

**Schroder**

# UK Growth Fund plc

Report and Accounts to 30 April 2009

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**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)\*†

Aged 62, was appointed as a Director on 18 June 2001 and was previously the Managing Director of Morley Fund Management, the asset management arm of Aviva plc. He is currently Chairman of JP Morgan Fleming Japanese Smaller Companies Investment Trust plc and a Director of International Biotechnology Trust plc and a number of other investment companies.

### **Keith Niven**†

Aged 60, was appointed as a Director on 28 January 1994. He is Chairman of Matrix Income & Growth VCT PLC and Matrix Income & Growth 3 VCT PLC and a Director of three other investment trusts, Schroder Income Growth Fund plc, Impax Environmental Markets plc and Advance UK Trust 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.

### **David Ritchie**\*†

Aged 64, was appointed as a Director on 6 August 2001. He is Chairman of Edinburgh New Income Trust plc and of Cornelian Asset Management Group Limited and a Director of AMEC Staff Pensions Trustee Limited. He is a former Executive Chairman of Scottish Widows Investment Management Limited.

### **Andrew Hutton**\*†

Aged 51, was appointed as a Director on 3 September 2008. He is an independent investment advisor and Director of A.J. Hutton Ltd. Prior to setting up his own business in 2007, he was Head of Investment Management at Coutts and subsequently joint-MD of RBS Asset Management. He has also worked for JP Morgan from 1979 to 1997 in London, Melbourne, New York and Singapore.

### **Stella Pirie OBE**\*†

Aged 58, was appointed as a Director on 5 August 2002. She is currently a Director of Avon Rubber plc and Highcross Group Limited. She is Chair of Governors of Bath Spa University and Chairman of Capital Radio Pension Scheme.

\* Member of the Audit and Management Engagement Committees

† Member of the Nomination Committee

Mr Clifton is Chairman of the Nomination and Management Engagement Committees

Mr Ritchie is Chairman of the Audit Committee

## Advisers

### **Investment Manager**

Schroder Investment Management Limited  
31 Gresham Street, London EC2V 7QA

### **Company Secretary and Registered Office**

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31 Gresham Street, London EC2V 7QA  
Telephone: 020 7658 3206

### **Bankers**

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60 London Wall, London EC2M 5TQ

### **Custodian**

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### **Independent Auditors**

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### **Stockbrokers**

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London EC4R 2GA

### **Registrar**

Equiniti Limited  
1st Floor  
34 South Gyle Crescent  
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Edinburgh EH12 9EB  
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## Financial Highlights

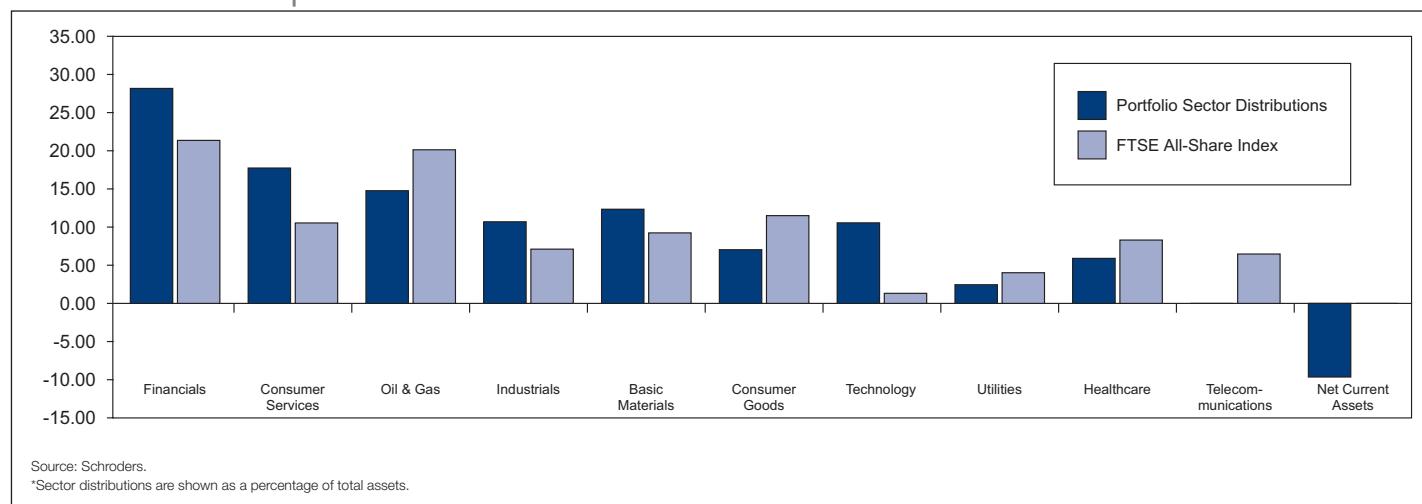
|  | 30 April 2009        | 30 April 2008        | % Change |
|--|----------------------|----------------------|----------|
| Net asset value per share  | <b>90.16p</b>        | 143.59p              | (37.2)   |
| Net asset value per share (excluding undistributed current year revenue)         | <b>88.15p</b>        | 140.98p              | (37.5)   |
| Share price  | <b>83.50p</b>        | 134.25p              | (37.8)   |
| Share price discount (based on NAV excluding undistributed current year revenue) | <b>5.3%</b>          | 4.8%                 |          |
| Total assets   | <b>£176.4m</b>       | £267.8m              | (34.1)   |
| Loans  | <b>£35.0m</b>        | £42.5m               | (17.6)   |
| Shareholders' funds  | <b>£141.4m</b>       | £225.3m              | (37.2)   |
| Market capitalisation  | <b>£131.0m</b>       | £210.6m              | (37.8)   |
| Shares in issue  | <b>156.9m</b>        | 156.9m               | -        |
| Shares held in treasury  | <b>Nil</b>           | 3.4m                 |          |
|  | <b>Year ended</b>    | <b>Year ended</b>    |          |
|  | <b>30 April 2009</b> | <b>30 April 2008</b> |          |
| Dividends per share  | <b>3.85p</b>         | 3.85p                | -        |
| Net asset value total return*  | <b>(35.1)%</b>       | (6.0)%               |          |
| FTSE All-Share Index total return**  | <b>(26.8)%</b>       | (4.3)%               |          |
| Total expense ratio***   | <b>0.63%</b>         | 0.64%                |          |

\* Source: Fundamental Data

\*\* Source: Thomson Financial Datastream

\*\*\* Calculated in accordance with AIC guidance. Based on operating costs, excluding performance fee, finance costs and back dated VAT recoverable, and expressed as a percentage of average monthly net assets

## Comparison of Portfolio Sector Distribution with the FTSE All-Share Index\* at 30 April 2009



## Ten-Year Record

| As at 30 April | Total assets<br>£ | Shareholders'<br>funds*<br>£ | NAV<br>per Ordinary<br>share** | Market<br>price of<br>Ordinary<br>shares | Share price<br>discount<br>%*** |
|----------------|-------------------|------------------------------|--------------------------------|--|---------------------------------|
| 2009           | 176.4m            | 141.4m                       | 90.16p                         | 83.50p                                   | (7.39)                          |
| 2008           | 267.8m            | 225.3m                       | 143.59p                        | 134.25p                                  | (6.50)                          |
| 2007           | 279.5m            | 244.5m                       | 155.36p                        | 143.75p                                  | (7.47)                          |
| 2006           | 257.1m            | 229.1m                       | 139.59p                        | 123.00p                                  | (11.89)                         |
| 2005           | 204.3m            | 179.3m                       | 108.90p                        | 94.00p                                   | (13.68)                         |
| 2004           | 192.9m            | 172.9m                       | 102.92p                        | 93.50p                                   | (9.15)                          |
| 2003           | 161.7m            | 141.7m                       | 84.24p                         | 77.75p                                   | (7.70)                          |
| 2002           | 240.0m            | 210.0m                       | 119.73p                        | 100.50p                                  | (14.40)                         |
| 2001           | 338.3m            | 288.3m                       | 150.75p                        | 126.00p                                  | (12.88)                         |
| 2000           | 368.0m            | 365.0m                       | 175.63p                        | 145.50p                                  | (12.70)                         |

\* From 1 May 1999 to 30 April 2009, the Company purchased 65,901,684 shares for cancellation, at a cumulative cost of £83.6 million

From 1 May 2006 to 30 April 2009 the Company purchased 6,649,000 shares to be held in treasury at a cumulative cost of £9.2 million of which 6,299,000 shares were cancelled and 350,000 re-issued

\*\* Net Asset Value including undistributed current year revenue

\*\*\* Discount based on Net Asset Value including undistributed current year revenue

| As at 30 April | Return<br>per Ordinary<br>Share | Net dividends<br>per Ordinary<br>Share | Cost of<br>running trust*<br>£'000 | Actual<br>gearing<br>ratio*** |
|----------------|---------------------------------|--|------------------------------------|-------------------------------|
| 2009           | 3.66p                           | 3.85p                                  | 979                                | 1.12                          |
| 2008           | 4.11p****                       | 3.85p                                  | 1,489****                          | 1.14                          |
| 2007           | 3.94p                           | 3.50p                                  | 1,539                              | 1.14                          |
| 2006           | 3.36p                           | 3.35p                                  | 1,366                              | 1.12                          |
| 2005           | 3.20p                           | 3.15p                                  | 1,208                              | 1.13                          |
| 2004           | 2.96p                           | 3.00p                                  | 1,159                              | 1.10                          |
| 2003           | 2.91p                           | 3.00p                                  | 1,057                              | 1.13                          |
| 2002           | 3.42p                           | 3.50p                                  | 1,531                              | 1.14                          |
| 2001           | 3.07p                           | 4.80p**                                | 2,128                              | 1.10                          |
| 2000           | 3.41p                           | 4.00p                                  | 2,451                              | 0.98                          |

\* Operating expenses before tax relief (excl. performance fees and interest payable)

\*\* Includes a special dividend of 1.80p per share

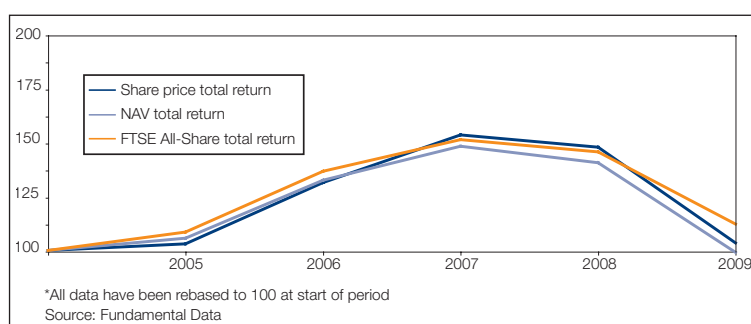
\*\*\* Total assets less cash divided by shareholders' funds

\*\*\*\* Excludes £800,000 for back dated VAT recovery on management fee

Ten-Year Total Returns to  
30 April 2009

|          | Share<br>price<br>% | NAV<br>% | FTSE All-<br>Share Index<br>% |
|----------|---------------------|----------|-------------------------------|
| 1 year   | (35.34)             | (35.08)  | (26.83)                       |
| 2 years  | (37.08)             | (38.55)  | (29.75)                       |
| 3 years  | (25.58)             | (30.01)  | (21.16)                       |
| 4 years  | 0.70                | (7.82)   | 4.35                          |
| 5 years  | 4.56                | (1.08)   | 15.49                         |
| 6 years  | 32.56               | 25.47    | 42.64                         |
| 7 years  | 5.79                | (6.55)   | 10.74                         |
| 8 years  | (12.42)             | (21.81)  | (0.51)                        |
| 9 years  | (22.47)             | (30.84)  | (3.18)                        |
| 10 years | (22.19)             | (26.58)  | (1.85)                        |

Source: Fundamental Data

Five-Year Share Price and NAV  
Performance\*

## Chairman's Statement

### Performance

The year ended 30 April 2009 was extremely challenging for all investors in the UK market and the aggressive positioning of the Company's portfolio led to under-performance against the FTSE All-Share Index. During the year, the Company's net asset value produced a negative total return of 35.1%, while the share price posted a negative total return of 35.3%. These compare with a negative total return of 26.8% produced by the FTSE All-Share Index over the same period.

