

Schroder

UK Growth Fund plc

Half-Year Report and Accounts for the six months ended 31 October 2013



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)
Bob Cowdell
Andrew Hutton
Stella Pirie OBE
David Ritchie

Advisers

Investment Manager and Company Secretary

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

Registered Office

Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA

Lending Bank

Scotiabank Europe PLC
201 Bishopsgate
6th Floor
London EC2M 3NS

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

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.

Stockbrokers

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

Contents

Financial Highlights and Comparison of Portfolio Sector Distribution with the FTSE All-Share Index	2
Ten Largest Investments	3
Interim Management Report	4
Income Statement	7
Reconciliation of Movements in Shareholders' Funds	8
Balance Sheet	9
Cash Flow Statement	10
Notes to the Accounts	11
Company Summary	Inside Back Cover

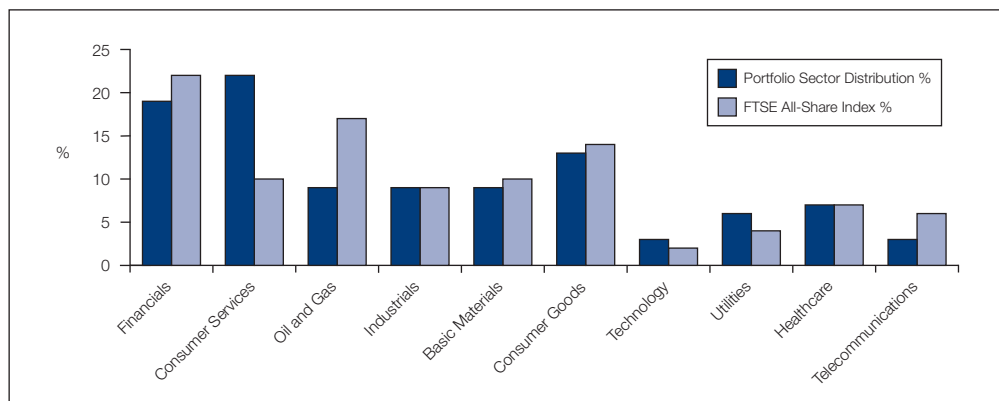
Financial Highlights

Total returns (including dividends reinvested)	Six months ended		
	31 October 2013		
Net asset value ("NAV") per share ¹	17.0%		
Share price ¹	23.9%		
Benchmark ²	7.7%		
	31 October 2013	30 April 2013	% Change
Shareholders' funds (£'000)	319,053	276,074	+15.6
Shares in issue	160,917,184	160,917,184	0.0
NAV per share	198.27p	171.56p	+15.6
Share price	192.00p	157.00p	+22.3
Share price discount	3.2%	8.5%	

¹ Source: Morningstar.

² Source: Thomson Financial Datastream. The Company's benchmark is the FTSE All-Share Index.

Comparison of Portfolio Sector Distribution with the FTSE All-Share Index at 31 October 2013¹



¹ Source: Schroders.

Ten Largest Investments

At 31 October 2013

Company and Activity	Market value of holding £'000	Percentage of total equity shareholders' funds
Legal & General Financial services	16,752	5.3
Barclays Banking and financial services	16,359	5.1
Melrose Engineering	15,033	4.7
Rio Tinto Global diversified mining	12,630	4.0
Aviva Financial services	12,485	3.9
Reed Elsevier Professional publishing	12,484	3.9
Pearson Business and educational publishing	11,149	3.5
GKN Global engineering	10,694	3.3
Ashmore Emerging markets investment specialist	10,593	3.3
Petrofac Oil and gas exploration and services	9,869	3.1
Total	128,048	40.1

At 30 April 2013, the ten largest investments represented 42.9% of total equity shareholders' funds.

Interim Management Report

Chairman's Statement

The six months to the end of October 2013 was a period of material change for your Company, with a new lead fund manager and amended investment policy. Julie Dean started to manage the portfolio in July, in line with the policy she has used successfully with the open-ended Cazenove UK Opportunities Fund.

