

Schroder

UK Growth Fund plc

Half Yearly Report to 31 October 2008



Schroders

Investment Objective

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

Directors

Alan Clifton (Chairman)

Stella Pirie OBE

Andrew Hutton

Keith Niven

David Ritchie

Advisers

Investment Manager and Company Secretary

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Financial Highlights

	31 October 2008	30 April 2008	Change
Net asset value per ordinary share	80.15p	143.59p	(44.2)%
Net asset value per ordinary share (excluding undistributed current year revenue)	77.62p	140.98p	(44.9)%
Share price	75.00p	134.25p	(44.1)%
Share price discount (based on NAV excluding undistributed current year revenue)	3.4%	4.8%	
Total assets*	£160.7m	£267.8m	(40.0)%
Net Effective Gearing	15%	14%	
Shareholders' Funds	£125.7m	£225.3m	(44.2)%
Shares in issue (no shares held in treasury)	156.9m	156.9m	0.0%
Total Expense Ratio****	0.65%	0.63%	

	Six months ended 31 October 2008	Six months ended 31 October 2007
Dividends per ordinary share	1.65p	1.65p
Net asset value total return **	(43.7)%	7.0%
Share price total return	(44.1)%	11.5%
FTSE All-Share Index total return ***	(28.2)%	4.6%

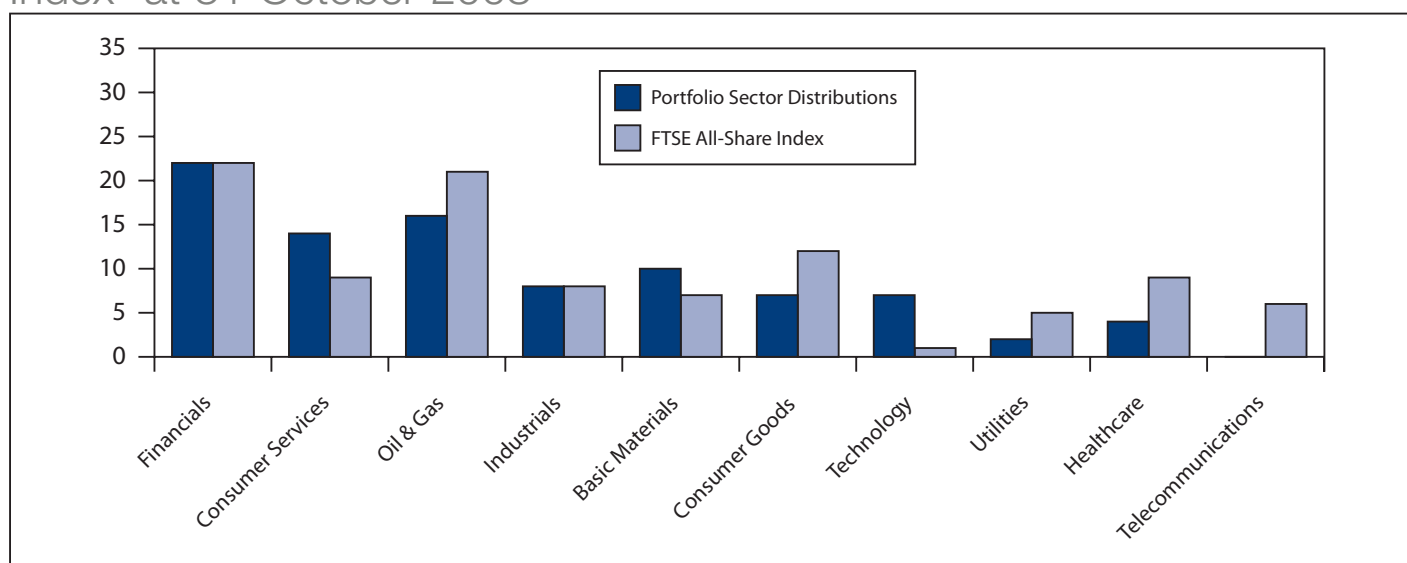
* Calculated in accordance with AIC guidance and comprises shareholders' funds plus gearing used for investment purposes.

** Source: Fundamental Data.

*** Source: Thomson Financial Datastream.

**** Calculated in accordance with AIC guidance (excluding finance costs but after allowing for tax relief on expenses) and expressed as a percentage of average monthly net assets.

Comparison of Portfolio Sector Distribution with the FTSE All-Share Index* at 31 October 2008



*Sector distributions are shown as a percentage of total assets.

