSE All-Share total return† % | Earnings per share pence | Net dividends per share pence | Cost of running Company‡ £'000 |
|---|---|---|---|---|---|---|
| 2011 | 6.4 | 8.4 | 7.3 | 8.8 | 9.3 | 1,357 |
| 2010 | 19.4 | 12.4 | 10.6 | 7.7 | 9.1 | 1,268 |
| 2009 | 2.3 | (4.1) | (8.2) | 8.4 | 8.9 | 1,178 |
| 2008 | (15.5) | (13.5) | (8.7) | 9.8 | 8.7 | 1,362 |
| 2007 | 7.9 | 10.0 | 11.8 | 8.1 | 8.1 | 1,584 |
| 2006 | 13.2 | 13.7 | 16.8 | 7.4 | 6.9 | 1,510 |
| 2005 | 24.1 | 23.0 | 24.1 | 7.2 | 6.8* | 1,429 |
| 2004 | 3.5 | 11.9 | 10.8 | 6.4 | 6.3 | 1,301 |
| 2003 | 11.3 | 10.8 | 4.6 | 6.2 | 6.0 | 1,161 |
| 2002 | 1.2 | (9.1) | (18.7) | 5.7 | 5.9 | 1,143 |

# Source: Morningstar (www.morningstar.co.uk).
† Source: Fundamental Data to 2006 and Thomson Financial Datastream from 2007.
‡ Based on operating expenses excluding finance costs and any performance fees or rebates (if applicable); excludes back-dated VAT recovery on management fees of £1,100,000 for 2008 and £120,00 for 2009.
* Includes special dividend of 0.25p.

# Chairman's Statement

## Results for the Year and Dividends

During the year under review the Company's revenue return increased to 8.83 pence per share which is a rise of 14.4% compared with the 7.72 pence per share for the previous year. The bulk of this increase represents an increase in dividends paid by companies in the portfolio while there was also a small contribution from the start of a programme of writing covered call options on some of the Company's portfolio holdings.

Your Board has declared total dividends of 9.30 pence per share for the year ended 31 August 2011. This represents an increase of 2.2% over the 9.10 pence per share declared in respect of the year ended 31 August 2010, including the utilisation of 0.47 pence per share of the revenue reserve (1.38 pence per share of the revenue reserve was utilised in respect of dividends declared for the previous financial year). This increase compares with a rise in the Retail Price Index of 5.2% over the last year. However over the longer-term the Company's dividend increases remain above inflation by 16.3% over 5 years and 27.5% over 10 years.

## Investment Performance

During the year under review, the Company produced a net asset value total return of 8.4%. This compares favourably during the year with the FTSE All-Share Index, which produced a total return of 7.3%, although it lagged the FTSE 350 Higher Yield Index, which produced a total return of 9.4%.

The discount of the Company's share price to net asset value widened during the year to 4.3% on 31 August 2011 compared to 2.6% at the start of the year. The average discount for the year was 3.9%. The share price total return for the year was 6.4%.

Following the year end, markets have remained volatile. During the two months ended 31 October 2011, the Company produced a net asset value total return of 6.8% compared with a total return of 2.5% for the FTSE All-Share Index and 4.6% for the FTSE 350 Higher Yield Index. The share price at 31 October 2011 was 196.25 pence, representing a discount to net asset value of 2.5%.

Detailed comment on performance may be found in the Investment Manager's Review.

## Share Purchases and Treasury Shares

The Company continued to monitor the share price discount to net asset value during the year. No shares were purchased for cancellation or holding in treasury. The Board continues to consider share buy-backs as one of a number of tools that may be used to enhance shareholder value and to reduce the discount volatility. It is therefore proposed that the authority to purchase up to 14.99% of the Company's issued share capital for cancellation granted to the Company at the Company's Annual General Meeting held in December 2010 be renewed at the forthcoming Annual General Meeting.

## Lead Fund Manager

As announced earlier in the year, on 1 July 2011 Sue Noffke took over responsibility as your Company's lead portfolio manager, replacing Sonja Laud to whom she had previously been providing maternity cover.

## Board

The Board continues to monitor its composition for an appropriate balance of skills, experience and diversity, including gender, with a view to progressive refreshment. It hopes to appoint a new member of the Board in the coming year following which one of the current longer-serving Directors will retire.

## Annual General Meeting

The Company's Annual General Meeting will be held at 12.00 noon on Wednesday, 21 December 2011. As in previous years, the meeting will include a presentation by the Investment Manager on the Company's investment strategy and market prospects.

# Chairman's Statement

## Outlook

The slowdown in global growth and the Eurozone's sovereign debt problems continue to dominate markets. These factors could potentially slow the recent recovery in dividend income from the companies in the portfolio.

While recognising the risks, the Board believes that the corporate sector is relatively well-financed. The Investment Manager has aimed at a diversified selection of companies, including some foreign stocks, with above-average potential to increase their dividends. It is hoped that this portfolio plus a limited programme of writing calls on holdings will continue to increase the Company's income and will allow the resumption of the historic trend of raising the dividend each year above the rate of inflation.

**Sir Paul Judge**
Chairman

18 November 2011

# Investment Manager's Review

In the twelve months to the end of August 2011 the Company's net asset value produced a total return of 8.4%*. This compares to a total return from the FTSE All-Share Index of 7.3%* and the FTSE 350 Higher Yield Index of 9.4%*. The Company's share price increased 6.4%* on a total return basis.

The twelve month period to 31 August 2011 initially encompassed strong gains from the stock market but this was followed by a substantial erosion of these gains in the later months. The second round of quantitative easing initiated by the United States in late 2010 boosted global risk assets due to positive liquidity effects. The UK stock market rose strongly from September 2010 to May 2011 as a result of this and better than expected corporate profits and dividend growth in the reporting season. Thereafter the market was subject to a high degree of volatility and it weakened substantially. Macroeconomic uncertainty rose as leading indicators of economic activity turned down and the European sovereign debt crisis exposed a lack of political leadership and resolve to tackle the issues affecting countries' fiscal positions and the frailties of the banking system. In addition there were negative economic shocks resulting from the Japanese earthquake, tsunami and nuclear disaster which impacted the global supply chain, and from the Arab Spring which led to further strengthening of the oil price.

Against this backdrop the portfolio benefited from its defensive positioning. Our underweight position in banks, where we hold only HSBC, and the weak performance of the domestic banks contributed strongly to performance. Our overweight position in the food producers (Unilever and Tate & Lyle) and tobacco (British American Tobacco and Imperial Tobacco) sectors was also beneficial. Outperformance was partially offset by our lack of exposure to mining stocks, which benefited earlier in the Company's fiscal year from the effects of the Federal Reserve's quantitative easing programme. The Company's holding in Admiral, an insurance company, detracted from performance in the period. Admiral had previously been a strong contributor to performance and income growth but the market has become concerned over the sustainability of its superior underwriting performance and business model.

We have sought ways to create a more diversified fund and to diversify the stock specific income risk over the last year in the light of the issues posed by the cuts to and temporary suspension of BP's and the domestic banks' dividends. To achieve this we have gradually increased the number of stocks held and also established positions in non-UK equities and written some short dated call options over part of particular holdings following shareholders' approval to do so at the Company's Annual General Meeting in December 2010. We found attractive premiums for overwriting part of our positions in Aviva, British Aerospace, British American Tobacco, BT and Sainsbury. The premiums will supplement the Company's income. Although the changes we have made to the portfolio will take time to impact on the level and distribution of income generated by the portfolio we are confident that by next year the fund will be less reliant on the top income payers than in the past.

Stock numbers have increased from 28 to 39 over the period and activity levels have been higher than average as we have implemented the diversification strategy. At the beginning of the period we added to holdings in Unilever, Tate & Lyle and AstraZeneca, financed from reductions in Compass, Pearson and GlaxoSmithKline and sales of holdings in Diageo and International Power. Within the oils sector we have broadened the fund's holdings adding two new overseas stocks – Total, the French integrated oil company, and Statoil, the Norwegian energy company – financed from a reduction in the Royal Dutch Shell position. We also bought a new overseas holding in Dutch telecommunications company KPN and other holdings in some medium sized UK companies, such as Carillion, a construction and outsourcing company, and Logica, an IT services business. Within the financials area we have reduced modestly the fund's concentration on insurance stocks through partial sales of Admiral, Aviva and RSA and establishing new holdings in ICAP, the inter-dealer broker, Resolution, an acquirer and manager of in-force UK life funds, and Intermediate Capital, a specialist lender. We believed that there were attractive opportunities to add exposure to well financed, cash generative, consumer facing companies with the potential for attractive medium term dividend growth from a good starting yield point. We bought new positions in food retailer Wm Morrison, cruise operator Carnival, retailer Halfords and pub-restaurant company Greene King. Following good performance from many of the fund's defensive holdings and a contraction in valuation multiples in cyclical stocks we have more recently taken the opportunity to trim or sell positions in companies such as Unilever, Tate & Lyle and

# Investment Manager's Review

Pearson whilst seeking to add selectively to quality companies with some cyclical exposure where valuations appear to us to be discounting an overly pessimistic outlook.

We commented last year that there was unlikely to be a quick resolution to the contrast between fears of a double-dip recession and the appealing valuation of many UK shares and this remains the case. The extent of the slowdown in economic growth and the severity of the Eurozone debt crisis continue to be the key determinants of short term stock market performance. Our central view is that politicians will ultimately be forced by markets to allay market anxieties and avoid a double-dip recession by concerted global policy action including introducing further quantitative easing, maintaining low interest rates and supporting the fragile banking system. Economies are at risk of external shocks and the UK corporate sector has carried out much of the easy cost cutting but valuations remain attractive on a medium term view.