Given the concentration of the portfolio, which is a feature of our Manager's investment approach, it is no surprise that performance against the FTSE All-Share has been volatile. Much of the under-performance against the Index, which was made worse by the Company's gearing, was seen during the last three months of 2008 and the portfolio subsequently out-performed the Index as the market rallied.

The portfolio continues to be aggressively positioned to take advantage of an economic recovery and, in markets such as those seen during the year, further volatility against the Index should be expected.

Further comment on performance and investment policy may be found in the Investment Manager's Review.

### Earnings and Dividends

The Company's focus continues to be on total return without constraining the Manager to deliver any given level of investment income. When the Company's investment policy was altered in November 2006 we indicated that the concentration of the portfolio would impact on the Company's ability to pay an increasing dividend stream. For the year under review we are maintaining rather than increasing the total dividends for the year, as earnings per share have fallen back and are quite likely to fall further in the current year. Part of the second interim dividend is thus being financed from reserves.

The Directors have declared a second interim dividend of 2.20p per share, making a total of 3.85p per share for the year as a whole, the same as the previous year. The second interim dividend will be payable on 31 July 2009 to shareholders on the Register on 17 July 2009.

### Gearing Policy

During the year, the Company reduced its borrowing facility from £45 million to £35 million. At the end of the year under review, the facility was fully drawn at £35 million.

The effective net gearing level (which takes account not only of the borrowings but any cash held by the Investment Manager) at the beginning of the year was 14.0% and had fallen to 10.7% by the end of the year. The average effective net gearing level during the year under review was 14.5%. The Company's gearing continues to operate within pre-agreed limits so that net effective gearing does not represent more than 20% of shareholders' funds. It should be recalled that the effect of gearing is to amplify underlying investment performance.

### Discount Management Policy

The Board continued to operate a formal discount management policy during the year under review to maintain the discount to the net asset value at which its shares are quoted on the London Stock Exchange at no greater than 5% over the long-term. The average discount during the year ended 30 April 2009 was 3.7%.

Although the Directors did not purchase shares for cancellation during the year under review, a total of 3,399,000 shares being held in treasury were cancelled. The Directors are seeking authority from shareholders for a renewal of the required authorities to purchase shares for cancellation and to hold shares in treasury for re-issue at a premium to net asset value, to assist with achieving the target longer-term discount level established by the formal discount management policy.

From time to time, it will be necessary for the Board to review target levels should general market conditions change.

### Continuation Vote and Outlook

The Notice of the Annual General Meeting contains an ordinary resolution proposing that the Company should continue as an investment trust for a further five year period. As part of the Board's due diligence process when

## Chairman's Statement

considering whether to recommend to shareholders that the Company continue in business as an investment trust, the Board has reviewed the overall performance of the Company and has been advised on the views of shareholders by its Corporate Broker and Manager.

Performance in both relative and absolute terms since the change in strategy in 2006 has been mixed and, during the market turmoil in the second half of 2008, was very disappointing. However, the Manager's investment strategy and the associated positioning of the portfolio have been clearly set out both to investors and the market and this clarity has helped to retain and attract investors to the Company. As a result, the share price has remained on a tight discount (or occasionally a slight premium) to net asset value.

The Board considers that the long term investment objectives of the Company remain appropriate and that the current Investment Manager is well placed to deliver superior returns over the longer term.

The events of the last 12 months have been a salutary reminder of the short term risks of investing in equities. Apart from the immediate pain in terms of a lower share price, it has created understandable doubt in many investors' minds of the longer term appeal of the UK stock market. As a Board we feel strongly that, while short term volatility will continue, the Company has considerable opportunity to achieve a real rate of return over the coming years. The risk of sustained economic depression now seems to have been abated by governments' aggressive pump-priming worldwide, while we take comfort from the Manager's confidence that the Company's investments are priced well below their likely value once economic conditions stabilise.

This is not to ignore the real dangers of disappointments along the path to recovery, or that future returns may continue to come in a volatile way. The challenge we continue to set the Manager, however, is to invest in a concentrated list of stocks in which they hold the strongest conviction of making money. We believe this is still a valid strategy for the next few years.

The Board has therefore decided unanimously to recommend that the Company continues as an investment trust. The directors will be voting their shares accordingly and wish to encourage all other shareholders likewise to vote in favour of continuation.

### **Subscription Share Issue**

On 19 May 2009 the Company announced that it was considering proposals for a bonus issue of subscription shares. Enclosed with this Annual Report is a combined circular and prospectus to shareholders relating to the proposed bonus issue.

The Board believes that subscription shares represent an attractive way in which investors can participate in any future net asset growth of the Company through subscribing for shares. In addition, on any exercise of the subscription share rights, the capital base of the Company will increase, resulting in a lower total expense ratio.

A general meeting has been convened for 6 August 2009 (immediately following the conclusion of the Annual General Meeting) at which the resolution to approve the bonus issue will be put to shareholders. The Board recommends that you vote in favour of the resolution.

### **Annual General Meeting**

The Annual General Meeting will be held at 12.00 noon on Thursday 6 August 2009, and shareholders are encouraged to attend. I hope as many of you as possible will be able to come along. The meeting, as in previous years, will include a presentation by the Investment Manager on the prospects for the UK market and the Company's investment strategy.

### **Alan Clifton**

Chairman

7 July 2009

## Investment Manager's Review

### Performance

Over the 12 months to 30 April 2009 the total return on the Company's net asset value was -35.1%, compared to the total return from the FTSE All-Share index of -26.8%.

In a volatile year, most of this underperformance was due to the Company's portfolio not being well positioned for what turned out to be a major fall in both economic activity and the stock market. The clearest example was the gearing. Gearing has helped performance in past years: in 2008/09 it has been a major negative. Net effective gearing was 15-17% of net asset value in the middle of last year, before the stock market's material falls in September and October.

Stock selection decisions have had a large impact on performance in individual months, both positively and negatively, with the impact over the full year being negative. The main disappointments were financials in the fourth quarter of 2008, not just with the well-publicised problems in the banks but others such as Legal & General, 3i, and International Personal Finance. At that time the portfolio also suffered from other pro-cyclical holdings (eg mining company Xstrata), preferred to more defensive sectors such as pharmaceuticals.

The successes included retail holdings such as Next and Burberry. Whilst trading has been tough on the high street, things have not been disastrous and the fall in mortgage rates has helped to offset the impact of rising unemployment and falling house prices.

### Market Background

The fall in share prices over the last 12 months came as higher US mortgage defaults, which started in 2007, grew into a spiral of bad news in the global financial sector. This exacerbated the economic slowdown that had already begun, initially in the US, but spreading to a global recession. Concerns over inflation were soon replaced with speculation that deflation could be more of a risk.

The failure of Lehman Brothers in September marked a watershed, startling not only financial markets but also companies in the real economy. Banks reduced lending, causing industrial companies and consumers to focus on preserving cash, reducing orders throughout the supply chain. The abrupt slowdown in activity led to markets plunging in September and October, and again in January and February.

Towards the end of the fiscal year things have improved, with marginally better news on the banks and the Chinese and US economies driving a recovery. Economic data has remained mixed, but there has appeared to be a feeling in the stock market that things are no longer worsening. This has been supported by better data from China, a rally in commodity prices, and reports from a number of companies that activity may be stabilising. Other key events have included the Bank of England's quantitative easing, and interest rates being cut worldwide to historically low levels.

### Investment Activity and Portfolio Strategy

We have taken a more tactical approach this year given the extreme levels of volatility. This has resulted in relatively high activity within the portfolio, which remains concentrated in our highest-conviction ideas.

The opportunities were often in finding when cyclical companies' shares had fallen too far. We mentioned above the successful investment in retail companies. With hindsight the portfolio had been too early with the domestic banks, but early in 2009 the continued share price falls led to our increasing the exposure to cyclical companies like financials and miners.

A few months later, a number of these shares have risen materially, leading to a new opportunity to switch into some more defensively-placed businesses - such as Unilever, GlaxoSmithKline and Tesco - whose share prices have lagged the recovery. The portfolio retains a pro-cyclical stance, however, as we believe that cyclicals remain hugely undervalued.

### Outlook

Further recovery by the stock market looks possible, but any major upside will be dependent on the economic situation improving significantly, rather than simply looking 'less bad'. Such an improvement looks demanding in the immediate term, so we believe the market is more likely to trade in a range. Crucially, though, downside



## Investment Manager's Review

pressures appear limited given the volume of cash waiting to come in from the sidelines, and the portfolio continues to use its bank facility to gear up in anticipation of stronger share prices over the next 12-18 months. At year end the net gearing was 10.7% of net asset value.

The portfolio continues to be concentrated in a short list of the shares where we have the greatest confidence of gain. Many of these currently are pro-cyclical stocks such as mining companies, retailers and banks. We also continue to look for shares where we believe the stock market is underestimating the ability of a new management team to transform a company's future, with examples added this year including Logica and Resolution Life. Although the portfolio is underweight more defensive sectors, we are now seeing opportunities in defensive laggards such as GlaxoSmithKline and Tesco.

We continue to weigh up tactical positioning versus our longer-term conviction. Whilst it is tempting to trim cyclical exposure more significantly given the scale of the recent rally, we believe the market is fairly well-supported and that the holdings remain extremely attractively valued on a medium-term recovered-earnings basis. As such, the shifts into more defensive names are being carried out at the margin.

