Schroder
UK Growth Fund plc

Report and Accounts for the year ended 30 April 2012

Schroders

Investment Objective

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

Directors

Alan Clifton (Chairman)*†
Aged 65, Chairman since 5 August 2002, was appointed as a Director on 18 June 2001 and was previously the Managing Director of Morley Fund Management (now Aviva Investors), the asset management arm of Aviva plc. He is currently Chairman of JP Morgan Japanese Smaller Companies Trust plc and of International Biotechnology Trust plc and a Director of Invesco Perpetual Select Trust plc and Macau Property Opportunities Fund Ltd and a number of other investment companies.

Andrew Hutton*†
Aged 54, was appointed as a Director on 3 September 2008. He is owner and Director of A.J. Hutton Ltd., an investment advisory firm established in 2007. He was previously Managing Director of JP Morgan. He is currently Chairman of JP Morgan Global Emerging Markets Income Trust PLC.

Bob Cowdell*†
Aged 49, was appointed as a Director on 1 November 2011. A solicitor, he was previously co-founder and Head of the ABN AMRO Global Investment Funds Team, Head of Financials at RBS Hoare Govett and a Managing Director of RBS Global Banking & Markets.

Stella Pirie OBE*†
Aged 61, 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 was previously a Director of GCap Media Plc.

David Ritchie*†
Aged 67, was appointed as a Director on 6 August 2001. He is Chairman 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 and has been a Director and Chairman of a number of other investment companies.

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

Mr Clifton is Chairman of the Nomination and Management Engagement Committees

Mrs Pirie is Chairman of the Audit Committee

Advisers

Investment Manager and Company Secretary
Schroder Investment Management Limited
31 Gresham Street,
London EC2V 7QA
Telephone : 020 7658 3206

Registered Office
31 Gresham Street,
London EC2V 7QA

Bankers
ING Bank NV
60 London Wall,
London EC2M 5TQ

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

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside,
London SE1 2RT

Stockbrokers
Winterflood Investment Trusts
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder Helpline: 0800 032 0641*
Website: www.shareview.co.uk

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

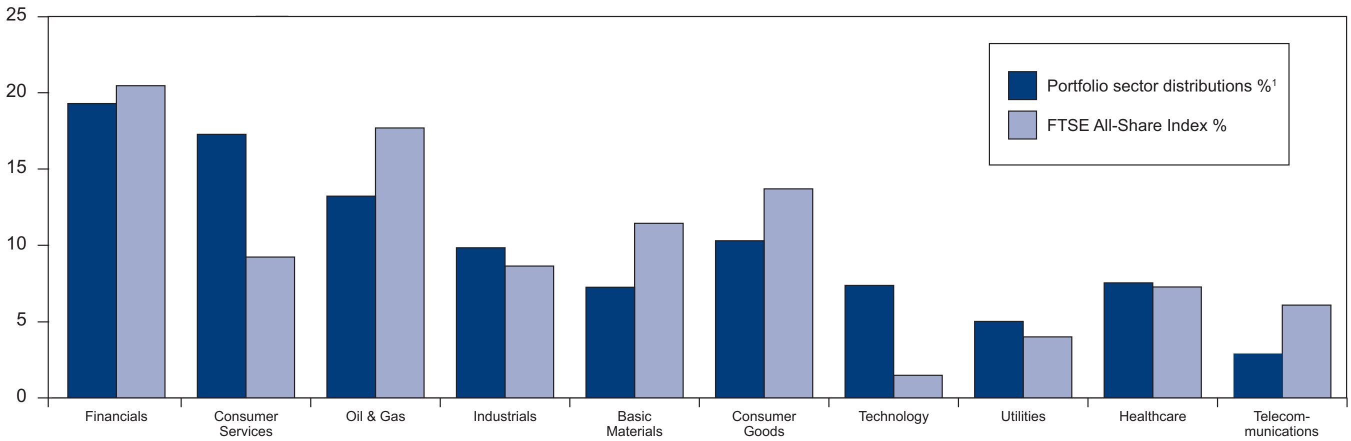
Contents

Financial Highlights

	30 April 2012	30 April 2011	% Change
Net asset value per share ('NAV') – undiluted	**138.89p**	148.90p	(6.7)
NAV – diluted	**137.73p**	144.24p	(4.5)
Ordinary share price	**126.50p**	137.12p	(7.7)
Subscription share price	**3.75p**	16.25p	(76.9)
Ordinary share price discount to diluted NAV	**8.2%**	4.9%	
Total assets[1]	**£249.2m**	£257.1m	(3.1)
Loans	**£25.0m**	£25.0m	0.0
Shareholders' funds	**£224.2m**	£232.1m	(3.4)
Market capitalisation (excluding Subscription shares)	**£204.2m**	£213.8m	(4.5)
Ordinary shares in issue	**161.4m**	155.9m	+3.5
Subscription shares in issue	**21.4m**	28.8m	(25.7)
	Year ended 30 April 2012	Year ended 30 April 2011	
Dividends per share	**3.50p**	3.00p	+16.7
Diluted net asset value per share total return[2]	**(2.5)%**	17.1%	
FTSE All-Share Index total return[3]	**(2.0)%**	13.7%	
Ongoing Charges[4]	**0.88%**	0.70%	

[1] Net assets plus borrowings used for investment purposes.
[2] Source: Morningstar.
[3] Source: Datastream.
[4] Ongoing Charges represent the management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average daily undiluted NAV during the year. The Ongoing Charges figure is calculated in accordance with guidance issued by the AIC in May 2012 and replaces the Total Expense Ratio published in previous years. The comparative figure represents the expenses calculated as above, expressed as a percentage of the average month end undiluted NAV during the year.

Comparison of Portfolio Sector Distribution with the FTSE All-Share Index at 30 April 2012



Source: Schroders
[1] Sector distributions are shown as a percentage of total assets.

Ten-Year Record

As at 30 April	Total assets £m	Shareholders' funds[1] £m	Diluted NAV per Ordinary share[2] pence	Undiluted NAV per Ordinary share pence	Market price of Ordinary shares pence
2012	249.2	224.2	137.73	138.89	126.50
2011	257.1	232.1	144.24	148.90	137.12
2010	222.1	197.1	125.78	128.38	117.25
2009	176.4	141.4	N/A	90.16	83.50
2008	267.8	225.3	N/A	143.59	134.25
2007	279.5	244.5	N/A	155.36	143.75
2006	257.1	229.1	N/A	139.59	123.00
2005	204.3	179.3	N/A	108.90	94.00
2004	192.9	172.9	N/A	102.92	93.50
2003	161.7	141.7	N/A	84.24	77.75

[1] From 1 May 2002 to 30 April 2012, the Company purchased 40,321,772 Ordinary shares for cancellation, at a cumulative cost of £44.5 million. During the same period 9,981,662 Subscription shares were converted into Ordinary shares for a total consideration of £11.6 million.
[2] Diluted NAV per Ordinary share assumes that all outstanding dilutive Subscription shares in issue at the year end are converted at the price available at the next conversion opportunity.

As at 30 April	Return per Ordinary share pence	Net dividends per Ordinary share pence	Cost of running trust[1] £'000	Gearing ratio[2] %
2012	3.49	3.25	1,887	1.08
2011	2.78	3.00	1,436	1.09
2010	2.18[3]	2.75	1,292[3]	1.06
2009	3.66	3.85	979	1.12
2008	4.11[3]	3.85	1,489[3]	1.14
2007	3.94	3.50	1,539	1.14
2006	3.36	3.35	1,366	1.12
2005	3.20	3.15	1,208	1.13
2004	2.96	3.00	1,159	1.10
2003	2.91	3.00	1,057	1.13

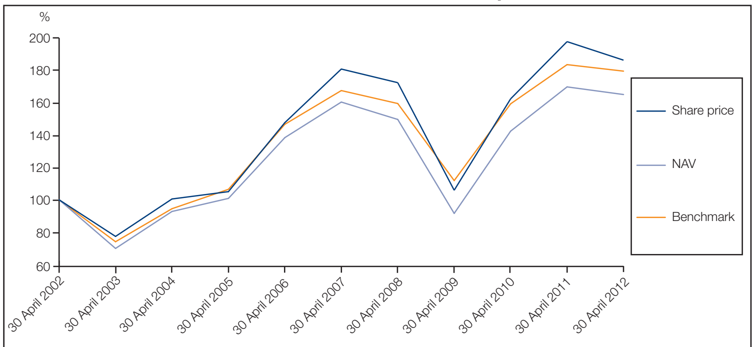
[1] Operating expenses excluding finance costs, any performance fee payable and tax relief.
[2] Total assets less cash, expressed as a percentage of net assets.
[3] Excludes backdated VAT recovered on the management fee and any interest receivable thereon.

Total returns for periods ended 30 April 2012

	Share price %	NAV %	FTSE All-Share Index %
1 Year	(5.31)	(2.52)	(2.00)
2 Years	13.27	14.13	11.41
3 Years	65.05	67.22	52.19
4 Years	7.32	9.20	11.29
5 Years	2.77	2.61	6.48
6 Years	23.34	17.05	19.98
7 Years	66.20	54.14	58.81
8 Years	72.57	65.41	75.77
9 Years	114.57	108.51	114.84
10 Years	73.30	55.25	67.53

Source: Morningstar/Datastream.

Ten-year share price, benchmark and NAV total returns to 30 April 2012[1]



[1] Rebased to 100 at start of period

Source: Morningstar/Datastream.

Chairman's Statement

Performance

The twelve months ended 30 April 2012 was a challenging period for the Company. During the year, the Company's net asset value produced a negative total return of 2.5%, while the share price produced a negative total return of 5.3%. These compare with a negative total return of 2.0% produced by the FTSE All-Share Index over the same period.

There was a welcome sharp increase in the Company's investment income for the period which came from a general recovery in UK companies' dividends, boosted by the combination of above-average increases in a number of the holdings and, in some cases, from the Manager adding to holdings that paid an above-average yield. Offsetting this rise in revenue was a higher level of fees paid to our Manager on a change in remuneration arrangements. Effective 1 May 2011 our Manager is no longer entitled to a performance fee on rolling results over a three year time period but instead is paid a flat fee of 0.65% of net assets rather than one of 0.4% of gross assets plus a performance entitlement. Your Board believes that this more straightforward arrangement is to the Company's advantage in simplifying its fee obligations yet still incentivising its Manager to produce the best possible results for all shareholders.