The financial position of companies has strengthened following the credit crunch with gearing falling and dividend cover rebuilding to above average levels. This stronger financial position offers the potential for increased investment to the benefit of the broader economy if confidence were to improve from current low levels. Additionally it provides scope for acquisitions and increased dividends for shareholders. Barring a slump back into recession globally, we believe that given the strength of corporate balance sheets and dividends which have lagged the recovery in corporate earnings, dividend growth is likely to surprise positively. Many companies across a variety of sectors in the portfolio have increased dividends substantially including Prudential, Wm Morrison, Legal & General, Imperial Tobacco and IMI.

There are significant challenges facing the global economy but at current levels we believe the UK stock market offers good value even in a slow growth environment. The portfolio remains focused predominantly on companies with internationally diversified earnings, strong balance sheets and attractive dividend yields with reasonable dividend growth potential.

**Schroder Investment Management Limited**
18 November 2011

*Source: Morningstar, net income reinvested.

# Investment Portfolio*

## As at 31 August 2011

| Company | Sector Classification | Principal Activity | Market Value of Holding £'000 | % of Shareholders' Funds |
|---|---|---|---|---|
| Vodafone | Telecommunications | Global mobile telephone provider | 10,982 | 8.15 |
| Royal Dutch Shell 'B' | Oil and Gas | Integrated oil company | 8,771 | 6.51 |
| British American Tobacco | Consumer Goods | International cigarette company | 8,290 | 6.15 |
| GlaxoSmithKline | Healthcare | Global pharmaceutical company | 6,914 | 5.13 |
| Unilever | Consumer Goods | International consumer products group | 6,883 | 5.11 |
| Imperial Tobacco | Consumer Goods | International cigarette company | 6,444 | 4.78 |
| Legal & General | Financials | UK financial services group | 5,624 | 4.17 |
| BP | Oil and Gas | Integrated oil company | 5,408 | 4.01 |
| AstraZeneca | Healthcare | Global pharmaceutical company | 5,238 | 3.89 |
| Aviva | Financials | International insurance and financial services | 3,853 | 2.86 |
| HSBC | Financials | Banking and financial services group | 3,830 | 2.84 |
| Reed Elsevier | Consumer Services | International publishing group | 3,704 | 2.75 |
| Centrica | Utilities | Energy related products | 3,598 | 2.67 |
| Tate & Lyle | Consumer Goods | Corn and sugar refiner | 3,524 | 2.61 |
| RSA Insurance | Financials | Financial services | 3,495 | 2.59 |
| Admiral | Financials | Financial services | 3,461 | 2.57 |
| BT | Telecommunications | UK fixed line telecommunications provider | 3,049 | 2.26 |
| Total (France) | Oil and Gas | Integrated oil company | 2,977 | 2.21 |
| Statoil (Norway) | Oil and Gas | Integrated oil company | 2,801 | 2.08 |
| Koninklijke (Royal) KPN (Netherlands) | Telecommunications | International telecommunications company | 2,604 | 1.93 |
| **Twenty Largest Investments** | | | **101,450** | **75.27** |
| IMI | Industrials | Diversified manufacturing | 2,433 | 1.81 |
| Compass | Consumer Services | International catering company | 2,264 | 1.68 |
| Pearson | Consumer Services | International media company | 2,206 | 1.64 |
| Morrison (Wm) Supermarkets | Consumer Services | UK food retailer | 2,155 | 1.60 |
| Scottish & Southern Energy | Utilities | Electricity company | 2,127 | 1.58 |
| Carnival | Consumer Services | Global cruise company | 2,077 | 1.54 |
| Tesco | Consumer Services | International food retailer | 1,976 | 1.47 |
| Carillion | Industrials | Infrastructure, building and business services | 1,963 | 1.46 |
| Prudential | Financials | International financial services group | 1,908 | 1.42 |
| Sainsbury | Consumer Services | UK food retailer | 1,876 | 1.39 |
| Halfords | Consumer Services | General retailer | 1,502 | 1.11 |
| ICAP | Financials | Interdealer broker | 1,486 | 1.10 |
| BAE Systems | Industrials | Global defence company | 1,440 | 1.07 |
| Reckitt Benckiser | Consumer Goods | Manufactures and distributes a wide range of products | 1,323 | 0.98 |
| Resolution | Financials | Speciality finance | 1,303 | 0.97 |
| Greene King | Consumer Services | Brews, wholesales and retails beer | 1,298 | 0.96 |
| Logica | Technology | Technology solutions company | 1,257 | 0.93 |
| Intermediate Capital Group | Financials | Financial services | 844 | 0.63 |
| De La Rue | Consumer Services | Specialises in the supply of cash handling and security products | 25 | 0.02 |
| **Total Equities** | | | **132,913** | **98.63** |
| BT (16 September 2011) | Call Option | | (3) | 0.00 |
| Sainsbury (J) (16 September 2011) | Call Option | | (7) | (0.01) |
| **Total Derivatives** | | | **(10)** | **(0.01)** |
| **Total Investment Portfolio** | | | **132,903** | **98.62** |
| **Net Current Assets** | | | **1,884** | **1.38** |
| **Total Equity Shareholders' Funds** | | | **134,787** | **100.00** |

At 31 August 2010, the twenty largest investments represented 85.23% of shareholders' funds.

*UK investments unless otherwise stated.

# Report of the Directors

## Business Review

### Company's Business

The Company carries on business as an investment trust and is an investment company within the meaning of Section 833 of the Companies Act 2006. In order to continue to obtain exemption from capital gains tax, the Company has conducted itself with a view to being an approved investment trust for the purposes of Section 1158 of the United Kingdom Corporation Tax Act 2010. The last accounting period for which the Company has been treated as approved by HMRC is the year ended 31 August 2010 and the Company has subsequently directed its affairs so as to enable it to continue to qualify for such approval. The Company is not a close company for taxation purposes.

### Investment Objectives

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

### Relationship with the Investment Manager

Schroder Investment Management Limited ("Schroders"), which is authorised and regulated by the Financial Services Authority ("FSA"), provides investment management, accounting and company secretarial services to the Company under the terms of an investment management agreement. Schroders also provides general marketing support for the Company and manages relationships with key investors, in conjunction with the Chairman, other Board members or the corporate broker as appropriate.

The Company's assets are managed in line with certain restrictions placed on Schroders by the Board. These restrictions include limits on the type and relative size of holdings which may be held in the portfolio and limits on the use of gearing, hedging, cash, derivatives and other financial instruments. Schroders is also responsible for ensuring that the voting rights held in respect of portfolio companies are used as part of a process of effective engagement with the management of portfolio companies. The Company also gives instructions to Schroders to ensure that it discharges the obligations of the Stewardship Code on its behalf.

Schroders, in its capacity as Company Secretary, liaises with the Company's corporate broker to assist in the implementation of the Company's discount management policy. The Company Secretary also advises the Board on key relationships with other third party service providers and ensures review by the Management Engagement Committee of the services provided by these parties.

All services carried out by Schroders are subject to regular reporting to, and monitoring by, the Board and Audit Committee as appropriate.

### Investment Strategy

The Board has delegated management of the Company's portfolio to Schroder Investment Management Limited (the "Manager" and/or "Schroders"). The Manager manages the portfolio with the aim of helping the Company to achieve its investment objectives. Details of the Manager's investment approach, along with other factors that have affected performance during the year, are set out in the Investment Manager's Review on pages 6 and 7.

### Investment Policy

The investment policy of the Company is to invest primarily in above-average yielding equities but up to 20% of the portfolio may be invested in equities listed on recognised stock exchanges outside the UK. If considered appropriate, the Company may use equity related instruments such as convertible securities and up to 10% of the portfolio may be invested in bonds. In addition, up to 20% of total income may be generated by short-dated call options written on holdings in the portfolio.

*Spread of Investment Risk*

Risk in relation to the Company's investments is spread as a result of the Manager investing the Company's portfolio with a view to ensuring that the portfolio retains an appropriate balance to meet the Company's investment objectives. The key restrictions imposed on the Manager include (i) no more than 15% of the Company's total net assets, at the date of acquisition, may be invested in any one single company; (ii) no more than 10% of the value of the Company's gross assets may be invested in other listed investment companies unless such companies have a stated investment policy not to invest more than 15% of their gross assets in other listed companies; (iii) no more than 15% of the Company's total net assets may be invested in open-ended funds; and (iv) no more than 25% of

# Report of the Directors

the Company's total net assets may be invested in the aggregate in unlisted investments and holdings representing 20% or more of the equity capital of any company. The Investment Portfolio on page 8 demonstrates that, as at 31 August 2011, the Manager invested in 36 UK and 3 overseas equity investments spread across a range of industry sectors. The Board believes that the diversity of the stocks, along with the above-mentioned restrictions imposed on the Company's Manager, achieve the objective of spreading risk.

*Gearing*

The Company's policy is to permit borrowings up to 25% of shareholders' funds. It is intended that the Manager should have the flexibility to utilise this power in order to maximise potential returns where and to the extent that this is considered appropriate by the Directors.

The Company did not employ any borrowings during the year under review.

**Performance**

An outline of performance, market background, investment activity and portfolio strategy during the year under review, as well as outlook, is provided in the Investment Manager's Review on pages 6 and 7.

**Measuring Success – Key Performance Indicators ("KPIs")**

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

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

A full analysis of the Company's performance for the year under review and over the longer-term, together with the portfolio sector distribution relative to the FTSE All-Share Index as at 31 August 2011, can be found on pages 2 and 3 of this Report.

**Principal Risks and Uncertainties**

The Board has adopted a matrix of key risks which affect its business and a robust framework of internal controls which is designed to monitor those risks to enable the Directors to mitigate them as far as possible and which assists in determining the nature and extent of the significant risks the Board is willing to take in achieving its strategic objectives. A full analysis of the Director's system of internal control and its monitoring system is set out in the Corporate Governance Statement on pages 23 and 24. The principal risks to the business 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 UK stock markets would have an adverse impact on the market value of the Company's underlying investments. The Board considers the risk profile of the portfolio at each Board meeting and discusses with the Manager appropriate strategies to mitigate any negative impact arising from substantial changes in markets.

