

Schroder

UK Growth Fund plc

Half-Year Report and Accounts for the six months ended 31 October 2012



Schroders

Investment Objective

The Company's principal investment objective is to achieve capital growth predominantly from investment in UK equities, with the aim of providing a total return in excess of the FTSE All-Share Index.

Directors

Alan Clifton (Chairman)
Stella Pirie OBE
Bob Cowdell
Andrew Hutton
David Ritchie

Advisers

Investment Manager and Company Secretary

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Financial Highlights

Total returns (including dividends reinvested)	Six months ended		
	31 October 2012		
Net asset value per share total return ¹	7.5%		
Share price total return ²	8.7%		
Benchmark ³	3.3%		
	31 October 2012	30 April 2012	% Change
Shareholders' funds (£'000)	234,753	224,204	+4.7
Ordinary Shares in issue	160,917,184	161,423,790	-0.3
Net asset value per share (undiluted)	145.88p	138.89p	+5.0
Net asset value per share (diluted) ⁴	145.88p	137.73p	+5.9
Share price	135.25p	126.50p	+6.9

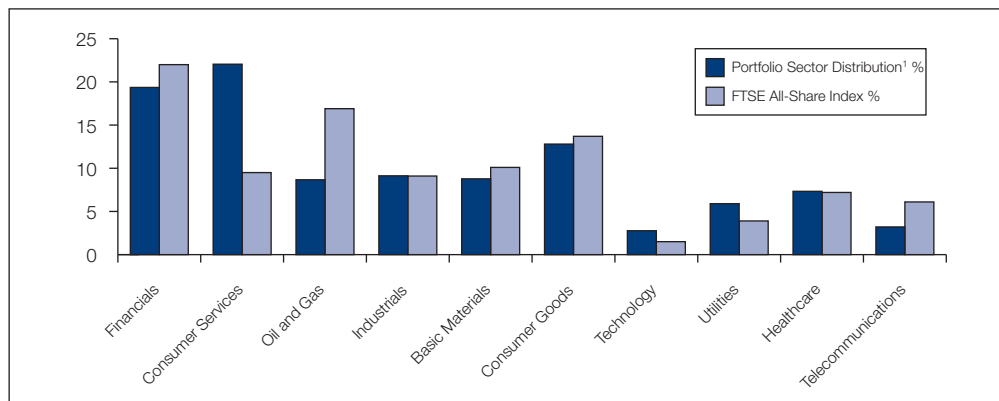
¹ Source: Morningstar, calculated using the diluted NAV at 30 April 2012.

² Source: Morningstar.

³ Source: Thomson Financial Datastream. The Company's benchmark is the FTSE All-Share Index.

⁴ There were no dilutive shares in issue at 31 October 2012.

Comparison of Portfolio Sector Distribution with the FTSE All-Share Index* at 31 October 2012



*Source: Schroders

¹ Sector Distributions are shown as a percentage of the Company's total investments.

Ten Largest Investments

At 31 October 2012

Company and Activity	Market value of holding £'000	Percentage of total equity shareholders' funds
GlaxoSmithKline Pharmaceutical manufacturing	11,288	4.81
Debenhams General retailing	11,025	4.70
Taylor Wimpey House building	10,571	4.50
Drax Group Power generation	10,272	4.38
Tate & Lyle Corn and sugar refining	10,148	4.32
Royal Dutch Shell Oil and gas exploration and production	10,108	4.31
Lloyds Banking Group Banking and financial services	9,331	3.97
Legal & General Financial services	8,604	3.67
Xstrata Diversified mining	8,317	3.54
Experian Group Credit and marketing services	8,221	3.50
Total	97,885	41.70

At 30 April 2012, the ten largest investments represented 41.15% of total equity shareholders' funds.

Interim Management Report

Chairman's Statement

Performance

During the six month period ended 31 October 2012, the Company's fully diluted net asset value delivered a total return of 7.5%, while the share price achieved a total return of 8.7%. These compare with an equivalent total return of 3.3% by the FTSE All-Share Index over the same period.

Further comment on performance and investment policy is included in the Investment Manager's Review.

Dividends

The Directors have declared an increased first interim dividend of 1.75p per share for the year ending 30 April 2013 (2012: 1.50p). The first interim dividend will be payable on 31 January 2013 to shareholders on the Register on 28 December 2012. The Board expects at least to maintain last year's second interim dividend level of 2.00p, thereby ensuring a rise in the full year's payout.