While the changes have only been in place for a few months, it is pleasing to see that the Company's NAV has outperformed our benchmark index and the share price also benefited from a closing of the discount to NAV.

Performance

For the six month period, the Company's NAV produced a total return of 17.0%¹, while the share price achieved a total return of 23.9%¹ as the discount closed from 8.5% at the beginning of the period to 3.2% at 31 October 2013. These compare with an equivalent return of 7.7%² by the FTSE All-Share Index over the same period.

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

Dividends

The Directors have declared a first interim dividend of 2.25p per share for the year ending 30 April 2014 (2013: 1.75p). The first interim dividend will be payable on 31 January 2014 to shareholders on the Register on 31 December 2013. The Board hopes to at least maintain last year's second interim dividend (of 2.25p per share) once the full year results are known.

Gearing Policy

The Company maintains a credit facility of £35 million and the drawn amount increased from £25 million to £30 million during the period. Net effective gearing (which takes account of cash held in the portfolio as well as borrowings) was 4.9% at the beginning of the period under review, and this had increased to 9.1% at 31 October 2013. Our new lead manager has sought to maintain the gearing close to 10% since shareholders gave approval to the change in investment policy in July 2013.

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

Discount Management Policy

The Board seeks to keep the average discount of the Company's share price to ex-income NAV to within 5% over the long term. Over the six months to 31 October 2013, the average was 4.7%.

The discount had previously widened in March from around 6% to a high of 11% following news that Richard Buxton, the former lead fund manager, was to leave Schroders. The wide discount persisted throughout much of April but began to close towards the end of the month. The announcement on 2 May that Julie Dean would assume management of the portfolio was received positively and the discount moved back to longer-term levels of around 6%. Julie took control of the Company's portfolio on 2 July when Schroders acquired Cazenove Capital and the discount has steadily narrowed since then. The final aspects of Julie's portfolio management style (exposure to small caps and an increase in the number of holdings) were introduced following the passing of the resolutions at the general meeting on 30 July. While Julie has been responsible for management of the portfolio, the average discount has been 4.2% (to 31 October 2013).

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

Outlook

Against the background of positive markets over the last five years, underpinned by governments' monetary intervention, the Company's NAV has trebled. The issue is now whether a gentle recovery in the UK and other economies is enough to keep share prices rising without raising the spectre of an end to the low interest rate environment. The Investment Manager's Review is relatively optimistic on this. One factor behind the Board's recommended change of investment policy at the July general meeting was the historic ability of Julie Dean's team to outperform in different market conditions. We suspect that this will be an important skill in future, as the global economy enters the next stage of the economic cycle.

Alan Clifton

Chairman
23 December 2013

¹ Source: Morningstar

² Source: Thomson Financial Datastream

Interim Management Report

Investment Manager's Review

Over the six months to 31 October 2013 the total return on the net asset value was 17.0%, compared to the total return from the FTSE All Share Index of 7.7% (source: Morningstar).

Market Background

While the UK stock market has fluctuated in a relatively wide band over the last six months, it ended the period setting new all-time highs. The underlying reasons were similar to those of the previous 12-18 months: a continued recovery in investor appetite for equities as interest rates stay low, corporate profits and dividends rise, and with no obviously bad developments in the Eurozone or the US. The novelty this time has been signs that the UK domestic economy is recovering.

This could be a two-edged sword. On the one hand, it has offered a new direction to share movements within the market, with domestic consumer cyclicals such as house builders and retailers performing well. On the other hand, it raises the prospect of rising interest rates, as the Bank of England normalises policy after the extraordinary monetary developments over the last five years. So far the former factor has been winning, helped by the US Federal Reserve delaying its own end to monetary easing, but the need at some stage to reverse the Bank's enormous gilt purchases, and bring interest rates back up, hangs over sentiment.

Change in Investment Policy

The portfolio was changed to a new investment policy after agreement from shareholders at the general meeting held in July. As was described then, the lead portfolio manager became Julie Dean, who joined Schroders that month as part of Schroders' acquisition of Cazenove Capital Holdings Limited. The investment policy was changed to allow her to manage the portfolio in the style which she applies to the Cazenove UK Opportunities Fund, an open-ended fund that is AAA-rated by Citywire.