A full analysis of the financial risks facing the Company is set out in note 19 on pages 37 to 41.

Strategic Risk

Over time, investment vehicles and asset classes can become out of favour with investors, or may fail to meet their investment objectives. This may result in a wide discount of the share price to underlying asset value. The Board periodically reviews whether the Company's investment remit remains appropriate and continually monitors the success of the Company in meeting its stated objectives.

# Report of the Directors

### Accounting, Legal and Regulatory Risk

In order to continue to qualify as an investment trust, the Company must comply with the requirements of Section 1158 of the United Kingdom Corporation Tax Act 2010. Should the Company not comply with these requirements, it might lose investment trust status and capital gains within the Company's portfolio could, as a result, be subject to UK Capital Gains Tax.

Breaches of the UK Listing Rules, the Companies Acts or other laws or 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 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 2011.

### Revenue and Earnings

The net revenue return for the year was £6,065,000 (2010: £5,301,000), equivalent to net revenue of 8.83 pence (2010: 7.72 pence) per ordinary share.

### Dividend Policy

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

For the year ended 31 August 2011, the Directors have declared four interim dividends, totalling 9.30 pence per share (2010: 9.10 pence per share).

### Directors and their Interests

The Directors of the Company and their biographical details can be found on the inside front cover of this Report. All Directors held office throughout the year under review. Mr Peregrine Banbury retired as a Director on 13 December 2010.

In accordance with the Company's Articles of Association and its policy on tenure as outlined in the Corporate Governance Statement, Mr Ian Barby, Mr David Causer, Sir Paul Judge, Mr Keith Niven and Mr Peter Readman will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The Board has assessed the independence of all Directors. Mr Ian Barby, Mr David Causer, Sir Paul Judge and Mr Readman are considered to be independent in character and judgement, notwithstanding that Sir Paul Judge and Mr Readman have served on the Board for more than nine years. Mr Niven is not considered to be independent as he was, until 31 October 2011, also a Director of Schroder UK Growth Fund plc, an investment trust managed by the same Investment Manager.

The Board supports the re-elections of Mr Barby, Mr Causer, Sir Paul Judge, Mr Niven and Mr Readman as it considers that each of these Directors continues to demonstrate commitment to his role and provides a valuable contribution to the deliberations of the Board. It therefore recommends that shareholders vote in favour of their re-election.

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

The Directors' interests in the Company's share capital at the beginning and end of the financial year ended 31 August 2011, all of which were beneficial, were as follows:

| **Director** | **Ordinary shares of 10p each 31 August 2011** | Ordinary shares of 10p each 1 September 2010 |
|---|---:|---:|
| Sir Paul Judge | 1,000 | 1,000 |
| Peregrine Banbury* | N/A | 1,000 |
| Ian Barby | 100,000 | 100,000 |
| David Causer | 23,750 | 23,750 |
| Keith Niven | 83,758 | 84,586 |
| Peter Readman | Nil | Nil |

* Mr Banbury retired as a Director of the Company on 13 December 2010.

Following the financial year end, Mr Niven's shareholding has decreased to 83,625 ordinary shares of 10 pence each. There have been no other changes to the above holdings between the end of the financial year and the date of this Report.

As at the date of this Report, the Company had 68,688,343 ordinary shares of 10p each in issue. No shares were held in treasury. Accordingly, the total number of voting rights in the Company as at the date of this Report is 68,688,343. Full details of the Company's share capital are set out in note 14 on page 36.

# 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 5.1.2R of the following interests in 3% or more of the voting rights attaching to the Company's issued ordinary share capital:

| | Number of ordinary shares | Percentage of total voting rights |
|---|---|---|
| Legal & General plc | 2,917,768 | 4.2% |

In addition, the Directors are aware that 27,051,615 ordinary shares, representing 39.4% of the Company's issued share capital, were held by investors in the Schroder ISA as at 17 November 2011.

### Investment Manager

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

The Investment Management Agreement can be terminated by either party on 12 months' written notice or on immediate notice in the event of certain breaches of its terms or the insolvency of either party. At the date of this Report, no such notice had been given.

During the year ended 31 August 2011, the Investment Manager was entitled to a fee at the rate of 10% of the net revenue return for the year after taxation plus 0.375% on assets up to and including £75 million, 0.35% on the next £50 million, and 0.325% on assets in excess of £125 million. The Investment Management fee payable in respect of the year ended 31 August 2011 is shown in note 5 to the accounts on page 32.

There are also performance fee arrangements in place. The performance fee is symmetrical in nature, so that the Manager is rewarded for out-performance but penalised for under-performance. The fee, or rebate, is based on the Company's net asset value total return compared with the total return of the FTSE All-Share Index over a rolling three-year period and is subject to a cap of 25% of the asset-based management fee for the year then ended. The performance fee, or rebate, is calculated and paid annually. The fee, or rebate, in respect of any period will be calculated as 5% of the value (based on opening net assets for the relevant period) of the out-performance, or under-performance, of the Company's net asset value over the return on the FTSE All-Share Index, with performance measured in terms of total return. For the year ended 31 August 2011, the Manager was entitled to a performance fee amounting to £120,000 (2010: £5,000) as shown in note 6 to the accounts on page 32.

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

### Policy for the Payment of Creditors

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant market in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. There were no outstanding trade creditors, other than purchases for future settlement, at 31 August 2011 (2010: nil).

### Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report of the Directors, the Remuneration Report and the accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare accounts for each financial year. Under that law they have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they 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 accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently:
- make judgements and accounting estimates that are reasonable and prudent;

# Report of the Directors

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts respectively; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts and the Remuneration Report comply with the Companies Act 2006. 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 responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are set out on the inside front cover of this Report, confirms that, to the best of their knowledge:

- the accounts, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and net return of the Company; and
- the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

## Going Concern

The Directors are of the opinion that it is appropriate to continue to adopt the going concern basis in accordance with the FRC's "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" 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.

## Corporate Governance Statement

The Company's Corporate Governance Statement is set out on pages 20 to 24 and forms part of this Report of the Directors.

## Anti-Bribery Policy

The Board notes the recent implementation of the Bribery Act 2010, which came into force on 1 July 2011. The Company continues to be committed to carrying out its business fairly, honestly and openly. To this end, it has undertaken a risk assessment of its internal procedures and the policies of the Company's service providers and has adopted a revised anti-bribery policy which aims to prevent bribery being committed by Directors and persons associated with the Company on the Company's behalf and to ensure compliance with the Bribery Act.

## Environmental Policy

The Company has adopted an environmental policy notwithstanding that, as an 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. Details of the Company's environmental policy are set out in the Corporate Governance Statement.

## Independent Auditor

The Company's Auditor, Deloitte LLP, have expressed their willingness to remain in office and resolutions to re-appoint them as Auditor 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 Deloitte 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 fourth year that the current audit partner has been in place.

# Report of the Directors

The Audit Committee has adopted a pre-approval policy on the engagement of the Auditor to supply non-audit services to the Company. The Company did not incur any charges for non-audit services during the year under review (2010: £nil).

### Provision of Information to the Auditor

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

### 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, authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your ordinary shares in the Company, please forward this document with its accompanying form of proxy at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.**

The AGM will be held on Wednesday, 21 December 2011 at 12.00 noon. The formal notice of the AGM is set out on page 42.

### Special Business to be proposed at the AGM

Resolutions relating to the following items of special business will be proposed at the AGM:

### Resolution 10 – Authority to Allot Shares (Ordinary Resolution) and Resolution 11 – Power to Disapply Pre-Emption Rights (Special Resolution)

At the AGM held on 13 December 2010, the Directors were granted authority to allot a limited number of new ordinary shares or shares held in treasury for cash. No shares have been allotted under this authority, which will expire at the forthcoming AGM. At the AGM held in December 2010, power was also given to the Directors to allot a limited number of new shares, or shares held in treasury, other than pro rata to existing shareholders. This power will also expire at the forthcoming AGM and resolutions to renew both authorities will be proposed at the forthcoming AGM, the details of which are set out in full in the Notice of Meeting.

An ordinary resolution will be proposed to authorise the Directors to allot shares for cash up to a maximum aggregate nominal amount of £343,441 (being 5% of the issued share capital as at 18 November 2011). A special resolution will also be proposed to give the Directors power to allot securities for cash on a non pre-emptive basis up to a maximum aggregate nominal amount of £343,441 (being 5% of the Company's issued share capital (excluding any shares held in treasury) as at 18 November 2011). Pre-emption rights under the Companies Act 2006 apply to the re-sale of treasury shares for cash as well as the allotment of new shares. Resolution 11 therefore relates to both issues of new shares and the re-sale of treasury shares.

The Directors intend to use the authorities to issue shares whenever they believe it is advantageous both to new investors and to the Company's existing shareholders to do so. The authority will only be used to issue shares at a premium to net asset value at the time of issue.

If renewed, both authorities will expire at the conclusion of the AGM in 2012 unless renewed or revoked earlier.

### Resolution 12 – Authority to Make Market Purchases of the Company's Own Ordinary Shares (special resolution)

At the AGM held on 13 December 2010, the Company was granted authority to make market purchases of up to 10,296,382 ordinary shares for cancellation or to be held in treasury. No shares have been bought back under this authority and the Company therefore has remaining authority to purchase up to 10,296,382 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

# Report of the Directors

18 November 2011. The Directors will exercise this authority only if they consider that any purchase would be for the benefit of the Company and its shareholders, taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled or held in treasury for potential re-issue. If renewed, the authority will expire at the conclusion of the AGM in 2012, unless renewed or revoked earlier.

The maximum purchase price that may be paid for an ordinary share will be no more than the greater of 5% of the average of the middle market quotations for 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 10p, being the nominal value per ordinary share.