**Schroder Investment Management Limited**

7 July 2009

## Investment Portfolio

As at 30 April 2009

| Company                                 | Sector Classification | Principal Activity                                | Market Value<br>of Holding<br>£'000 | % of<br>Shareholders'<br>Funds |
|---|-----------------------|---|-------------------------------------|--------------------------------|
| Barclays                                | Financials            | Banking and financial services group              | 8,622                               | 6.10                           |
| BG Group                                | Oil & Gas             | Oil and gas exploration and production group      | 7,592                               | 5.37                           |
| Xstrata                                 | Basic Materials       | Global diversified mining group                   | 6,957                               | 4.92                           |
| Experian Group                          | Industrials           | Credit and marketing services                     | 6,093                               | 4.31                           |
| Burberry Group                          | Consumer Goods        | Designs and sources apparels and accessories      | 5,997                               | 4.24                           |
| BHP Billiton                            | Basic Materials       | Global mining company                             | 5,876                               | 4.15                           |
| Invensys                                | Technology            | Energy resource management services               | 5,826                               | 4.12                           |
| Next                                    | Consumer Services     | UK fashion and accessories                        | 5,745                               | 4.06                           |
| Royal Dutch Shell 'B'                   | Oil & Gas             | Integrated oil group                              | 5,551                               | 3.92                           |
| Dana Petroleum                          | Oil & Gas             | Oil and gas exploration company                   | 5,484                               | 3.88                           |
| Shire                                   | Healthcare            | International speciality pharmaceutical company   | 5,247                               | 3.71                           |
| Charter                                 | Industrials           | International engineering firm                    | 5,065                               | 3.58                           |
| Misys                                   | Technology            | Global application and software services provider | 4,857                               | 3.43                           |
| Standard Chartered                      | Financials            | Banking and financial services group              | 4,857                               | 3.43                           |
| Lloyds Banking Group                    | Financials            | Banking and financial services group              | 4,806                               | 3.40                           |
| Home Retail Group                       | Consumer Services     | Home and general merchandising retailer           | 4,768                               | 3.37                           |
| Rio Tinto                               | Basic Materials       | Global mining company                             | 4,620                               | 3.27                           |
| Legal & General                         | Financials            | UK financial services group                       | 4,487                               | 3.17                           |
| ICAP                                    | Financials            | Interdealer broker                                | 4,274                               | 3.02                           |
| Logica                                  | Technology            | Technology solutions company                      | 4,258                               | 3.01                           |
| <b>Twenty largest investments</b>       |                       |   | <b>110,982</b>                      | <b>78.46</b>                   |
| 3i Group                                | Financials            | Private equity company                            | 4,207                               | 2.97                           |
| Thomson Reuters                         | Consumer Services     | News and financial information provider           | 4,068                               | 2.88                           |
| British Airways                         | Consumer Services     | International airline                             | 4,008                               | 2.83                           |
| Rolls Royce                             | Industrials           | Power systems provider                            | 3,983                               | 2.82                           |
| Unilever                                | Consumer Goods        | Consumer goods group                              | 3,956                               | 2.80                           |
| International Power                     | Industrials           | Independent power generation company              | 3,469                               | 2.45                           |
| Tesco                                   | Consumer Services     | International food retailing group                | 3,321                               | 2.35                           |
| Whitbread                               | Consumer Services     | Leisure group                                     | 3,185                               | 2.25                           |
| Royal Bank of Scotland                  | Financials            | Banking and financial services group              | 3,129                               | 2.21                           |
| GlaxoSmithkline                         | Healthcare            | International pharmaceutical company              | 3,093                               | 2.19                           |
| International Personal Finance          | Financials            | Provider of financial products and services       | 3,071                               | 2.17                           |
| Resolution                              | Financials            | Speciality Finance                                | 2,403                               | 1.70                           |
| BP                                      | Oil & Gas             | Integrated oil group                              | 2,265                               | 1.60                           |
| Rolls Royce 'C'                         | Industrials           | Power systems provider                            | 101                                 | 0.07                           |
| Northern Rock                           | Financials            | Banking and financial services group              | 0                                   | 0.00                           |
| <b>Total investments</b>                |                       |   | <b>155,241</b>                      | <b>109.75</b>                  |
| <b>Net current liabilities</b>          |                       |   | <b>(13,798)</b>                     | <b>(9.75)</b>                  |
| <b>Total equity shareholders' funds</b> |                       |   | <b>141,443</b>                      | <b>100.00</b>                  |

At 30 April 2008, the twenty largest investments represented 78.20% of Shareholders' Funds.

## Report of the Directors

The Directors submit their Report and Accounts of the Company for the year ended 30 April 2009.

### 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 842 of the United Kingdom Income and Corporation Taxes Act 1988 (as amended). The last accounting period for which the Company has been treated as approved by the Inland Revenue is the year ended 30 April 2008 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.

### Business Review

#### Investment Objective

The principal investment objective of the Company 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.

#### Investment Policy

The Company invests in a concentrated portfolio of stocks principally selected for their potential to provide attractive absolute returns for shareholders. The portfolio is invested primarily in UK equities, including convertible securities and equity-related derivatives. The yield on the Company's investment portfolio is of secondary importance.

The Directors expect that, with the objective of maximising returns to Shareholders, some form of gearing may be employed by the Company from time to time, but they do not anticipate gearing levels in excess of 20% of Shareholders' funds. The Company may also hold up to 20% of Shareholders' funds in cash or cash equivalents.

The Board has delegated management of the Company's portfolio to Schroder Investment Management Limited (the "Manager"). The Company now invests in a portfolio of stocks principally selected for their potential to provide attractive absolute returns for shareholders. The Company's portfolio is not constructed along index-relative lines (the market capitalisation of a stock for example has no bearing on whether it is held in the portfolio or in what size). Instead, a relatively concentrated portfolio of between 20 and 40 large and mid-cap stocks is selected on the basis of the Manager's investment conviction that they will provide attractive absolute returns. The size of individual stock holdings depends on the Manager's degree of conviction, not the stock's weight in any index. The underlying investment philosophy and process adopted in the research and selection of stocks has not changed. However, this investment approach places more emphasis on generating attractive absolute returns in a relatively short time horizon than a more traditional index-relative one.

The Board and the Manager believe that this more flexible investment approach provides greater scope for the Company to benefit from truly active stock-picking.

The investment approach is in line with the approach adopted by the Managers' open ended unit trust – The Schroder UK Alpha Plus Fund.

#### Spread of Investment Risk

Risk in relation to the Company's investments is spread as a result of the Manager monitoring the Company's portfolio on an on-going basis with a view to ensuring that the portfolio retains an appropriate balance to meet the Company's investment objective. The Investment Portfolio on page 8 demonstrates that, as at 30 April 2009, the Manager held 35 investments spread over several sectors. The Board therefore believes that the objective of spreading risk has been achieved in this way.

#### 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.

#### Dividend Policy

The Company's focus is on total return without constraining the Manager to deliver any given level of investment income. Prior to the change in investment policy in 2006, the Board aimed to provide shareholders with a stable stream of income rising over the long term. As stated in the Circular to shareholders dated 23 October 2006,

## Report of the Directors

income from investee companies may be somewhat more volatile in future. Whilst this could impact on the Company's ability to pay an increasing dividend stream, the Company will continue to pay interim dividends for each financial year on 31 January and 31 July.

### **Measuring Success – Key Performance Indicators**

The Board has adopted three key performance indicators (“KPIs”) which assist it in measuring the development and success of the Company's business. The KPIs focus on the following areas: the measurement of the success of the Company's investment objective, the management of the discount and the rate of expenses incurred by shareholders in the running of the Company.

### **Investment Performance**

The Board considers that monitoring the relative success of the Company's investment performance, measured against its established benchmark, is one of its most important roles. Performance against peer group companies is also reviewed.

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

For the year ended 30 April 2009, the Company produced a negative total return on net asset value of 35.1% compared to a negative total return of 26.8% for the benchmark. Charts showing the Company's five-year performance and sector distribution measured against the benchmark as at 30 April 2009 can be found on pages 2 and 3 of the Report and Accounts.

Each year the Board conducts an assessment of the Manager in the light of the performance achieved. Explanations of the factors behind the performance for the year under review are set out in statements from the Chairman and Investment Manager in the Report and Accounts. The Board remains supportive of the Manager and believes that it has the depth of resource in its management team to enable the Company to out-perform over the longer-term, backed by strong distribution capabilities and administration. The Board continues to work with the Manager to adopt strategies to improve performance.

### **Discount Management**

The shares of the Company often trade at a discount to net asset value and the management of this discount is a key factor for the Board. The Board has therefore adopted a second KPI, which measures the success of the Board's strategy to limit volatility in the discount.

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

Share buy-backs are a more direct way of managing the discount. The discount of the Company's share price to its underlying net asset value and the discounts of peer group companies, are monitored on a daily basis. The Board introduced a formal discount management policy to take effect once the change in investment policy had been approved by shareholders in November 2006, under which the Company will seek to maintain the discount to the net asset value at which shares are quoted on the London Stock Exchange at no greater than 5% over the long-term, subject to adverse market conditions. From time to time, it will be necessary for the Board to review target levels should general market conditions change.

An authority allowing the Company to re-issue shares held in treasury at or above the prevailing net asset value per share was also approved at the Annual General Meeting held in August 2008.

## Report of the Directors

During the year under review the share price discount averaged 3.7%. The Directors did not utilise the Company's share buy-back powers during the year under review as demand for the Company's shares remained strong. A total of 3,399,000 shares were cancelled from treasury during the year. At 30 April 2009, the Company's share price stood at a discount of 5.3% to net asset value, which compared with those of AIC UK Growth Sector companies ranging between a premium of 10.8% and a discount of 43.8%.

### Control of Total Expenses

One of the advantages of closed ended vehicles is their relatively low running costs compared with other investment vehicles. The Board has adopted a third KPI which assists the Board in keeping the total expense ratio ("TER") of the Company under review.

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

The TER for the Company for the year to 30 April 2009 (calculated in accordance with AIC guidance as total annualised net operating expenses, excluding back dated VAT recovery on management fees, after tax divided by average net assets during the year) was 0.63%. This is significantly below the average for investment trusts in general and for our peer group.

### Principal Risks and Uncertainties

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

#### Market Risk

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

#### Gearing

The Company utilises a credit facility, currently in the amount of £35 million, which increases the funds available for investment through borrowing ("gearing"). Therefore, in falling markets, any reduction in the net asset value and, by implication, the share price is amplified by the gearing. The Directors keep the Company's gearing under constant review and impose strict restrictions on borrowings to mitigate this risk. In the Circular to shareholders dated 23 October 2006, the Directors indicated that some form of gearing may be employed by the Company from time to time, but they do not anticipate gearing levels in excess of 20% of shareholders' funds. They also indicated that the Company may hold up to 20% of shareholders' funds in cash or cash equivalents. The Company's gearing continues to operate within pre-agreed limits so that actual gearing does not represent more than 20% of shareholders' funds.

#### Discount

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

#### Regulatory Risks

The regulatory environment in which the Company operates is increasingly complex and the Company faces a number of regulatory risks. A breach of section 842 of the Income and Corporation Taxes Act 1988 could result in the Company being subject to capital gains tax on the sale of portfolio investments. Breaches of other regulations such as the UK Listing Authority's Listing Rules could lead to a number of detrimental outcomes and damage the

## Report of the Directors

Company's reputation. Breaches of controls by service providers such as the Manager could also lead to reputational damage or loss.

### Resources

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

### Environmental Policy

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

### Revenue and Earnings

The net revenue return before finance costs and taxation for the year was £6,380,000 (2008: £7,491,000). After deducting interest charges and taxation the amount available for distribution to shareholders was £5,744,000 (2008: £6,681,000), equivalent to net revenue of 3.66p (2008: 4.26p) per ordinary share. Excluding recognition of a recovery of £800,000 in respect of VAT on management fees to be reclaimed, net revenue was equivalent to 4.11p per share for 2008.