Gearing Policy

The Company maintains a credit facility of £35 million of which £25 million has remained drawn throughout the period. Net effective gearing (which takes account of cash held in the portfolio as well as borrowings) was 7.5% at the beginning of the period under review, and this had increased to 8.2% at 31 October 2012.

The Company's gearing continues to operate well within pre-agreed limits set by the Board which stipulate that gearing should not represent more than 20% of shareholders' funds. The Board continues to believe that gearing can enhance performance over time and provides a valuable investment tool for the Manager.

Discount Management Policy

The Board maintains a formal discount management policy in order to seek to hold the discount to the net asset value at which its shares are quoted on the London Stock Exchange to no greater than 5% over the long-term. The average discount during the period (based on diluted, capital only net asset values) was 6.8%. During the period a total of 550,000 Ordinary shares were purchased for cancellation in support of the Board's discount management policy.

The Directors continue to keep the discount under review and will purchase shares, if appropriate, in accordance with its formal discount management policy.

Subscription Shares

Following the final subscription date, 31 July 2012, 43,394 Ordinary shares were issued following the exercise of conversion rights of Subscription shareholders. Following this issue, a total of 21,349,803 Subscription shares remained unexercised and their listing has been suspended. The Company will make arrangements for the conversion of the remaining Subscription shares in due course.

Outlook

The UK stock market is now towards the top of the range it has been in for the last five years. Whether it can break out into new territory probably depends on the same balance as in earlier years, between the global uncertainties on one hand and relatively healthy corporate profitability and appealing share valuations on the other.

The Company's net asset value will inevitably move with the swing in sentiment between these two factors, but the Manager's goal is still to pick a concentrated list of shares that can materially outperform the average. It is pleasing to see that the Company has recently been named this year's best UK Growth fund at the Investment Week Investment Company of the Year Awards 2012. We look forward to our Manager continuing to deliver the performance that earned this award.

Alan Clifton

Chairman
18 December 2012

Interim Management Report

Investment Manager's Review

Performance

Over the 6 months to 31 October the total return on the fully diluted net asset value was 7.5%, compared to the total return from the FTSE All Share index of 3.3% (source: Morningstar/Thomson Financial Datastream).

The largest individual contributor was **Debenhams**, which recently announced plans to expand with new shops and in its online business. **Virgin Media** (telecommunications) was also among the largest contributors. Revenues climbed 4.2% year-on-year, and the company announced that it would begin the next part of its share buyback programme. Other positive contributors included house builder **Taylor Wimpey** and **Lloyds Banking Group**, the latter as sentiment towards banks was lifted by central bank actions. This pattern of share prices reacting to policymakers' actions is likely to remain. Over the longer term, however, we believe that the on-going improvement in banks' business fundamentals will warrant further share price increases. Our chosen banks are already making robust returns on equity within their core businesses, but this remains masked by losses on legacy assets while sentiment towards the share prices is being affected by a number of regulatory fines. With each set of results there is further progress in deleveraging. One of the greatest detractors came from luxury goods group **Burberry** following slowing sales.

Market Background

This has been a year of contradictions for the UK market. At times investors have been prepared to take more risk on the view that the uncertainties about global growth and the Eurozone are discounted in prices. However, price rises have tended to be concentrated in supposedly lower-risk shares like telecoms, utilities and beverages. Investors have not become less risk-averse so much as keen on predictable yield.

The UK economy has finally emerged from the longest double-dip recession since the Second World War. It is worth noting that we struggle to reconcile the GDP data with what companies tell us, that activity is not getting much better or worse. Inflation is coming down, which should support some real income growth. Even though the public sector continues to shed staff, the private sector is creating sufficient jobs that employment is rising. Equally, though it is difficult to get credit from banks, net new business formation is increasing at double-digit year-on-year rates.

The market has not had a clear sectoral pattern. Cyclical such as banks and life insurers have performed well, while defensives such as telecommunications have also performed strongly. Healthcare and basic materials have underperformed.

Investment Activity and Portfolio Strategy

The portfolio has not changed materially for a while, with turnover being either switching some successes into laggards, or reinvesting proceeds from this year's takeovers, Misys and Logica. The policy therefore remains concentrated on a small number of our high conviction holdings. This leaves the Company without a dominant macro-economic or thematic view. If there is one position that probably defines policy relative to some of its peers it is where we do not see that value, in defensives. The enthusiasm for 'predictable yield' has driven those lower-growth shares onto premia that we find hard to justify.