The resolution to be put to shareholders will also authorise the Company to hold up to 5% of the issued share capital bought back in treasury on the condition that such treasury shares would only be sold at a premium to net asset value. Shares held in treasury may be reissued or cancelled at a future date rather than simply cancelled at the time of acquisition. Any shares held in treasury for 12 months will be cancelled.

**Resolution 13 – Adoption of New Articles of Association (Special Resolution)**
A special resolution will be proposed at the AGM to adopt new articles of association (the "New Articles") reflecting certain recent changes to UK company law, including those required to comply with the EU Shareholders' Rights Regulations, which have come in to force since the Company's Articles of Association were last updated in December 2008.

Copies of the proposed New Articles are available from the Company Secretary and will be on display at the registered office of the Company during normal business hours on any weekday (English public holidays excepted). They will also be available for inspection by any person attending the AGM.

The principal changes to the articles of association are set out below. The opportunity has also been taken to reformat and reword the articles to bring them up to date and so as to comply with recent changes in UK Company law.

1. Memorandum of Association

From 1 October 2009 the memorandum of association of a company must only contain a statement that the original subscribers wish to form a company, agree to be members of the company and accept at least one share each in the company. Other provisions previously contained in the Company's memorandum of association are now deemed to form part of the articles of association. Those provisions of the memorandum of association are included in the New Articles with the exception of information about the authorised share capital of the Company (see 2 below) and the objects clause formerly contained in the memorandum which has been excluded from the New Articles because the Company is no longer required to set out its objects and its objects will accordingly be unrestricted.

2. Authorised share capital

It is no longer necessary for a company to have an authorised share capital and references to authorised share capital have been removed.

3. Redemption of redeemable shares

Directors can now determine the terms, conditions and manner of redemption of any redeemable shares which are to be issued by the Company as long as they determine the terms of redemption prior to the issue of shares. The New Articles have been amended to enable the Directors to do this.

Currently the Company has no redeemable shares in issue.

4. Reduction and re-purchase of share capital

The Company no longer needs authorisation in its articles of association to reduce its share capital or purchase or redeem its own shares or to pass an ordinary resolution to consolidate or sub-divide its shares and reference to these activities has been removed.

# Report of the Directors

### 5. Consolidation and sub-division of shares

The Current Articles give the Company authority to consolidate and/or sub-divide its shares by ordinary resolution. Under the Companies Act 2006 it is no longer necessary for this authority to be given in the Articles of Association. This provision has therefore been removed.

### 6. Notice of general meetings

The Companies Act 2006 has changed the requirements for calling a general meeting on short notice, for making such a notice available on a website and for the content of a notice calling a general meeting. The New Articles have been amended to reflect these provisions of the Companies Act 2006.

### 7. Change of name by Directors

A company can now change its name either by special resolution or by other means provided for by the company's articles, such as by board resolution. The New Articles provide for approval of a change of name of the Company by a board resolution.

**Recommendation**

The Board considers that all the resolutions to be proposed at the AGM are in the best interests of the Company and shareholders as a whole. Accordingly, the Board unanimously recommends to shareholders that they vote in favour of the 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

18 November 2011

# 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 currently limit the aggregate fees payable to the Board of Directors to a total of £125,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and time committed to the Company's affairs. The Directors' fees are reviewed annually by the Board. During the year ended 31 August 2011, the Directors' received fees of £16,000 each, the Audit Committee Chairman received fees of £19,000 and the Chairman received fees of £22,000. Directors' fees were increased with effect from 1 September 2011. Directors are now entitled to receive fees of £19,000 each per annum, the Audit Committee Chairman is entitled to receive fees of £22,000 per annum and the Chairman is entitled to receive fees of £25,000 per annum.

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

The Board believes that the principles of Section D of the UK Corporate Governance Code relating to remuneration do not apply to the Company, except as outlined above, as the Company has no executive Directors.

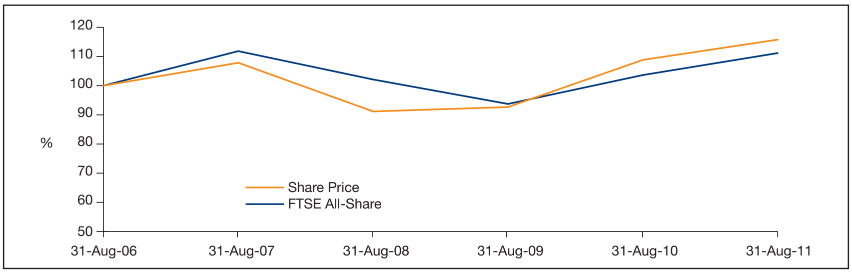
No Director has a service contract with the Company. However, Directors have a letter of appointment with the Company under which they are entitled to one month's notice in the event of termination. The Directors' terms of appointment are available for inspection at the Company's Registered Office address during normal business hours and at the Annual General Meeting ("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, all 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 they are proposed for re-election, and, subject to the evaluation of performance carried out each year, the Board agrees whether it is appropriate for that Director to seek an additional term in office.

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

### Performance Graph

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




Sources: share price total return: Morningstar (www.morningstar.co.uk); FTSE All-Share total return: Thomson Financial Datastream (data rebased to 100 at 31 August 2006).

# Remuneration Report

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

| Director | **For the year ended 31 August 2011** | For the year ended 31 August 2010 |
|---|---|---|
| Sir Paul Judge | **£22,000** | £22,000 |
| Peregrine Banbury* | **£4,757** | £16,750 |
| Ian Barby | **£16,000** | £16,000 |
| David Causer** | **£19,000** | £18,250 |
| Keith Niven | **£16,000** | £16,000 |
| Peter Readman | **£16,000** | £16,000 |
| | **£93,757** | £105,000 |

*Mr Banbury retired as a Director on 13 December 2010.

**Mr Causer was appointed as Chairman of the Audit Committee on 7 December 2009.

The information in the above table has been audited (see the Independent Auditor's Report on page 25).

By Order of the Board
Schroder Investment Management Limited
Company Secretary

18 November 2011

# Corporate Governance

The Board is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be appropriate for an investment company in order to comply with the principles of the UK Corporate Governance Code (the "Code"), which replaces the 2008 Combined Code and is applicable to the Company for the year under review. The Code is published by the FSA and is available to download from www.fsa.gov.uk.

## 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 and Going Concern statement set out on pages 13 and 14, 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 all relevant provisions set out in the Code, save in respect of the appointment of a Senior Independent Director, where departure from the Code is considered appropriate given the Company's position as an investment company. The Board has considered whether a Senior Independent Director should be appointed. As the Board comprises entirely non-executive Directors, the appointment of a Senior Independent Director is not considered necessary. However, the Chairman of the Audit Committee effectively acts as the Senior Independent Director, leads the evaluation of the performance of the Chairman and is available to Directors and/or shareholders if they have concerns which cannot be resolved through discussion with the Chairman.

## Application of the Code's Principles

### Role of the Chairman

The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role and promoting a culture of openness and debate by facilitating the effective contribution of Directors, setting the Board's agenda and for ensuring that adequate time is available for discussion of all agenda items, including strategy.

### Role of the Board

The Board is collectively responsible for the long-term success of the Company.

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 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 five non-executive Directors. The biography of each serving Director, including their age and length of service, may be found on the inside front cover of this Report. The Board considers each of the Chairman, Mr Barby, Mr Causer and Mr Readman to be independent of the Company's Investment Manager. Mr Niven is not considered to be independent by virtue of his previous position as a Director on the Board of another investment trust managed by Schroders. The independence of each Director is considered on a continuing basis.

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

The Board is satisfied that, taking into account the outcome of succession plans as set out in the Chairman's Statement on page 4, it is of sufficient size, with an appropriate balance of skills and experience, independence and knowledge of both the Company and the wider investment company industry, to enable it to discharge its respective duties and responsibilities effectively.

### Board Committees

The Board has delegated certain responsibilities and functions to Committees. Terms of Reference for each of these Committees, which are reviewed annually, are available on the Company's website at www.schroderincomegrowthfund.com. Details of membership of the Committees at 31 August 2011 may

# Corporate Governance

be found on the inside front cover of this report and information regarding attendance at Committee Meetings during the year under review may be found on page 22.

### 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 recent and relevant financial experience.

To discharge its duties, the Committee met on two occasions during the year ended 31 August 2011 and considered the annual and half-yearly accounts, the external Auditor's year-end reports, management representation letters, 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 Management Engagement Committee is to ensure that the Company's investment manager remains suitable to manage the portfolio, that the management contract is competitive and reasonable for the shareholders, and that the Company maintains appropriate administrative and company secretarial support. The Committee also reviews the services provided by other third party service providers. In addition, the Committee reviews fees paid to Directors 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 two occasions during the year ended 31 August 2011 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 so as to maintain an appropriate balance of skills, experience and diversity, including gender, and to ensure progressive refreshment of the Board. On individual appointments, the Committee leads the process and makes recommendations to the Board. The Board considers each member of the Committee, with the exception of Mr Niven, to be independent.

To discharge its duties, the members of Committee met on one occasion during the year ended 31 August 2011 to consider the composition and balance of the Board and Board succession planning.

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 and diversity 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 using 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 Director's independence of character or judgement. Therefore, the independence of Directors will continue to be assessed on a case by case basis. In order to give shareholders the opportunity to endorse this policy, and in accordance with the provisions of the Code, any Director who has served for more than nine years will 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 provide relevant reports to the Board from time to time. In addition, the Chairman reviews the training and development needs of each Director annually as part of the evaluation process outlined below.

# 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 July 2011. The evaluation takes place in two stages, firstly, 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, an analysis of the time which Directors are able to allocate to the Company to discharge their duties effectively and the responsibilities, composition and agenda of the Committees and of the Board itself.