### Dividends for the Year Ended 30 April 2009

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

Having already paid a first interim dividend of 1.65p per share, the Board has now declared a second interim dividend of 2.20p per share for the year ended 30 April 2009 which is payable on 31 July 2009 to shareholders on the Register on 17 July 2009. Thus, dividends for the full year amount to 3.85p per share (2008: 3.85p per share). As in previous years, the dividend is declared as an interim to enable payment at the end of July, ahead of the Company's Annual General Meeting in August.

### 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 30 April 2009 (2008: nil).

### Purchase of Own Shares and Issue of Shares from Treasury

The total number of shares in issue on 7 July 2009 was 156,876,900. At the General Meeting held on 5 August 2008, an authority for the Directors to purchase up to 14.99% of the issued share capital of the Company was renewed by shareholders. The Directors wish to renew the authority to purchase ordinary shares at the forthcoming Annual General Meeting. Accordingly, a resolution authorising the Directors to purchase up to 14.99% of the share capital in issue on 7 July 2009 will be proposed at the forthcoming Annual General Meeting for which notice is given on page 39.

The Directors believe that 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. Purchases will only be made if the Directors consider that any purchase would be for the benefit of the Company and its shareholders, taking into account relevant factors and circumstances at the time. This authority will lapse at the conclusion of the Company's Annual General Meeting in 2010 unless renewed earlier.

The authority for the Company to purchase its own shares will allow the Company to hold up to 5% of the shares so purchased in treasury for potential reissue as an alternative to the immediate cancellation of those shares.

The Company did not purchase any shares for treasury or cancellation during the year ended 30 April 2009.

The Board has determined that any shares may only be held in treasury for up to 12 months, after which time they will be cancelled.

## Report of the Directors

### Issues of Shares and Disapplication of Pre-emption Rights

At the 2008 Annual General Meeting the Directors were given powers to allot new ordinary shares or shares held in treasury for cash other than pro rata to existing shareholders. The Directors wish to renew these powers at the forthcoming Annual General Meeting. Accordingly, resolutions 9 and 10 as set out in the Notice of Meeting on page 39 will be proposed as an ordinary and a special resolution respectively which, if passed, will give the Directors power to allot ordinary shares for cash on a non pre-emptive basis up to an aggregate nominal amount of £1,960,961 (equivalent to 7,843,845 ordinary shares of 25p and 5% of the Company's existing issued ordinary share capital at 7 July 2009), as if Section 89(1) of the Companies Act 1985 did not apply. These authorities will lapse unless renewed at the Company's Annual General Meeting in 2010.

The Directors intend to use the authority 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.

### Directors and their Interests

The Directors of the Company and their biographical details can be found on the inside front cover. Except as noted below, all Directors held office throughout the year under review.

In accordance with the Company's Articles of Association, Mr Hutton is seeking election having been appointed during the year, Mr Clifton will retire by rotation and, being eligible, offers himself for re-election. In addition, in accordance with the Company's policy on tenure as outlined in the Corporate Governance Statement, Mr Niven, having served as a non-executive Director for more than 9 years, will retire at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

The Board, having reviewed its performance, considers that Mr Clifton and Mr Niven continue to demonstrate commitment to their roles and provide valuable contributions to the deliberations of the Board. It therefore recommends that shareholders vote in favour of their re-elections. The Board also recommends that shareholders vote in favour of the election of Mr Hutton.

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 30 April 2009, all of which were beneficial, were as follows:

| <b>Director</b> | <b>Ordinary shares<br/>of 25p each<br/>30 April 2009</b> | <b>Ordinary shares<br/>of 25p each<br/>1 May 2008</b> |
|-----------------|--|---|
| Alan Clifton    | <b>35,000</b>  | 35,000  |
| Andrew Hutton*  | <b>26,333</b>  | N/A   |
| Keith Niven     | <b>38,311</b>  | 27,959  |
| Ian Philips**   | <b>15,955</b>  | 15,955  |
| Stella Pirie    | <b>22,190</b>  | 15,573  |
| David Ritchie   | <b>40,000</b>  | 20,000  |

\* Appointed as a Director of the Company on 3 September 2008.

\*\* Retired as a Director of the Company on 5 August 2008 and the balance was correct as at that date.

There have been no changes in the above holdings between the end of the financial year and 7 July 2009.

As at the date of this Report, the Company had 156,876,900 ordinary shares of 25p each in issue (no shares were held in treasury). Accordingly, the total number of voting rights of the Company as at the date of this report is 156,876,900.

## Report of the Directors

### Substantial Share Interests

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

|  | Number of<br>Ordinary shares | Percentage of<br>total voting rights |
|--|------------------------------|--------------------------------------|
| Quilter & Co. Limited                            | 9,874,724                    | 6.29                                 |
| Rensburg Sheppards Investment Management Limited | 9,417,331                    | 6.00                                 |
| Legal & General Group Plc                        | 6,272,040                    | 3.99                                 |
| Barclays plc                                     | 6,018,095                    | 3.84                                 |
| East Riding of Yorkshire Council                 | 5,000,000                    | 3.19                                 |

### Investment Manager

During the year under review the Board considered the services provided by the Investment Manager, Schroder Investment Management Limited. Explanations of the factors behind the performance for the year under review are set out in the Statement from the Chairman and the Investment Manager's Review. The Board continues to consider that the Manager has the appropriate depth of resource to achieve above-average returns in the longer-term. The Board therefore considers that the Manager's continued appointment under the terms of the current Investment Management Agreement, further details of which are set out below, remains in the interests of shareholders as a whole.

The Investment Manager provides investment management and company secretarial services to the Company in accordance with an Investment Management Agreement. Fees (excluding performance fees) payable to the Investment Manager under the Agreement are based on 0.4% of the Company's net assets. Net assets are defined as total assets less all current liabilities other than short term borrowings. The value of cash up to the level of short term borrowing is deducted from this calculation of net assets. The Manager is also entitled to receive an annual performance fee, capped at £500,000, provided that the total return generated by the Company's net asset value out-performs the FTSE All-Share Index by at least 0.50% per annum. The performance fee equating to 10% of the amount of the out-performance will be calculated annually but averaged and accumulated over a rolling three-year period. The amount of management fees payable in respect of the year ended 30 April 2009 is shown in note 4 to the accounts. No performance fee is payable in respect of the year ended 30 April 2009.

Under the Investment Management Agreement, Schroder Investment Management Limited is entitled to a secretarial fee amounting to £71,000 (inclusive of VAT) for the year ended 30 April 2009. This fee increases/decreases each year in line with the Retail Price Index.

### Independent Auditors

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

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

### Provision of Information to Auditors

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

### Statement of Directors' Responsibilities

The Directors are responsible for preparing accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period, and are in accordance with applicable United Kingdom law and Generally Accepted Accounting Principles (UK GAAP).

The Directors are of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the accounts as the assets of the Company consist predominantly of securities that are readily



## Report of the Directors

realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future. Further, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of these accounts and applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error, other irregularities and non-compliance with laws and regulations.

The Directors, who are listed on the inside front cover of this report, each confirm to the best of their knowledge that

- the accounts are prepared in accordance with applicable UK accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Report of the Directors includes a fair view 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 they face.

By Order of the Board  
Schroder Investment Management Limited  
Company Secretary

7 July 2009

## Remuneration Report

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

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £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 level of fees payable to non-executive Directors in the industry generally, the role that individual Directors carry out in respect of Board and Committee responsibilities, and the time committed to the Company's affairs. During the year ended 30 April 2009, Directors received fees of £16,500 per annum and the Chairman received fees of £25,000 per annum to reflect his more onerous role. The Chairman of the Audit Committee received an additional £2,000 per annum. The current fee levels were adopted with effect from 1 November 2006 and are reviewed annually by the Board.

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

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

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

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

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

### Performance Graph

A graph showing the Company's net asset value and share price total return compared with its benchmark, the FTSE All-Share Index, over the last 5 years is shown on page 3.

### Remuneration

| <b>Director</b>   | <b>For the year ended<br/>30 April 2009<br/>fees for services<br/>to the Company<br/>£</b> | <b>For the year ended<br/>30 April 2008<br/>fees for services<br/>to the Company<br/>£</b> |
|---|--|--|
| Alan Clifton (Chairman and highest paid Director)           | <b>25,000</b>  | 25,000   |
| Andrew Hutton (appointed as a Director on 3 September 2008) | <b>10,891</b>  | –  |
| Keith Niven   | <b>16,500</b>  | 16,500   |
| Ian Phillips (retired as a Director on 5 August 2008)       | <b>4,350</b>   | 16,500   |
| Stella Pirie  | <b>16,500</b>  | 16,500   |
| David Ritchie   | <b>18,500</b>  | 18,500   |
|   | <b>91,741</b>  | 93,000   |

The information in the above table has been audited (see the Independent Auditors' Report on page 21).

By order of the Board  
Schroder Investment Management Limited  
Company Secretary  
7 July 2009

## Corporate Governance

The Board is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be appropriate for an investment trust in order to comply with the main principles of the 2006 Combined Code (the "Code"). The Code is published by the FSA and is available to download from [www.fsa.gov.uk](http://www.fsa.gov.uk). The Board has noted the publication of a revised Combined Code in 2008 (the "revised Code") and does not consider that it will need to alter its governance policies to accommodate the revised Code's provisions.

### Compliance Statement

The UK Listing Authority requires all UK listed companies to disclose how they have complied with the provisions of the Code. This Corporate Governance Statement, together with the Statement of Directors' Responsibilities set out on pages 14 and 15, indicates how the Company has complied with the principles of good governance of the Code and its requirements on Internal Control.

The Board considers that the Company has, throughout the year under review, complied with the best practice provisions in Section 1 of the Code, save in respect of the appointment of a Senior Independent Director, where departure from the Code is considered appropriate given the Company's position as an investment trust. The Board has considered whether a Senior Independent Director should be appointed. As the Board comprises entirely non-executive Directors, the appointment of a Senior Independent Director is not considered necessary. However, the Chairman of the Audit Committee leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns which cannot be resolved through discussion with the Chairman.

### Application of Code Principles

#### Role of the Chairman

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

#### Role of the Board

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

### Board Committees

The Board has delegated certain responsibilities and functions to Committees. Terms of Reference for each of these Committees are available on the Company's website at [www.schroderukgrowthfund.com](http://www.schroderukgrowthfund.com). Details of membership of the Committees at 30 April 2009 may 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 19.

#### 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 30 April 2009 and considered the annual financial statements and half-yearly financial statements, the external Auditors' year-end reports and management letters, the effectiveness of the audit process, the independence and objectivity of the external Auditor and internal controls operating within the management company and custodian.

#### Management Engagement Committee

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

## Corporate Governance

To discharge its duties, the Committee met on one occasion during the year ended 30 April 2009 and considered the performance and suitability of the Investment Manager, the terms and conditions of the management contract and the fees paid to Directors.