Outlook

Investors have three immediate concerns: can the US avoid its 'fiscal cliff', will China achieve a soft landing, and can Europe make progress on its sovereign and banking crises? We believe fears will reduce on all three. The US is likely to agree a fiscal policy which turns the 'cliff' into a gentle slope. Given that US banks are creating credit again and that an improving housing market is underpinning consumer confidence, a positive agreement will reassure US corporates. Equally, now the policy vacuum in China prior to the leadership transition is over, better economic data and modest policy stimulus should ease fears of a 'hard landing'.

Against a background of improving activity in the US and China, even Europe may fail to dominate investor sentiment. Much progress has been made this year in the multi-year evolution towards fiscal union and the appropriate mix of austerity, reforms and fiscal transfers. We expect further progress in 2013.

Investors' overriding worry is that the scale of debt in the West condemns us to weak growth for the foreseeable future. If the three immediate concerns fade, however, even this cornerstone of the bear case may be challenged. Some modest acceleration in growth is key to deficit and debt reduction. Risk appetite will ebb and flow with the macroeconomic data, but an improvement in the deteriorating trend of recent months would help improve corporate confidence and investment.

The portfolio's policy remains concentrated in a small number of companies with strong balance sheets, low valuations, robust business models, and significant growth potential that can prosper in a tough corporate environment. The gearing at the period end was 8%, close to where it was 12 months earlier and a continued reflection of our view that – for all of the risks – the market is capable of further increases.

Interim Management Report

Principal Risks and Uncertainties

The principal risks and uncertainties with the Company's business fall into the following categories: financial risk; strategic risk; and accounting, legal and regulatory risk. A detailed explanation of the risks and uncertainties in each of these categories can be found on page 11 of the Company's published Annual Report and Accounts for the year ended 30 April 2012. These risks and uncertainties have not materially changed during the six months ended 31 October 2012.

Going Concern

The Directors believe that, having considered the Company's investment objective, risk management policies, capital management policies and procedures, the nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the financial statements.

Related Party Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position or the performance of the Company.

Directors' Responsibility Statement

The Directors confirm that, to the best of their knowledge, this set of condensed financial statements has been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and with the Statement of Recommended Practice Financial Statements of Investment Companies and Venture Capital Trusts (SORP) issued in January 2009 and the Interim Management Report as set out above includes a fair review of the information required by 4.2.7R and 4.2.8R of the FSA's Disclosure and Transparency Rules.

Income Statement

	(Unaudited) For the six months ended 31 October 2012			(Unaudited) For the six months ended 31 October 2011			(Audited) For the year ended 30 April 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	-	12,074	12,074	-	(24,750)	(24,750)	-	(13,497)	(13,497)
Net foreign currency gains	-	1	1	-	1	1	-	-	-
Income from investments	3,512	-	3,512	3,166	-	3,166	6,647	42	6,689
Other interest receivable and similar income	48	-	48	14	-	14	43	-	43
Gross return/(loss)	3,560	12,075	15,635	3,180	(24,749)	(21,569)	6,690	(13,455)	(6,765)
Investment management fee	(220)	(513)	(733)	(213)	(498)	(711)	(428)	(998)	(1,426)
Administrative expenses	(254)	-	(254)	(245)	-	(245)	(461)	-	(461)
Net return/(loss) before finance costs and taxation	3,086	11,562	14,648	2,722	(25,247)	(22,525)	5,801	(14,453)	(8,652)
Finance costs	(72)	(168)	(240)	(78)	(179)	(257)	(160)	(372)	(532)
Net return/(loss) on ordinary activities before taxation	3,014	11,394	14,408	2,644	(25,426)	(22,782)	5,641	(14,825)	(9,184)
Taxation (note 4)	(3)	-	(3)	(35)	-	(35)	(38)	-	(38)
Net return/(loss) on ordinary activities after taxation	3,011	11,394	14,405	2,609	(25,426)	(22,817)	5,603	(14,825)	(9,222)
Return/(loss) per Ordinary share (note 5)	1.87p	7.08p	8.95p	1.64p	(15.99)p	(14.35)p	3.49p	(9.23)p	(5.74)p

The "Total" column of this statement is the profit and loss account of the Company. The "Revenue" and "Capital" columns represent supplementary information prepared under guidance issued by The Association of Investment Companies. The Total column includes all the information that is required to be disclosed in a Statement of Total Recognised Gains and Losses ("STRGL"). For this reason a STRGL has not been presented.