### 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 | Nomination Committee | Management Engagement Committee |
|---|---|---|---|---|
| Sir Paul Judge | 4/4 | 2/2 | 1/1 | 2/2 |
| Ian Barby | 4/4 | 2/2 | 1/1 | 2/2 |
| Peregrine Banbury* | 2/2 | 1/1 | N/A | 1/1 |
| David Causer | 4/4 | 2/2 | 1/1 | 2/2 |
| Keith Niven | 4/4 | N/A | 1/1 | N/A |
| Peter Readman | 4/4 | 2/2 | 1/1 | 2/2 |

* Mr Banbury retired as a Director on 13 December 2010.

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

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

### 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 United Kingdom 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 approval. 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 13.

# Corporate Governance

### Relations with Shareholders

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

The Board believes that the Annual General Meeting provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Annual Report and Accounts is, when possible, sent to shareholders at least 20 business days before the Annual General Meeting. The Annual General Meeting is typically attended by the full Board of Directors and proceedings include a presentation by the Investment Manager. There is an opportunity for individual shareholders to question the Chairmen of the Board, Audit and Management Engagement Committees at the Annual General Meeting. Details of proxy votes received in respect of each resolution are made available to shareholders at the meeting and on the Company's website as soon as reasonably practicable after 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 42 sets out the business of the meeting.

### Environmental Policy

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

### Exercise of Voting 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 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 to conduct, at least annually, a review of the adequacy of the Company's systems of internal control, including its risk management system, and report to shareholders that it has done so. The Board has undertaken a full review of all the aspects of 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 in place a 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 monitoring system assists in determining the nature and extent of the significant risks the Board is willing to take in achieving its strategic objectives.

The Board believes that the key risks identified and the implementation of a 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 the Board's 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.

# Corporate Governance

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 to take steps to embed the system of internal control and risk management into the operations of the Company. In doing so, the Audit Committee will review at least annually whether a function equivalent to an internal audit is needed.

# Independent Auditor's Report

### To the members of Schroder Income Growth Fund plc

We have audited the accounts of Schroder Income Growth Fund plc for the year ended 31 August 2011 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

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

### Scope of the audit of the accounts

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

### Opinion on accounts

In our opinion the accounts:

- give a true and fair view of the state of the Company's affairs as at 31 August 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the financial year for which the accounts are prepared is consistent with the accounts.

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

We have nothing to report in respect of the following matters under where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the accounts and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Other matter

Under the Listing Rules we are required to review:

- the Statement of Directors' Responsibilities contained within the Report of the Directors in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to Shareholders by the Board on Directors' remuneration.

Stuart McLaren CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

18 November 2011

# Income Statement

| | Note | For the year ended 31 August 2011 Revenue £'000 | Capital £'000 | Total £'000 | For the year ended 31 August 2010 Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Gains on investments held at fair value | 2 | – | 5,346 | 5,346 | – | 8,123 | 8,123 |
| Other currency gains | 3 | – | 14 | 14 | – | – | – |
| Income | 4 | 6,894 | – | 6,894 | 6,072 | – | 6,072 |
| Investment management fee | 5 | (555) | (555) | (1,110) | (497) | (497) | (994) |
| Performance fee | 6 | – | (120) | (120) | – | (5) | (5) |
| Administrative expenses | 7 | (247) | – | (247) | (274) | – | (274) |
| **Net return on ordinary activities before taxation** | | 6,092 | 4,685 | 10,777 | 5,301 | 7,621 | 12,922 |
| Taxation on ordinary activities | 8 | (27) | – | (27) | – | – | – |
| **Net return attributable to equity shareholders** | | 6,065 | 4,685 | 10,750 | 5,301 | 7,621 | 12,922 |
| **Net return per ordinary share** | 10 | 8.83p | 6.82p | 15.65p | 7.72p | 11.10p | 18.82p |

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

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

The notes on pages 30 to 41 form an integral part of these accounts.

# Reconciliation of Movements in Shareholders' Funds

| | Note | Called-up share capital £'000 | Capital redemption reserve £'000 | Share premium account £'000 | Share purchase reserve £'000 | Warrant exercise reserve £'000 | Capital reserves £'000 | Revenue reserve* £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 September 2009 | | 6,869 | 2,011 | 7,404 | 34,936 | 1,596 | 64,107 | 6,556 | 123,479 |
| Net return from ordinary activities | | – | – | – | – | – | 7,621 | 5,301 | 12,922 |
| Ordinary dividends paid | 9 | – | – | – | – | – | – | (6,113) | (6,113) |
| At 31 August 2010 | | 6,869 | 2,011 | 7,404 | 34,936 | 1,596 | 71,728 | 5,744 | 130,288 |
| At 1 September 2010 | | 6,869 | 2,011 | 7,404 | 34,936 | 1,596 | 71,728 | 5,744 | 130,288 |
| Net return from ordinary activities | | – | – | – | – | – | 4,685 | 6,065 | 10,750 |
| Ordinary dividends paid | 9 | – | – | – | – | – | – | (6,251) | (6,251) |
| **At 31 August 2011** | | **6,869** | **2,011** | **7,404** | **34,936** | **1,596** | **76,413** | **5,558** | **134,787** |

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

The notes on pages 30 to 41 form an integral part of these accounts.

# Balance Sheet

| | Note | At 31 August 2011 £'000 | At 31 August 2010 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments held at fair value through profit or loss | 11a | 132,913 | 128,686 |
| **Current assets** | | | |
| Debtors | 12 | 1,015 | 821 |
| Cash at bank and short-term deposits | | 1,314 | 1,069 |
| | | 2,329 | 1,890 |
| **Current liabilities** | | | |
| Creditors – amounts falling due within one year | 13 | (445) | (288) |
| Fair value of open derivative contracts investment liabilities | 11b | (10) | – |
| | | (455) | (288) |
| **Net current assets** | | 1,874 | 1,602 |
| **Net assets** | | 134,787 | 130,288 |
| **Capital and reserves** | | | |
| Called-up share capital | 14 | 6,869 | 6,869 |
| Capital redemption reserve | 15 | 2,011 | 2,011 |
| Share premium account | 15 | 7,404 | 7,404 |
| Share purchase reserve | 15 | 34,936 | 34,936 |
| Warrant exercise reserve | 15 | 1,596 | 1,596 |
| Capital reserve | 15 | 76,413 | 71,728 |
| Revenue reserve | 15 | 5,558 | 5,744 |
| **Equity shareholders' funds** | | 134,787 | 130,288 |
| **Net asset value per ordinary share** | 16 | 196.23p | 189.68p |

These accounts were approved and authorised for issue by the Board of Directors on 18 November 2011 and signed on its behalf by:

**Sir Paul Judge**
Chairman

The notes on pages 30 to 41 form an integral part of these accounts.

Registered in England and Wales
Company Number: 3008494

# Cash Flow Statement

| | Note | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Dividends and interest received from investments | | **6,613** | 6,123 |
| Interest received on deposits | | **7** | 15 |
| Option premium income | | **112** | – |
| VAT and interest recovered from HMRC | | **–** | 926 |
| Investment management fee paid | | **(1,051)** | (1,077) |
| Performance fee (paid)/rebate received | | **(5)** | 111 |
| Administrative expenses paid | | **(258)** | (292) |
| **Net cash inflow from operating activities** | **17** | **5,418** | 5,806 |
| **Taxation** | | | |
| Overseas tax paid | | **(55)** | – |
| **Total tax paid** | | **(55)** | – |
| **Capital expenditure and financial investment** | | | |
| Acquisition of investments | | **(39,890)** | (35,944) |
| Disposal of investments | | **41,009** | 34,233 |
| **Net cash inflow/(outflow) from investment activities** | | **1,119** | (1,711) |
| **Equity dividends paid** | | | |
| Ordinary shares | | **(6,251)** | (6,113) |
| **Net cash inflow/(outflow)** | | **231** | (2,018) |

## Reconciliation of Net Cash Flow to Movement in Net Funds

| | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|
| Net cash inflow/(outflow) | **231** | (2,018) |
| Realised exchange gains on currency balances | **14** | – |
| Net funds at 1 September | **1,069** | 3,087 |
| **Net funds at 31 August** | **1,314** | 1,069 |

The notes on pages 30 to 41 form an integral part of these accounts.

# Notes to the Accounts

## 1. Accounting policies

The principal accounting policies have been applied consistently throughout the year ended 31 August 2011, are unchanged from 2010, and are set out below.

### a Basis of preparation

The accounts have been prepared on a going concern basis under the historical cost convention, modified to include the revaluation of investments and in accordance with the Companies Act 2006, applicable UK Accounting Standards and with the Statement of Recommended Practice ('SORP') for "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in January 2009 by the Association of Investment Companies (AIC).

### b Presentation of Income Statement

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend.

### c Income

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

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

### d Call Options

The Company may write options with a view to generating income. This includes the writing of short-dated call options written on holdings in the portfolio. The use of financial derivatives is governed by the Company's policies, as approved by shareholders and/or the Board.

These options are recorded initially at fair value, based on the premium income received. They are initially recognised on trade date and measured then and subsequently at fair value. Changes in the fair value of the options are recognised in the capital return for the period.

The call premiums are recognised evenly over the life of the option and shown in the revenue return, with an appropriate amount shown in the capital return to ensure the total return reflects the overall change in the fair value of the options.

Where an option is exercised, any balance of the premium is recognised immediately in the revenue return with a corresponding adjustment in the capital return based on the amount of the loss arising on exercise of the option.

### e Expenses and interest payable

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

The investment management fee is apportioned equally between revenue and capital. Performance fee charges and rebates are allocated entirely to capital as they are primarily attributable to the capital performance of the Company's investments.

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

### f Investments

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

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

### g Foreign exchange

The Company is a UK listed company with a predominantly UK shareholder base. The results and financial position of the Company are expressed in sterling, which is the functional and presentational currency of the Company.

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

### h Taxation

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

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

Due to the Company's status as an investment trust company, and the intention to continue to meet the conditions required by Section 1158 of the UK Corporation Tax Act 2010 to obtain approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation of investments, or current tax on any capital gains on the disposal of investments.