### Nomination Committee

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

To discharge its duties, the Committee met on one occasion during the year ended 30 April 2009 and considered the selection of suitable candidates for a new Director and arrangements for candidates to be interviewed.

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

### Composition and Independence

The Board currently consists of five non-executive Directors. The biographies of each of these Directors, including their age and length of service, are set out on the inside front cover of this Report. The Board considers each of the Chairman, Mr Hutton, Ms Pirie and Mr Ritchie to be independent. Mr Niven is not deemed independent because he is a Director of Schroder Income Growth Fund plc, 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 Board is satisfied that it is of sufficient size with an appropriate balance of skills and experience, and that no individual or group of individuals is, or has been, in a position to dominate decision making.

### Tenure

The Directors have adopted a policy on tenure that is considered appropriate for an investment trust. 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 Combined Code, any Director who has served for more than nine years will thereafter be subject to annual re-election by shareholders.

### Induction and Training

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

### Board Evaluation

The Board has adopted a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. The evaluation takes place in two stages, 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. The Board has developed criteria for use at the evaluation, which focuses on the individual contribution to the Board and its Committees made by each Director and the responsibilities, composition and agenda of the Committees and of the Board itself.

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

## Corporate Governance

### Meetings and Attendance

The Board meets at least five times each year and, in addition, meets specifically to discuss strategy once 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 five scheduled Board meetings and at Committee meetings held during the year under review is set out in the table below.

### Directors' Attendance at Meetings

| Director       | Board | Audit Committee | Nomination Committee | Management Engagement Committee |
|----------------|-------|-----------------|----------------------|---------------------------------|
| Alan Clifton   | 5/5   | 2/2             | 1/1                  | 1/1                             |
| Andrew Hutton* | 3/3   | 1/1             | N/A                  | 1/1                             |
| Keith Niven    | 5/5   | N/A             | 1/1                  | N/A                             |
| Ian Phillips** | 2/2   | 1/1             | N/A                  | N/A                             |
| Stella Pirie   | 5/5   | 2/2             | 1/1                  | 1/1                             |
| David Ritchie  | 5/5   | 2/2             | 1/1                  | 1/1                             |

\* Appointed as a Director of the Company on 3 September 2008.

\*\* Retired as a Director of the Company on 5 August 2008.

### 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

In light of changes to the law resulting from the implementation of the Companies Act 2006, 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 necessary.

### Relations with Shareholders

The Board believes that the maintenance of good relations with both institutional and retail shareholders is important for the long-term prospects of the Company. It has, since its launch, sought engagement with investors. The Chairman, and other Directors where appropriate, discuss governance and strategy with major shareholders and the Chairman ensures communication of shareholders' views to the Board. The Board receives feedback on the views of shareholders from its corporate broker and the Investment Manager.

The Board believes that the Annual General Meeting provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Annual Report and Accounts is, when possible, made available 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

## Corporate Governance

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 39 sets out the business of the meeting.

### **Environmental Policy**

The Company's primary investment objective is to achieve optimal financial returns for shareholders, within established risk parameters and regulatory constraints. Providing that this objective is not compromised in the process the Board does however, believe that it is also possible to develop a framework that, in the interests of 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 when selecting or retaining investments.

### **Exercise of Voting Powers**

The Company has delegated responsibility for voting to Schroders who votes in accordance with its corporate governance policy. A copy of this policy is available on the Company's website.

### **Internal Control**

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

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

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

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

## Independent Auditors' Report

### To the shareholders of Schroder UK Growth Fund plc

We have audited the accounts of Schroder UK Growth Fund plc for the year ended 30 April 2009 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement, and the related notes to the accounts. 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).

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 14 and 15, 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 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 Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### 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.

### Opinion on accounts

In our opinion the accounts:

- give a true and fair view of the state of the company's affairs as at 30 April 2009 and of its loss and cash flows 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 Directors' Report 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:

Under the Companies Act 2006 we are required 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 Directors' 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on pages 14 and 15, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the 2006 Combined Code specified for our review.

Jeremy Jensen (Senior Statutory Auditor) for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors, London

7 July 2009

#### Notes:

- (a) The maintenance and integrity of the Schroder UK Growth Fund plc website (schroderukgrowthfund.com) is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the accounts since they were initially presented on the website.

## Income Statement

|  | Note | For the year ended<br>30 April 2009 |                  |                 | For the year ended<br>30 April 2008 |                  |                |
|--|------|-------------------------------------|------------------|-----------------|-------------------------------------|------------------|----------------|
|  |      | Revenue<br>£'000                    | Capital<br>£'000 | Total<br>£'000  | Revenue<br>£'000                    | Capital<br>£'000 | Total<br>£'000 |
| Losses on investments held at fair value               | 2    | -                                   | (81,592)         | (81,592)        | -                                   | (17,409)         | (17,409)       |
| Income   | 3    | 6,901                               | -                | 6,901           | 7,957                               | -                | 7,957          |
| Investment management fee                              | 4    | (196)                               | (458)            | (654)           | (336)                               | (783)            | (1,119)        |
| VAT recoverable  | 4    | -                                   | -                | -               | 240                                 | 560              | 800            |
| Administrative expenses                                | 5    | (325)                               | -                | (325)           | (370)                               | -                | (370)          |
| <b>Net loss before finance costs and taxation</b>      |      | <b>6,380</b>                        | <b>(82,050)</b>  | <b>(75,670)</b> | 7,491                               | (17,632)         | (10,141)       |
| Interest payable and similar charges                   | 6    | (631)                               | (1,471)          | (2,102)         | (803)                               | (1,811)          | (2,614)        |
| <b>Net loss on ordinary activities before taxation</b> |      | <b>5,749</b>                        | <b>(83,521)</b>  | <b>(77,772)</b> | 6,688                               | (19,443)         | (12,755)       |
| Taxation on ordinary activities                        | 7    | (5)                                 | -                | (5)             | (7)                                 | -                | (7)            |
| <b>Net loss attributable to equity shareholders</b>    |      | <b>5,744</b>                        | <b>(83,521)</b>  | <b>(77,777)</b> | 6,681                               | (19,443)         | (12,762)       |
| <b>Net loss per ordinary share</b>                     | 9    | <b>3.66p</b>                        | <b>(53.24)p</b>  | <b>(49.58)p</b> | 4.26p                               | (12.40)p         | (8.14)p        |

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 26 to 38 form an integral part of these accounts.



## Reconciliation of Movements in Shareholders' Funds

## For the year ended 30 April 2009

|   | Note | Called-up<br>share<br>capital<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Share<br>premium<br>account<br>£'000 | Share<br>purchase<br>reserve<br>£'000 | Warrant<br>exercise<br>reserve<br>£'000 | Capital<br>reserves<br>£'000 | Revenue<br>reserve*<br>£'000 | Total<br>£'000 |
|---|------|--|---|--------------------------------------|---------------------------------------|---|------------------------------|------------------------------|----------------|
| At 30 April 2007                        |      | 40,794                                 | 16,475                                    | 944                                  | 86,030                                | 417                                     | 94,396                       | 5,440                        | 244,496        |
| Net loss on ordinary<br>activities      |      | -                                      | -   | -                                    | -                                     | -                                       | (19,443)                     | 6,681                        | (12,762)       |
| Ordinary Dividends paid                 | 8    | -                                      | -   | -                                    | -                                     | -                                       | -                            | (5,719)                      | (5,719)        |
| Cancellation of shares from<br>Treasury |      | (725)                                  | 725                                       | -                                    | -                                     | -                                       | -                            | -                            | -              |
| Purchase of shares<br>into Treasury     |      | -                                      | -   | -                                    | (1,280)                               | -                                       | -                            | -                            | (1,280)        |
| Re-issue of shares from<br>Treasury     |      | -                                      | -   | 41                                   | 484                                   | -                                       | -                            | -                            | 525            |
| At 30 April 2008                        |      | 40,069                                 | 17,200                                    | 985                                  | 85,234                                | 417                                     | 74,953                       | 6,402                        | 225,260        |
| At 30 April 2008                        |      | 40,069                                 | 17,200                                    | 985                                  | 85,234                                | 417                                     | 74,953                       | 6,402                        | 225,260        |
| Net loss on ordinary<br>activities      |      | -                                      | -   | -                                    | -                                     | -                                       | (83,521)                     | 5,744                        | (77,777)       |
| Ordinary Dividends paid                 | 8    | -                                      | -   | -                                    | -                                     | -                                       | -                            | (6,040)                      | (6,040)        |
| Cancellation of shares from<br>Treasury |      | (850)                                  | 850                                       | -                                    | -                                     | -                                       | -                            | -                            | -              |
| <b>At 30 April 2009</b>                 |      | <b>39,219</b>                          | <b>18,050</b>                             | <b>985</b>                           | <b>85,234</b>                         | <b>417</b>                              | <b>(8,568)</b>               | <b>6,106</b>                 | <b>141,443</b> |

\* The revenue reserve represents the amount of the Company's reserves available for distribution by way of dividend.

The notes on pages 26 to 38 form an integral part of these accounts.

## Balance Sheet

As at 30 April 2009

|   | Note | At<br>30 April 2009<br>£'000 | At<br>30 April 2008<br>£'000 |
|---|------|------------------------------|------------------------------|
| <b>Fixed assets</b>                                   |      |                              |                              |
| Investments held at fair value through profit or loss | 10   | 155,241                      | 254,069                      |
|   |      | <b>155,241</b>               | 254,069                      |
| <b>Current assets</b>                                 |      |                              |                              |
| Debtors   | 11   | 3,099                        | 8,894                        |
| Cash at bank and short-term deposits                  |      | 18,454                       | 10,416                       |
|   |      | <b>21,553</b>                | 19,310                       |
| <b>Current liabilities</b>                            |      |                              |                              |
| Creditors – amounts falling due within one year       | 12   | (35,351)                     | (48,119)                     |
| <b>Net current liabilities</b>                        |      | <b>(13,798)</b>              | (28,809)                     |
| <b>Net assets</b>                                     |      | <b>141,443</b>               | 225,260                      |
| <b>Capital and reserves</b>                           |      |                              |                              |
| Called-up share capital                               | 14   | 39,219                       | 40,069                       |
| Capital redemption reserve                            | 15   | 18,050                       | 17,200                       |
| Share premium account                                 | 16   | 985                          | 985                          |
| Share purchase reserve                                | 17   | 85,234                       | 85,234                       |
| Warrant exercise reserve                              | 18   | 417                          | 417                          |
| Capital reserves                                      | 19   | (8,568)                      | 74,953                       |
| Revenue reserve                                       | 20   | 6,106                        | 6,402                        |
| <b>Equity shareholders' funds</b>                     |      | <b>141,443</b>               | 225,260                      |
| <b>Net asset value per ordinary share</b>             | 21   | <b>90.16p</b>                | 143.59p                      |

These accounts were approved and authorised for issue by the Board of Directors on 7 July 2009 and signed on its behalf by:

**Alan Clifton**

Chairman

The notes on pages 26 to 38 form an integral part of these accounts.

