

Schroder

Japan Growth Fund plc

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



Schroders

Investment Objective

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

Directors

Jonathan Taylor (Chairman)

Richard Greer

Jan Kingzett

Peter Lyon

John Scott

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

Lending Bank

Scotiabank Europe PLC
201 Bishopsgate
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

Corporate Broker

Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

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

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Financial Highlights

	31 January 2013	31 July 2012	% Change
Shareholders' funds (£'000)	139,363	125,785	+10.8
Shares in issue	125,008,200	125,008,200	–
Net asset value per share	111.48p	100.62p	+10.8
Share price	100.50p	86.00p	+16.9
Share price discount	9.8%	14.5%	
Benchmark ¹	8.50	7.82	+8.7
Gearing ²	10.4%	10.9%	

¹ Source: Thomson Financial Datastream. The Company's benchmark is the TSE First Section Total Return Index (TOPIX) (in Sterling terms).

² Net assets plus borrowings used for investment purposes, less cash, expressed as the percentage excess over net assets.

Ten Largest Investments

As at 31 January 2013

Company and Activities	Market value of holding £'000	% of shareholders' funds
Toyota Motor Automobile manufacturer	8,809	6.32
Mitsui General trading company	5,965	4.28
SK Kaken Paint manufacturer for construction	5,499	3.95
East Japan Railway Railway company	4,869	3.49
Bridgestone Automobile tyre manufacturer	4,747	3.41
Sumitomo Mitsui Financial Banking and other financial services provider	4,616	3.31
Hi-Lex Automobile cables manufacturer	4,388	3.15
NKSJ Holdings Life and non-life insurance provider	3,718	2.67
KDDI Telecommunication services provider	3,666	2.63
Seven & I Holdings Retail store operator	3,538	2.54
Total	49,815	35.75

At 31 July 2012, the ten largest investments represented 35.77% of shareholders' funds.

Comparison of the Portfolio Sector Distribution with the TSE First Section Index as at 31 January 2013

	Valuation £'000	% of Portfolio	% of Index
Chemicals	18,110	11.7	5.7
Transportation Equipment	16,503	10.7	11.5
Electrical Appliances	15,099	9.8	11.9
Retail Trade	13,995	9.0	4.1
Banks	12,936	8.4	10.6
Wholesale Trade	12,824	8.3	5.3
Land Transportation	9,465	6.1	3.8
Pharmaceutical	7,163	4.6	5.2
Insurance	7,151	4.6	2.5
Information and Communication	6,750	4.4	6.0
Machinery	5,568	3.6	5.3
Rubber Products	4,747	3.1	0.8
Construction	3,766	2.4	2.6
Securities and Commodity Futures	3,510	2.3	1.6
Precision Instruments	3,119	2.0	1.4
Other Products	2,884	1.9	1.3
Oil and Coal Products	2,519	1.6	0.8
Real Estate	2,234	1.4	3.2
Glass and Ceramic Products	1,340	0.9	0.9
Services	1,260	0.8	2.1
Marine Transportation	1,175	0.8	0.3
Air Transportation	1,071	0.7	0.5
Non-Ferrous Metals	839	0.5	1.1
Mining	696	0.4	0.6
Foods	-	-	3.8
Electric Power and Gas	-	-	2.2
Iron and Steel	-	-	1.8
Other Financing Business	-	-	1.0
Textiles and Apparels	-	-	0.8
Metal Products	-	-	0.7
Pulp and Paper	-	-	0.3
Warehousing and Harbour Transport	-	-	0.2
Fishery, Agriculture and Forestry	-	-	0.1
Total	154,724	100.0	100.0

Interim Management Report

Chairman's Statement

Performance

The six-month period to 31 January 2013 was a very positive one for the Japanese market which rose by 29.1% in local currency terms. The return for sterling investors was reduced by a significant depreciation of the yen compared with sterling during the period so that the net effect was that, measured in sterling terms, the TSE First Section Total Return Index produced a return of 8.7% over the period. The Company's net asset value again out-performed the Index, increasing by 10.8% (from 100.62p per share to 111.48p per share).