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 Investment 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 might impact on the Company's ability to pay an increasing dividend stream.

For the year under review, as mentioned, income from the portfolio increased by just over 30% on the previous year from £4.3 million to £5.6 million. Earnings per share increased by 26%, from 2.78p to 3.49p, due to net share issues during the year on exercise of Subscription shares and after allowing for buy-backs.

The Directors have declared a second interim dividend of 2.00p per share, making a total of 3.50p per share for the year as a whole, an increase of 16.7% over total dividends paid for the previous year. The second interim dividend will be payable on 31 July 2012 to shareholders on the Register on 6 July 2012.

Gearing Policy

During the year, the Company maintained its borrowing facility at £35 million and drawings at £25 million.

The net effective 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 9.4% and had decreased to 7.5% by the end of the year. The average net effective gearing level during the year under review was 6.6%. 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 noted that the effect of gearing is to exaggerate underlying investment performance.

Discount Management Policy

The Board continued to operate a formal discount management policy during the year under review and, accordingly, the Company seeks 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.

This policy was broadly effective during the year ended 30 April 2012 notwithstanding the challenging market conditions, and the average discount during the year (based on diluted, capital only net asset values) was 5.5%.

A total of 1,860,000 shares were purchased for cancellation during the year in support of the Board's discount management policy. 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 long-term discount level established by the formal discount management policy.

Chairman's Statement

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

Issue of Subscription Shares

A total of 7,376,695 Subscription shares were converted into Ordinary shares during the year ended 30 April 2012 and there are now 21,393,197 Subscription shares in issue.

A Circular, reminding shareholders of the final subscription date on 31 July 2012, the final Subscription share price of 129p per share, outlining procedures for subscription and setting out the base costs for the Subscription shares for capital gains tax purposes, will be sent to all Subscription shareholders with the Annual Report.

We would urge all Subscription shareholders to consider whether they wish to convert their Subscription shares into Ordinary shares on 31 July 2012, as this is the final exercise date. By way of reference, for the period between 30 April 2012 and 20 June 2012, the Ordinary shares traded at prices between 115.25p and 129.00p per share. The subscription price for the one remaining subscription date is 129p per share. Investors should seek independent financial advice if they are unsure about what action to take.

The Board

As noted in my last statement in the Half-Yearly Report, the Board has welcomed Bob Cowdell to its ranks following the retirement of Keith Niven after many years of distinguished service to the Company. Looking ahead, the Board intends to continue with its policy of phased rejuvenation so that its deliberations can at all times benefit from a mix of fresh and experienced thinking.

Outlook

The Company's net asset value today is much the same as it was not just a year ago but also four years ago. The volatility in the market since then has tested many investors' appetite for equities, and the Eurozone's difficulties are likely to continue to test that appetite, but your Board believes that the events of the last four years have had two consequences that support the Company's strategy. First, they have shown that well-managed companies with strong market shares have a new opportunity to grow profits materially above those of their peers. Secondly, with the general increase in profits, many share valuations are now lower than in 2008 and, given any stabilisation of market conditions, would look very attractive.

In the short-term it is inevitable that developments in the Eurozone – and more broadly the outlook for global growth – will continue to drive the direction of stock markets. Your Board continues to look to the Investment Manager to target a concentrated list of shares expected to appreciate materially over the next 3-5 years.

Annual General Meeting

The Annual General Meeting will be held at 12.00 noon on Tuesday 31 July 2012, 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

28 June 2012

Investment Manager's Review

Performance

Over the 12 months to 30 April 2012 the negative total return on the Company's net asset value was 2.5%, compared with the negative total return from the FTSE All-Share index of 2.0% (source: Morningstar).

Market and Economic Background

It has been a frustrating 12 months for growth investors, with most UK shares moving in line with macroeconomic news more than the merits of individual companies. When share prices fell on continuing bad news from the Eurozone, as last summer and since March, almost all cyclical companies underperformed more defensively-positioned companies; when share prices rose, as they did in the first quarter of this year after the ECB injected liquidity into the Eurozone's banking systems, the reverse was the case. The result was a stock market that ended close to where it started, and with individual shares' short-term movements depending largely on whether the companies were deemed 'cyclical' or 'defensive'.

While frustrating, this circular trading is understandable at a time when there has been so much uncertainty about the key top-down factors: the future of the Eurozone and global growth. The former is probably no clearer today than it was 12 months ago. The liquidity problems have widened beyond the countries originally most affected (Greece and Ireland) to Spain and potentially Italy, as might have been expected a year ago. The resolution remains as uncertain as ever.

Global growth, in the meantime, has been mixed. The UK economy has now essentially been flat in real terms for over a year and a half. The US, by contrast, has generally performed slightly above expectations, while most emerging markets have continued to grow well in real terms. The combination has been enough for most UK- listed companies to continue to grow their profits and cash flow, the latter leading to continued recovery in dividends.

Performance Review

While quarter-to-quarter relative performance has been a function of the circular trading mentioned above, over the year the Company's net asset value performed close to the broader market. The frustration for the portfolio has been that most of the companies held have been performing operationally as hoped. Many have shown the benefits of being internationally-diversified (eg Burberry, Rolls Royce), while it has been reassuring to see the intrinsic value in others being reflected either in takeover/ merger bids (eg Autonomy, Charter, Xstrata, Misys and – after the end of the fiscal year – Logica) or in profits that have shown the companies' strengths despite the difficult domestic trading environment (eg Taylor Wimpey, Next and Debenhams).

Some of the disappointments offsetting these successes were stock-specific, such as Bumi (where corporate governance issues have affected the share price) and Genel (where the market has reacted against its acquisition of Kurdistan oil assets). There has also been weakness in some of the cyclicals, such as Lloyds Banking and Home Retail. We continue to believe that these share prices' recovery potential is material.

Apart from selling Charter and Autonomy after the takeover bids, most of the transactions in the year were adding to holdings when they were weak (such as Genel and Carnival, the latter after one of its ships ran aground), while taking some profits in strong-performing shares like Burberry. A holding was restarted in energy utility Drax, where coal/gas spreads are helpful and where there is potential for biomass production.

Outlook

UK economic growth was near zero in 2011 and is likely to be the same in 2012, but many of the headwinds are beginning to fall away. Falling inflation should relieve some of the squeeze on real incomes. Modest job creation in the private sector is offsetting the public sector job cuts. The economy should gently improve into 2013. In this environment we believe that by investing in a small number of well-financed, attractively valued companies that can prosper in a tough environment, we can deliver returns considerably ahead of the market over the long-term – irrespective of short-term volatility.

Investment Manager's Review

That volatility seems likely to continue. Deleveraging by European banks will continue to drag on European growth, the US recovery remains fragile, and China's transition from investment-led growth to a greater focus on the consumer has implications for the commodity-exposed sectors. Meanwhile, looming over everything is the Eurozone. There is no obvious solution to the current nexus of austerity, deficit reduction, unemployment, voter tolerance, and competitiveness. The portfolio does not aspire to an explicit view on how/if it gets resolved, beyond noting that 'a muddle-through' scenario is usually the most likely outcome.

UK equity valuations, in the meantime, seem to discount much of the uncertainty. Interest rates are set to remain low and there is potential for further quantitative easing in the US and the UK should the growth outlook deteriorate. We expect continued volatility in markets as these attractions of low valuation and abundant liquidity compete with the uncertain economic environment. The longer term hope is that 'muddle-through', or indeed any political action to break the Eurozone's logjam, could increase ratings as the worst fears of the bears are averted.

The portfolio remains a concentrated list of our strongest conviction ideas, focussed on companies that generate attractive returns on capital, have good long-term prospects or opportunities to improve profitability. The portfolio looks similar to a year ago, with most of the changes coming from the takeovers. These continue to illustrate the extent to which a concentrated portfolio like this can depend on company events rather than larger market themes. The current holdings are still based on a 3-5 year view of their prospects.

The holdings that are most overweight the benchmark are Tate & Lyle, Misys, Taylor Wimpey, Debenhams, and Virgin Media, while the portfolio does not hold many of the large components of the benchmark such as HSBC, Vodafone, BP, and British American Tobacco. The net effective gearing at the end of April was 7.5%, to reflect both our long-term view about the market and the attractiveness of the holdings in the portfolio.

Schroder Investment Management Limited
28 June 2012

Investment Portfolio

As at 30 April 2012

Company	Sector classification	Principal activity	Market value of holding £'000	% of shareholders' funds
GlaxoSmithKline	Healthcare	Pharmaceuticals	11,999	5.35
Royal Dutch Shell	Oil and Gas	Integrated oil and gas	10,246	4.57
Xstrata	Basic Materials	Diversified mining	10,004	4.46
Tate & Lyle	Consumer Goods	Corn and sugar refining	9,658	4.31
BG	Oil and Gas	Oil and gas exploration and production	9,498	4.23
Misys	Technology	Global application and software services	8,816	3.93
Taylor Wimpey	Consumer Goods	House building	8,694	3.87
Burberry	Consumer Goods	Designing and sourcing apparels and accessories	8,123	3.62
Rolls Royce	Industrials	Power systems manufacturer	7,652	3.41
Debenhams	Consumer Services	Fashion, accessories and homeware retailing	7,614	3.40
Legal & General	Financials	Financial services	7,551	3.37
Experian	Industrials	Credit and marketing services	7,479	3.34
Rio Tinto	Basic Materials	Mining	7,455	3.33
Lloyds Banking	Financials	Banking and financial services	7,131	3.18
Standard Chartered	Financials	Banking and financial services	7,092	3.16
Virgin Media	Telecommunications	Telecommunications and media services provider	6,986	3.12
Carnival	Consumer Services	Cruise line operator	6,679	2.98
International Airlines	Consumer Services	International airline	6,336	2.83
Ladbrokes	Consumer Services	Betting and gaming	6,201	2.77
Drax	Utilities	Power generation	6,185	2.76
Twenty largest investments[1]			**161,399**	**71.99**
Next	Consumer Services	Fashion and accessories	6,160	2.75
Shire	Healthcare	Speciality pharmaceuticals	6,111	2.72
Centrica	Utilities	National energy provider	5,850	2.61
Whitbread	Consumer Services	Leisure	5,573	2.49
Barclays	Financials	Banking and financial services	5,440	2.42
BHP Billiton	Basic Materials	Global mining	5,404	2.41
Invensys	Technology	Global technology	5,390	2.40
ICAP	Financials	Interdealer broker	5,377	2.40
Reed Elsevier	Consumer Services	Professional publishing	5,319	2.37
Unilever	Consumer Goods	Consumer goods	5,268	2.35
Resolution	Financials	Speciality finance	4,947	2.21
Royal Bank of Scotland	Financials	Banking and financial services	3,922	1.75
Genel Energy	Oil and Gas	Oil producer	3,875	1.73
Logica	Technology	Technology solutions	3,488	1.56
Home Retail	Consumer Services	Home and general merchandising retailer	2,417	1.08
Melrose	Industrials	Engineering	2,282	1.01
Bumi	Basic materials	Mining and resources	1,878	0.84
Total investments[2]			**240,100**	**107.09**
Net current liabilities			**(15,896)**	**(7.09)**
Total equity shareholders' funds			**224,204**	**100.00**

[1] At 30 April 2011, the twenty largest investments represented 72.92% of total equity shareholders' funds.

