

**Schroder**

# Japan Growth Fund plc

Half Yearly Report to 31 January 2009

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**Schroders**

## Investment Objective

The Company's principal investment objective is to achieve capital growth from an actively managed portfolio principally comprising securities listed on the Japanese stock markets, with the aim of achieving growth in excess of the TSE First Section Total Return Index over the longer term.

## Directors

**Jonathan Taylor (Chairman)**  
**Jan Kingzett**  
**Peter Lyon**  
**John Scott**  
**Yoshindo Takahashi**

## Advisers

### **Investment Manager and Company Secretary**

Schroder Investment Management Limited  
31 Gresham Street  
London EC2V 7QA  
Telephone: 020 7658 3206

### **Registered Office**

Schroder Investment Management Limited  
31 Gresham Street  
London EC2V 7QA

### **Bankers**

JP Morgan Chase Bank, N.A.  
1 Chaseside  
Bournemouth BH7 7DB

ING Bank N.V.  
60 London Wall  
London EC2M 5TQ

### **Custodian**

JP Morgan Chase Bank, N.A.  
1 Chaseside  
Bournemouth BH7 7DB

### **Independent Auditors**

PricewaterhouseCoopers LLP  
Hay's Galleria  
1 Hay's Lane  
London SE1 2RD

### **Registrar**

Equiniti Limited  
1st Floor  
34 South Gyle Crescent  
South Gyle Business Park  
Edinburgh EH12 9EB

Shareholder Helpline  
0871 384 2450  
Website: [www.shareview.co.uk](http://www.shareview.co.uk)

### **Solicitors**

Slaughter and May  
One Bunhill Row  
London EC1Y 8YY

### **Stockbrokers**

Matrix Corporate Capital LLP  
One Vine Street  
London W1J 0AH

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## Financial Highlights

	31 January 2009	31 July 2008	% Change
Total assets (£'000)*	126,718	133,547	(5.1)
Borrowings (£'000)	(23,170)	(23,353)	(0.8)
Shareholders' funds (£'000)	103,548	110,194	(6.0)
Shares in issue ('000)	125,008	125,008	–
Net Asset Value	82.83p	88.15p	(6.0)
Share price	67.00p	77.50p	(13.5)
Share price discount	19.11%	12.08%	–
TSE First Section Total Return Index (in sterling terms)**	–	–	1.8
Yen rate to Sterling	129.48	214.11	(39.5)
Market capitalisation (£'000)	83,755	96,881	(13.5)

\* Calculated in accordance with AIC guidance and comprises shareholders' funds plus gearing used for investment purposes.

\*\* Source: Thompson Financial Datastream.

## Ten Largest Investments

As at 31 January 2009

<b>Company and Activities</b>	<b>Market Value of Holdings £'000</b>	<b>Percentage of Shareholders' Funds</b>
<b>Toyota Motor</b> Automobile manufacturer	8,171	7.89
<b>Takeda Pharmaceutical</b> Pharmaceutical products	5,377	5.19
<b>Tachihi Enterprise</b> Real estate investment	4,990	4.82
<b>Mitsui</b> General trading company	4,908	4.74
<b>Ricoh</b> Copiers and printers manufacturer	4,321	4.17
<b>East Japan Railway</b> Railway company	4,113	3.97
<b>Jupiter Telecommunications</b> Cable network operator	3,707	3.58
<b>Sumitomo Mitsui Financial</b> Banking and other financial services	3,453	3.34
<b>Seven &amp; I</b> Retail store operator	3,385	3.27
<b>Sompo Japan Insurance</b> Non-life and life insurance	3,356	3.24
<b>Total</b>	<b>45,781</b>	<b>44.21</b>

At 31 July 2008, the ten largest investments represented 41.50% of Shareholders' Funds.