The Company's share price increased by 16.9%, the discount narrowing from 14.5% to 9.8% as sentiment towards Japan markedly improved during the period.

Gearing Policy

During the period the Company maintained its borrowings at ¥3 billion. All of the borrowings were obtained via a revolving secured credit facility to provide flexibility. The gearing continues to be operated within the limits agreed by the Board. At the beginning of the period, the effective gearing ratio (borrowings less cash and short-term deposits as a percentage of net assets) was 10.9% and the level had slightly decreased to 10.4% at 31 January 2013.

Outlook

After the sharp spike in the market, the crucial judgement today has to be whether the new administration under Prime Minister Abe is capable of making structural improvements in Japan's long-term growth path. If it can, the potential for the market to rise further is substantial, with one possible catalyst being that most domestic and foreign investors have room in their portfolios for more Japanese equities.

Having said that, the market has had many false dawns over the last 20 years, and the challenge facing the administration should not be underestimated. Even on the most optimistic view it will take a long time to see how successful the new policies are. In the meantime, shareholders at least have the reassurance that the Investment Manager believes that the portfolio holdings – despite the bounce in share prices – remain attractively valued.

Jonathan Taylor

Chairman

28 March 2013

Interim Management Report (continued)

Investment Manager's Review

Market Background

The Japanese stock market rose 29.1% in yen terms during the six months ended January 2013. The yen depreciated significantly over the period with the result that in sterling terms the return was a more modest 8.7%.

The sharp rise in the market occurred in the second half of the period with trading prior to then subdued. The election of the opposition Liberal Democratic Party and Mr Abe as prime minister in December on an explicitly reflationary economic platform changed that. Since then the market has begun to discount a more reflationary policy agenda and, partly as a consequence, a weaker yen. Sentiment also benefitted from a more benign external backdrop and avoidance of tail risks surrounding the euro and the fiscal cliff in the US.

Sector trends in the market largely reflected this shift in economic policy and market sentiment. The top performers were the market-sensitive (and previous laggard) sectors such as financials, steel and property. By contrast more defensive areas such as retail and telecoms lagged the market. Larger cap tended to outperform small and mid sized companies.

The Company's NAV rose 10.8% over the period, 2.1% outperformance against the benchmark. Net gearing averaging around 11% was beneficial given the strong environment. There were strongly positive stock selection contributions in chemicals, telecoms and services, with selection in the latter two benefitting from bid activity in Jupiter Telecom and Accordia Golf. This was offset mainly by being overweight retail and by stock selection within that sector. Stock selection within the auto sector also detracted through not owning the most currency sensitive names.

Outlook

Given where it started the market's valuation is by no means stretched, notwithstanding the sharp rally. The coincidence of his own election, the change of leadership at the Bank of Japan and the Upper House election in the summer make the chances of Mr Abe being able to implement his policies significantly greater than his recent predecessors. In the short term the market is likely to continue to respond positively. Longer term the success of what is now being called "Abenomics" hinges more on his preparedness to grasp the opportunity to effect meaningful structural change. Some of this change is controversial in a domestic context but ultimately necessary if Japan's underlying rate of economic growth is to accelerate.

Investment Policy

Policy is moderately pro-cyclical but given the recovery in share prices, additions recently have only been to laggards, e.g. trading houses and selected technology stocks. Within financials additions have been made to the insurance holdings where valuations are attractive and catalysts for re-rating exist. Exposure to currency movements is broadly neutral, with overweight positions in autos offset by underweight positions in consumer electronics. We have added to existing positions in retail. The sector has been out of favour but should eventually benefit if inflationary expectations do take hold. We have taken some profits in areas where the market's response to the perceived benefits of "Abenomics" seemed excessive, such as construction.

Net gearing was 10.4% at the end of January 2013, broadly unchanged compared to July 2012.

Schroder Investment Management Limited

28 March 2013

Interim Management Report (continued)

Principal Risks and Uncertainties

The principal risks and uncertainties with the Company's business fall into the following categories: financial risk; gearing; 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 page 11 of the Company's published Annual Report and Accounts for the year ended 31 July 2012. These risks and uncertainties have not materially changed during the six months ended 31 January 2013.