[2] Total investments comprises entirely investments in equity shares.

Report of the Directors

Business Review

Company's Business

The Company carries on business as an investment trust and is an investment company within the meaning of section 833 of the Companies Act 2006. In order to continue to obtain exemption from capital gains tax, the Company has conducted itself with a view to being an approved investment trust for the purposes of Section 1158 of the Corporation Tax Act 2010. The last accounting period for which the Company has been treated as approved by HMRC is the year ended 30 April 2011 and the Company has subsequently directed its affairs so as to enable it to continue to qualify for such approval. The Company is not a close company for taxation purposes.

Investment 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 investment policy is to invest 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 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. This investment approach places more emphasis on generating attractive absolute returns 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 Manager's open-ended unit trust – The Schroder UK Alpha Plus Fund.

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 13.

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 2012, the Manager held 37 investments spread over 11 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.

Report of the Directors

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 and the management of the discount and 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 Investment Manager and form the basis of discussions at every board meeting. On a regular basis, the Board also reviews the investment processes of the Investment Manager and considers reports from its broker on the perception of shareholders and the market on the Investment Manager's performance, and the Company's strategy.

For the year ended 30 April 2012, the Company produced a negative total return on diluted net asset value of 2.5% compared to a negative total return of 2.0% for the benchmark. Charts showing the Company's sector distribution measured against the benchmark as at 30 April 2012 and ten year performance can be found on pages 2 and 3.

Each year the Board conducts an assessment of the Investment 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 Investment Manager and believes that it has the depth of resource in its management team to enable the Company to outperform over the longer-term, backed by strong distribution capabilities and administration.

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 Schroders' 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 in November 2006, under which the Company seeks 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 approved at the Annual General Meeting held in August 2011.

The Directors utilised the Company's share buy-back powers during the year under review and a total of 1,860,000 (2011: 41,000) Ordinary shares were bought back for cancellation. At 30 April 2012, the Company's share price stood at a discount of 8.2% to net asset value, which compared with that of the peer group average discount, which stood at 12.8% (source: AIC).

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 Ongoing Charges of the Company under review.

An analysis of the Company's costs, including the management fee, Directors' fees and administration 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 the fee, on an annual

Report of the Directors

basis. Services (including costs) provided by most other providers including bankers, auditors, insurance providers and printers are also reviewed annually.

The Ongoing Charges for the year ended 30 April 2012 (representing the management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average daily undiluted net asset values during the year) was 0.88%. The Ongoing Charges figure is calculated in accordance with guidance issued by the AIC in May 2012 and replaces the Total Expense Ratio published in previous years.

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:

Financial 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 Investment Manager appropriate strategies to mitigate any negative impact of substantial changes in markets.

A full analysis of the financial risks facing the Company is set out in note 20 on pages 36 to 39.

The Company utilises a credit facility, currently in the amount of £35 million, which increases the funds available for investment ("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.

Strategic Risk

Over time, investment vehicles and asset classes can become out of favour with investors or may fail to meet their investment objectives. This may be reflected in a wide discount of the share price to net asset value per share. 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.

Accounting, Legal and Regulatory Risk

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

Breaches of the UK Listing Rules, the Companies Acts or other regulations with which the Company is required to comply, could lead to a number of detrimental outcomes and damage the Company's reputation. Breaches of controls by service providers, including the Investment Manager, could also lead to reputational damage or loss.

The Board's system of internal control seeks to mitigate the potential impact of these risks and it also relies on its Investment Manager and other advisers to assist it in ensuring continued compliance.

Report of the Directors

The Directors submit their Report and the Audited financial statements for the year ended 30 April 2012.

Revenue and Earnings

The net revenue return before finance costs and taxation for the year was £5,801,000 (2011: £4,477,000). After deducting finance costs and taxation the amount available for distribution to shareholders was £5,603,000 (2011: £4,300,000), equivalent to net revenue of 3.49p (2011: 2.78p) per Ordinary share.

Dividend Policy

Having already paid a first interim dividend of 1.50p per share, the Board has now declared a second interim dividend of 2.00p per share for the year ended 30 April 2012 which is payable on 31 July 2012 to shareholders on the Register on 6 July 2012. Thus, dividends for the full year amount to 3.50p per share (2011: 3.00p 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 July.

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, income from investee companies may be somewhat more volatile in future.

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 currently 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.

Directors and their Interests

The Directors of the Company and their biographical details can be found on the inside front cover. All Directors held office throughout the year under review.

In accordance with the Company's Articles of Association and its policy on tenure as outlined in the Corporate Governance Statement, Mr Cowdell is seeking election at the forthcoming Annual General Meeting having been appointed during the year and the Board recommends that shareholders vote in favour of his election. Mrs Pirie, Mr Clifton, Mr Hutton and Mr Ritchie will also retire at the Annual General Meeting and, being eligible, offer themselves for re-election. The Board has assessed the independence of all Directors. Mrs Pirie, Mr Clifton and Mr Ritchie are considered to be independent in character and judgement, notwithstanding that they have served on the Board for more than nine years.

The Board, having reviewed its performance, considers that Mrs Pirie, Mr Clifton, Mr Hutton and Mr Ritchie 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.

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 2012, all of which were beneficial, were as follows:

Director	**Ordinary shares of 25p each 30 April 2012**	Ordinary shares of 25p each 1 May 2011
Alan Clifton	**42,000**	42,000
Bob Cowdell[1]	**8,050**	N/A
Andrew Hutton	**50,000**	50,000
Keith Niven[2]	**N/A**	47,379
Stella Pirie	**28,184**	27,729
David Ritchie	**49,000**	49,000

[1] Appointed as a Director of the Company on 1 November 2011.
[2] Retired as a Director of the Company on 31 October 2011.

No Director held any Subscription shares during the year or to the date of this Report.

There have been no changes in the above holdings between the end of the financial year and 29 June 2012.

Report of the Directors

Share Capital

As at the date of this Report, the Company had 160,873,790 Ordinary shares of 25p each and 21,393,197 Subscription shares of 1p each in issue (no shares were held in Treasury). The Subscription shares carry no voting rights; the Ordinary shares each carry one voting right. Accordingly, the total number of voting rights of the Company as at the date of this Report is 160,873,790. Details of changes in the Company's share capital during the year are given in note 13 to the accounts on page 34.

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 ordinary share capital:

	Number of Ordinary shares	Percentage of total voting rights
Investec Wealth & Investment Limited	14,776,840	9.18
Quilter & Co Ltd	11,176,162	6.95
Rathbone Brothers PLC	8,316,132	5.17
Legal & General Group Plc	6,160,643	3.82
Barclays plc	6,018,095	3.74
East Riding of Yorkshire Council	5,000,000	3.11

The Company has received no notifications in respect of interests in voting rights attaching to the Company's issued Subscription share capital.

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 Chairman's Statement and the Investment Manager's Review. The Board continues to consider that the Investment Manager has the appropriate depth of resource to achieve above-average returns in the longer-term. The Board therefore considers that the Investment Manager's continued appointment under the terms of the current Investment Management Agreement, further details of which are set out below, remains in the interests of shareholders as a whole.

The Investment Manager provides investment management and company secretarial services to the Company in accordance with an Investment Management Agreement. The investment management agreement can be terminated by either party on 3 months' notice or on immediate notice in the event of certain breaches or the insolvency of either party. With effect from 1 May 2011, a flat management fee of 0.65% on the net assets of the Company (defined as total assets less all current liabilities) has been charged and the previous performance fee arrangements ended. The amount of management fee payable in respect of the year ended 30 April 2012 is shown in note 4 to the accounts on page 30.

Under the Investment Management Agreement, Schroder Investment Management Limited is entitled to a secretarial fee amounting to £82,000 (inclusive of VAT) for the year ended 30 April 2012 (2011: £78,000). This fee increases/decreases each year in line with the Retail Price Index.

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 2012 (2011: nil).

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the

Report of the Directors

Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements respectively.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Report of the Directors, Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

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

Going Concern

The Directors believe that, having considered the Company's investment objective (see inside front cover), risk management policies (see pages 36 to 39), capital management policies and procedures (see pages 39 to 40), the nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the financial statements.

Corporate Governance Statement

The Company's Corporate Governance Statement is set out on pages 18 to 22 and forms part of the Report of the Directors.

Anti-Bribery Policy

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

Environmental Policy

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.

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 remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP and therefore has not considered it necessary to require an independent tender process. The auditors are required

Report of the Directors

to rotate the Senior Statutory Auditor every five years and this is the fifth year that the current Senior Statutory Auditor has been in place. The appointment of a successor is under consideration by the Audit Committee.

In order to safeguard the Auditors' objectivity and independence, the Audit Committee has adopted a pre-approval policy on the engagement of the Auditors to supply non-audit services to the Company. The Auditors are due £2,000 (2011: £nil) payment for non-audit services provided in respect of taxation compliance.

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 or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Annual General Meeting ("AGM")

The following information is important and requires your immediate attention. If you are in any doubt about the action you should take, you should consult an independent financial adviser, authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your Ordinary shares in the Company, please forward this document with its accompanying form of proxy at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

The AGM will be held on Tuesday 31 July 2012 at 12 noon. The formal notice of the AGM is set out on pages 41 and 42.