## Sector Analysis

**Analysis of the Portfolio Sector Distribution with the TSE First Section Index (%)  
as at 31 January 2009**

	Valuation £'000	% of Portfolio	% of Index
Transportation Equipment	12,189	10.35	8.00
Banks	11,554	9.81	10.80
Chemicals	10,287	8.73	5.40
Electrical Appliances	10,116	8.59	11.70
Wholesale Trade	9,265	7.86	4.30
Real Estate	8,568	7.27	2.10
Pharmaceutical	7,124	6.05	5.40
Retail Trade	6,692	5.68	4.00
Land Transportation	6,681	5.67	4.60
Information & Communication	6,284	5.33	6.80
Machinery	6,086	5.17	3.80
Insurance	5,552	4.71	2.80
Services	4,577	3.89	1.70
Glass & Ceramic Products	3,097	2.63	0.90
Construction	2,242	1.90	2.30
Precision Instruments	1,888	1.60	1.10
Rubber Products	1,478	1.26	0.60
Nonferrous Metals	1,376	1.17	1.00
Other Products	1,064	0.90	2.50
Other Financing Business	952	0.81	0.90
Securities & Commodity Futures	733	0.62	1.20
Electric Power & Gas	-	-	7.30
Foods	-	-	3.50
Iron & Steel	-	-	2.40
Textiles & Apparels	-	-	1.00
Oil & Coal Products	-	-	0.80
Air Transportation	-	-	0.60
Marine Transportation	-	-	0.60
Metal Products	-	-	0.60
Pulp & Paper	-	-	0.50
Mining	-	-	0.40
Warehousing & Harbour Transport	-	-	0.30
Fishery, Agriculture & Forestry	-	-	0.10
<b>Total</b>	<b>117,805</b>	<b>100.00</b>	<b>100.00</b>

## Chairman's Statement

### Performance

The six-month period to 31 January 2009 was a poor one for the Japanese market which fell by 38.6% in local currency terms. At the same time, the yen strengthened against all major currencies and increased dramatically against sterling over the period (moving from ¥214.1 to £1 on 31 July 2008 to ¥129.5 to £1 at 31 January 2009); the net effect was that, measured in sterling, the TSE First Section Total Return Index produced a positive total return of 1.8% over the period. While the Company's net asset value per share under-performed the Index, decreasing by 6.0% (from 88.15p per share to 82.83p per share), performance was in line with the peer group average.

The Company's share price fell by 13.5% as the discount widened from 12.1% to 19.1%. This was slightly better than the peer group average, which ended the period on a discount of 22.0% and reflected a worsening of sentiment towards Japan.

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

### Gearing Policy

During the period the Company repaid ¥2 billion drawn under its borrowing facility, reducing the amount drawn down from ¥5 billion to ¥3 billion. All of the borrowings were obtained via a revolving credit facility to provide flexibility.

The gearing continues to be operated within the limits agreed by the Board. At the beginning of the period, the effective gearing ratio (borrowings less cash and short-term deposits as a percentage of net assets) was 13.9% and this had decreased slightly to 13.5% at 31 January 2009.

### Outlook

The deterioration in the Japanese economy in the last six months has been as abrupt and severe as any in the last two decades. The Manager's review describes the potential for recovery over the next 18 months, but there is a risk that the outlook will get worse before it gets better. The investment judgement is whether this is already priced into stock market valuations that are close to generational lows.

We take comfort on this from the Manager's belief that the peak of the bad news is close, and that the portfolio is invested in companies valued at well below their intrinsic worth. Stock markets around the world face obvious short term challenges, but I look forward to writing about a clearer - and more positive - outlook in six months' time.

### Jonathan Taylor

Chairman

27 March 2009

## Investment Manager's Review

### Market background

The Japanese stock market fell 38.6% in yen terms during the six months ended 31 January 2009, reaching levels not seen since 1982. The market fell every month bar one but the bulk of the weakness came in the weeks immediately following Lehman Brothers' collapse. During this turmoil the yen took on the status of a safe haven currency and its dramatic appreciation meant that market actually went up marginally in sterling terms, rising 1.8%.