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

Reconciliation of Movements in Shareholders' Funds

	For the six months ended 31 October 2012 (unaudited)							
	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 April 2012	40,569	9,829	19,409	78,766	417	70,196	5,018	224,204
Net return on ordinary activities	-	-	-	-	-	11,394	3,011	14,405
Ordinary dividends paid in the period	-	-	-	-	-	-	(3,217)	(3,217)
Repurchase and cancellation of the Company's own Ordinary shares	(137)	-	137	(696)	-	-	-	(696)
Issue of Ordinary shares on exercise of Subscription shares	11	46	-	-	-	-	-	57
At 31 October 2012	40,443	9,875	19,546	78,070	417	81,590	4,812	234,753

	For the six months ended 31 October 2011 (unaudited)							
	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 April 2011	39,264	2,820	18,944	81,089	417	85,021	4,586	232,141
Net (loss)/return on ordinary activities	-	-	-	-	-	(25,426)	2,609	(22,817)
Ordinary dividends paid in the period	-	-	-	-	-	-	(2,728)	(2,728)
Conversion of Subscription shares into Ordinary shares	(74)	74	-	-	-	-	-	-
Issue of Ordinary shares on exercise of Subscription shares	1,842	6,926	-	-	-	-	-	8,768
At 31 October 2011	41,032	9,820	18,944	81,089	417	59,595	4,467	215,364

	For the year ended 30 April 2012 (audited)							
	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 April 2011	39,264	2,820	18,944	81,089	417	85,021	4,586	232,141
Net (loss)/return on ordinary activities	-	-	-	-	-	(14,825)	5,603	(9,222)
Ordinary dividends paid in the year	-	-	-	-	-	-	(5,171)	(5,171)
Repurchase and cancellation of the Company's own Ordinary shares	(465)	-	465	(2,323)	-	-	-	(2,323)
Conversion of Subscription shares into Ordinary shares	(74)	74	-	-	-	-	-	-
Issue of Ordinary shares on exercise of Subscription shares	1,844	6,935	-	-	-	-	-	8,779
At 30 April 2012	40,569	9,829	19,409	78,766	417	70,196	5,018	224,204

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

Balance Sheet

	(Unaudited) At 31 October 2012 £'000	(Unaudited) At 31 October 2011 £'000	(Audited) At 30 April 2012 £'000
Fixed assets			
Investments held at fair value through profit or loss	254,304	226,231	240,100
Current assets			
Debtors	132	611	1,549
Cash and short-term deposits	5,851	14,224	8,083
	5,983	14,835	9,632
Current liabilities			
Creditors: amounts falling due within one year	(25,534)	(25,702)	(25,528)
Net current liabilities	(19,551)	(10,867)	(15,896)
Net assets	234,753	215,364	224,204
Capital and reserves			
Called-up share capital	40,443	41,032	40,569
Share premium	9,875	9,820	9,829
Capital redemption reserve	19,546	18,944	19,409
Share purchase reserve	78,070	81,089	78,766
Warrant exercise reserve	417	417	417
Capital reserves	81,590	59,595	70,196
Revenue reserve	4,812	4,467	5,018
Total equity shareholders' funds	234,753	215,364	224,204
Net asset value per Ordinary share (note 6)	145.88p	131.90p	138.89p

Cash Flow Statement

	(Unaudited) For the six months ended 31 October 2012 £'000	(Unaudited) For the six months ended 31 October 2011 £'000	(Audited) For the year ended 30 April 2012 £'000
Net cash inflow from operating activities (note 7)	3,939	3,426	4,644
Net cash outflow from servicing of finance	(244)	(253)	(529)
Taxation received/(paid)	13	(85)	(86)
Net cash (outflow)/inflow from investment activities	(2,088)	1,899	(427)
Dividends paid	(3,217)	(2,728)	(5,171)
Net cash (outflow)/inflow from financing	(636)	8,768	6,456
Net cash (outflow)/inflow in the period	(2,233)	11,027	4,887
Reconciliation of net cash flow to movement in net debt			
Net cash (outflow)/inflow in the period	(2,233)	11,027	4,887
Exchange movements	1	1	–
Changes in net debt arising from cash flows	(2,232)	11,028	4,887
Net debt at the beginning of the period	(16,917)	(21,804)	(21,804)
Net debt at the end of the period	(19,149)	(10,776)	(16,917)
Represented by:			
Cash and short-term deposits	5,851	14,224	8,083
Bank loan	(25,000)	(25,000)	(25,000)
Net debt	(19,149)	(10,776)	(16,917)

Notes to the Accounts

1. Financial Statements

The information contained within the accounts in this half-year report has not been audited or reviewed by the Company's auditors.