Special Business to be proposed at the AGM

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

Resolution 10 – Authority to allot shares (ordinary resolution) and Resolution 11 – Power to disapply pre-emption rights (special resolution)

At the AGM held on 1 August 2011, the Directors were granted authority to allot a limited number of new Ordinary shares or shares held in Treasury for cash. No shares have been allotted under this authority, which will expire at the forthcoming AGM. At the AGM held in August 2011, power was also given to the Directors to allot a limited number of new Ordinary shares, or shares held in Treasury, other than pro rata to existing shareholders. This power will also expire at the forthcoming AGM and resolutions to renew both authorities will be proposed at the forthcoming AGM, the details of which are set out in full in the Notice of Meeting.

An ordinary resolution will be proposed to authorise the Directors to allot shares for cash up to a maximum aggregate nominal amount of £2,010,922 (being 5% of the issued share capital as at 29 June 2012). A special resolution will also be proposed to give the Directors power to allot securities for cash on a non pre-emptive basis up to a maximum aggregate nominal amount of £2,010,922 (being 5% of the Company's issued share capital (excluding any shares held in Treasury) as at 28 June 2012). Pre-emption rights under the Companies Act 2006 apply to the resale of Treasury shares for cash as well as the allotment of new shares. Resolution 11 therefore relates to both issues of new Ordinary shares and the re-sale of Treasury shares.

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

If renewed, both authorities will expire at the conclusion of the AGM in 2013 unless renewed or revoked earlier.

Resolution 12 – Authority to make market purchases of the Company's own Ordinary shares (special resolution)

At the AGM on 1 August 2011, the Company was granted authority to make market purchases of up to 23,370,473 Ordinary Shares of 25p each for cancellation. A total of 2,810,000 Ordinary shares have been bought back under this authority, which will expire at the forthcoming AGM.

The Directors believe it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy-back its Ordinary shares in the market as they keep under review the share price discount to net asset value and the purchase of Ordinary shares. A special resolution will be proposed at the forthcoming AGM

Report of the Directors

to give the Company authority to make market purchases of up to 14.99% of the Ordinary shares in issue at 28 June 2012. The Directors will exercise this authority only if they consider that any purchase would be for the benefit of the Company and its shareholders, taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled or held in Treasury. The authority to be given at the 2012 AGM will lapse on the date of the next AGM, unless renewed or revoked earlier.

The maximum purchase price that may be paid for an Ordinary share will not be more than the greater of 5% above the average of the middle market values of the shares, as taken from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase and the higher of the price of the last independent trade in the shares and the highest then current independent bid for the shares on the London Stock Exchange. The minimum price will be 25p, being the nominal value per Ordinary share. The resolution to be put to shareholders will also authorise the Company to hold up to 5% of the issued share capital bought back in Treasury on the condition that such Treasury shares would only be sold at a premium to net asset value. Shares held in Treasury may be reissued or cancelled at a future date rather than simply cancelled at the time of acquisition. Any shares held in Treasury for 12 months will be cancelled.

Resolution 13 – Authority to make market purchases of the Company's own Subscription shares (special resolution)

At the AGM held on 1 August 2011, the Company was granted authority to make market purchases of up to 4,312,607 Subscription shares of 1p each for cancellation. No shares have been bought back under this authority, which will expire at the forthcoming AGM.

The Directors believe it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy back its Subscription shares in the market. A special resolution will be proposed at the forthcoming AGM to give the Company authority to make market purchases of up to 14.99% of the Subscription shares in issue at 28 June 2012. The Directors will exercise this authority only if they consider that the purchase would be for the benefit of the Company and its shareholders taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled. The authority to be given at the 2012 AGM will lapse on the date of the next AGM, unless renewed or revoked earlier.

The maximum purchase price that may be paid for a Subscription share will not be more than the greater of 5% above the average of the middle market values of the shares, as taken from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase and the higher of the price of the last independent trade in the shares and the highest then current independent bid for the shares on the London Stock Exchange. The minimum price will be 1p, being the nominal value per Subscription share.

Recommendation

The Board considers that the resolutions relating to the above items of special business are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommends to shareholders that they vote in favour of the above resolutions and the other resolutions to be proposed at the forthcoming AGM, as they intend to do in respect of their own beneficial holdings.

By Order of the Board
Alan Clifton
Chairman

28 June 2012

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 £200,000 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. The Directors' fees are reviewed annually by the Board and were last revised in 2009. For the year ended 30 April 2012, Directors received fees at the rate of £20,000 per annum and the Chairman received fees at the rate of £30,000 per annum to reflect his more onerous role. The Chairman of the Audit Committee received an additional fee rate of £2,500 per annum.

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

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

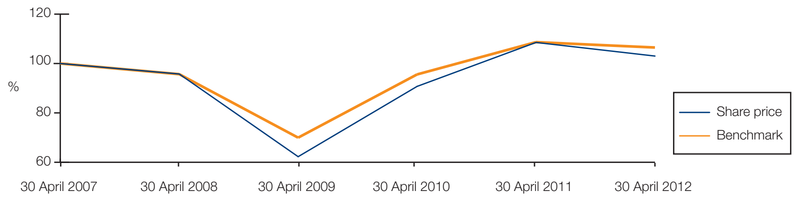
No Director has a service contract with the Company. However, Directors have a letter of appointment with the Company under which they are entitled to one month's notice in the event of termination. The terms of appointment are available for inspection at the Company's Registered Office address during 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 UK Corporate Governance Code, including the appropriateness of refreshing the Board and its Committees.

Performance Graph

This graph shows the Company's share price total return compared with its Benchmark, the FTSE All-Share Index, over the last 5 years.



Source: Morningstar/Datastream
[1]All data has been rebased to 100 at start of period

Remuneration

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

	2012	2011
	£	£
Alan Clifton	**30,000**	30,000
Bob Cowdell[1]	**10,000**	N/A
Andrew Hutton	**20,000**	20,000
Keith Niven[2]	**10,000**	20,000
Stella Pirie[3]	**21,875**	20,000
David Ritchie[4]	**20,625**	22,500
	112,500	112,500

[1] Appointed as a Director of the Company on 1 November 2011.
[2] Retired as a Director of the Company on 31 October 2011.
[3] Appointed Chairman of the Audit Committee on 1 August 2011.
[4] Resigned as Chairman of the Audit Committee on 1 August 2011.

The information in the above table has been audited (see the Independent Auditors' Report on page 23).

By Order of the Board
Schroder Investment Management Limited
Company Secretary

28 June 2012

Corporate Governance Statement

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

Compliance Statement

The UK Listing Authority requires all UK listed companies to disclose how they have complied with the provisions of the Code. This Corporate Governance Statement, together with the Statement of Directors' Responsibilities and Going Concern statement set out on pages 13 and 14, indicates how the Company has complied with the principles of good governance of the Code and its requirements on Internal Control.

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

Application of the Code's Principles

Role of the Chairman

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

Role of the Board

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

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

Composition and Independence

The Board currently consists of five non-executive Directors. The biography of each serving Director, including their age and length of service, may be found on the inside front cover of this Report. The Board considers each of the Directors to be independent of the Company's Investment Manager. The independence of each Director is considered on a continuing basis.

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

The Board is satisfied that it is of sufficient size, with an appropriate balance of skills and experience, independence and knowledge of both the Company and the wider investment company industry, to enable it to discharge its respective duties and responsibilities effectively.

Board Committees

The Board has delegated certain responsibilities and functions to Committees. Terms of Reference for each of these Committees, which are reviewed annually, are available on the Company's website at www.schroderukgrowthfund.com. Details of membership of the Committees at 30 April 2012 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 20.

Corporate Governance Statement

Audit Committee

The role of the Audit Committee, chaired by Mrs Pirie, 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 2012 and considered the annual and half-yearly accounts, the external Auditor's year-end report, management representation letters, the effectiveness of the audit process, the independence and objectivity of the external Auditor and internal controls operating within the management company and custodian.

Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft Annual Report and Accounts are considered. Having reviewed the performance of the external auditors, the Committee considered it appropriate to recommend their re-appointment. The Board supported this recommendation which will be put to shareholders at the forthcoming Annual General Meeting.

Management Engagement Committee

The role of the Management Engagement Committee is to ensure that the Company's Investment Manager remains suitable to manage the portfolio, that the management contract is competitive and reasonable for the shareholders, and that the Company maintains appropriate administrative and company secretarial support. The Committee also reviews the services provided by other third party service providers. In addition, the Committee reviews fees paid to Directors and makes recommendations to the Board in this regard. The Board considers each member of the Committee to be independent.

To discharge its duties, the Committee met on one occasion during the year ended 30 April 2012 and considered the performance and suitability of the Investment Manager, the terms and conditions of the management contract and the fees paid to Directors.

Nomination Committee

The role of the Committee is to consider and make recommendations to the Board on its composition so as to maintain an appropriate balance of skills, experience and diversity, including gender, and to ensure progressive refreshment of the Board. On individual appointments, the Committee leads the process and makes recommendations to the Board. The Board considers each member of the Committee to be independent.

Before the appointment of a new Director, the Nomination Committee prepares a description of the role and capabilities required for a particular appointment, having evaluated the balance of skills, knowledge and experience and diversity of the Board. When considering whether to replace a Director, the Company's policy on tenure is also taken into account. In light of this evaluation, the Nomination Committee will consider a range of candidates sourced either from recommendation from within the Company or by using external consultants.

The Nomination Committee will assess potential candidates on merit against a range of criteria including experience, knowledge, professional skills and personal qualities and independence if this is required for the role. Candidates' ability to commit sufficient time to the business of the Company is also key, particularly in respect of the appointment of the Chairman. The Chairman of the Nomination Committee is primarily responsible for interviewing suitable candidates and a recommendation will be made to the Board for final approval.

To discharge its duties, the Committee met once during the year under review and considered succession, planning, Board composition and future requirements. In this regard, it arranged for candidates to be interviewed and made recommendations to the Board.

The Committee considered the appointment of a non-executive Director during the year under review. The Committee did not believe that it was necessary to approach an external search consultancy or use open advertising in the recruitment of this Director, as the calibre of candidates found from sources within the Company was sufficiently high.

Tenure

The Directors have adopted a policy on tenure that is considered appropriate for an investment company. The Board does not believe that length of service, by itself, leads to a closer relationship with the Investment Manager or necessarily affects a Director's independence of character or judgement. Therefore, the independence of Directors will continue to be assessed on a case by case basis. In order to give shareholders the opportunity to endorse this policy, and in accordance with the provisions of the Code, any Director who has served for more than nine years will thereafter be subject to annual re-election by shareholders.