This style follows the business cycle approach to investing, seeking to outperform the UK equity market with less volatility than the peer group's average. This differs from the more concentrated and stock-specific approach of the former policy, and as a result there has been substantial change in the holdings. One of the more visible differences is that there are now more holdings (potentially up to 65 rather than the 20-40 before), including some exposure to small-cap and AIM shares (up to a maximum of 5% in each).

At the end of October the portfolio was overweight cyclicals (eg GKN and ITV), financials (eg Aberdeen), and growth defensives (eg Pearson), while being notably underweight in commodity cyclicals such as the miners and value defensives such as the tobacco stocks. The gearing was 9.1%.

Portfolio Performance

Given the change in the holdings, the period split into two in terms of performance, with the NAV outperforming in each.

Under the former policy, the portfolio benefited from its concentrated exposure in some of the domestic cyclicals such as Lloyds Banking, Taylor Wimpey, and in the retail sector such as Next and Debenhams. The portfolio also benefited from the take-over of Invenys.

After the policy change, the portfolio benefited from its gearing and positioning in financials, in particular with its emphasis on life insurers (Legal & General and Aviva) and asset managers (Aberdeen) rather than HSBC. It was also helped by exposure in commodity cyclicals, for example from holding the recovering Glencore Xstrata rather than Royal Dutch Shell. One of the few disappointments was missing the bounce by Vodafone.

Outlook and Policy

Stronger economic data out of the US and the UK has seen bond yields move higher in anticipation of a turn in the interest rate cycle. For now inflationary pressures look modest, stock market liquidity is likely to remain supportive and monetary

Interim Management Report

policy is unlikely to tighten decisively before 2015. We therefore believe the equity market can move ahead, and are keeping the Company's gearing close to 10%.

However, 2014 is expected to be a more volatile market, and the pro-cyclical stance that delivered strong returns over the past two years is unlikely to do so to this extent again. As a result the portfolio is being tilted towards more growth and growth defensive stocks.

Nonetheless, recent economic data suggests that a broader – and therefore more sustainable – upturn in demand may be occurring. Both the UK and the US may be on the cusp of a recovery in capital expenditure as demand rises and ageing capital stock needs replacing, which should help sustain expansion even as borrowing costs tick higher. The portfolio is keeping its industrial cyclicals for now.

Some profits have been taken in financials and consumer cyclicals, the latter being the strongest part of the market for two years and where a lot of good news is priced into valuations. The industrial cyclicals held are in companies where the scope for earnings to beat expectations is believed to represent an attractive risk-reward. Exposure to growth and growth defensive areas has been increased in companies exposed to less GDP-sensitive sources of growth, where valuations are now modest in comparison with some consumer cyclical companies.

Schroder Investment Management Limited

23 December 2013

Principal Risks and Uncertainties

The principal risks and uncertainties with the Company's business fall into the following categories: financial risk; strategic risk; and accounting, legal and regulatory risk. A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 11 and 12 of the Company's published Annual Report and Accounts for the year ended 30 April 2013. These risks and uncertainties have not materially changed during the six months ended 31 October 2013.

