

Schroder

Japan Growth Fund plc

Half Year Report and Accounts for the six months ended 31 January 2014



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)
Anja Balfour
Richard Greer
Jan Kingzett
John Scott

Advisers

Investment Manager and Company Secretary

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Financial Highlights

Total returns (including dividends reinvested)		For the six months ended 31 January 2014	
Net asset value ("NAV") per share ¹			(3.0)%
Share price ¹			(3.9)%
Benchmark ²			(3.2)%
	31 January 2014	31 July 2013	% Change
Shareholders' funds (£'000)	165,607	172,908	(4.2)
Shares in issue	125,008,200	125,008,200	–
NAV per share	132.48p	138.32p	(4.2)
Share price	118.00p	124.50p	(5.2)
Share price discount to net asset value per share	10.9%	10.0%	
Gearing ³	13.0%	11.0%	

¹ Source: Morningstar.² Source: Thomson Financial Datastream. The Company's benchmark is the TSE First Section Total Return Index (TOPIX) (in Sterling terms).³ Gearing represents borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

Ten Largest Investments

As at 31 January 2014

Company and Activities	Market value of holding £'000	% of shareholders' funds
Toyota Motor Automobile manufacturer	10,383	6.3
SK Kaken Paint manufacturer for construction	6,903	4.2
Hi-Lex Automobile cables manufacturer	6,079	3.7
Bridgestone Automobile tyre manufacturer	6,009	3.6
Sumitomo Mitsui Financial Banking and other financial services provider	5,813	3.5
Mitsui General trading company	5,652	3.4
KDDI Telecommunication services provider	5,384	3.3
East Japan Railway Railway company	5,363	3.2
NKSJ Holdings Life and non-life insurance provider	4,958	3.0
Seven & I Holdings Retail store operator	4,502	2.7
Total	61,046	36.9

At 31 July 2013, the ten largest investments represented 36.7% of shareholders' funds.

Comparison of the Portfolio Sector Distribution with the TSE First Section Index as at 31 January 2014

	Valuation £'000	% of Portfolio	% of Index
Transportation Equipment	21,054	11.2	11.9
Chemicals	19,764	10.5	5.4
Electrical Appliances	19,628	10.5	12.1
Retail Trade	15,918	8.5	4.3
Wholesale Trade	15,175	8.1	4.5
Banks	14,892	7.9	9.7
Land Transportation	11,154	5.9	3.5
Information and Communication	9,359	5.0	7.2
Insurance	8,845	4.7	2.2
Machinery	8,533	4.5	5.4
Pharmaceutical	7,176	3.8	4.5
Rubber Products	6,009	3.2	0.9
Construction	4,830	2.6	2.6
Securities and Commodity Futures	4,570	2.4	1.8
Precision Instruments	3,719	2.0	1.4
Real Estate	2,841	1.5	3.5
Other Products	2,748	1.5	1.4
Air Transportation	2,612	1.4	0.5
Oil and Coal Products	2,604	1.4	0.6
Non-Ferrous Metals	1,552	0.8	1.1
Marine Transportation	1,204	0.6	0.4
Glass and Ceramic Products	1,117	0.6	1.0
Services	939	0.5	2.5
Foods	860	0.5	3.8
Mining	727	0.4	0.5
Electric Power and Gas	–	–	2.2
Iron and Steel	–	–	1.7
Other Financing Business	–	–	1.4
Textiles and Apparels	–	–	0.7
Metal Products	–	–	0.7
Pulp and Paper	–	–	0.3
Warehousing and Harbour Transport	–	–	0.2
Fishery, Agriculture and Forestry	–	–	0.1
Total	187,830	100.0	100.0

Interim Management Report

Chairman's Statement

Performance

The six-month period to 31 January 2014 was positive for the Japanese market which rose by 8.8% in local currency terms. However, the continued depreciation of the yen against sterling during the period meant that, measured in sterling terms, the TSE First Section Total Return Index fell by 3.2%. The Company's net asset value total return slightly outperformed the Index, producing a negative total return of 3.0% whilst the share price total return decreased by 3.9% as the discount widened slightly from 10.0% to 10.9%.

Further details of investment policy and performance during the period may be found in the Investment Manager's Review.

Gearing Policy

During the period the Company increased its borrowings to ¥4 billion. Since the end of the period, the amount drawn from the revolving credit facility has increased again to ¥5 billion. The gearing, which had a positive contribution to the total return during the period, continues to be operated within the limits agreed by the Board. At the beginning of the period, net gearing (borrowings less cash and short-term deposits as a percentage of net assets) was 11.0% and the level had increased to 13.0% at 31 January 2014.

Dividend

For the first time, the Board declared a final dividend of 1.75p per share for the year ended 31 July 2013, which was paid to shareholders on 11 November 2013. The Board's intention is to continue to pay out dividends roughly equal to the distributable revenue after tax received in respect of future years.

Continuation Vote and Management Fees

As shareholders will be aware, the Company's next continuation vote will be held at the Annual General Meeting to take place in November 2014. As part of the Board's preparations, and after consideration of the impact on management fees more generally from the Retail Distribution Review, the Board has agreed with the Manager that, with effect from 31 July 2014, the current management fee of 1.00% per annum on the first £150 million and 0.95% thereafter should be reduced to 0.75% per annum on the first £200 million and 0.65% thereafter. This will continue to be charged on the value of the Company's assets under management, net of current liabilities other than short term borrowings. At the current level of assets under management, this reduces the management fee by approximately £450,000 per annum.