Corporate Governance Statement

Induction and Training
The Board has adopted a full, formal and tailored induction programme for new Directors, which is administered by the Company Secretary. Directors are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and its internal controls. Regulatory and legislative changes affecting Directors' responsibilities are advised to the Board as they arise, along with changes to best practice. Advisers to the Company provide relevant reports to the Board from time to time. In addition, the Chairman reviews the training and development needs of each Director annually as part of the evaluation process outlined below.

Board Evaluation
The Board has adopted a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. The last evaluation took place in June 2012. The evaluation takes place in two stages, firstly, the evaluation of individual Directors is led by the Chairman, and the evaluation of the Chairman's performance is led by the Chairman of the Audit Committee. Secondly, the Board evaluates its own performance and that of its Committees. The Directors meet at least once a year without the Chairman present and the Chairman of the Audit Committee chairs this meeting.

Evaluation is conducted utilising a questionnaire combined with one to one meetings if appropriate. The Board has developed criteria for use at the evaluation, which focuses on the individual contribution to the Board and its Committees made by each Director, an analysis of the time which Directors are able to allocate to the Company to discharge their duties effectively and the responsibilities, composition and agenda of the Committees and of the Board itself.

Meetings and Attendance
The Board meets at least five times each year. Additional meetings are also arranged as required and regular contact between Directors, the Investment Manager and the Company Secretary is maintained throughout the year. Representatives of the Investment Manager and Company Secretary attend each meeting and other advisers also attend when requested to do so by the Board. Attendance at the five scheduled Board meetings and at Committee meetings held during the year under review is set out in the table below.

Director	Board	Audit Committee	Nomination Committee	Management Engagement Committee
Alan Clifton	5/5	2/2	1/1	1/1
Bob Cowdell[1]	2/2	1/1	N/A	1/1
Andrew Hutton	5/5	2/2	1/1	1/1
Keith Niven[2]	2/3	N/A	0/1	N/A
Stella Pirie	5/5	2/2	1/1	1/1
David Ritchie	5/5	2/2	1/1	1/1

[1]Mr Cowdell was appointed as a Director of the Company on 1 November 2011.
[2]Mr Niven retired as a Director of the Company on 31 October 2011.

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

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

Directors' and Officers' Liability Insurance
During the year, the Company has maintained insurance cover for its Directors and Officers under a Directors' and Officers' liability insurance policy.

Directors' Indemnities
The Company provides a Deed of Indemnity to each Director to the extent permitted by United Kingdom law whereby the Company is able to indemnify such Director against any liability incurred in proceedings in which the Director is successful, and for costs in defending a claim brought against the Director for breach of duty where the Director acted honestly and reasonably.

Corporate Governance Statement

Conflicts of Interest

The Board has approved a policy on Directors' conflicts of interest. Under this policy, Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and approval. The Board may impose restrictions or refuse to authorise such conflicts if deemed appropriate.

Major Shareholders

Details of the Company's major shareholders are set out in the Report of the Directors on page 13.

Relations with Shareholders

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

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

The Board believes that the Company's policy of reporting to shareholders as soon as possible after the Company's year-end, and holding the earliest possible Annual General Meeting, is valuable. The Notice of Meeting on pages 41 and 42 sets out the business of the meeting.

Environmental Policy

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

Exercise of Voting Rights and the UK Stewardship Code

The Company has delegated responsibility for voting to Schroders which votes in accordance with its corporate governance policy. A copy of this policy is available on the Company's website. The Board considers the UK Stewardship Code to be an important tool in shareholder engagement. Schroders' compliance with the principles of the UK Stewardship Code is reported on its website, www.schroders.com.

Internal Control

The Code requires the Board to conduct, at least annually, a review of the adequacy of the Company's systems of internal control, including its risk management system, and report to shareholders that it has done so. The Board has undertaken a full review of all the aspects of the Turnbull Guidance, under which the Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has approved a detailed Risk Map identifying significant strategic, investment-related, operational and service provider-related risks and has in place a monitoring system to ensure that risk management and all aspects of internal control are considered on a regular basis, and fully reviewed at least annually. The monitoring system assists in determining the nature and extent of the significant risks the Board is willing to take in achieving its strategic objectives.

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

Corporate Governance Statement

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 contracts to third parties most of its operations. The Board will continue to monitor its system of internal control and to take steps to embed the system of internal control and risk management into the operations of the Company. In doing so, the Audit Committee will review at least annually whether a function equivalent to an internal audit is needed.

Independent Auditors' Report

To the members of Schroder UK Growth Fund plc

We have audited the financial statements of Schroder UK Growth Fund plc for the year ended 30 April 2012 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. 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 Statement of Directors' Responsibilities set out on pages 13 and 14, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements 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 opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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 financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements. In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 April 2012 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 Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 financial statements 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 page 14, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Jeremy Jensen (Senior Statutory Auditor) for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors London
28 June 2012

Notes:

(a) The maintenance and integrity of the Schroder UK Growth Fund plc website 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 financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

for the year ended 30 April 2012

	Note	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
(Losses)/gains on investments held at fair value through profit or loss	2	–	(13,497)	(13,497)	–	33,158	33,158
Net foreign currency gains		–	–	–	–	32	32
Income from investments	3	6,647	42	6,689	5,205	–	5,205
Other interest receivable and similar income	3	43	–	43	75	–	75
Gross return/(loss)		6,690	(13,455)	(6,765)	5,280	33,190	38,470
Investment management fee	4	(428)	(998)	(1,426)	(271)	(633)	(904)
Administrative expenses	5	(461)	–	(461)	(532)	–	(532)
Net return/(loss) before finance costs and taxation		5,801	(14,453)	(8,652)	4,477	32,557	37,034
Finance costs	6	(160)	(372)	(532)	(153)	(357)	(510)
Net return/(loss) on ordinary activities before taxation		5,641	(14,825)	(9,184)	4,324	32,200	36,524
Taxation	7	(38)	–	(38)	(24)	–	(24)
Net return/(loss) on ordinary activities after taxation		5,603	(14,825)	(9,222)	4,300	32,200	36,500
Return/(loss) per Ordinary share (undiluted)	9	3.49p	(9.23)p	(5.74)p	2.78p	20.83p	23.61p
Return/(loss) per Ordinary share (diluted)	9	3.49p	(9.23)p	(5.74)p	2.76p	20.69p	23.45p

Dividends declared in respect of the financial year ended 30 April 2012 total 3.50p (2011: 3.00p). Further information on dividends is given in note 8 on page 32.

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

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

The notes on pages 28 to 40 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 30 April 2012

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 April 2010	38,695	594	18,933	81,122	417	52,821	4,521	197,103
Net return on ordinary activities	–	–	–	–	–	32,200	4,300	36,500
Ordinary dividends paid in the year	–	–	–	–	–	–	(4,235)	(4,235)
Repurchase and cancellation of the Company's own Ordinary shares	(11)	–	11	(33)	–	–	–	(33)
Conversion of Subscription shares into Ordinary shares	(24)	24	–	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	604	2,202	–	–	–	–	–	2,806
At 30 April 2011	39,264	2,820	18,944	81,089	417	85,021	4,586	232,141
Net (loss)/return on ordinary activities	–	–	–	–	–	(14,825)	5,603	(9,222)
Ordinary dividends paid in the year	–	–	–	–	–	–	(5,171)	(5,171)
Repurchase and cancellation of the Company's own Ordinary shares	(465)	–	465	(2,323)	–	–	–	(2,323)
Conversion of Subscription shares into Ordinary shares	(74)	74	–	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	1,844	6,935	–	–	–	–	–	8,779
At 30 April 2012	**40,569**	**9,829**	**19,409**	**78,766**	**417**	**70,196**	**5,018**	**224,204**

The notes on pages 28 to 40 form an integral part of these accounts.

Balance Sheet

at 30 April 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	240,100	253,136
Current assets			
Debtors	11	1,549	1,495
Cash and short-term deposits		8,083	3,196
		9,632	4,691
Current liabilities			
Creditors – amounts falling due within one year	12	(25,528)	(25,686)
Net current liabilities		(15,896)	(20,995)
Total assets less current liabilities		224,204	232,141
Net assets		224,204	232,141
Capital and reserves			
Called-up share capital	13	40,569	39,264
Share premium	14	9,829	2,820
Capital redemption reserve	14	19,409	18,944
Share purchase reserve	14	78,766	81,089
Warrant exercise reserve	14	417	417
Capital reserves	14	70,196	85,021
Revenue reserve	14	5,018	4,586
Total equity shareholders' funds		224,204	232,141
Net asset value per Ordinary share (undiluted)	15	138.89p	148.90p
Net asset value per Ordinary share (diluted)	15	137.73p	144.24p

The accounts on pages 24 to 40 were approved and authorised for issue by the Board of Directors on 28 June 2012 and signed on its behalf by:

Alan Clifton
Chairman

The notes on pages 28 to 40 form an integral part of these accounts.

Registered in England and Wales
Company registration number: 2894077

Cash Flow Statement

for the year ended 30 April 2012

	Note	2012 £'000	2011 £'000
Net cash inflow from operating activities	**16**	**4,644**	2,980
Servicing of finance			
Interest paid		**(529)**	(518)
Net cash outflow from servicing of finance		**(529)**	(518)
Taxation			
Overseas tax paid		**(86)**	(18)
Investment activities			
Purchases of investments		**(37,574)**	(38,397)
Sales of investments		**37,105**	26,691
Special dividend received allocated to capital		**42**	–
Net cash outflow from investment activities		**(427)**	(11,706)
Dividends paid		**(5,171)**	(4,235)
Net cash outflow before financing		**(1,569)**	(13,497)
Financing			
Repurchase and cancellation of the Company's own Ordinary shares		**(2,323)**	(248)
Issue of Ordinary shares on exercise of Subscription shares		**8,779**	2,806
Net cash inflow from financing		**6,456**	2,558
Net cash inflow/(outflow) in the year	**17**	**4,887**	(10,939)

The notes on pages 28 to 40 form an integral part of these accounts.

Notes to the Accounts

for the year ended 30 April 2012

1. Accounting policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the Association of Investment Companies in January 2009. All of the Company's operations are of a continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments at fair value through profit or loss.

The policies applied in these accounts are consistent with those applied in the preceding year.

(b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition the investments are designated by the Company as 'held at fair value through profit or loss'. They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off to capital at the time of acquisition. Subsequently the investments are valued at fair value, which are quoted bid prices for investments traded in active markets.