# Notes to the Accounts

### i Dividends payable

Under FRS 21 final dividends should not be accrued in the accounts unless they have been approved by shareholders before the Balance Sheet date. Interim dividends are only recognised when they have been paid. Dividends payable to equity shareholders' are recognised in the Reconciliation of Movements in Shareholders' Funds when they have been approved by shareholders in the case of a final dividend, or paid in the case of an interim dividend and become a liability of the Company.

### j Called-up share capital

Represents the nominal value of authorised and allotted, called-up and fully paid ordinary shares issued.

### k Capital redemption reserve

Represents the nominal value of ordinary share capital repurchased for cancellation and is transferred out of called-up share capital and into the capital redemption reserve.

### l Share premium account

Represents the amount by which the fair value of the consideration received exceeds the nominal value of shares issued.

### m Share purchase reserve

The cost of repurchasing ordinary shares including stamp duty and transaction costs are taken directly to the share purchase reserve and dealt with in the Reconciliation of Movements in Shareholders' Funds. Share purchase transactions are accounted for on a trade date basis. The nominal value of ordinary share capital repurchased and cancelled is transferred out of the called-up share capital and into the capital redemption reserve.

### n Warrant exercise reserve

The premium arising on the issue of shares where there are warrants attached was apportioned between shares and warrants as part of shareholders' funds on the basis of market values of shares and warrants as on the first day of dealing. The warrant element was referred to as the warrant reserve. On exercise of the warrants, the premium relating to the warrants exercised is transferred from the warrant reserve to a warrant exercise reserve, a non-distributable reserve.

### o Capital reserve

The following are accounted for in this reserve:

– gains and losses on the realisation of Investments;

– realised exchange differences of a capital nature;

– investment holding gains/(losses); and

– other capital charges and credits allocated to capital in accordance with the above policies;

### p Financial instruments

Cash at bank and in hand may comprise cash and on-demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Other debtors and creditors do not carry any interest, are short-term in nature and are accordingly stated at fair value and subsequently held at amortised cost.

## 2. Gains on investments held at fair value

| | **For the year ended 31 August 2011 £'000** | For the year ended 31 August 2010 £'000 |
|---|---|---|
| Net gains on disposal at historic cost | **5,517** | 1,091 |
| Fair value adjustments in earlier years | **(2,257)** | (620) |
| Gains based on carrying values at the previous balance sheet date | **3,260** | 471 |
| Investment holding gains during the year | **2,086** | 7,652 |
| | **5,346** | 8,123 |

## 3. Currency gains

| | **For the year ended 31 August 2011 £'000** | For the year ended 31 August 2010 £'000 |
|---|---|---|
| Currency gains | **14** | – |

# Notes to the Accounts

## 4. Income

| | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|
| Income from investments: | | |
| UK franked dividend income | **6,423** | 6,058 |
| Overseas dividend income | **363** | – |
| | **6,786** | 6,058 |
| Option premium income | **101** | – |
| Interest on deposits | **7** | 14 |
| | **6,894** | 6,072 |

## 5. Investment management fee

| | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|
| Management fee | | |
| – charged to revenue | **555** | 497 |
| – charged to capital | **555** | 497 |
| | **1,110** | 994 |

The bases for calculating the investment management fee and the performance fee are set out in the Report of the Directors on page 13.

## 6. Performance fee

| | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|
| Performance fee | | |
| – charge to capital | **120** | 5 |
| | **120** | 5 |

## 7. Administrative expenses

| | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|
| Allocated to revenue: | | |
| General expenses | **131** | 148 |
| Directors' fees | **94** | 105 |
| Auditors' remuneration: | | |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | **22** | 21 |
| | **247** | 274 |

# Notes to the Accounts

## 8. Taxation on ordinary activities

### (a) Analysis of charge in the year:

| | **For the year ended 31 August 2011 £'000** | For the year ended 31 August 2010 £'000 |
|---|---|---|
| Irrecoverable overseas tax | **27** | – |
| Total current tax charge for the year (note 8 (b)) | **27** | – |

The Company has no corporation tax liability in year to 31 August 2011 (2010: £nil).

### (b) Factors affecting tax charge for the year

No provision has been made for taxation on any realised gains on investments as the Company has conducted itself so as to achieve investment trust status under Section 1158 of the UK Corporation Tax Act 2010.

The tax assessed for the period is lower (2010: lower) than the standard rate of Corporation Tax in the UK of 26% (2010: 28%).

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

The differences are explained below:

| | **For the year ended 31 August 2011** | | | For the year ended 31 August 2010 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Net return on ordinary activities before tax | **6,092** | **4,685** | **10,777** | 5,301 | 7,621 | 12,922 |
| Net return on ordinary activities at the standard rate of UK Corporation Tax of: | | | | | | |
| For the period 1 September 2010 to 31 March 2011: 28% (2010: 28%) | **995** | **765** | **1,760** | 1,484 | 2,134 | 3,618 |
| For the period 1 April 2011 to 31 August 2011: 26% (2010: 28%) | **660** | **508** | **1,168** | | | |
| Effects of: | | | | | | |
| Exempt dividends* | **(1,843)** | **–** | **(1,843)** | (1,696) | – | (1,696) |
| Capital returns on investments* | **–** | **(1,456)** | **(1,456)** | – | (2,274) | (2,274) |
| Expenses not deductible for tax purposes | **1** | **–** | **1** | 1 | – | 1 |
| Expenses not utilised in the year | **187** | **183** | **370** | 211 | 140 | 351 |
| Irrecoverable overseas tax | **27** | **–** | **27** | – | – | – |
| Current tax charge for the year (note 8(a)) | **27** | **–** | **27** | – | – | – |

The standard rate of UK Corporation Tax changed from 28% to 26% with effect from 1 April 2011.

*These items are not subject to tax for investment companies.

### (c) Provision for deferred tax

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

### (d) Factors that may affect future tax charges

The Company has potential deferred tax assets in respect of unutilised management expenses of £3,521,000 (2010: £3,411,000) which has not been recognised as it is not certain that the Company will have sufficient profits in the future to utilise this amount.

# Notes to the Accounts

## 9. Dividends

| | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|
| **Amounts recognised as distributions paid in the period:** | | |
| Fourth interim dividend of prior year of 4.30p (2009: 4.10p) | **2,954** | 2,816 |
| First interim dividend of 1.60p (2010: 1.60p) | **1,099** | 1,099 |
| Second interim dividend of 1.60p (2010: 1.60p) | **1,099** | 1,099 |
| Third interim dividend of 1.60p (2010: 1.60p) | **1,099** | 1,099 |
| Total dividends of 9.10p (2010: 8.90p) | **6,251** | 6,113 |

All dividend payments in the above table are based on 68,688,343 ordinary shares.

| | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|
| **Dividends payable in respect of the year:** | | |
| First interim dividend of 1.60p (2010: 1.60p) | **1,099** | 1,099 |
| Second interim dividend of 1.60p (2010: 1.60p) | **1,099** | 1,099 |
| Third interim dividend of 1.60p (2010: 1.60p) | **1,099** | 1,099 |
| Fourth interim dividend of 4.50p (2010: 4.30p) | **3,091** | 2,954 |
| Total dividends of 9.30p (2010: 9.10p) | **6,388** | 6,251 |

The above proposed fourth interim dividend of 4.50 pence per share (2010: 4.30 pence per share) is payable on 68,688,343 (2010: 68,688,343) ordinary shares in issue.

## 10. Return per ordinary share

| | For the year ended 31 August 2011 | For the year ended 31 August 2010 |
|---|---|---|
| Revenue (£'000) | **6,065** | 5,301 |
| Capital (£'000) | **4,685** | 7,621 |
| Total (£'000) | **10,750** | 12,922 |
| Weighted average number of shares | **68,688,343** | 68,688,343 |
| Revenue | **8.83p** | 7.72p |
| Capital | **6.82p** | 11.10p |
| Total | **15.65p** | 18.82p |

# Notes to the Accounts

## 11. Investments and derivatives held at fair value through profit or loss

### (a) Investments

| | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|
| **Movements in investments held as fixed assets:** | | |
| Book cost brought forward | 119,162 | 116,360 |
| Acquisitions at cost | 39,890 | 35,944 |
| Proceeds of disposals | (41,009) | (34,233) |
| Net gains realised on disposals | 5,517 | 1,091 |
| Book cost | 123,560 | 119,162 |
| Unrealised investment holding gains | 9,353 | 9,524 |
| Valuation of investments | 132,913 | 128,686 |

All investments are listed on a recognised stock exchange.

### (b) Fair value of open derivative contracts

| | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|
| BT Call Option 16 September 2011 | (3) | – |
| Sainsbury Call Option 16 September 2011 | (7) | – |
| Fair value | (10) | – |

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

| | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|
| On acquisitions | 202 | 225 |
| On disposals | 55 | 51 |
| | 257 | 276 |

## 12. Debtors

| | At 31 August 2011 £'000 | At 31 August 2010 £'000 |
|---|---|---|
| Amounts receivable within one year: | | |
| Accrued income | 973 | 800 |
| Prepaid expenses | 14 | 21 |
| Overseas tax recoverable | 28 | – |
| | 1,015 | 821 |

# Notes to the Accounts

## 13. Creditors

| | At 31 August 2011 £'000 | At 31 August 2010 £'000 |
|---|---|---|
| Amounts payable within one year: | | |
| Accrued expenses | **445** | 288 |
| | **445** | 288 |

## 14. Called-up share capital

| | At 31 August 2011 £'000 | At 31 August 2010 £'000 |
|---|---|---|
| Authorised: 312,500,000 ordinary shares of 10p each | **31,250** | 31,250 |
| Allotted, Called-up and Fully paid: 68,688,343 (2010: 68,688,343) ordinary shares of 10p each | **6,869** | 6,869 |

## 15. Reserves

| | Capital redemption reserve £'000 | Share premium account £'000 | Share purchase reserve £'000 | Warrant exercise reserve £'000 | Capital reserve gains and (losses) £'000 | Capital reserve holding gains and (losses) £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|---|---|
| Balance brought forward 1 September 2010 | 2,011 | 7,404 | 34,936 | 1,596 | 62,204 | 9,524 | 5,744 |
| Gains on disposal of investments | – | – | – | – | 3,260 | – | – |
| Net change in investment holding gains | – | – | – | – | – | 2,086 | – |
| Transfer on disposal of investments | – | – | – | – | 2,257 | (2,257) | – |
| Realised exchange gains on currency balances | – | – | – | – | 14 | – | – |
| Management fees paid allocated to capital | – | – | – | – | (555) | – | – |
| Performance fee | – | – | – | – | (120) | – | – |
| Dividends paid | – | – | – | – | – | – | (6,251) |
| Net revenue return for the year | – | – | – | – | – | – | 6,065 |
| **Balance carried forward at 31 August 2011** | **2,011** | **7,404** | **34,936** | **1,596** | **67,060** | **9,353** | **5,558** |

## 16. Net asset value per ordinary share

| | At 31 August 2011 | At 31 August 2010 |
|---|---|---|
| Net asset value per ordinary share | **196.23p** | 189.68p |

The net asset value per ordinary share is based on net assets attributable to ordinary shareholders of £134,787,000 (2010: £130,288,000) and 68,688,343 (2010: 68,688,343) ordinary shares in issue at the year-end.