# Cash Flow Statement

For the year ended 30 April 2009

|  | Note      | For the<br>year ended<br>30 April 2009<br>£'000 | For the<br>year ended<br>30 April 2008<br>£'000 |
|--|-----------|---|---|
| <b>Operating activities</b>                                    |           |   |   |
| Dividends received from investments                            |           | 7,491   | 7,118   |
| Interest received on deposits and other income                 |           | 668   | 169   |
| Investment management fee paid                                 |           | (752)   | (1,185)   |
| Administrative expenses paid                                   |           | (388)   | (332)   |
| <b>Net cash inflow from operating activities</b>               | <b>22</b> | <b>7,019</b>                                    | 5,770   |
| <b>Servicing of finance</b>                                    |           |   |   |
| Bank overdraft interest paid                                   |           | -   | (27)  |
| Bank loan interest paid  |           | (2,183)   | (2,549)   |
| <b>Net cash outflow from servicing of finance</b>              |           | <b>(2,183)</b>                                  | (2,576)   |
| <b>Taxation</b>  |           |   |   |
| Overseas tax paid  |           | (13)  | (7)   |
| Recoverable tax paid   |           | (23)  | (27)  |
| <b>Total tax paid</b>  |           | <b>(36)</b>                                     | (34)  |
| <b>Investment activities</b>                                   |           |   |   |
| Acquisition of investments                                     |           | (69,069)  | (132,590)                                       |
| Disposal of investments  |           | 85,847  | 138,012   |
| <b>Net cash inflow from investment activities</b>              |           | <b>16,778</b>                                   | 5,422   |
| <b>Equity dividends paid</b>                                   |           |   |   |
| Ordinary shares  |           | (6,040)   | (5,719)   |
| <b>Net cash inflow before financing</b>                        |           | <b>15,538</b>                                   | 2,863   |
| <b>Financing</b>   |           |   |   |
| Purchase of shares into Treasury                               |           | -   | (1,326)   |
| Re-issue of shares from Treasury                               |           | -   | 525   |
| Bank loan (repaid)/drawn down                                  |           | (7,500)   | 7,500   |
| <b>Net cash (outflow)/inflow from financing</b>                |           | <b>(7,500)</b>                                  | 6,699   |
| <b>Net cash inflow</b>   |           | <b>8,038</b>                                    | 9,562   |
| <b>Reconciliation of Net Cash Flow to Movement in Net Debt</b> |           |   |   |
| Net cash inflow  |           | 8,038   | 9,562   |
| Movement in borrowings   |           | 7,500   | (7,500)   |
| Movement in net debt resulting from cash flows                 |           | 15,538  | 2,062   |
| Net debt at 1 May  |           | (32,084)  | (34,146)  |
| Net debt at 30 April   | <b>23</b> | <b>(16,546)</b>                                 | (32,084)  |

The notes on pages 26 to 38 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 30 April 2009 are unchanged from 2008 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)(adopted early), has not resulted in the restatement of prior year figures.

#### **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 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 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 and finance costs on borrowings for investment purposes are apportioned 30% to revenue and 70% to capital. Performance fees are charged entirely to capital as they are primarily attributable to the capital performance of the Company's Investments.

All other expenses are charged through the revenue return 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.

#### **e 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.

Unquoted, illiquid and suspended investments are valued by the Directors at their best assessment of fair value.

#### **f 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. 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 the capital return.

#### **g 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 842 of the Income and Corporation Taxes Act 1988 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.

#### **h Dividends payable**

Under FRS21 final dividends should not be accrued in the financial statements unless they have been approved by shareholders before the Balance Sheet date. Interim dividends should not be accrued in financial statements unless 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.

#### **i Capital reserves**

The following are accounted for in this reserve:

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

#### **j Capital redemption reserve**

The nominal value of ordinary share capital repurchased for cancellation is transferred out of share capital and into the capital redemption reserve.

## Notes to the Accounts

### 2. Losses on investments held at fair value

|  | <b>For the<br/>year ended<br/>30 April<br/>2009<br/>£'000</b> | For the<br>year ended<br>30 April<br>2008<br>£'000 |
|--|---|--|
| Net (loss)/profit on disposal of investments         | <b>(26,310)</b>   | 23,181   |
| Unrealised investment holding losses during the year | <b>(55,282)</b>   | (40,590)   |
|  | <b>(81,592)</b>   | (17,409)   |

### 3. Income

|                              | <b>For the<br/>year ended<br/>30 April<br/>2009<br/>£'000</b> | For the<br>year ended<br>30 April<br>2008<br>£'000 |
|------------------------------|---|--|
| Income from investments:     |   |  |
| UK franked dividend income   | <b>5,482</b>  | 7,571  |
| UK unfranked dividend income | <b>394</b>  | 206  |
| Stock dividends              | <b>367</b>  | –  |
|                              | <b>6,243</b>  | 7,777  |
| Interest on deposits         | <b>642</b>  | 178  |
| Underwriting commission      | <b>16</b>   | 2  |
|                              | <b>6,901</b>  | 7,957  |

### 4. Investment management fee

|                                      | <b>For the<br/>year ended<br/>30 April<br/>2009<br/>£'000</b> | For the<br>year ended<br>30 April<br>2008<br>£'000 |
|--------------------------------------|---|--|
| Management fee                       |   |  |
| – charged to revenue                 | <b>196</b>  | 321  |
| – irrecoverable VAT                  | <b>–</b>  | 15   |
| – charged to capital                 | <b>458</b>  | 749  |
| – irrecoverable VAT                  | <b>–</b>  | 34   |
|                                      | <b>654</b>  | 1,119  |
| Back dated VAT recoverable (note 25) |   |  |
| – Revenue                            | <b>–</b>  | (240)  |
| – Capital                            | <b>–</b>  | (560)  |
| <b>Total</b>                         | <b>654</b>  | 319  |

Following a decision made by HM Revenue and Customs (HMRC) in November 2007, management fees invoiced after this date have not incurred a VAT charge.

The bases for calculating the investment management fee and the performance fee are set out in the Report of the Directors on page 14.

No performance fee is payable in respect of the 3 year performance period ended 30 April 2009 and no fee is accrued in respect of the performance periods ending 30 April 2010 and 30 April 2011.

## Notes to the Accounts

## 5. Administrative expenses

|   | <b>For the<br/>year ended<br/>30 April<br/>2009<br/>£'000</b> | For the<br>year ended<br>30 April<br>2008<br>£'000 |
|---|---|--|
| Allocated to revenue:   |   |  |
| General expenses  | 141   | 185  |
| Directors' fees   | 92  | 93   |
| Secretarial fee   | 71  | 72   |
| Auditors' remuneration:   |   |  |
| Fees payable to the auditors for the audit of the Company's annual accounts | 21  | 20   |
|   | <b>325</b>  | 370  |

## 6. Interest payable

|                                 | <b>For the<br/>year ended<br/>30 April<br/>2009<br/>£'000</b> | For the<br>year ended<br>30 April<br>2008<br>£'000 |
|---------------------------------|---|--|
| Bank overdraft interest payable | –   | 27   |
| Bank loan interest payable      | 2,102   | 2,587  |
|                                 | <b>2,102</b>  | 2,614  |
| – charged to revenue            | 631   | 803  |
| – charged to capital            | 1,471   | 1,811  |
|                                 | <b>2,102</b>  | 2,614  |

## 7. Taxation

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

|                                     | <b>For the<br/>year ended<br/>30 April<br/>2009<br/>£'000</b> | For the<br>year ended<br>30 April<br>2008<br>£'000 |
|-------------------------------------|---|--|
| Irrecoverable overseas tax          | 5   | 7  |
| Total current taxation (note 7 (b)) | 5   | 7  |

The Company has no corporation tax liability in the year to 30 April 2009 (2008: £nil).

## Notes to the Accounts

### (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 842 of the Income and Corporation Taxes Act 1988.

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 28% (2008: 30% and 28%).

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

The differences are explained below:

|  | For the year ended 30 April 2009 |                  |                | For the year ended 30 April 2008 |                  |                |
|--|----------------------------------|------------------|----------------|----------------------------------|------------------|----------------|
|  | Revenue<br>£'000                 | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000                 | Capital<br>£'000 | Total<br>£'000 |
| Loss on ordinary activities before tax                         | 5,749                            | (83,521)         | (77,772)       | 6,688                            | (19,443)         | (12,755)       |
| Loss on ordinary activities multiplied<br>by standard rate of: |                                  |                  |                |                                  |                  |                |
| corporation tax in the UK of 30% (2008: 30%)                   | -                                | -                | -              | 1,839                            | (5,347)          | (3,508)        |
| corporation tax in the UK of 28%* (2008: 28%)                  | 1,610                            | (23,386)         | (21,776)       | 156                              | (454)            | (298)          |
| Effects of:  |                                  |                  |                |                                  |                  |                |
| Capital returns on investments                                 | -                                | 22,846           | 22,846         | -                                | 5,194            | 5,194          |
| Income not chargeable to corporation tax                       | (1,643)                          | -                | (1,643)        | (2,259)                          | -                | (2,259)        |
| Expenses not deductible for tax purposes                       | -                                | -                | -              | 2                                | -                | 2              |
| Expenses not utilised in the year                              | 35                               | 540              | 575            | 262                              | 607              | 869            |
| Overseas tax   | 5                                | -                | 5              | 7                                | -                | 7              |
| Tax relief on overseas tax suffered                            | (2)                              | -                | (2)            | -                                | -                | -              |
| <b>Current tax charge for the year</b>                         | <b>5</b>                         | <b>-</b>         | <b>5</b>       | <b>7</b>                         | <b>-</b>         | <b>7</b>       |

\*Under the Finance Act 2008, the rate of corporation tax was lowered to 28% from 1 April 2008.

### (c) Provision for deferred tax

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

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

The Company has deferred tax assets in respect of unutilised management expenses of £5,992,000 (2008: £5,826,000), non-trading deficits £1,796,000 (2008: £1,386,000) which have not been recognised in the accounts as it is not certain that the Company will have sufficient profits in the future to utilise these amounts.

## 8. Dividends

|  | For the<br>year ended<br>30 April<br>2009<br>£'000 | For the<br>year ended<br>30 April<br>2008<br>£'000 |
|--|--|--|
| Amounts recognised as distributions in the period:           |  |  |
| Second interim dividend of prior year of 2.20p (2008: 2.00p) | 3,452  | 3,131  |
| First interim dividend of 1.65p (2008: 1.65p)                | 2,588  | 2,588  |
| Total dividends of 3.85p (2008: 3.65p) per ordinary share    | 6,040  | 5,719  |

The first interim dividend of 1.65 pence per share (2008: 1.65 pence per share) is based on 156,876,900 (2008: 156,876,900) ordinary shares in issue.

## Notes to the Accounts

The second interim dividend of the prior year of 2.20 pence per share (2008: 2.00 pence per share) is based on 156,876,900 (2008: 156,526,900) ordinary shares in issue.