All purchases and sales are accounted for on a trade date basis.

(c) Accounting for reserves

Gains and losses on sales of investments are included in the Income Statement and in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments held at the year end are included in the Income Statement and in capital reserves within 'Holding gains and losses on investments'.

Foreign exchange gains and losses on cash and deposit balances are included in the Income Statement and in capital reserves within 'Gains and losses on sales of investments'.

The cost of repurchasing Ordinary shares including the related stamp duty and transactions costs is charged to 'Share repurchase reserve'.

(d) Income

Dividends receivable from equity shares are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital.

UK dividends are included net of tax credits.

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in revenue. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital.

Deposit interest outstanding at the year end is calculated and accrued on a time apportionment basis using market rates of interest.

Underwriting commission is taken to revenue on a receipts basis. Underwriting commission is recognised in revenue where it relates to shares that the Company is not required to take up. Where the Company is required to take up a proportion of the shares underwritten, the same proportion of commission received is deducted from the cost of the shares taken up, with the balance taken to revenue.

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to the revenue column of the Income Statement with the following exceptions:

– The management fee is allocated 30% to revenue and 70% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

– Expenses incidental to the purchase or sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 10 on page 33.

Notes to the Accounts

(f) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest method and in accordance with the provisions of FRS 25 'Financial Instruments: Presentation' and FRS 26 'Financial Instruments: Measurement'.

Finance costs are allocated 30% to revenue and 70% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

(g) Financial instruments

Cash and short term deposits may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Other debtors and creditors do not carry any interest, are short term in nature and are accordingly stated at nominal value, with debtors reduced by appropriate allowances for estimated irrecoverable amounts.

Bank loans and overdrafts are classified as loans and receivables and are initially measured at fair value and subsequently measured at amortised cost. They are recorded at the proceeds received net of direct issue costs. Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest method.

(h) Taxation

Deferred tax is accounted for in accordance with FRS 19: 'Deferred Tax'.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences but deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which those timing differences can be utilised.

Tax relief is allocated to expenses charged to capital on the 'marginal basis'. On this basis, if taxable income is capable of being entirely offset by revenue expenses, then no tax relief is transferred to capital.

Deferred tax is measured at the tax rate which is expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date and is measured on an undiscounted basis.

(i) Value added tax ('VAT')

Expenses are disclosed inclusive of the related irrecoverable VAT.

(j) Foreign currency

In accordance with FRS 23: 'The effects of changes in Foreign Currency Exchange Rates' the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. Therefore the Board has determined that sterling is the functional currency. Sterling is the also the currency in which the accounts are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction. Monetary assets, liabilities and equity investments held at fair value, denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

(k) Dividends payable

In accordance with FRS 21: 'Events after the Balance Sheet Date', dividends are included in the accounts in the year in which they are paid.

(l) Repurchases of Ordinary shares for cancellation

The cost of repurchasing Ordinary shares including the related stamp duty and transaction costs is charged to 'Share repurchase reserve' and dealt with in the Reconciliation of Movement in Shareholders' Funds. Share repurchase transactions are accounted for on a trade date basis. The nominal value of Ordinary share capital repurchased and cancelled is transferred out of 'Called up share capital' and into 'Capital redemption reserve'.

(m) Conversion of Subscription shares

When the holders of Subscription shares exercise their right to convert their shares into Ordinary shares, the nominal value of those Subscription shares is transferred to the credit of share premium. The nominal value of the Ordinary shares into which the Subscription shares convert is credited to called up share capital and the balance of the consideration received is credited to share premium.

Notes to the Accounts

2. (Losses)/gains on investments held at fair value through profit or loss

	2012 £'000	2011 £'000
Gains on sales of investments based on historic cost	**16,207**	4,982
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold in the year	**(11,073)**	(1,716)
Gains on sales of investments based on the carrying value at the previous balance sheet date	**5,134**	3,266
Net movement in investment holding gains and losses	**(18,631)**	29,892
(Losses)/gains on investments held at fair value through profit or loss	**(13,497)**	33,158

3. Income

	2012 £'000	2011 £'000
Income from investments:		
UK dividends	**6,355**	4,799
Scrip dividends	**292**	406
	6,647	5,205
Other interest receivable and similar income:		
Deposit interest	**43**	47
Underwriting commission	**–**	28
	43	75
Total income	**6,690**	5,280
Capital:		
Special dividend allocated to capital	**42**	–

4. Investment management fee

	2012			2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	**428**	**998**	**1,426**	271	633	904

The basis for calculating the investment management fee is set out in the Report of the Directors on page 13.

5. Administrative expenses

	2012 £'000	2011 £'000
Administration expenses	**241**	320
Directors' fees	**113**	113
Secretarial fee	**82**	78
Auditors' remuneration for audit services[1]	**23**	21
Auditors' remuneration for taxation compliance services[2]	**2**	–
	461	532

[1] Includes £4,000 (2011: £3,000) irrecoverable VAT.
[2] Includes £400 irrecoverable VAT.

Notes to the Accounts

6. Finance costs

		2012			2011	
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Interest on bank loans and overdrafts	**160**	**372**	**532**	153	357	510

7. Taxation

(a) Analysis of charge in the year:

	2012 £'000	2011 £'000
Irrecoverable overseas tax	**38**	24
Current tax charge for the year	**38**	24

(b) Factors affecting tax charge in the year

The tax assessed for the year is higher (2011: lower) than the Company's applicable rate of corporation tax for the year of 25.83% (2011: 27.83%)

The factors affecting the current tax charge for the year are as follows:

		2012			2011	
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	**5,641**	**(14,825)**	**(9,184)**	4,324	32,200	36,524
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax for the year of 25.83% (2011: 27.83%)	**1,457**	**(3,829)**	**(2,372)**	1,203	8,961	10,164
Effects of:						
Capital returns on investments	**–**	**3,486**	**3,486**	–	(9,237)	(9,237)
Income not chargeable to corporation tax	**(1,717)**	**(11)**	**(1,728)**	(1,449)	–	(1,449)
Expenses not deductible for tax purposes	**–**	**–**	**–**	2	–	2
Unrelieved expenses	**260**	**354**	**614**	244	276	520
Irrecoverable overseas tax	**38**	**–**	**38**	24	–	24
Current tax charge for the year	**38**	**–**	**38**	24	–	24

(c) Deferred taxation

The Company has an unrecognised deferred taxation asset of £8,016,000 (2011: £8,065,000) based on a prospective corporation tax rate of 24% (2011: 26%). The reduction in the standard rate of corporation tax was substantively enacted in March 2012 and is effective from 1 April 2012. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts.

Given the Company's intention to meet the conditions required to obtain approval as an Investment Trust Company, no provision has been made for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

Notes to the Accounts

8. Dividends

(a) Dividends paid and declared

Dividends paid	2012 £'000	2011 £'000
2011 second interim dividend of 1.75p (2010: 1.50p)	**2,728**	2,302
2012 first interim dividend of 1.50p (2011: 1.25p)	**2,443**	1,933
Total dividends paid in the year	**5,171**	4,235

Dividend declared	2012 £'000	2011 £'000
2012 second interim dividend declared of 2.00p (2011: 1.75p)	**3,228**	2,728

(b) Dividends for the purposes of S1158 of the Corporation Tax Act 2010 ('S1158')

The requirements of S1158 are considered on the basis of dividends declared in respect of the financial year as shown below. The revenue available for distribution by way of dividend for the year is £5,603,000 (2011: £4,300,000).

	2012 £'000	2011 £'000
First interim dividend of 1.50p (2011: 1.25p)	**2,443**	1,933
Second interim dividend of 2.00p (2011: 1.75p)	**3,228**	2,728
Total dividends of 3.50p (2011: 3.00p)	**5,671**	4,661

9. Return/(loss) per Ordinary share

	2012 £'000	2011 £'000
Revenue return	**5,603**	4,300
Capital (loss)/return	**(14,825)**	32,200
Total (loss)/return	**(9,222)**	36,500
Undiluted:		
Weighted average number of Ordinary shares in issue during the year used for the purpose of the undiluted calculation	**160,680,522**	154,605,824
Revenue return per share	**3.49p**	2.78p
Capital (loss)/return per share	**(9.23)p**	20.83p
Total (loss)/return per share	**(5.74)p**	23.61p
Diluted:		
Weighted average number of Ordinary shares in issue during the year used for the purpose of the diluted calculation	**160,680,522**	155,657,884
Revenue return per share	**3.49p**	2.76p
Capital (loss)/return per share	**(9.23)p**	20.69p
Total (loss)/return per share	**(5.74)p**	23.45p

The diluted return per Ordinary share represents the return on ordinary activities after taxation divided by the weighted average number of Ordinary shares in issue during the year as adjusted in accordance with Financial Reporting Standard 22 'Earnings per share'. There is no dilution to the return/(loss) per share for the year ended 30 April 2012.

Notes to the Accounts

10. Investments held at fair value through profit or loss

	2012 £'000	2011 £'000
Opening bookcost	**213,634**	196,212
Opening investment holding gains	**39,502**	11,326
Opening valuation	**253,136**	207,538
Purchases at cost	**37,566**	39,131
Sales proceeds	**(37,105)**	(26,691)
Gains on sales of investments based on the carrying value at the previous balance sheet date	**5,134**	3,266
Net movement in investment holding gains and losses	**(18,631)**	29,892
Closing valuation	**240,100**	253,136
Bookcost	**230,302**	213,634
Closing investment holding gains	**9,798**	39,502
Total investments held at fair value through profit or loss	**240,100**	253,136

All investments are listed on a recognised stock exchange.

During the year, prior year investment holding gains amounting to £11,073,000 have been transferred to gains and losses on sales of investments as disclosed in note 14 on page 34.

The following transaction costs, comprising stamp duty and brokerage commission were incurred during the year:

	2012 £'000	2011 £'000
On acquisitions	**199**	192
On disposals	**54**	22
	253	214

11. Debtors

	2012 £'000	2011 £'000
Dividends and interest receivable	**1,487**	1,448
Taxation recoverable	**47**	13
Other debtors	**15**	34
	1,549	1,495

The Directors consider that the carrying amount of debtors approximates to their fair value.