All sectors declined over the 6 months but defensive sectors, such as utilities or telecommunications, and industries which are large users of imported commodities performed relatively well. Cyclical sectors and commodity producers performed particularly poorly. Financial sectors were also weak as exposure to falling equity markets caused deterioration in their capital strength although these problems were not in the same league as the liquidity issues surrounding some major western financial institutions. Small companies reversed the trend of recent years, outperforming the main market.

The company's NAV fell 6.0% in sterling terms and underperformance against the benchmark was to a large extent due to the gearing. There was also a negative contribution from not holding utilities, the best performing sector over the six months. Similarly defensive sectors held in the portfolio such as land transport and telecommunications contributed positively but these were not sufficient to offset the drag from the lack of utilities exposure. Cyclical holdings in sectors such as trading companies contributed negatively but were partly offset by not holding the most yen-sensitive consumer electronics companies and by positive stock selection in real estate.

### Outlook

Japan's reliance on exports for growth during recent years has left the economy exposed to the intensifying global recession and to the appreciation of the yen. This has been reflected in an unprecedented speed of deterioration, particularly in the manufacturing sector. This situation has been exacerbated by more limited scope for the authorities to stimulate demand, a situation not helped by an increasing sense of short term political paralysis.

Should the current global recession evolve into a prolonged slump the Japanese stock market will continue to struggle. However, our expectation is that a recovery will ensue later this year and into 2010, albeit at an anaemic pace. On this basis we are not as negative as a cursory glance at the current economic data might seem to encourage. This is because the peak of the bad news may not be that distant, with results for the fiscal year ended in March 2009 and announcement of company forecasts for March 2010 representing the most likely timing. Thereafter additional economic stimulus, a bottoming out of demand, the prospect of stability in the global cycle, improved terms of trade and a weaker yen may form a more favourable backdrop. Valuations are cheap enough for the market to rally if some or all of the above materialise.

### Investment Policy

Lack of exposure to the most defensive parts of the market, which we view as overvalued, yields a small pro-cyclical bias to policy when combined with overweight positions in car-related companies and trading houses. This is a stance we expect to become more pronounced as prices weaken in the midst of current weak economic and corporate data providing an opportunity to add to better quality shares in areas such as machinery, electronics and retail. We are maintaining the overweight position in small companies.

Given our view that we are close to the peak of bad news and the number of attractively valued long term opportunities that exist we are maintaining the gearing, which was 13.5% at the end of January 2009.

Schroder Investment Management Limited  
27 March 2009



## Income Statement

	<b>(Unaudited)</b> <b>For the six months</b> <b>ended 31 January 2009</b>			<b>(Unaudited)</b> <b>For the six months</b> <b>ended 31 January 2008</b>			<b>(Audited)</b> <b>For the year</b> <b>ended 31 July 2008</b>			
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	
<b>Note</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
Gains/(losses) on investments held at fair value	-	<b>2,182</b>	<b>2,182</b>	-	(12,902)	(12,902)	-	(23,211)	(23,211)	
Other currency losses	-	<b>(9,373)</b>	<b>(9,373)</b>	-	(2,742)	(2,742)	-	(2,604)	(2,604)	
Income	<b>2</b>	<b>1,628</b>	-	<b>1,628</b>	1,072	-	1,072	2,691	-	2,691
Investment management fee	<b>(562)</b>	-	<b>(562)</b>	(728)	-	(728)	(1,392)	-	(1,392)	
Administrative expenses	<b>(208)</b>	-	<b>(208)</b>	(201)	-	(201)	(424)	-	(424)	
<b>Net loss before finance costs and taxation</b>	<b>858</b>	<b>(7,191)</b>	<b>(6,333)</b>	143	(15,644)	(15,501)	875	(25,815)	(24,940)	
Interest payable and similar charges	<b>(203)</b>	-	<b>(203)</b>	(152)	-	(152)	(315)	-	(315)	
<b>Net loss on ordinary activities before taxation</b>	<b>655</b>	<b>(7,191)</b>	<b>(6,536)</b>	(9)	(15,644)	(15,653)	560	(25,815)	(25,255)	
Taxation on ordinary activities	<b>(110)</b>	-	<b>(110)</b>	(70)	-	(70)	(177)	-	(177)	
<b>Net loss attributable to equity shareholders</b>	<b>545</b>	<b>(7,191)</b>	<b>(6,646)</b>	(79)	(15,644)	(15,723)	383	(25,815)	(25,432)	
<b>Net loss per ordinary share</b>	<b>4</b>	<b>0.43p</b>	<b>(5.75)p</b>	<b>(5.32)p</b>	(0.06)p	(12.51)p	(12.57)p	0.31p	(20.65)p	(20.34)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.