# Notes to the Accounts

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

| | For the year ended 31 August 2011 £'000 | For the year ended 31 August 2010 £'000 |
|---|---|---|
| Net return before finance costs and taxation | **10,777** | 12,922 |
| Gains on investments held at fair value | **(5,346)** | (8,123) |
| Other currency gains | **(14)** | – |
| (Increase)/decrease in accrued income (gross) | **(173)** | 66 |
| Decrease in prepayments and other debtors | **7** | 1,033 |
| Increase in option liability | **10** | – |
| Increase/(decrease) in accrued expenses excluding interest | **157** | (92) |
| Net cash inflow from operating activities | **5,418** | 5,806 |

## 18. Related party transactions

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

Details of the management arrangements for these services are given in the Report of the Directors on page 13. The total management fee payable under this agreement to Schroders in respect of the year ended 31 August 2011 was £1,110,000 (2010: £994,000), of which £261,000 (2010: £201,000) was outstanding at the year end.

In addition to the above services, Schroder Investment Management Limited also provided investment trust dealing services. The Schroder Investment Trust Dealing Service has now been closed. The total cost to the Company of this service payable to Equiniti Limited, for the year ended 31 August 2011 was £7,000 (2010: £5,000), of which £6,000 (2010: £nil) was outstanding at the year end.

Current account facilities were provided during the year by Schroder & Co Limited on an arm's length basis. At 31 August 2011, the balance held at Schroder & Co Limited was £1,500 (2010: £1,500).

An annual performance fee is also in existence. The fee is symmetrical in nature, so the Manager will be rewarded for out-performance but penalised for under-performance. Details of the performance fee arrangements are given in the Report of the Directors on page 13. The total performance fee under this agreement payable to the Manager in respect of the year ended 31 August 2011 was £120,000 (2010: £5,000).

## 19. Financial Instruments

### Risk management policies and procedures

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

Consistent with that objective, the Company's financial instruments largely comprise UK equity investments. In addition, the Company holds cash and short term deposits and various items such as debtors and creditors that arise directly from its operations. The financial instruments held by the Company are generally liquid. The Company's assets and liabilities are all stated at fair value.

The holding of securities, investing activities and associated financing undertaken pursuant to this objective involves certain inherent risks. Events may occur that would result in either a reduction in the Company's net assets or a reduction of potential revenue profits available for dividend. The Company wrote four call options during the year, two matured on 19 August 2011 and the remaining two matured on 16 September 2011 (2010: No derivative contracts were entered into).

As an investment company, the Company invests in securities for the long term. Accordingly, it is the Company's policy that no short term trading in investments or other financial instruments shall be undertaken.

The main risk arising from the Company's financial instruments is market price risk. The Board reviews and agrees policy for managing these risks, as summarised below. This policy has remained substantially unchanged throughout the current and preceding years.

### 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, interest rate risk and currency 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.

# Notes to the Accounts

## a. Price Risk

The Company's exposure to price risk comprises mainly movements in the value of its equity investments. A detailed breakdown of the investment portfolio is given on page 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 equity 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 trusts. The Company does not generally hedge against the effect of changes in the underlying prices of the investments, although sensitivity to market price risk will be affected by changes in levels of borrowing and liquidity, as approved by the Board.

### Price risks exposure

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

| | **At 31 August 2011 £'000** | At 31 August 2010 £'000 |
|---|---|---|
| Fixed asset investments held at fair value through profit or loss | **132,913** | 128,686 |
| Fair value of open derivative contracts | **(10)** | – |
| | **132,903** | 128,686 |

### Concentration of exposure to price risk

Although there is a concentration of exposure to the UK, it should be noted that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

### Price risk sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and the market value of investments to an increase or decrease of 10% in the fair values of the Company's equities. 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 equities at each balance sheet date, with all other variables held constant.

| | **31 August 2011** | | 31 August 2010 | |
|---|---|---|---|---|
| | **Increase in fair value £'000** | **Decrease in fair value £'000** | Increase in fair value £'000 | Decrease in fair value £'000 |
| Effect on revenue return | **(22)** | **22** | (21) | 21 |
| Effect on capital return | **13,269** | **(13,269)** | 12,848 | (12,848) |
| Effect on total return and on net assets | **13,247** | **(13,247)** | 12,827 | (12,827) |
| Change in net asset value | **9.8%** | **(9.8)%** | 9.8% | (9.8)% |

## b. Interest Rate Risk

Although the majority of the Company's financial assets are equity shares, which pay dividends, not interest, the Company will be affected by interest rate changes as interest is earned on any cash balances and paid on any overdrawn balances and is based at a margin over LIBOR. Given the interest rate risk exposure noted below, the impact of any interest rate change is not considered to be significant and as such, no sensitivity analysis has been provided. Interest rate changes will also have an impact on the valuation of equities, although this forms part of price risk, which has already been 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.

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

### Interest rate exposure

At the year-end, financial assets and liabilities exposed to interest rates were as follows:

| | **31 August 2011 £'000** | 31 August 2010 £'000 |
|---|---|---|
| Financial Assets: | | |
| Cash at bank | **1,314** | 1,069 |
| | **1,314** | 1,069 |

# Notes to the Accounts

The above year-end amounts may not be representative of the exposure to interest rates in the year ahead since the level of cash held during the year will be affected by the strategy being followed in response to the Board's and Manager's perception of market prospects and the investment opportunities available at any particular time. During the year the level of financial assets exposed to interest obligations fluctuated between £482,000 and £2,377,000.

## c. Currency Risk

The Company is not considered to be subject to a material level of currency risk since the majority of its investments are denominated in sterling.

### Currency exposure

The exposure to currency risk at the year-end comprised:

| | **At 31 August 2011** | | | At 31 August 2010 | | |
|---|---|---|---|---|---|---|
| | **Non-current asset investments £'000** | **Current assets £'000** | **Total £'000** | Non-current asset investments £'000 | Current assets £'000 | Total £'000 |
| Euro | **5,581** | **8** | **5,589** | – | – | – |
| Norwegian Krone | **2,801** | **20** | **2,821** | – | – | – |
| United States Dollar | **–** | **193** | **193** | – | 87 | 87 |
| | **8,382** | **221** | **8,603** | – | 87 | 87 |

A sensitivity analysis is not provided as total return and net assets is not likely to be materially impacted by any movements in exchange rates.

## 2. Credit Risk

Credit risk is the exposure to loss from 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 and prior years.

### Credit risk exposure

The exposure to credit risk at the year-end comprised:

| | **At 31 August 2011 £'000** | At 31 August 2010 £'000 |
|---|---|---|
| Accrued income | **973** | 800 |
| Overseas tax recoverable | **28** | – |
| Cash at bank and on deposit | **1,314** | 1,069 |
| | **2,315** | 1,869 |

During the year and at the year-end the deposits were with banks that had ratings of A or higher.

All of the above financial assets are current, their fair values are considered to be the same as the values shown and the likelihood of a material credit default is considered to be low.

## 3. 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 in section 5 of this note.

## 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 bid prices at close of business on the relevant date.

## 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 | At 31 August 2011 £'000 | At 31 August 2010 £'000 |
|---|---|---|
| Financial assets at fair value through profit or loss: | | |
| Fixed asset investments – designated as such on initial recognition | **132,913** | 128,686 |
| Loans and receivables: | | |
| Current assets: | | |
| Debtors | **1,015** | 821 |
| Cash at bank and short-term deposits | **1,314** | 1,069 |
| | **2,329** | 1,890 |

| Financial Liabilities | At 31 August 2011 £'000 | At 31 August 2010 £'000 |
|---|---|---|
| Creditors: amounts falling due within one month | | |
| Accruals | **445** | 288 |
| Fair value of open derivative contracts | **10** | – |
| | **455** | 288 |

## 6. Fair Value Hierarchy

The Company has adopted FRS29 "Financial Instruments: Disclosures" under which an entity is required to classify fair value measurements using a fair value hierarchy that reflects their significance. The fair value hierarchy has 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 assets.

Financial assets and liabilities measured at fair value are grouped into their fair value hierarchy at 31 August 2011 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** | **132,913** | **–** | **–** | **132,913** |
| Derivative financial instruments | **b** | **(10)** | **–** | **–** | **(10)** |
| Net fair value | | **132,903** | **–** | **–** | **132,903** |

Financial assets and liabilities measured at fair value are grouped into their 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 | 128,686 | – | – | 128,686 |
| Net fair value | | 128,686 | – | – | 128,686 |

### a. Quoted equities

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

### b. Derivative financial instruments

The fair value of Company's investments in derivatives has been determined by reference to their quoted bid prices at the reporting date. Derivative financial instruments 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 to achieve 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;

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

(iii) the determination of dividend payments.