Going Concern

The Directors believe, having considered the Company's investment objectives, risk management policies, capital management policies and procedures, 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 there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

Related Party Transactions

Details of transactions with the manager can be found on page 32 of the Company's published Annual Report and Accounts for the year ended 31 July 2012. There have been no transactions with related parties during the six months ended 31 January 2013.

Directors' Responsibility Statement

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

Income Statement

	(Unaudited) For the six months ended 31 January 2013			(Unaudited) For the six months ended 31 January 2012			(Audited) For the year ended 31 July 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	-	10,756	10,756	-	(2,035)	(2,035)	-	(5,796)	(5,796)
Net foreign currency gains/(losses)	-	2,461	2,461	-	(745)	(745)	-	(438)	(438)
Income from investments	1,555	-	1,555	1,591	-	1,591	3,707	-	3,707
Gross return/(loss)	1,555	13,217	14,772	1,591	(2,780)	(1,189)	3,707	(6,234)	(2,527)
Investment management fee	(219)	(511)	(730)	(681)	-	(681)	(1,376)	-	(1,376)
Administrative expenses	(225)	-	(225)	(199)	-	(199)	(409)	-	(409)
Net return/(loss) before finance costs and taxation	1,111	12,706	13,817	711	(2,780)	(2,069)	1,922	(6,234)	(4,312)
Finance costs	(39)	(91)	(130)	(154)	-	(154)	(298)	-	(298)
Net return/(loss) on ordinary activities before taxation	1,072	12,615	13,687	557	(2,780)	(2,223)	1,624	(6,234)	(4,610)
Taxation (note 3)	(109)	-	(109)	(111)	-	(111)	(259)	-	(259)
Net return/(loss) on ordinary activities after taxation	963	12,615	13,578	446	(2,780)	(2,334)	1,365	(6,234)	(4,869)
Return/(loss) per share (note 4)	0.77p	10.09p	10.86p	0.36p	(2.22)p	(1.86)p	1.09p	(4.99)p	(3.90)p

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 January 2013 (unaudited)

	Called-up share capital £'000	Share premium £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 July 2012	12,501	7	97,205	3	20,378	(4,309)	125,785
Net return on ordinary activities	–	–	–	–	12,615	963	13,578
At 31 January 2013	12,501	7	97,205	3	32,993	(3,346)	139,363

For the six months ended 31 January 2012 (unaudited)

	Called-up share capital £'000	Share premium £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 July 2011	12,501	7	97,205	3	26,612	(5,674)	130,654
Net (loss)/return on ordinary activities	–	–	–	–	(2,780)	446	(2,334)
At 31 January 2012	12,501	7	97,205	3	23,832	(5,228)	128,320

For the year ended 31 July 2012 (audited)

	Called-up share capital £'000	Share premium £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 July 2011	12,501	7	97,205	3	26,612	(5,674)	130,654
Net (loss)/return on ordinary activities	–	–	–	–	(6,234)	1,365	(4,869)
At 31 July 2012	12,501	7	97,205	3	20,378	(4,309)	125,785

Balance Sheet

	(Unaudited) At 31 January 2013 £'000	(Unaudited) At 31 January 2012 £'000	(Unaudited) At 31 July 2012 £'000
Fixed assets			
Investments held at fair value through profit or loss	154,724	143,330	139,932
Current assets			
Debtors	619	365	203
Cash and short-term deposits	6,261	10,307	10,763
	6,880	10,672	10,966
Current liabilities			
Creditors: amounts falling due within one year	(22,241)	(25,682)	(25,113)
Net current liabilities	(15,361)	(15,010)	(14,147)
Net assets	139,363	128,320	125,785
Capital and reserves			
Called-up share capital	12,501	12,501	12,501
Share premium	7	7	7
Share purchase reserve	97,205	97,205	97,205
Warrant exercise reserve	3	3	3
Capital reserves	32,993	23,832	20,378
Revenue reserve	(3,346)	(5,228)	(4,309)
Total equity shareholders' funds	139,363	128,320	125,785
Net asset value per share (note 5)	111.48p	102.65p	100.62p