Going Concern

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

Related Party Transactions

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

Directors' Responsibility Statement

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

Income Statement

	(Unaudited) For the six months ended 31 October 2013			(Unaudited) For the six months ended 31 October 2012			(Audited) For the year ended 30 April 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	-	42,425	42,425	-	12,074	12,074	-	53,290	53,290
Net foreign currency gains	-	-	-	-	1	1	-	-	-
Income from investments	4,953	-	4,953	3,512	-	3,512	7,682	-	7,682
Other interest receivable and similar income	43	-	43	48	-	48	55	-	55
Gross return	4,996	42,425	47,421	3,560	12,075	15,635	7,737	53,290	61,027
Investment management fee	(91)	(213)	(304)	(220)	(513)	(733)	(481)	(1,122)	(1,603)
Administrative expenses	(327)	-	(327)	(254)	-	(254)	(460)	-	(460)
Net return before finance costs and taxation	4,578	42,212	46,790	3,086	11,562	14,648	6,796	52,168	58,964
Finance costs	(57)	(133)	(190)	(72)	(168)	(240)	(125)	(292)	(417)
Net return on ordinary activities before taxation	4,521	42,079	46,600	3,014	11,394	14,408	6,671	51,876	58,547
Taxation (note 5)	-	-	-	(3)	-	(3)	(5)	-	(5)
Net return on ordinary activities after taxation	4,521	42,079	46,600	3,011	11,394	14,405	6,666	51,876	58,542
Return per Ordinary share (note 6)	2.81p	26.15p	28.96p	1.87p	7.08p	8.95p	4.14p	32.23p	36.37p

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

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

Reconciliation of Movements in Shareholders' Funds

	For the six months ended 31 October 2013 (unaudited)							
	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 April 2013	40,229	9,875	19,759	78,071	417	122,072	5,651	276,074
Net return on ordinary activities	-	-	-	-	-	42,079	4,521	46,600
Ordinary dividend paid in the period	-	-	-	-	-	-	(3,621)	(3,621)
At 31 October 2013	40,229	9,875	19,759	78,071	417	164,151	6,551	319,053

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

	For the year ended 30 April 2013 (audited)							
	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 April 2012	40,569	9,829	19,409	78,766	417	70,196	5,018	224,204
Net return on ordinary activities	-	-	-	-	-	51,876	6,666	58,542
Ordinary dividends paid in the year	-	-	-	-	-	-	(6,033)	(6,033)
Repurchase and cancellation of the Company's own Ordinary shares	(137)	-	137	(695)	-	-	-	(695)
Cancellation of Subscription shares	(213)	-	213	-	-	-	-	-
Issue of Ordinary shares on exercise of Subscription shares	10	46	-	-	-	-	-	56
At 30 April 2013	40,229	9,875	19,759	78,071	417	122,072	5,651	276,074

Balance Sheet

	(Unaudited) At 31 October 2013 £'000	(Unaudited) At 31 October 2012 £'000	(Audited) At 30 April 2013 £'000
Fixed assets			
Investments held at fair value through profit or loss	347,540	254,304	288,229
Current assets			
Debtors	2,791	132	2,038
Cash and short term deposits	997	5,851	11,391
	3,788	5,983	13,429
Current liabilities			
Creditors: amounts falling due within one year	(32,275)	(25,534)	(25,584)
Net current liabilities	(28,487)	(19,551)	(12,155)
Net assets	319,053	234,753	276,074
Capital and reserves			
Called-up share capital	40,229	40,443	40,229
Share premium	9,875	9,875	9,875
Capital redemption reserve	19,759	19,546	19,759
Share purchase reserve	78,071	78,070	78,071
Warrant exercise reserve	417	417	417
Capital reserves	164,151	81,590	122,072
Revenue reserve	6,551	4,812	5,651
Total equity shareholders' funds	319,053	234,753	276,074
Net asset value per Ordinary share (note 7)	198.27p	145.88p	171.56p

Cash Flow Statement

	(Unaudited) For the six months ended 31 October 2013 £'000	(Unaudited) For the six months ended 31 October 2012 £'000	(Audited) For the year ended 30 April 2013 £'000
Net cash inflow from operating activities (note 8)	4,797	3,939	5,067
Net cash outflow from servicing of finance	(187)	(244)	(423)
Taxation recovered	-	13	24
Net cash (outflow)/inflow from investment activities	(16,383)	(2,088)	5,312
Dividends paid	(3,621)	(3,217)	(6,033)
Net cash inflow/(outflow) from financing	5,000	(636)	(639)
Net cash (outflow)/inflow in the period	(10,394)	(2,233)	3,308
Reconciliation of net cash flow to movement in net debt			
Net cash (outflow)/inflow in the period	(10,394)	(2,233)	3,308
Exchange movements	-	1	-
Loan drawn down	(5,000)	-	-
Changes in net debt arising from cash flows	(15,394)	(2,232)	3,308
Net debt at the beginning of the period	(13,609)	(16,917)	(16,917)
Net debt at the end of the period	(29,003)	(19,149)	(13,609)
Represented by:			
Cash and short term deposits	997	5,851	11,391
Bank loan	(30,000)	(25,000)	(25,000)
Net debt	(29,003)	(19,149)	(13,609)

Notes to the Accounts

1. Financial Statements

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

The figures and financial information for the year ended 30 April 2013 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting Policies

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

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

The accounting policies applied to these half year accounts are consistent with those applied in the accounts for the year ended 30 April 2013.