The figures and financial information for the year ended 30 April 2012 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting Policies

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in January 2009.

All of the Company's operations are of a continuing nature.

The accounting policies applied to these interim accounts are consistent with those applied in the accounts for the year ended 30 April 2012.

3. Dividends

	(Unaudited) Six months ended 31 October 2012 £'000	(Unaudited) Six months ended 31 October 2011 £'000	(Audited) Year ended 30 April 2012 £'000
Second interim dividend of 2.00p (2011: 1.75p)	3,217	2,728	2,728
First interim dividend of 1.50p	–	–	2,443
	3,217	2,728	5,171

A first interim dividend of 1.75p (2011: 1.50p) per share, amounting to £2,816,000 (2011: £2,443,000) has been declared payable in respect of the six months ended 31 October 2012.

4. Taxation

The Company's effective corporation tax rate is nil, as deductible expenses exceed taxable income. The tax charge comprises overseas withholding tax.

5. Return/(loss) per Ordinary share

	(Unaudited) Six months ended 31 October 2012 £'000	(Unaudited) Six months ended 31 October 2011 £'000	(Audited) Year ended 30 April 2012 £'000
Revenue return	3,011	2,609	5,603
Capital return/(loss)	11,394	(25,426)	(14,825)
Total return/(loss)	14,405	(22,817)	(9,222)
Weighted average number of Ordinary shares in issue during the period	160,944,087	158,990,447	160,680,522
Revenue return per share	1.87p	1.64p	3.49p
Capital return/(loss) per share	7.08p	(15.99)p	(9.23)p
Total return/(loss) per share	8.95p	(14.35)p	(5.74)p

6. Net asset value per Ordinary share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 31 October 2012 of 160,917,184 (31 October 2011: 163,275,105 and 30 April 2012: 161,423,790).

Notes to the Accounts

7. Reconciliation of total return/(loss) on ordinary activities before finance costs and taxation to net cash inflow from operating activities

	(Unaudited) Six months ended 31 October 2012 £'000	(Unaudited) Six months ended 31 October 2011 £'000	(Audited) Year ended 30 April 2012 £'000
Total return/(loss) on ordinary activities before finance costs and taxation	14,648	(22,525)	(8,652)
Less capital (return)/loss on ordinary activities before finance costs and taxation	(11,562)	25,247	14,453
Scrip dividends received as income	(70)	(132)	(292)
Decrease/(increase) in accrued dividends and interest receivable	1,418	1,113	(39)
(Increase)/decrease in other debtors	(17)	8	19
Increase in accrued expenses	35	213	153
Management fee allocated to capital	(513)	(498)	(998)
Net cash inflow from operating activities	3,939	3,426	4,644

Company Summary

The Company

Schroder UK Growth Fund plc is an independent investment trust whose shares are listed on the London Stock Exchange. As at 18 December 2012, the Company had 160,917,184 Ordinary shares of 25p each in issue (no shares were held in Treasury). The Company's assets are managed and it is administered by Schroders. The Company has, since its launch in 1994, measured its performance against the FTSE All-Share Index. The Company measures its performance on a total return basis.

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 at five yearly intervals. The next resolution for the continuation of the Company will be put to shareholders at the Annual General Meeting in 2014.

Website and Price Information

The Company has a dedicated website, which may be found at www.schroderukgrowthfund.com. The website has been designed to be utilised as the Company's primary method of electronic communication with shareholders. It contains details of the Company's share price (subject to a delay of 15 minutes) and copies of Report and Accounts and other documents published by the Company as well as information on the Directors, Terms of Reference of Committees and other governance arrangements. In addition, the site contains links to announcements made by the Company to the market, 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 on a daily basis.

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

Registrar Services

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to shareholdings, including a change of address or other amendment should be directed to Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. The helpline telephone number of Equiniti Registrars is 0800 032 0641. Calls to this number are free of charge from UK 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. 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.

Dealing Codes

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

ISIN: GB0007913485
SEDOL: 0791348
Ticker: SDU

www.schroderukgrowthfund.com