12. Creditors – amounts falling due within one year

	2012 £'000	2011 £'000
Bank loan	**25,000**	25,000
Securities purchased awaiting settlement	**28**	328
Other creditors and accruals	**500**	358
	25,528	25,686

The loan is drawn down on the Company's £35 million, one year, revolving credit facility with ING Bank, which was arranged on 13 July 2011. The facility is unsecured but is subject to covenants and restrictions which are customary for a facility of this nature, all of which have been met during the year. The loan at the prior year end was drawn down on the preceding facility with ING Bank. Further details are given in note 20(a)(i) on page 37.

The Directors consider that the carrying amount of creditors falling due within one year approximates to their fair value.

Notes to the Accounts

13. Called-up share capital

	2012 £'000	2011 £'000
Ordinary shares allotted, called up and fully paid:		
Opening balance of 155,907,095 (2011: 153,532,049) Ordinary shares of 25p each	**38,976**	38,383
Repurchase and cancellation of 1,860,000 (2011: 41,000) Ordinary shares[1]	**(465)**	(11)
Issue of 7,376,695 (2011: 2,416,046) Ordinary shares on exercise of Subscription shares	**1,844**	604
Closing balance of 161,423,790 (2011: 155,907,095) Ordinary shares of 25p each	**40,355**	38,976
Subscription shares of 1p each:		
Opening balance 28,769,892 (2011: 31,185,938) Subscription shares of 1p each	**288**	312
Exercise of 7,376,695 (2011: 2,416,046) Subscription shares into Ordinary shares[2]	**(74)**	(24)
Closing balance of 21,393,197 (2011: 28,769,892) Subscription shares of 1p each	**214**	288
Total called up share capital	**40,569**	39,264

1. During the year, the Company repurchased 1,860,000 Ordinary shares, nominal value £465,000, for cancellation, representing 1.2% of the issued shares at the beginning of the year, for a total consideration of £2,323,000. The reason for the repurchases was to seek to manage the volatility and absolute level of the share price discount to net asset value per share.
2. The Subscription shares were issued as a bonus issue to the Ordinary shareholders on 7 August 2009 on the basis of one Subscription share for every five Ordinary shares. Each Subscription share conferred the right (but not the obligation) to subscribe for one Ordinary share on 31 January 2011 and at the end of each six month period thereafter until 31 July 2012 when the rights under the Subscription shares will lapse. During the year, holders of 7,376,695 Subscription shares exercised their right to convert those shares into Ordinary shares at a price of 119.0 pence per share, for a total consideration received of £8,779,000. Holders of Subscription shares have one remaining opportunity to exercise those shares on 31 July 2012 at a price of 129 pence.

14. Reserves

					Capital reserves		
	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Gains and losses on sales of investments £'000	Investment holding gains and losses £'000	Revenue reserve £'000
Opening balance	2,820	18,944	81,089	417	45,519	39,502	4,586
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	–	5,134	–	–
Net movement in investment holding gains and losses	–	–	–	–	–	(18,631)	–
Transfer on disposal of investments	–	–	–	–	11,073	(11,073)	–
Management fee and finance costs allocated to capital	–	–	–	–	(1,370)	–	–
Special dividend allocated to capital	–	–	–	–	42		
Repurchase and cancellation of the Company's own Ordinary shares	–	465	(2,323)	–	–	–	–
Conversion of Subscription shares into Ordinary shares	74	–	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	6,935	–	–	–	–	–	–
Dividends paid in the year	–	–	–	–	–	–	(5,171)
Retained revenue for the year	–	–	–	–	–	–	5,603
Closing balance	**9,829**	**19,409**	**78,766**	**417**	**60,398**	**9,798**	**5,018**

Notes to the Accounts

15. Net asset value per Ordinary share

	2012	2011
Undiluted:		
Net assets attributable to the Ordinary shareholders (£'000)	**224,204**	232,141
Ordinary shares in issue at the year end	**161,423,790**	155,907,095
Net asset value per Ordinary share	**138.89p**	148.90p
Diluted:		
Net assets attributable to the Ordinary shareholders (£'000)	**251,801**	266,377
Ordinary shares in issue at the year end assuming exercise of Subscription shares	**182,816,987**	184,676,987
Net asset value per Ordinary share	**137.73p**	144.24p

The diluted net asset value per Ordinary share assumes that all outstanding Subscription shares were converted into Ordinary shares at the year end.

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

	2012 £'000	2011 £'000
Total (loss)/return on ordinary activities before finance costs and taxation	**(8,652)**	37,034
Less capital loss/(return) on ordinary activities before finance costs and taxation	**14,453**	(32,557)
Management fee allocated to capital	**(998)**	(633)
Scrip dividends received as income	**(292)**	(406)
Increase in accrued dividends and interest receivable	**(39)**	(408)
Decrease/(increase) in other debtors	**19**	(11)
Increase/(decrease) in accrued expenses	**153**	(39)
Net cash inflow from operating activities	**4,644**	2,980

17. Analysis of changes in net debt

	At 30 April 2011 £'000	Cash flow £'000	At 30 April 2012 £'000
Cash and short term deposits	3,196	4,887	**8,083**
Bank loan	(25,000)	–	**(25,000)**
Net debt	(21,804)	4,887	**(16,917)**

18. Transactions with the Manager

The Company has appointed Schroder Investment Management Limited (the 'Manager'), a wholly owned subsidiary of Schroders plc, to provide investment management, accounting, secretarial and administration services. If the Company invests in funds managed or advised by the Manager or any of its associated companies, those funds are excluded from the assets used for the purposes of the management fee calculation and therefore attract no fee. Under the terms of the Investment Management Agreement, the Manager is also entitled to receive a secretarial fee. Details of the Investment Management Agreement are given in the Report of the Directors on page 13.

The management fee payable in respect of the year ended 30 April 2012 amounted to £1,426,000 (2011: £904,000), of which £358,000 (2011: £245,000) was outstanding at the year end. The secretarial fee, including VAT, payable to Schroders in respect of the year ended 30 April 2012 amounted to £82,000 (2011: £78,000), of which £29,000 (2011: £25,000) was outstanding at the year end.

No Director of the Company served as a director of Schroder Investment Management Limited, or any member of the Schroders Group, at any time during the year.

Notes to the Accounts

19. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 29 that are held at fair value comprise its investment portfolio. The Company currently holds no derivative financial instruments and its liabilities are not held at fair value.

The investments are categorised into a hierarchy consisting of the following three levels:

Level 1 – valued using quoted prices in active markets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Details of the valuation techniques used by the Company are given in note 1(b) on page 28.

The following table sets out the fair value measurements using the FRS 29 hierarchy at 30 April:

			2012	
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets held at fair value through profit or loss				
Equity investments	240,100	–	–	240,100
Total	240,100	–	–	240,100

			2011	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets held at fair value through profit or loss				
Equity investments	253,136	–	–	253,136
Total	253,136	–	–	253,136

There have been no transfers between Levels 1, 2 or 3 during the year (2011: nil).

20. Financial instruments' exposure to risk and risk management policies

As an investment trust, the Company invests in equities for the long term in accordance with its investment objective stated on the inside front cover. In pursuing this objective, the Company is exposed to a variety of financial risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

These financial risks include market risk (comprising interest rate risk and market price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Board coordinates the Company's risk management policy. The Company has no significant direct exposure to foreign exchange risk.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's classes of financial instruments are as follows:

– investments in equity shares which are held in accordance with the Company's investment objective;

– short term debtors, creditors and cash arising directly from its operations; and

– a sterling credit facility with ING Bank, the purpose of which is to assist in financing the Company's operations.

(a) 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 two elements – interest rate risk and market price risk. Information to enable an evaluation of the nature and extent of these two elements of market risk is given in parts (i) and (ii) of this note, together with sensitivity analyses where appropriate. The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

Notes to the Accounts

(i) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on variable rate borrowings when interest rates are re-set.

Management of interest rate risk

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company's gearing policy is to limit gearing within the range 80% to 120% where gearing is defined as total assets less cash, expressed as a percentage of net assets.

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the credit facility. However, amounts drawn down on this facility are for short term periods and therefore exposure to interest rate risk is not significant.

Interest rate exposure

The exposure of financial assets and financial liabilities to floating interest rates, giving cash flow interest rate risk when rates are re-set, is shown below:

	2012 £'000	2011 £'000
Exposure to floating interest rates:		
Cash at bank and short term deposits	**8,083**	3,196
Creditors: amounts falling due within one year – borrowings on the credit facility	**(25,000)**	(25,000)
Total exposure	**(16,917)**	(21,804)

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2011: same).

During the year, the Company renewed its £35 million one year revolving credit facility with ING bank, which expires in July 2012. Interest is payable at a rate of LIBOR as quoted in the market for the loan period plus a margin plus Mandatory Costs, which are the lender's costs of complying with certain regulatory requirements of the Bank of England. At 30 April 2012, the Company had drawn down £25 million on this facility at an interest rate of 2.2% per annum.

The above year end amounts are not representative of the exposure to interest rates during the year as the level of cash balances and drawings on the credit facility have fluctuated. The maximum and minimum net loan balances during the year are as follows:

	2012 £'000	2011 £'000
Maximum interest rate exposure during the year – net loans	**(25,451)**	(21,828)
Minimum interest rate exposure during the year – net loans	**(8,989)**	(5,912)

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 0.5% (2011: 0.5%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date with all other variables held constant.

	2012		2011	
	0.5% increase in rate £'000	**0.5% increase in rate £'000**	0.5% increase in rate £'000	0.5% increase in rate £'000
Income statement – return after taxation				
Revenue return	**3**	**(3)**	(22)	22
Capital return	**(88)**	**88**	(88)	88
Total return after taxation	**(85)**	**85**	(110)	110
Net assets	**(85)**	**85**	(110)	110

In the opinion of the Directors, this sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to fluctuations in the level of cash balances and drawings on the credit facility.

(ii) Market price risk

Market price risk includes changes in market prices, other than those arising from interest rate risk, which may affect the value of equity investments.

Management of market price risk

The Board meets on at least five occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objective and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

Notes to the Accounts

Market price risk exposure

The Company's total exposure to changes in market prices at 30 April comprises its holdings in equity investments as follows:

	2012 £'000	2011 £'000
Equity investments held at fair value through profit or loss	**240,100**	253,136

The above data is broadly representative of the exposure to market price risk during the year.

Concentration of exposure to market price risk

An analysis of the Company's investments is given on page 8. This shows that the portfolio is predominately invested in stocks listed in the UK. Accordingly there is a concentration of exposure to that country. However it should be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

Market price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2011: 10%) in the fair values of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities, with all other variables held constant.