Cash Flow Statement

	(Unaudited) For the six months ended 31 January 2013 £'000	(Unaudited) For the six months ended 31 January 2012 £'000	(Audited) For the year ended 31 July 2012 £'000
Net cash inflow from operating activities (note 6)	583	344	1,533
Net cash outflow from servicing of finance	(140)	(152)	(303)
Taxation paid	(110)	(110)	(257)
Net cash outflow from investment activities	(3,514)	(833)	(1,159)
Net cash outflow in the period	(3,181)	(751)	(186)
Reconciliation of net cash flow to movement in net debt			
Net cash outflow in the period	(3,181)	(751)	(186)
Exchange movements	2,461	(745)	(438)
Changes in net debt arising from cash flows	(720)	(1,496)	(624)
Net debt at the beginning of the period	(13,753)	(13,129)	(13,129)
Net debt at the end of the period	(14,473)	(14,625)	(13,753)
Represented by:			
Cash and short-term deposits	6,261	10,307	10,763
Bank loan	(20,734)	(24,932)	(24,516)
Net debt	(14,473)	(14,625)	(13,753)

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 31 July 2012 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

(a) Basis of accounting

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 interim accounts are consistent with those applied in the accounts for the year ended 31 July 2012.

(b) Accounting estimates

In order better to reflect the increasing significance of income as part of total return, the Board has, with effect from 1 August 2012, adopted an allocation policy whereby a proportion of indirect costs are allocated to the capital account. Based on the Board's expected long-term split of returns in the form of capital gains and income respectively, from the Company's investment portfolio, it has determined that 70% of the management fee and finance costs will be allocated to capital and the remaining 30% to revenue. The effect of this change on the Income Statement for the half-year ended 31 January 2013, is to increase net revenue return after taxation by £602,000 and to reduce net capital return by the same amount. Total net return after taxation is unaffected by the change. The comparative figures have not been restated.

3. Taxation

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

4. Return/(loss) per share

	(Unaudited) For the six months ended 31 January 2013 £'000	(Unaudited) For the six months ended 31 January 2012 £'000	(Audited) For the year ended 31 July 2012 £'000
Revenue return	963	446	1,365
Capital return/(loss)	12,615	(2,780)	(6,234)
Total return/(loss)	13,578	(2,334)	(4,869)
Weighted average number of Ordinary shares in issue during the period	125,008,200	125,008,200	125,008,200
Revenue return per share	0.77p	0.36p	1.09p
Capital return/(loss) per share	10.09p	(2.22)p	(4.99)p
Total return/(loss) per share	10.86p	(1.86)p	(3.90)p

5. Net asset value per share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 31 January 2013 of 125,008,200 (31 January 2012 and 31 July 2012: same).

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

	(Unaudited) For the six months ended 31 January 2013 £'000	(Unaudited) For the six months ended 31 January 2012 £'000	(Audited) For the year ended 31 July 2012 £'000
Total return/(loss) on ordinary activities before finance costs and taxation	13,817	(2,069)	(4,312)
Less capital (return)/loss on ordinary activities before finance costs and taxation	(12,706)	2,780	6,234
Less management fee charged to capital	(511)	-	-
Decrease/(increase) in accrued dividends and interest receivable	16	(9)	(35)
(Increase)/decrease in other debtors	(24)	1	(2)
Decrease in accrued expenses	(9)	(359)	(352)
Net cash inflow from operating activities	583	344	1,533

Company Summary

The Company

Schroder Japan Growth Fund plc is an independent investment trust, whose shares are listed on the London Stock Exchange. The Company is administered by Schroders, which also manages its assets. The Company has, since its launch in 1994, measured its performance against the TSE First Section Index in sterling terms. The Company measures its performance on a total return basis.

It is not intended that the Company should have a limited life, but the Directors consider it desirable that 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 Price Information

The Company has a dedicated website, which may be found at www.schroderjapangrowthfund.com. The website has been designed to be utilised as the Company's primary method of electronic communication with shareholders. It contains details of the Company's share price (subject to a delay of 15 minutes) and copies of Report and Accounts and other documents published by the Company as well as information on the Directors, Terms of Reference of the Board's 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 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. Other telephone providers' costs may vary.

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

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