Ten Largest Investments

As at 31 October 2008

Company and Activity	Market value of holding £'000	Percentage of Shareholders' funds
BG Group Oil and gas exploration and production group.	9,128	7.26
BP Integrated oil company.	7,154	5.69
Shire International speciality pharmaceutical company.	6,032	4.80
BHP Billiton Global mining company.	5,924	4.71
Rio Tinto International mining group.	5,807	4.62
Barclays Banking and financial services group.	5,605	4.46
Royal Dutch Shell Energy and petrochemicals company.	5,301	4.22
HBOS Banking and financial services group.	5,016	3.99
Experian Group Credit and marketing services group.	4,760	3.78
Legal & General UK financial services group.	4,749	3.78
Total	59,476	47.31

As at 30 April 2008, the ten largest investments represented 48.16% of Shareholders' Funds.

Chairman's Statement

Performance

The six-month period to 31 October 2008 was an extraordinarily difficult one for the Company. Stock markets were in disarray and the international banking system close to systemic collapse. Our portfolio was hit hard by the turmoil. Net asset value suffered a negative total return of 43.7%, and the share price a negative return of 44.1%. These compare with a negative return of 28.2% on our benchmark, the FTSE All-Share index.

Fuller comment on the market background is set out in the Manager's Review.

Dividends

The Directors have declared a first interim dividend of 1.65p for the year ending 30 April 2009 (2008: 1.65p). With recession in prospect, the outlook is particularly uncertain but the Board currently expects that the total dividend payout to shareholders for the current financial year can be maintained at no less than last year's level.

Gearing Policy

Although gearing can be extremely damaging in falling markets, such as we have experienced in the past six months, the Board continues to believe that there are long term advantages in having gearing in place and that it is one of the advantages that our investment trust structure has over other investment vehicles. It is the Board's intention to maintain gearing levels so as to benefit fully from any upturn in markets.

During the period the Company cut the borrowing facility available to us from £45 million to £35 million, of which £35 million is currently drawn down. The effective net gearing level (which takes account not only of the borrowings but also of any cash) rose from 14% at the beginning of the period to 15% by the end.

Discount Management Policy

During the six-months under review no further shares were repurchased and 3,399,000 shares held in treasury were cancelled. The number of shares in issue following the cancellation of these shares is 156,876,900.

The Board continues to see the ability to buy back shares as a valuable tool in the management of discounts in share values relative to their net asset values though implementation of the policy has not always been straightforward when markets have been volatile. Nevertheless, our shares continue to trade at or around net asset value. We will continue to operate an active buy-back policy, where appropriate, and work closely with our brokers, Winterflood Investment Trusts, to maintain any discounts at reasonable levels.

Board Appointment

Following the retirement of Ian Phillips, I am pleased to report that Andrew Hutton was appointed to the Board on 3 September 2008. Andrew 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. Previously, he worked with J.P. Morgan from 1979 to 1997 in London, Melbourne, New York and Singapore. He brings a wealth of investment experience to the Board and we look forward to working with him.

Outlook

The prospects for a recovery in net asset value and in the share price are very largely dependant on a recovery of equity markets. As investors are still coming to terms with the implications of recession and its likely length and depth, it is difficult to predict any significant recovery in the short term. High volatility may be a feature in the months ahead, but looking further forward, we believe that the Company is in a position to benefit from current low market valuations. The views of our Manager are set out in the following section and reveal a strength of conviction about the substantial scope for recovery in equity valuations which, if realised, point to a much more encouraging outlook for our Company on a medium term perspective.

Alan Clifton

Chairman

23 December 2008

Investment Manager's Review

Market Background

The six months under review has been a remarkable and unprecedented period for UK equities, dominated by the credit crunch and a rapid decline in commodity prices.

The fall in the market of 28.2% was as large a decline as has been seen for a long time and came with considerable sector volatility. Initially, the oil and mining sector continued to support the market, but from June onwards falling commodity prices caused the sectors to surrender their gains. By September, attention had switched to the possibility of major dislocation in the global banking system, with a group of UK banks needing government rescue and fears of sustained recession.

Performance

During the six months the Company's share price showed a negative total return of 44.1% and the Company's net asset value produced a negative total return of 43.7%, compared to a negative return of 28.2% by the FTSE All-Share Index.

There were two main factors contributing to the Company's underperformance – the gearing, and stock selection in the last two months.

The gearing contributed to around 5% of the under-performance during the 24% market decline in September and October. The biggest stock selection detractor was in financials, particularly from a preference for Barclays and HBOS over HSBC. Although we recognised the risks relating to HBOS's wholesale funding, we felt the capital raising had been sensible and that the stock could represent a very attractive recovery play. Disappointments elsewhere included miner Xstrata, engineer Charter, International Personal Finance, and not owning the defensive pharmaceuticals AstraZeneca and GlaxoSmithKline.