No operations were acquired or discontinued in the period.

The Notes on page 11 form an integral part of these accounts.

## Reconciliation of Movements in Shareholders' Funds

## For the six months ended 31 January 2009 (Unaudited)

	Called up Share capital £'000	Share premium account £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 31 July 2008	12,501	7	97,205	3	8,032	(7,554)	110,194
Net losses from ordinary activities	–	–	–	–	(7,191)	545	(6,646)
At 31 January 2009	12,501	7	97,205	3	841	(7,009)	103,548

## For the six months ended 31 January 2008 (Unaudited)

	Called up Share capital £'000	Share premium account £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 31 July 2007	12,501	7	97,205	3	33,847	(7,937)	135,626
Net losses from ordinary activities	–	–	–	–	(15,644)	(79)	(15,723)
At 31 January 2008	12,501	7	97,205	3	18,203	(8,016)	119,903

## For the year ended 31 July 2008 (Audited)

	Called up Share capital £'000	Share premium account £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31 July 2007	12,501	7	97,205	3	33,847	(7,937)	135,626
Net losses from ordinary activities	–	–	–	–	(25,815)	383	(25,432)
At 31 July 2008	12,501	7	97,205	3	8,032	(7,554)	110,194

The Notes on page 11 form an integral part of these accounts.

## Balance Sheet

		(Unaudited) At 31 January 2009 £'000	(Unaudited) At 31 January 2008 £'000	(Audited) At 31 July 2008 £'000
	Note			
<b>Fixed assets</b>				
Investments held at fair value through profit or loss		117,805	141,502	125,850
		<b>117,805</b>	141,502	125,850
<b>Current assets</b>				
Debtors		533	912	560
Cash at bank and short-term deposits		9,044	2,236	7,780
		<b>9,577</b>	3,148	8,340
<b>Current liabilities</b>				
Creditors – amounts falling due within one year	5	(23,834)	(24,747)	(23,996)
<b>Net current liabilities</b>		<b>(14,257)</b>	(21,599)	(15,656)
<b>Net assets</b>		<b>103,548</b>	119,903	110,194
<b>Capital and reserves</b>				
Called up share capital		12,501	12,501	12,501
Share premium account		7	7	7
Share purchase reserve		97,205	97,205	97,205
Warrant exercise reserve		3	3	3
Capital reserves		841	18,203	8,032
Revenue reserve		(7,009)	(8,016)	(7,554)
<b>Equity shareholders' funds</b>		<b>103,548</b>	119,903	110,194
<b>Net asset value per ordinary share</b>	6	<b>82.83p</b>	95.92p	88.15p

The Notes on page 11 form an integral part of these accounts.

## Cash Flow Statement

	(Unaudited) For the six months ended 31 January 2009	(Unaudited) For the six months ended 31 January 2008	(Audited) For the year ended 31 July 2008
Net cash inflow from operating activities	854	144	810
Net cash outflow from servicing of finance	(209)	(149)	(301)
Total tax paid	(110)	(68)	(173)
Net cash inflow/(outflow) from investment activities	10,285	(953)	4,346
Net cash inflow/(outflow) before financing	10,820	(1,026)	4,682
Net cash outflow from financing	(11,200)	–	–
Net cash (outflow)/inflow	(380)	(1,026)	4,682
<b>Reconciliation of net cash flow to movement in net debt</b>			
Net cash (outflow)/inflow	(380)	(1,026)	4,682
Movement in borrowings	11,200	–	–
Movement in net debt resulting from cash flows	10,820	(1,026)	4,682
Net debt at 1 August	(15,573)	(17,651)	(17,651)
Exchange losses on currency balances and loans	(9,373)	(2,742)	(2,604)
Net debt carried forward	(14,126)	(21,419)	(15,573)

The Notes on page 11 form an integral part of these accounts.