The total dividend payable in respect of the financial year, which is the basis of the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered, is set out below:

|   | <b>For the<br/>year ended<br/>30 April<br/>2009<br/>£'000</b> | For the<br>year ended<br>30 April<br>2008<br>£'000 |
|---|---|--|
| First interim dividend of 1.65p (2008: 1.65p)             | <b>2,588</b>  | 2,588  |
| Second interim dividend of 2.20p (2008: 2.20p)            | <b>3,452</b>  | 3,452  |
| Total dividends of 3.85p (2008: 3.85p) per ordinary share | <b>6,040</b>  | 6,040  |

The proposed second interim dividend of 2.20 pence per share (2008: 2.20 pence per share) is based on 156,876,900 (2008 : 156,876,900) ordinary shares in issue.

### 9. Loss per ordinary share

|                                   | <b>For the<br/>year ended<br/>30 April<br/>2009</b> | For the<br>year ended<br>30 April<br>2008 |
|-----------------------------------|---|---|
| Revenue (£'000)                   | <b>5,744</b>  | 6,681                                     |
| Capital (£'000)                   | <b>(83,521)</b>                                     | (19,443)                                  |
| Total (£'000)                     | <b>(77,777)</b>                                     | (12,762)                                  |
| Weighted average number of shares | <b>156,876,900</b>                                  | 156,789,605                               |
| Revenue                           | <b>3.66p</b>  | 4.26p                                     |
| Capital                           | <b>(53.24)p</b>                                     | (12.40)p                                  |
| Total                             | <b>(49.58)p</b>                                     | (8.14)p                                   |

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

|  | <b>For the<br/>year ended<br/>30 April<br/>2009<br/>£'000</b> | For the<br>year ended<br>30 April<br>2008<br>£'000 |
|--|---|--|
| Movements of investments held as fixed assets:         |   |  |
| Book cost brought forward                              | <b>253,228</b>  | 239,892  |
| Acquisitions at cost                                   | <b>64,410</b>   | 133,885  |
| Proceeds of disposals                                  | <b>(81,646)</b>   | (143,730)  |
| Net (losses)/gains realised on disposal of investments | <b>(26,310)</b>   | 23,181   |
| Closing book cost                                      | <b>209,682</b>  | 253,228  |
| Unrealised investments holding (losses)/gains          | <b>(54,441)</b>   | 841  |
| Closing valuation of investments                       | <b>155,241</b>  | 254,069  |

All investments are listed on a recognised stock exchange.



## Notes to the Accounts

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

|                 | <b>For the<br/>year ended<br/>30 April<br/>2009<br/>£'000</b> | For the<br>year ended<br>30 April<br>2008<br>£'000 |
|-----------------|---|--|
| On acquisitions | 277   | 852  |
| On disposals    | 92  | 172  |
|                 | <b>369</b>  | 1,024  |

### 11. Debtors

|                                     | <b>At 30 April<br/>2009<br/>£'000</b> | At 30 April<br>2008<br>£'000 |
|-------------------------------------|---------------------------------------|------------------------------|
| Amounts receivable within one year: |                                       |                              |
| Sales for future settlement         | 1,517                                 | 5,718                        |
| Accrued income                      | 680                                   | 2,327                        |
| VAT recoverable                     | 800                                   | 800                          |
| Tax recoverable                     | 82                                    | 27                           |
| Prepaid expenses                    | 20                                    | 22                           |
|                                     | <b>3,099</b>                          | 8,894                        |

### 12. Creditors

|                                      | <b>At 30 April<br/>2009<br/>£'000</b> | At 30 April<br>2008<br>£'000 |
|--------------------------------------|---------------------------------------|------------------------------|
| Amounts falling due within one year: |                                       |                              |
| Credit facility                      | 35,000                                | 42,500                       |
| Purchases for future settlement      | 62                                    | 5,088                        |
| Accrued expenses                     | 289                                   | 531                          |
|                                      | <b>35,351</b>                         | 48,119                       |

The Company has a £35 million (2008: £45 million) revolving credit facility with ING Bank N.V., of which £35 million (2008: £42.5 million) was drawn down at 30 April 2009. The facility is unsecured and is not subject to any early termination charges.

### 13. Contingent Liabilities

The Company had no contingent liabilities at the balance sheet date (2008: £nil).

## Notes to the Accounts

## 14. Called-up share capital

|  | At 30 April<br>2009<br>£'000 | At 30 April<br>2008<br>£'000 |
|--|------------------------------|------------------------------|
| Authorised:  |                              |                              |
| 1,272,500,000 (2008:1,272,500,000) ordinary shares of 25p each                 | <b>318,125</b>               | 318,125                      |
| Allotted, Called up and Fully paid:  |                              |                              |
| Shares in issue:   |                              |                              |
| Opening balance of 156,876,900 (2008: 157,376,900) ordinary shares of 25p each | <b>39,219</b>                | 39,344                       |
| Repurchase of nil (2008: 850,000) shares into treasury                         | -                            | (213)                        |
| Re-Issue of nil (2008: 350,000) shares from treasury                           | -                            | 88                           |
|  | <b>39,219</b>                | 39,219                       |
| Shares held in treasury:   |                              |                              |
| Opening balance of 3,399,000 (2008: 5,799,000) shares held in treasury         | <b>850</b>                   | 1,450                        |
| Repurchase of nil (2008: 850,000) shares into treasury                         | -                            | 213                          |
| Re-Issue of nil (2008: 350,000) shares from treasury                           | -                            | (88)                         |
| Cancellation of 3,399,000 (2008:2,900,000) shares from treasury                | <b>(850)</b>                 | (725)                        |
|  | -                            | 850                          |
| Closing balance*   | <b>39,219</b>                | 40,069                       |

\*Represented by 156,876,900 (2008: 160,275,900) Ordinary shares of 25p each, including nil (2008: 3,399,000) shares held in treasury.

## 15. Capital redemption reserve

|                                       | At 30 April<br>2009<br>£'000 | At 30 April<br>2008<br>£'000 |
|---------------------------------------|------------------------------|------------------------------|
| Balance brought forward               | <b>17,200</b>                | 16,475                       |
| Transfer from share capital (note 14) | <b>850</b>                   | 725                          |
| Balance carried forward               | <b>18,050</b>                | 17,200                       |

## 16. Share premium account

|  | At 30 April<br>2009<br>£'000 | At 30 April<br>2008<br>£'000 |
|--|------------------------------|------------------------------|
| Balance brought forward  | <b>985</b>                   | 944                          |
| Arising on the re-issue of nil (2008:350,000) shares from treasury | -                            | 41                           |
| Balance carried forward  | <b>985</b>                   | 985                          |

## Notes to the Accounts

## 17. Share purchase reserve

|                                  | At 30 April<br>2009<br>£'000 | At 30 April<br>2008<br>£'000 |
|----------------------------------|------------------------------|------------------------------|
| Balance brought forward          | 85,234                       | 86,030                       |
| Purchase of shares into treasury | –                            | (1,273)                      |
| Stamp duty on shares purchased   | –                            | (7)                          |
| Shares re-issued from treasury   | –                            | 484                          |
| Balance carried forward          | 85,234                       | 85,234                       |

## 18. Warrant exercise reserve

|   | At 30 April<br>2009<br>£'000 | At 30 April<br>2008<br>£'000 |
|---|------------------------------|------------------------------|
| Balance brought forward and carried forward | 417                          | 417                          |

## 19. Capital reserves

|   | At 30 April<br>2009<br>£'000 | At 30 April<br>2008<br>£'000 |
|---|------------------------------|------------------------------|
| Balance brought forward                   | 74,953                       | 94,396                       |
| (Losses)/gains on disposal of investments | (26,310)                     | 23,181                       |
| Investment holding losses                 | (55,282)                     | (40,590)                     |
| Investment management fee                 | (458)                        | (223)                        |
| Bank loan interest payable                | (1,471)                      | (1,811)                      |
| Balance carried forward                   | (8,568)                      | 74,953                       |

## 20. Revenue reserve

|                                 | At 30 April<br>2009<br>£'000 | At 30 April<br>2008<br>£'000 |
|---------------------------------|------------------------------|------------------------------|
| Balance brought forward         | 6,402                        | 5,440                        |
| Dividends paid                  | (6,040)                      | (5,719)                      |
| Net revenue return for the year | 5,744                        | 6,681                        |
| Balance carried forward         | 6,106                        | 6,402                        |

## Notes to the Accounts

### 21. Net asset value per ordinary share

|                                    | At 30 April<br>2009 | At 30 April<br>2008 |
|------------------------------------|---------------------|---------------------|
| Net asset value per ordinary share | <b>90.16p</b>       | 143.59p             |

The net asset value per ordinary share is based on net assets attributable to ordinary shareholders of £141,443,000 (2008: £225,260,000) and 156,876,900 (2008: 156,876,900) ordinary shares in issue at the year-end.

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

|  | For the<br>year ended<br>30 April<br>2009<br>£'000 | For the<br>year ended<br>30 April<br>2008<br>£'000 |
|--|--|--|
| Net loss before finance costs and taxation                   | <b>(75,670)</b>                                    | (10,141)   |
| Losses on investments held at fair value                     | <b>81,592</b>                                      | 17,409   |
| Stock dividends received                                     | <b>(367)</b>                                       | –  |
| Decrease/(increase) in accrued income                        | <b>1,647</b>                                       | (670)  |
| Decrease/(increase) in prepayments and other debtors         | <b>2</b>   | (797)  |
| Decrease in accrued expenses (excl. interest and stamp duty) | <b>(162)</b>                                       | (31)   |
| Tax deducted from income                                     | <b>(23)</b>  | –  |
| Net cash inflow from operating activities                    | <b>7,019</b>                                       | 5,770  |

### 23. Analysis of changes in net debt

|                                    | At 30 April<br>2008<br>£'000 | Cash flow<br>£'000 | Movement<br>in borrowings<br>£'000 | At 30 April<br>2009<br>£'000 |
|------------------------------------|------------------------------|--------------------|------------------------------------|------------------------------|
| Cash at bank & short-term deposits | 10,416                       | 8,038              | –                                  | <b>18,454</b>                |
| Bank loan                          | (42,500)                     | –                  | 7,500                              | <b>(35,000)</b>              |
| Net debt                           | (32,084)                     | 8,038              | 7,500                              | <b>(16,546)</b>              |

### 24. Related party transactions

The Company has appointed Schroder Investment Management Limited, to provide investment management, accounting, secretarial and administration services.

Details of the management and secretarial fee arrangements for these services are given in the Directors' Report on page 14.

The total management fee payable under this agreement to Schroder Investment Management Limited in respect of the year ended 30 April 2009 was £654,000 (2008: £1,119,000), of which £151,000 (2008: £249,000) was outstanding at the year end. The total secretarial fee (including VAT) payable to Schroders in respect of the year ended 30 April 2009 was £71,000 (2008: £72,000), of which £18,000 (2008: £18,000) was outstanding at the year end.

In addition to the above services, Schroder Investment Management Limited also provided investment trust dealing services. The total cost to the Company of this service, payable to Equiniti Limited, for the year ended 30 April 2009 was £2,000 (2008: £7,000), of which £3,000 (2008: £10,000) was outstanding at the year end.

During the year current account facilities were provided by Schroder & Co Limited. At 30 April 2009, the balance held at Schroder & Co Limited was £nil (2008: £nil).