Policy and investment activity

We have been taking a more tactical approach this year given the extreme levels of volatility. The portfolio currently has around 10% in banks, skewed to domestic names. We have been adding to the holding in RBS, using part of the proceeds from sales of Vodafone and Imperial Tobacco, which had performed well. We also bought HBOS, in expectation of the merger with Lloyds TSB going through to create an attractively scaled bank. Elsewhere, falls in the resource share prices have created, in our opinion, attractive opportunities in Xstrata and Rio Tinto, while we have also established a position in Royal Dutch Shell, where the shares yield just under 7%. Given that the company has not cut its dividend since 1933, this appears to be a fairly secure return even on very pessimistic assumptions about the oil price.

Among the holdings that disappointed, Charter's share price has been sold down despite the company having net cash. Even on the very pessimistic assumption of discounting next year's profits by 50%, the share price is just four times earnings. Similarly in International Personal Finance's case, we think that the market has over-reacted to the impact of currency weakness on its emerging market exposure.

The general theme has been a stock market paying little attention to valuation. While this has contributed to recent underperformance, it has also created opportunities. Our team continues to focus on understanding the likelihood over the next two to three years that a company will come out the other side and deliver on earnings. We can then assign a reasonable valuation on such a likely outcome. We stress test all of our holdings and make sure they have strong balance sheets to help them survive the downturn.

Outlook

Sentiment towards equities remains very poor, and we expect to see persistently high volatility and market rotation over the next few months. The economic outlook continues to look bleak and we still have to get through an inevitable raft of profit downgrades and capital raisings. It will, therefore, be crucial to see what happens over the next few months in terms of credit spreads, further global interest rate cuts and the US housing market. All that said, we are confident that the moves being made by the global authorities are putting them in a better position to ameliorate the banking crisis, and we do not share many investors' seemingly apocalyptic attitude to all risk assets.

Investment Manager's Review

The stock market remains an effective discounting mechanism, with bad and good news generally priced into shares long before the actual event. We therefore need to find the catalyst that will enable investors to look through the current environment and start factoring in recovery. Should investors be able to see sufficient reason to expect a return to economic growth in 2010, then the market should pick up in the course of 2009 in anticipation of the recovery.

Alongside this, valuations are now at distressed levels. Many companies with strong balance sheets and excellent long-term prospects currently trade on 3-5 times this year's earnings, levels at which even a recession until 2010 would appear to leave some compelling medium-term value opportunities. The portfolio is full of shares that we believe are substantially below their true worth. As such, we continue to look beyond the extremely volatile and rotational movements that we expect for the next few months, and see significant potential on a 2-3 year view.

Schroder Investment Management Limited

23 December 2008

Income Statement

	(Unaudited) For the six months ended 31 October 2008			(Unaudited) For the six months ended 31 October 2007			(Audited) For the year ended 30 April 2008			
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total	
Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
(Losses)/gains on investments held at fair value	–	(98,854)	(98,854)	–	15,064	15,064	–	(17,409)	(17,409)	
Income	2	4,656	–	4,656	3,913	–	3,913	7,957	–	7,957
Investment management fee		(113)	(263)	(376)	(185)	(431)	(616)	(96)	(223)	(319)
Administrative expenses		(174)	–	(174)	(177)	–	(177)	(370)	–	(370)
Net (loss)/return before finance costs and taxation		4,369	(99,117)	(94,748)	3,551	14,633	18,184	7,491	(17,632)	(10,141)
Interest payable and similar charges		(397)	(929)	(1,326)	(381)	(879)	(1,260)	(803)	(1,811)	(2,614)
Net (loss)/return on ordinary activities before taxation		3,972	(100,046)	(96,074)	3,170	13,754	16,924	6,688	(19,443)	(12,755)
Taxation on ordinary activities		(5)	–	(5)	–	–	–	(7)	–	(7)
Net (loss)/return after taxation attributable to equity shareholders		3,967	(100,046)	(96,079)	3,170	13,754	16,924	6,681	(19,443)	(12,762)
Net (loss)/return per ordinary share	4	2.53p	(63.77)p	(61.24)p	2.02p	8.78p	10.80p	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. No operations were acquired or discontinued in the period.