	2012		2011	
	10% increase in fair value £'000	**10% decrease in fair value £'000**	10% increase in fair value £'000	10% decrease in fair value £'000
Income statement – return after taxation				
Revenue return	–	–	–	–
Capital return	**24,010**	**(24,010)**	25,314	(25,314)
Total return after taxation and net assets	**24,010**	**(24,010)**	25,314	(25,314)
Percentage change in net asset value	**10.7%**	**(10.7%)**	10.9%	(10.9%)

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of the risk

Liquidity risk is not significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of a credit facility.

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities and working capital requirements and to gear the Company as appropriate.

Liquidity risk exposure

Contractual maturities of the financial liabilities, based on the earliest date on which payment can be required are as follows:

	2012 Three months or less £'000	2011 Three months or less £'000
Creditors: amounts falling due within one year		
Bank loan – including interest	**25,105**	25,101
Securities purchased awaiting settlement	**28**	328
Other creditors and accruals	**500**	358
	25,633	25,787

Notes to the Accounts

(c) Credit risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Company.

Management of credit risk

This risk is not significant and is managed as follows:

Portfolio dealing

The Company invests in markets that operate a 'Delivery Versus Payment' settlement process which mitigates the risk of losing the principal of a trade during settlement. The Manager continuously monitors dealing activity to ensure best execution, which involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparties must be pre-approved by the Manager's credit committee.

Cash

Counterparties are subject to daily credit analysis by the Manager. Cash balances will only be deposited with reputable banks with high quality credit ratings.

Exposure to the Custodian

JPMorgan Chase is the Custodian of the Company's assets. The Company's equity holdings are segregated from JPMorgan Chase's own trading assets and are therefore protected from creditors in the event that JPMorgan Chase were to cease trading. Potentially a portion of the Company's cash could be deposited with JPMorgan Chase, and this could be at risk in the event that JPMorgan Chase were to cease trading.

Credit risk exposure

The following amounts shown in the Balance Sheet, represent the maximum exposure to credit risk at the current and comparative year end.

	2012		2011	
	Balance sheet £'000	**Maximum exposure £'000**	Balance sheet £'000	Maximum exposure £'000
Fixed assets				
Investments held at fair value through profit or loss	**240,100**	**–**	253,136	–
Current assets				
Debtors – dividends and interest receivable and other debtors	**1,549**	**1,534**	1,495	1,461
Cash and short term deposits	**8,083**	**8,083**	3,196	3,196
	249,732	**9,617**	257,827	4,657

No debtors are past their due date and none have been written down or deemed to be impaired.

(d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either carried in the balance sheet at fair value or the balance sheet amount is a reasonable approximation of fair value.

Notes to the Accounts

21. Capital management policies and procedures

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

The Company's debt and capital structure comprises the following:

	2012 £'000	2011 £'000
Debt		
Bank loan	**25,000**	25,000
Equity		
Called up share capital	**40,569**	39,264
Reserves	**183,635**	192,877
	224,204	232,141
Total debt and equity	**249,204**	257,141

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the capital return to its equity shareholders through an appropriate level of gearing.

The Board's policy is to limit the gearing ratio within the range 80% to 120%. The gearing ratio for this purpose is defined as total assets less cash, expressed as a percentage of net assets.

	2012 £'000	2011 £'000
Total assets less cash	**241,121**	253,945
Net assets	**224,204**	232,141
Gearing ratio	**108%**	109%

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

– the planned level of gearing, which takes into account the Manager's views on the market;

– the need to buy back equity shares, which takes into account the share price discount or premium;

– the opportunities for issues of new shares; and

– the amount of dividend to be paid, in excess of that which is required to be distributed.

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 Tuesday, 31 July 2012 at 31 Gresham Street, London EC2V 7QA to consider and, if thought fit, to pass the following resolutions, of which resolutions 1 to 10 will be proposed as Ordinary Resolutions and resolutions 11 to 13 will be proposed as Special Resolutions.

1. To receive the Report of the Directors and the audited Accounts for the year ended 30 April 2012.
2. To approve the Remuneration Report for the year ended 30 April 2012.
3. To elect Mr Bob Cowdell as a Director of the Company.
4. To re-elect Mrs Stella Pirie as a Director of the Company.
5. To re-elect Mr Alan Clifton as a Director of the Company.
6. To re-elect Mr Andrew Hutton as a Director of the Company.
7. To re-elect Mr David Ritchie as a Director of the Company.
8. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company.
9. To authorise the Directors to determine the remuneration of PricewaterhouseCoopers LLP as Auditors of the Company.
10. To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

    "That the Directors be and are hereby generally and unconditionally authorised, in substitution for all subsisting authorities in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £2,010,922 (representing 5% of the share capital in issue on 28 June 2012); 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."
11. To consider and, if thought fit, to pass the following resolution as a special resolution:

    "That, subject to the passing of Resolution 10 set out above, the Directors be and are hereby empowered, pursuant to Section 571 of the Act, to allot equity securities (including any shares held in Treasury) (as defined in section 560(1) of the Act) pursuant to the authority given in accordance with section 551 of the Act by the said Resolution 10 and/or where such allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £2,010,922 (representing 5% of the aggregate nominal amount of the share capital in issue on 28 June 2012); and provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry."
12. To consider and, if thought fit, to pass the following resolution as a special resolution:

    "That the Company be and is hereby generally and unconditionally authorised in accordance with Section 693 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of its issued Ordinary shares of 25p each in the capital of the Company ("Ordinary shares"), at whatever discount the prevailing market price represents to the prevailing net asset value per Ordinary share provided that:

    (a) the maximum number of Ordinary shares hereby authorised to be purchased shall be 24,114,981, representing 14.99% of the issued Ordinary share capital as at 28 June 2012;
    (b) the minimum price which may be paid for an Ordinary share is 25p;
    (c) the maximum price which may be paid for an Ordinary 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 Ordinary 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 Ordinary 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 renewed prior to such time or revoked; and
    (f) the Company may make a contract to purchase Ordinary 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 Ordinary shares pursuant to any such contract."

Notice of Meeting

13. To consider and, if thought fit, to pass the following resolution as a special resolution:

"That in addition to any existing authority granted to the Company at any General Meeting held before the passing of this resolution, the Company be generally and, subject as hereinafter appears, unconditionally authorised in accordance with section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of its issued Subscription shares, provided that:

(a) the maximum number of Subscription shares hereby authorised to be purchased shall be 3,206,840 representing 14.99% of the issued Subscription share capital as at 28 June 2012;

(b) the minimum price which may be paid for a Subscription share is 1p;

(c) the maximum price which may be paid for a Subscription share will not exceed the higher of (i) 5% above the average of the middle market quotations (as derived from the Official List) for the five consecutive dealing days ending on the dealing day immediately preceding the date on which the purchase is made; and (ii) the higher of the price quoted for (a) the last independent trade of, or (b) the highest current independent bid for, any number of Subscription shares on the trading venue where the purchase is carried out;

(d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless renewed prior to such time or revoked; and

(e) the Company may make a contract to purchase Subscription shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of Subscription shares pursuant to any such contract notwithstanding such expiry."

By Order of the Board
Schroder Investment Management Limited
Company Secretary

Registered Office:
31 Gresham Street
London EC2V 7QA

Registered Number: 2894077
28 June 2012

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 0800 032 0641 (or +44 121 415 0207 for overseas shareholders), 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 6DA, in the enclosed envelope together with any power of attorney or other authority under which it is signed or a copy of such authority certified notarially, to arrive no later than 48 hours before the time fixed for the meeting, or an adjourned meeting. Shareholders may also appoint a proxy to vote on the resolutions being put to the meeting electronically at www.sharevote.co.uk. Shareholders who are not registered to vote electronically, will need to enter the Voting ID and Shareholder Reference ID set out in their personalised proxy form. Alternatively, shareholders who have already registered with Equiniti's Shareview service can appoint a proxy by logging onto their portfolio at www.shareview.co.uk and clicking on the link to vote under your Schroder UK Growth Fund plc holding details. The on-screen instructions give details on how to complete the appointment process. Please note that to be valid, your proxy instructions must be received by Equiniti no later than 12 noon on 29 July 2012. If you have any difficulties with online voting, you should contact the shareholder helpline on 0800 032 0641 or +44 121 415 0207 for overseas shareholders.

   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.

   Representatives of shareholders that are corporations will have to produce evidence of their proper appointment when attending the general meeting. Please contact the Registrar if you need any further guidance on this.

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

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

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of members of the Company at 6.00 p.m. on 29 July 2012, 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 29 July 2012 shall be disregarded in determining the right of any person to attend and vote at the meeting.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. The CREST manual can be viewed at www.euroclear.com/CREST. A CREST message appointing a proxy (a "CREST proxy instruction") regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction previously given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (IDRA19) by the latest time for receipt of proxy appointments.

Explanatory Notes

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 2012.
7. As at 28 June 2012, 160,873,790 Ordinary shares of 25 pence each and 21,393,197 Subscription shares of 1p each were in issue (no shares were held in Treasury). The Subscription shares carry no voting rights, therefore the total number of voting rights in the Company as at 28 June 2012 was 160,783,790.
8. A copy of this Notice of meeting, which includes details of shareholder voting rights, together with any other information as required under Section 311A of the Companies Act 2006, is available to download from the Company's website, www.schroderukgrowthfund.com.
9. Pursuant to section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

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 28 June 2012, the Company had 160,873,790 Ordinary shares of 25p each and 21,393,197 Subscription shares of 1p each in issue (no shares were held in Treasury). The Company's assets are managed and 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 2014 and thereafter at five yearly intervals.

Website and Share Price Information

The Company has a dedicated website, which may be found at www.schroderukgrowthfund.com. The website has been designed to be utilised as the Company's primary method of electronic communication with shareholders. It contains details of the Company's share price (subject to a delay of 15 minutes) and copies of Report and Accounts and other documents published by the Company as well as information on the Directors, Terms of Reference of Committees and other governance arrangements. In addition, the site contains links to announcements made by the Company to the market, Equiniti's shareview service and Schroders' website. There is also a section entitled "How to Invest" which provides details of the Schroder ISA.

The Company releases its net asset value per share on both a cum and ex income basis to the market daily.

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

Registrar Services

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

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

Association of Investment Companies

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

www.schroderukgrowthfund.com

Schroders