3. Investment Management Fee

The Manager agreed to waive its management fee for a period of six months commencing 1 July 2013, as a contribution to portfolio transition costs arising from the change in investment policy during the period.

4. Dividends

	(Unaudited) Six months ended 31 October 2013 £'000	(Unaudited) Six months ended 31 October 2012 £'000	(Audited) Year ended 30 April 2013 £'000
Second interim dividend of 2.25p (2012: 2.00p)	3,621	3,217	3,217
First interim dividend of 1.75p	–	–	2,816
	3,621	3,217	6,033

A first interim dividend of 2.25p (2012: 1.75p) per share, amounting to £3,621,000 (2012: £2,816,000) has been declared payable in respect of the six months ended 31 October 2013.

5. Taxation

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

6. Return per Ordinary share

	(Unaudited) Six months ended 31 October 2013 £'000	(Unaudited) Six months ended 31 October 2012 £'000	(Audited) Year ended 30 April 2013 £'000
Revenue return	4,521	3,011	6,666
Capital return	42,079	11,394	51,876
Total return	46,600	14,405	58,542
Weighted average number of Ordinary shares in issue during the period	160,917,184	160,944,087	160,930,746
Revenue return per share	2.81p	1.87p	4.14p
Capital return per share	26.15p	7.08p	32.23p
Total return per share	28.96p	8.95p	36.37p

7. Net asset value per Ordinary share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 31 October 2013 of 160,917,184 (31 October 2012: 160,917,184 and 30 April 2013: 160,917,184).

Notes to the Accounts

8. Reconciliation of total return on ordinary activities before finance costs and taxation to net cash inflow from operating activities

	(Unaudited) Six months ended 31 October 2013 £'000	(Unaudited) Six months ended 31 October 2012 £'000	(Audited) Year ended 30 April 2013 £'000
Total return on ordinary activities before finance costs and taxation	46,790	14,648	58,964
Less capital return on ordinary activities before finance costs and taxation	(42,212)	(11,562)	(52,168)
Scrip dividends received as income	–	(70)	(179)
Decrease/(increase) in accrued dividends and interest receivable	920	1,418	(517)
Decrease/(increase) in other debtors	8	(17)	(1)
(Decrease)/increase in accrued expenses	(496)	35	90
Management fee allocated to capital	(213)	(513)	(1,122)
Net cash inflow from operating activities	4,797	3,939	5,067

Company Summary

The Company

Schroder UK Growth Fund plc is an independent investment trust whose shares are listed on the London Stock Exchange. As at 23 December 2013, the Company had 160,917,184 Ordinary shares of 25p each in issue (no shares were held in Treasury). The Company's assets are managed and it is administered by Schroders. The Company has, since its launch in 1994, measured its performance against the FTSE All-Share Index. The Company measures its performance on a total return basis.

It is not intended that the Company should have a limited life, but the Directors consider it desirable that the Shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, the Articles of Association of the Company contain provisions requiring the Directors to put a proposal for the continuation of the Company to Shareholders at the Company's Annual General Meeting at five yearly intervals. The next resolution for the continuation of the Company will be put to shareholders at the Annual General Meeting in 2014.

Website and Price Information

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

The Company releases its Net Asset Value on both a cum and ex income basis to the market on a daily basis.

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

Registrar Services

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

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

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

Association of Investment Companies

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

Dealing Codes

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

ISIN: GB0007913485
SEDOL: 0791348
Ticker: SDU

www.schroderukgrowthfund.com