The Notes on pages 11 and 12 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

For the six months ended 31 October 2008 (Unaudited)

	Called up share capital	Capital redemption reserve	Share premium account	Share purchase reserve	Warrant exercise reserve	Capital reserves	Revenue reserve*	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 30 April 2008	40,069	17,200	985	85,234	417	74,953	6,402	225,260
Net return on ordinary activities	-	-	-	-	-	(100,046)	3,967	(96,079)
Cancellation of shares from treasury	(850)	850	-	-	-	-	-	-
Ordinary Dividends paid	-	-	-	-	-	-	(3,451)	(3,451)
At 31 October 2008	39,219	18,050	985	85,234	417	(25,093)	6,918	125,730

For the six months ended 31 October 2007 (Unaudited)

	Called up share capital	Capital redemption reserve	Share premium account	Share purchase reserve	Warrant exercise reserve	Capital reserves	Revenue reserve*	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 30 April 2007	40,794	16,475	944	86,030	417	94,396	5,440	244,496
Net return from ordinary activities	-	-	-	-	-	13,754	3,170	16,924
Purcreasury	-	-	-	(1,280)	-	-	-	(1,280)
Re-issue of shares from treasury	-	-	5	149	-	-	-	154
Ordinary Dividends paid	-	-	-	-	-	-	(3,131)	(3,131)
At 31 October 2007	40,794	16,475	949	84,899	417	108,150	5,479	257,163

For the year ended 30 April 2008 (Audited)

	Called up share capital	Capital redemption reserve	Share premium account	Share purchase reserve	Warrant exercise reserve	Capital reserves	Revenue reserve*	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 30 April 2007	40,794	16,475	944	86,030	417	94,396	5,440	244,496
Net return from ordinary activities	-	-	-	-	-	(19,443)	6,681	(12,762)
Purchase of shares into treasury	-	-	-	(1,280)	-	-	-	(1,280)
Cancellation of shares from treasury	(725)	725	-	-	-	-	-	-
Re-issue of shares from treasury	-	-	41	484	-	-	-	525
Ordinary Dividends paid	-	-	-	-	-	-	(5,719)	(5,719)
At 30 April 2008	40,069	17,200	985	85,234	417	74,953	6,402	225,260

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

The Notes on pages 11 and 12 form an integral part of these accounts.

Balance Sheet

	(Unaudited) At 31 October 2008 £'000	(Unaudited) At 31 October 2007 £'000	(Audited) At 30 April 2008 £'000
Note			
Fixed assets			
Investments held at fair value through profit or loss	143,929	291,038	254,069
	143,929	291,038	254,069
Current assets			
Debtors	4,573	366	8,894
Cash at bank and short-term deposits	14,024	6,785	10,416
	18,597	7,151	19,310
Current liabilities			
Creditors – amounts falling due within one year	6 (36,796)	(41,026)	(48,119)
Net current liabilities	(18,199)	(33,875)	(28,809)
Net assets	125,730	257,163	225,260
Capital and reserves			
Called up share capital	39,219	40,794	40,069
Capital redemption reserve	18,050	16,475	17,200
Share premium account	985	949	985
Share purchase reserve	85,234	84,899	85,234
Warrant exercise reserve	417	417	417
Capital reserve	(25,093)	108,150	74,953
Revenue reserve	6,918	5,479	6,402
Equity shareholders' funds	125,730	257,163	225,260
Net asset value per ordinary share	8 80.15p	164.19p	143.59p

The Notes on pages 11 and 12 form an integral part of these accounts.

Cash Flow Statement

	(Unaudited) For the six months ended 31 October 2008 £'000	(Unaudited) For the six months ended 31 October 2007 £'000	(Audited) For the year ended 30 April 2008 £'000
Net cash inflow from operating activities	5,937	4,432	5,770
Net cash outflow from servicing of finance	(1,411)	(755)	(2,576)
Taxation paid	(67)	–	(34)
Net cash inflow from investment activities	10,100	1,555	5,422
Equity dividends paid	(3,451)	(3,131)	(5,719)
Net cash (outflow)/inflow from financing	(7,500)	3,830	6,699
Net cash inflow	3,608	5,931	9,562
Reconciliation of net cash flow to movement in net debt			
Net cash outflow	3,608	5,931	9,562
Movement in borrowings	7,500	(5,000)	(7,500)
Movement in net debt resulting from cash flows	11,108	931	2,062
Net debt brought forward	(32,084)	(34,146)	(34,146)
Net debt carried forward	(20,976)	(33,215)	(32,084)

The Notes on pages 11 and 12 form an integral part of these accounts.

Notes to the Accounts

1. Accounting Policies and Responsibility Statement

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

The financial information for each of the six month periods ended 31 October 2008 and 31 October 2007 comprises non-statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The financial information for the year ended 30 April 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 half yearly 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 30 April 2008.