At 6 July 2009 Schroders had an interest in 59,829,305 ordinary shares, representing 38.1% of the Company's issued share capital on that date, which are held by investors in a Schroder Personal Equity Plan/ISA.

## Notes to the Accounts

### 25. Contingent asset

In June 2007 the European Court of Justice (ECJ) ruled that investment trusts are exempted from VAT on management fees. HM Revenue & Customs (HMRC) have accepted this ruling and will not appeal.

The Manager has submitted a claim to HMRC in respect of periods from April 2001 to October 2007 which fall within the scope of the ECJ ruling and during which VAT was collected from the Company by the Manager. £800,000 was recognised in the prior year accounts as recoverable.

There are two further periods, 1994-96 and 1996-2001, for which further recovery maybe achieved but this remains uncertain, and no recognition has been made in these accounts.

### 26. Financial Instruments

#### Risk management policies and procedures

The Company's principal investment objective is to achieve capital growth predominantly from investment in UK equities. 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 did not enter into derivative contracts during the year ended 30 April 2009.

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

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

#### 1. Market Risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – price risk, 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.

##### 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 9. 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 at 30 April on its quoted equity investments was as follows:

|  | 30 April 2009<br>£'000 | 30 April 2008<br>£'000 |
|--|------------------------|------------------------|
| Fixed asset investments at fair value through profit or loss | 155,241                | 254,069                |

#### 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.

## Notes to the Accounts

### Price risk sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and the equity to an increase or decrease of 10% 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.

|  | 30 April 2009                      |                                    | 30 April 2008                      |                                    |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|  | Increase in<br>fair value<br>£'000 | Decrease in<br>fair value<br>£'000 | Increase in<br>fair value<br>£'000 | Decrease in<br>fair value<br>£'000 |
| Effect on revenue return                 | -                                  | -                                  | -                                  | -                                  |
| Effect on capital return                 | 15,524                             | (15,524)                           | 25,407                             | (25,407)                           |
| Effect on total return and on net assets | 15,524                             | (15,524)                           | 25,407                             | (25,407)                           |
| Percentage change in net asset value     | 11.0%                              | (11.0%)                            | 11.3%                              | (11.3%)                            |

### b. Interest rate risk

The Company will be affected by interest rate changes as it holds interest-bearing financial assets and liabilities.

The Company currently has a revolving credit facility of £35 million with ING Bank N.V., of which £35 million was drawn down at the year end (2008: £42.5 million). Interest is paid on the loan at a percentage rate per annum, which is equivalent to (i) the margin; (ii) LIBOR; and (iii) any mandatory costs during the term for that advance.

### Management of the risk

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

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

### Interest rate risk exposure

The exposure, at 30 April, of financial assets and liabilities to interest rate risk is shown by reference to:

- floating interest rates (i.e. giving cash flow interest rate risk) - when the rate is due to be re-set;
- fixed interest rates (i.e. giving fair value interest rate risk) - when the financial instrument is due for repayment.

|  | 30 April 2009               |                                |                | 30 April 2008               |                                |                |
|--|-----------------------------|--------------------------------|----------------|-----------------------------|--------------------------------|----------------|
|  | Within<br>one year<br>£'000 | More than<br>one year<br>£'000 | Total<br>£'000 | Within<br>one year<br>£'000 | More than<br>one year<br>£'000 | Total<br>£'000 |
| Exposure to floating interest rates:           |                             |                                |                |                             |                                |                |
| Cash at bank and short-term deposits           | 18,454                      | -                              | 18,454         | 10,416                      | -                              | 10,416         |
| Creditors: amounts falling due within one year |                             |                                |                |                             |                                |                |
| - Bank loan                                    | (35,000)                    | -                              | (35,000)       | (42,500)                    | -                              | (42,500)       |
| Total exposure to interest rates               | (16,546)                    | -                              | (16,546)       | (32,084)                    | -                              | (32,084)       |

The above year end amounts are not representative of the exposure to interest rates during the year, because the level of exposure changes as borrowings are drawn down and repaid.

The maximum and minimum total interest rate exposures during the year are shown below:

|                                | 30 April 2009<br>£'000 | 30 April 2008<br>£'000 |
|--------------------------------|------------------------|------------------------|
| Maximum interest rate exposure | (35,948)               | (42,220)               |
| Minimum interest rate exposure | (13,933)               | (32,088)               |

The exposures disclosed above are all within one year and at floating rates. There has been no exposure to long-term or fixed interest rates during the year.

## Notes to the Accounts

### Interest rate sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and equity to an increase or decrease of 50 (2008: 50) basis points in interest rates in regard to the Company's monetary financial assets and 50 (2008: 50) basis points in regard to the Company's monetary liabilities, which are subject to interest rate risk.

This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at each balance sheet date, with all other variables held constant.

|  | At 30 April 2009             |                              | At 30 April 2008             |                              |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
|  | Increase<br>in rate<br>£'000 | Decrease<br>in rate<br>£'000 | Increase<br>in rate<br>£'000 | Decrease<br>in rate<br>£'000 |
| Effect on revenue return                 | 40                           | (40)                         | (12)                         | 12                           |
| Effect on capital return                 | (123)                        | 123                          | (149)                        | 149                          |
| Effect on total return and on net assets | (83)                         | 83                           | (161)                        | 161                          |

In the opinion of the directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as borrowings are drawn down and repaid throughout the year.

### c. Currency risk

The Company invests predominantly in UK equities. The Company may, however, hold foreign denominated assets.

As at 30 April 2009, no foreign denominated assets were held (2008: £nil).

## 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

This risk is not considered significant. 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 year.

### Credit risk exposure

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

|                             | At 30 April 2009<br>£'000 | At 30 April 2008<br>£'000 |
|-----------------------------|---------------------------|---------------------------|
| Balances due from brokers   | 1,517                     | 5,718                     |
| Accrued income              | 680                       | 2,327                     |
| Taxation recoverable        | 82                        | 27                        |
| Cash at bank and on deposit | 18,454                    | 10,416                    |
|                             | <b>20,733</b>             | 18,488                    |

During the year 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 on the following page.

## Notes to the Accounts

### 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 last traded market prices.

### 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 30 April 2009<br>£'000 | At 30 April 2008<br>£'000 |
|---|---------------------------|---------------------------|
| Financial assets at fair value through profit or loss:              |                           |                           |
| Fixed asset investments – designated as such on initial recognition | 155,241                   | 254,069                   |
| Loans and receivables:  |                           |                           |
| Current assets:   |                           |                           |
| Debtors (due from brokers, dividends receivable and accrued income) | 2,279                     | 8,072                     |
| Cash at bank and short-term deposits                                | 18,454                    | 10,416                    |
|   | <b>20,733</b>             | 18,488                    |

#### Financial Liabilities

|  | At 30 April 2009<br>£'000 | At 30 April 2008<br>£'000 |
|--|---------------------------|---------------------------|
| Measured at amortised cost                     |                           |                           |
| Creditors: amounts falling due within one year |                           |                           |
| Borrowings under the credit facility           | 35,000                    | 42,500                    |
| Due to brokers                                 | 62                        | 5,088                     |
| Accruals                                       | 289                       | 531                       |
|  | <b>35,351</b>             | 48,119                    |

## 27. 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 through the Company's loan facility;
- (ii) the need to buy back or issue equity shares; and
- (iii) the determination of dividend payments.

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

The Company is subject to externally imposed capital requirements through the Companies Act, with respect to its status as a public company.

In addition, with respect to the obligation and ability to pay dividends, the Company must comply with the provisions of section 842 Income and Corporation Taxes Act 1988 and the Companies Act 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 UK Growth Fund plc will be held at 12 noon on Thursday, 6 August 2009 at 31 Gresham Street, London EC2V 7QA to consider and, if thought fit, to pass the following resolutions, of which resolutions 1 to 9 will be proposed as Ordinary Resolutions and resolutions 10 and 11 will be proposed as Special Resolutions.

1. To receive the Report of the Directors and the audited Accounts for the year ended 30 April 2009.
2. To approve the Remuneration Report for the year ended 30 April 2009.
3. To elect Mr Andrew Hutton as a Director of the Company.
4. To re-elect Mr Alan Clifton as a Director of the Company.
5. To re-elect Mr Keith Niven as a Director of the Company.
6. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company.
7. To authorise the Directors to determine the remuneration of PricewaterhouseCoopers as Auditors of the Company.
8. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:  
"That, in accordance with the Articles of Association, the Company should continue as an investment trust for a further five year period."
9. 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 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £1,960,961 (representing 5% of the share capital in issue on 7 July 2009); and 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."
10. To consider and, if thought fit, to pass the following resolution as a special resolution:  
"That, subject to the passing of Resolution 9 set out above, the Directors be and are hereby empowered, pursuant to Section 95 of the Act, to allot equity securities (including any shares held in treasury) (as defined in Section 94 of the Act) pursuant to the authority given by Resolution 9 above and/or where such allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the Act as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £1,960,961 (representing 5% of the aggregate nominal amount of the share capital in issue on 7 July 2009); 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."
11. 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 166 of the Act, to make market purchases (within the meaning of section 163(3) of the Act) of Ordinary Shares of 25p 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 23,515,847, representing 14.99% of the issued share capital as at 7 July 2009;
  - (b) the minimum price which may be paid for a share is 25p;
  - (c) the maximum price which may be paid for a share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a share of the class being purchased taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased and (ii) the higher of the price of the last independent trade in the shares of that class and the highest then current independent bid for the shares of that class on the London Stock Exchange;
  - (d) purchases may only be made pursuant to this authority if the Shares are (at the date of the proposed purchase) trading on the London Stock Exchange at a discount to the net asset value;
  - (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
  - (f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract".

By Order of the Board  
Schroder Investment Management Limited  
Company Secretary

Registered Office:  
31 Gresham Street  
London EC2V 7QA

Registered Number: 2894077  
7 July 2009

## Explanatory Notes

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 attached. 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 0871 384 2449, 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 6GT, 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.

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](http://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 2 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 4 August 2009, 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 4 August 2009 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 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 (IDRA19) 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 election and re-election are set out on the inside front cover of the Company's Annual Report and Accounts for the year ended 30 April 2009.
7. As at 7 July 2009, 156,876,900 ordinary shares of 25 pence were in issue (no shares were held in treasury). Accordingly, the total number of voting rights of the Company as at 7 July 2009 is 156,876,900.

## Company Summary and Shareholder Information

### The Company

Schroder UK Growth Fund plc is an independent investment trust, whose shares are listed on the London Stock Exchange. As at 7 July 2009, the Company had 156,876,900 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 this year and thereafter at five yearly intervals.

### Website and Price Information

The Company has launched a dedicated website, which may be found at [www.schroderukgrowthfund.com](http://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 and the Schroder Investment Trust Dealing Service.

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](http://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 1st Floor, 34 South Gyle Crescent, South Gyle Business Park, Edinburgh, Scotland EH12 9EB. The helpline telephone number of Equiniti Registrars is 0871 384 2449. Calls to this number are charged at 8p per minute from a BT landline. Other telephone providers' costs may vary.

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](http://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](http://www.theaic.co.uk).

[www.schroderukgrowthfund.com](http://www.schroderukgrowthfund.com)