## Notes to the Accounts

### 1. Accounting Policies and Responsibility Statement

Directors confirm that, to the best of their knowledge, this set of condensed financial statements has been prepared in accordance with the United Kingdom Generally Accepted Accounting Practice (UK GAAP) and with the Statement of Recommended Practice: Financial Statements of Investment Companies (SORP) issued in January 2003 and revised in December 2005 and the Interim Management Report in the form of the Chairman's Statement and Investment Manager's Review includes a fair review of the information required by DTR 4.2.7 and 4.2.8 of the FSA's Disclosure and Transparency Rules.

The financial information for each of the six month periods ended 31 January 2009 and 31 January 2008 comprises non-statutory accounts within the meaning of Sections 434-436 of the Companies Act 2006. The financial information for the year ended 31 July 2008 has been extracted from published accounts that have been delivered to the Registrar of Companies and on which the report of the auditors was unqualified. The interim accounts have been prepared on the same basis as the annual accounts.

The Company's accounting policies have not varied from those described in the Report and Accounts for the year to 31 July 2008.

### 2. Income

	(Unaudited) For the six months ended 31 January 2009	(Unaudited) For the six months ended 31 January 2008	(Audited) For the year ended 31 July 2008
	£'000	£'000	£'000
Income from investments:			
Overseas dividends	1,567	1,006	2,523
Stock lending fee income	28	21	87
Interest on deposits	33	45	81
	<b>1,628</b>	1,072	2,691

### 3. Management fees and interest payable

The investment management fee and finance costs on borrowings for investment purposes are apportioned 100% to the revenue return.

### 4. Losses per Ordinary share

	(Unaudited) For the six months ended 31 January 2009	(Unaudited) For the six months ended 31 January 2008	(Audited) For the year ended 31 July 2008
Revenue (£'000)	545	(79)	383
Capital (£'000)	(7,191)	(15,644)	(25,815)
<b>Total (£'000)</b>	<b>(6,646)</b>	(15,723)	(25,432)
Weighted average number of ordinary shares in issue	125,008,200	125,008,200	125,008,200
Revenue	0.43p	(0.06)p	0.31p
Capital	(5.75)p	(12.51)p	(20.65)p
<b>Total</b>	<b>(5.32)p</b>	(12.57)p	(20.34)p

### 5. Creditors: Amounts falling due within one year

Included within creditors is the following loan:

	(Unaudited) At 31 January 2009	(Unaudited) At 31 January 2008	(Audited) At 31 July 2008
Yen	3,000,000,000	5,000,000,000	5,000,000,000
Equivalent to	£23,170,000	£23,655,000	£23,353,000

The Company has a loan facility of Yen 5 billion with ING Bank N.V. of which Yen 3 billion was drawn at the end of the period. This facility has a revolving 364 day term, is chargeable at a floating rate linked to the Yen LIBOR, and is unsecured.

### 6. Net asset value per ordinary share

	(Unaudited) At 31 January 2009	(Unaudited) At 31 January 2008	(Audited) At 31 July 2008
Net assets attributable to ordinary shareholders (£'000)	103,548	119,903	110,194
Ordinary shares in issue at end of period	125,008,200	125,008,200	125,008,200
<b>Net asset value per ordinary share</b>	<b>82.83p</b>	95.92p	88.15p

## Company Summary

### **The Company**

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Schroder Japan Growth Fund plc is an independent investment trust, whose shares are listed on the London Stock Exchange. 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 TSE First Section Index in sterling terms. 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 in 2009 and thereafter at five yearly intervals.

### **Website and Price Information**

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

The Company releases its Net Asset Value 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, EH12 9EB. The helpline telephone number of Equiniti Registrars is 0871 384 2450. 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.schroderjapangrowthfund.com](http://www.schroderjapangrowthfund.com)