As a public limited company, the Company is subject to various capital requirements pursuant to the provisions of the Companies Act 2006.

In addition, with respect to the obligation and ability to pay dividends, the Company must comply with the provisions of Section 1158 of the UK Corporation Tax Act 2010 and the Companies Act 2006 respectively.

These provisions are unchanged since the previous year and the Company has complied with them.

# Notice of Meeting

Notice is hereby given that the Annual General Meeting of Schroder Income Growth Fund plc will be held at 12.00 noon on Wednesday, 21 December 2011 at 31 Gresham Street, London EC2V 7QA, to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 10 will be proposed as Ordinary Resolutions and resolutions 11 to 13 will be proposed as Special Resolutions:

1. To receive the Report of the Directors and the audited Accounts for the year ended 31 August 2011.
2. To approve the Remuneration Report for the year ended 31 August 2011.
3. To re-elect Mr Ian Barby as a Director of the Company.
4. To re-elect Mr David Causer as a Director of the Company.
5. To re-elect Sir Paul Judge as a Director of the Company.
6. To re-elect Mr Keith Niven as a Director of the Company.
7. To re-elect Mr Peter Readman as a Director of the Company.
8. To re-appoint Deloitte LLP as Auditors of the Company.
9. To authorise the Directors to determine the remuneration of Deloitte LLP as Auditors of the Company.
10. To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:
    "That the Directors be and are hereby generally and unconditionally authorised, in substitution for all subsisting authorities in accordance with section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £343,441 (representing 5% of the share capital in issue on 18 November 2011); provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company but so that this authority shall enable the Company to make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry."
11. To consider and, if thought fit, to pass, the following resolution as a special resolution:
    "That, subject to the passing of resolution 10 set out above, the Directors be and are hereby empowered, pursuant to section 571 of the Act, to allot equity securities (including any shares held in treasury) (as defined in section 560 of the Act) pursuant to the authority given in accordance with section 551 of the Act by the said resolution 10 above and/or where such allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £343,441 (representing 5% of the aggregate nominal amount of the share capital in issue on 18 November 2011); and provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry."
12. To consider and, if thought fit, to pass the following resolution as a special resolution:
    "That the Company be and is hereby generally and unconditionally authorised in accordance with section 693 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares of 10p each in the capital of the Company ("Shares"), at whatever discount the prevailing market price represents to the prevailing net asset value per share provided that:
    (a) the maximum number of Shares hereby authorised to be purchased shall be 10,296,382, representing 14.99% of the issued share capital as at 18 November 2011;
    (b) the minimum price which may be paid for a Share is 10p;
    (c) the maximum price which may be paid for a Share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased 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 net asset value;
    (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed or revoked prior to such time; and
    (f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract."
13. To consider and, if thought fit, to pass the following resolution as a special resolution:
    "That
    (a) the Articles of Association of the Company are amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of Section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and
    (b) the Articles of Association set out in the document produced to the Meeting and signed by the Chairman of the Meeting for the purposes of identification be and are hereby approved and adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, all existing Articles of Association of the Company."

By Order of the Board
Schroder Investment Management Limited
Company Secretary

Registered Office:
31 Gresham Street
London EC2V 7QA

Registered Number: 3008494
18 November 2011

# Explanatory Notes to the Notice of Meeting

1. Ordinary shareholders are entitled to attend and vote at the meeting and to appoint one or more proxies, who need not be a shareholder, as their proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the meeting.

   A proxy form is enclosed. If you wish to appoint a person other than the Chairman as your proxy, please insert the name of your chosen proxy holder in the space provided at the top of the form. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account). Additional proxy forms can be obtained by contacting the Company's Registrars, Equiniti Limited, on 0800 032 0641 or +44(0) 121 415 0207 for overseas callers, or you may photocopy the attached proxy form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. Completion and return of a form of proxy will not preclude a member from attending the Annual General Meeting and voting in person.

   On a vote by show of hands, every ordinary shareholder who is present in person has one vote and every duly appointed proxy who is present has one vote. On a poll vote, every ordinary shareholder who is present in person or by way of a proxy has one vote for every share of which he/she is a holder.

   The "Vote Withheld" option on the proxy form is provided to enable you to abstain on any particular resolution. However it should be noted that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

   A proxy form must be signed and dated by the shareholder or his or her attorney duly authorised in writing. In the case of joint holdings, any one holder may sign this form. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder and for this purpose seniority will be determined by the order in which the names appear on the Register of Members in respect of the joint holding. To be valid, proxy form(s) must be completed and returned to the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZR, in the enclosed envelope together with any power of attorney or other authority under which it is signed or a copy of such authority certified notarially, to arrive no later than 48 hours before the time fixed for the meeting, or an adjourned meeting. Shareholders may also appoint a proxy to vote on the resolutions being put to the meeting electronically at www.sharevote.co.uk. Shareholders who are not registered to vote electronically, will need to enter the Voting ID, Task ID and Shareholder Reference ID set out in their personalised proxy form. Alternatively, shareholders who have already registered with Equiniti's Shareview service can appoint a proxy by logging onto their portfolio at www.shareview.co.uk and clicking on the link to vote under your Schroder Income Growth Fund plc holding details. The on-screen instructions give details on how to complete the appointment process. Please note that to be valid, your proxy instructions must be received by Equiniti no later than 48 hours before the time for the meeting. If you have any difficulties with online voting, you should contact the shareholder helpline on 0800 032 0641.

   If an ordinary shareholder submits more than one valid proxy appointment, the appointment received last before the latest time for receipt of proxies will take precedence.

   Shareholders may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents to communicate with the Company for any purposes other than expressly stated.

   Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of procedures on corporate representatives.

2. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him or her and the shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

   The statement of the rights of ordinary shareholders in relation to the appointment of proxies in note 1 above does not apply to Nominated Persons. The rights described in that note can only be exercised by ordinary shareholders of the Company.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of members of the Company at 6.00 p.m on 19 December 2011, or 6.00 p.m. two days prior to the date of an adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 6.00 p.m. on 19 December 2011 shall be disregarded in determining the right of any person to attend and vote at the meeting.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. The CREST manual can be viewed at www.euroclear.com/CREST. A CREST message appointing a proxy (a "CREST proxy instruction") regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction previously given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time for receipt of proxy appointments.

5. Copies of the terms of appointment of the non-executive Directors and a statement of all transactions of each Director and of his family interests in the shares of the Company, will be available for inspection by any member of the Company at the registered office of the Company during normal business hours on any weekday (English public holidays excepted) and at the Annual General Meeting by any attendee, for at least 15 minutes prior to, and during, the Annual General Meeting. None of the Directors has a contract of service with the Company.

6. The biographies of the Directors offering themselves for re-election are set out on the inside front cover of the Company's Annual Report and Accounts for the year ended 31 August 2011.

7. As at 18 November 2011, 68,688,343 ordinary shares of 10 pence were in issue (no shares were held in treasury). Accordingly, the total number of voting rights of the Company as at 18 November 2011 is 68,688,343.

8. A copy of this Notice of Annual General Meeting, which includes details of shareholder voting rights, together with any other information as required under Section 311A of the Companies Act 2006, is available to download from the Company's website, www.schroderincomegrowthfund.com.

9. Pursuant to section 319A of the Companies Act 2006, the Company must cause to be answered at the meeting any question relating to the business being dealt with at the meeting which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

10. Copies of the proposed new articles of association are available from the Company Secretary and will be on display at the registered office of the Company during normal business hours on any weekday (English public holidays excepted). They will also be available for inspection by any person attending the Annual General Meeting for at least 15 minutes prior to, and during, the Meeting. The proposed changes are explained in the Report of the Directors on pages 16 and 17.

# Company Summary and Shareholder Information

## The Company

Schroder Income Growth Fund plc was launched in 1995. It is an independent investment trust, whose shares are listed on the London Stock Exchange. As at 18 November 2011, the Company had 68,688,343 ordinary shares of 10p each in issue (no shares were held in treasury). The Company's assets are managed by Schroders, which also administers the Company.

It is not intended that the Company should have a limited life, but the Directors consider it desirable that the shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, the Articles of Association of the Company contain provisions requiring the Directors to put a proposal for the continuation of the Company to shareholders at the Company's Annual General Meeting in 2015 and thereafter at five-yearly intervals.

## Website and Price Information

The Company has a dedicated website, which may be found at www.schroderincomegrowthfund.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 the Report and Accounts and other documents published by the Company as well as information on the Directors, Terms of Reference of the Board's Committees and other governance arrangements. In addition, the site contains links to announcements made by the Company to the market, Equiniti's shareview service and Schroders' website. 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 daily.

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 Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. The helpline telephone number of Equiniti Registrars is 0800 032 0641 (or +44(0)121 415 0207 for overseas callers). Calls to this number are free of charge from landlines.

Equiniti maintain a web-based enquiry service for shareholders. Currently the "Shareview" site (address below) contains information available on public registers. Shareholders will be invited to enter their name, shareholder reference (account number) and post code and will be able to view information on their own holding. Please visit www.shareview.co.uk for more details.

## Association of Investment Companies

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

## Five-year Dividend History

| | Net dividend paid per share | | | | | Payment |
|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | date |
| 1st Interim | 1.50p | 1.60p | 1.60p | 1.60p | 1.60p | 31 January |
| 2nd Interim | 1.50p | 1.60p | 1.60p | 1.60p | 1.60p | 30 April |
| 3rd Interim | 1.50p | 1.60p | 1.60p | 1.60p | 1.60p | 31 July |
| 4th Interim | 3.60p | 3.90p | 4.10p | 4.30p | 4.50p | 31 October |
| Total dividends for the year | 8.10p | 8.70p | 8.90p | 9.10p | 9.30p | |

www.schroderincomegrowthfund.com

Schroders