2. Income

	(Unaudited) For the six months ended 31 October 2008 £'000	(Unaudited) For the six months ended 31 October 2007 £'000	(Audited) For the year ended 30 April 2008 £'000
UK franked dividend income	3,816	3,700	7,571
UK unfranked dividend income	163	108	206
Stock dividends	190	–	–
Interest on deposits	471	103	178
Other income	16	2	2
	4,656	3,913	7,957

3. Management fees and interest payable

The investment management fee and finance costs on borrowings for investment purposes are apportioned 30% to revenue and 70% to capital.

4. (Loss)/return per ordinary share

	(Unaudited) For the six months ended 31 October 2008 £'000	(Unaudited) For the six months ended 31 October 2007 £'000	(Audited) For the year ended 30 April 2008 £'000
Revenue	3,967	3,170	6,681
Capital	(100,046)	13,754	(19,443)
Total	(96,079)	16,924	(12,762)
Weighted average number of shares	156,876,900	156,720,922	156,789,605
Revenue	2.53p	2.02p	4.26p
Capital	(63.77)p	8.78p	(12.40)p
Total	(61.24)p	10.80p	(8.14)p

5. Dividends

The first interim dividend for the year ending 30 April 2009 of 1.65 pence per ordinary share will be paid on 30 January 2009 to shareholders on the register at 12 December 2008.

On 31 July 2008 the Company paid a second interim dividend of 2.20 pence per share for the year ended 30 April 2008.

6. Creditors: Amounts falling due within one year

Included within creditors of £36.8m is a loan of £35.0m (31 October 2007: £40.0m, 30 April 2008: £42.5m) drawn down under the Company's facility with ING Bank N.V.

Notes to the Accounts continued

7. Called up share capital

	(Unaudited) At 31 October 2008 £'000	(Unaudited) At 31 October 2007 £'000	(Audited) At 30 April 2008 £'000
Authorised:			
1,272,500,000 ordinary shares of 25p each	318,125	318,125	318,125
Allotted, Called up and Fully paid:			
Shares in issue:			
Opening balance 156,876,900 (31 October 2007: 157,376,900; 30 April 2008: 157,376,900)			
ordinary shares of 25p	39,219	39,344	39,344
Repurchase of nil shares into treasury (31 October 2007: 850,000; 30 April 2008: 850,000)	-	(212)	(213)
Re-issue of nil shares from treasury (31 October 2007: 100,000; 30 April 2008: 350,000)	-	25	88
	39,219	39,157	39,219
Shares in treasury:			
3,399,000 shares (31 October 2007: 5,799,000, 30 April 2008: 5,799,000) held in treasury	850	1,450	1,450
Repurchase of nil shares into treasury (31 October 2007: 850,000; 30 April 2008 850,000)	-	212	213
Re-issue of nil shares from treasury (31 October 2007: 100,000; 30 April 2008: 350,000)	-	(25)	(88)
Cancellation of 3,399,000 shares from treasury (31 October 2007: 750,000; 30 April 2008: 2,900,000)	(850)	-	(725)
	-	1,637	850
Closing balance* 156,876,900 (31 October 2007: 163,175,900; 30 April 2008: 160,275,900)			
ordinary shares of 25p each.	39,219	40,794	40,069
*Represented by:			
Shares in issue	156,876,900	156,626,900	156,876,900
Shares held in treasury	-	6,549,000	3,399,000
	156,876,900	163,175,900	160,275,900

8. Net asset value per ordinary share

	(Unaudited) 31 October 2008 £'000	(Unaudited) 31 October 2007 £'000	(Audited) 30 April 2008 £'000
Net assets attributable to ordinary shareholders	125,730	257,163	225,260
Ordinary shares in issue at end of period	156,876,900	156,626,900	156,876,900
Net asset value per ordinary share	80.15p	164.19p	143.59p

Company Summary

The Company

Schroder UK Growth Fund plc is an independent investment trust whose shares are listed on the London Stock Exchange. As at 23 December 2008, 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 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.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 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.

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 PO Box 28448, Finance House, Orchard Brae, Edinburgh, Scotland EH4 1WQ. The helpline telephone number of Equiniti Registrars is 0871 384 2449.

Equiniti maintain a web-based enquiry service for shareholders. Currently the "Shareview" site (address below) contains information available on public registers.

Shareholders will be invited to enter their name, shareholder reference (account number) and post code and will be able to view information on their own holding. Visit www.shareview.co.uk for more details.

Association of Investment Companies

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

www.schroderukgrowthfund.com