In view of the increasing costs incurred in the promotion of the Company to a wider audience, a marketing support fee of £50,000 per annum will be also be payable to the Manager from the same date in respect of the promotion of the Company. The Board believes that this reduction in management fees will ensure that the Company's fees remain competitive when compared both with peer group companies as well as open-ended funds specialising in Japanese equities.

Outlook

It has been a year since Prime Minister Abe introduced his radical programme to reinvigorate the Japanese economy. 12 months on it is noticeable, for all the publicity the measures have generated, how little the stock market has risen in sterling terms, with the rise in equities largely offset by the currency's fall. It should be noted, however, that sterling has been amongst the strongest currencies during the period. Both the market strength and the currency weakness were targets for the measures, in the hope that they will stimulate domestic demand and inflation, but as UK investors we clearly hope the former is larger than the latter.

It is therefore reassuring to see the Manager's belief that valuations and profit improvements are supportive of further market strength. The key long term judgement remains whether "Abenomics" will succeed. Whatever the first year has shown, it will be a long time before we know, but at the least Japan is making a genuine attempt to break the pattern of the last 20 years.

Jonathan Taylor

Chairman

31 March 2014

Interim Management Report (continued)

Investment Manager's Review

Market Background

The Japanese stock market rose 8.8% in yen terms during the 6 months to end January 2014. The yen continued to depreciate over the period with the result that measured in sterling terms, the market's return was -3.2%.

The market moved generally higher over the last 5 months of 2013 to end the year at its high before succumbing to profit-taking in January 2014. The first arrow of Abenomics (aggressive monetary easing) was the main driver of the stock and currency markets, although underlying corporate profitability has also been supportive. Foreign investors were the most consistent buyers and domestic investors generally less so. This has made the Japanese market more than usually sensitive to changes in global sentiment, even when the proximate cause of the underlying shift was not directly relevant to Japan, such as emerging market currency depreciation in January or, more recently, the crisis in Ukraine.

Sector trends were mixed, with some of the best performers being laggards in the initial euphoria which greeted Abenomics during the first few months of 2013, such as materials producers in the paper and glass industries, while high-beta financial sectors ran into profit-taking. Weak yen beneficiaries generally outperformed the market although there were exceptions such as the auto sector, a leading sector during the early months of Abenomics but a laggard latterly.

The Company's NAV total return fell 3.0% over the period, broadly in line with the benchmark. Technology stock selection was positive with holdings in Nidec and Fujitsu performing strongly. At the other end of the spectrum stock selection in the retail sector detracted as the market grew concerned about companies' ability to pass on higher costs, and the effect of the forthcoming increase in consumption tax.

Outlook

Geopolitical concerns have taken their toll on sentiment in early 2014 as have more local issues such as the imminent tax increase, disappointment with the structural reform agenda of Abenomics, and worries Mr Abe is becoming distracted by a nationalist agenda at the expense of the economic one, which threatens to eat into his political capital. These are genuine headwinds but probably do not warrant a pessimistic view of 2014 as a whole. Policy developments are likely to be supportive overall and market valuations look attractive at a time when profits momentum remains positive.

Investment Policy

We have not made many changes to policy, which remains moderately pro-cyclical. We have used weakness in financials to add to positions in banks and insurance. We have reduced the office equipment exposure and added to beneficiaries of recovery in domestic corporate spending such as Nabtesco, the leading global manufacturer of precision motors for robots. We added to the position in Honda, whose share price lagged the market and its sector but whose profits look set to catch up over the next few years.

Gearing increased to 13.0% at the end of January 2014, from 11.0% at 31 July 2013.

Schroder Investment Management Limited

31 March 2014

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 2013. These risks and uncertainties have not materially changed during the six months ended 31 January 2014.

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 33 of the Company's published Annual Report and Accounts for the year ended 31 July 2013. There have been no transactions with related parties during the six months ended 31 January 2014.

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 Financial Conduct Authority's Disclosure and Transparency Rules.

Income Statement

	(Unaudited) For the six months ended 31 January 2014			(Unaudited) For the six months ended 31 January 2013			(Audited) For the year ended 31 July 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	–	(7,691)	(7,691)	–	10,756	10,756	–	43,180	43,180
Net foreign currency gains	–	2,383	2,383	–	2,461	2,461	–	2,911	2,911
Income from investments	1,609	–	1,609	1,555	–	1,555	3,645	–	3,645
Gross return/(loss)	1,609	(5,308)	(3,699)	1,555	13,217	14,772	3,645	46,091	49,736
Investment management fee	(280)	(653)	(933)	(219)	(511)	(730)	(496)	(1,158)	(1,654)
Administrative expenses	(247)	–	(247)	(225)	–	(225)	(466)	–	(466)
Net return/(loss) before finance costs and taxation	1,082	(5,961)	(4,879)	1,111	12,706	13,817	2,683	44,933	47,616
Finance costs	(35)	(82)	(117)	(39)	(91)	(130)	(70)	(164)	(234)
Net return/(loss) on ordinary activities before taxation	1,047	(6,043)	(4,996)	1,072	12,615	13,687	2,613	44,769	47,382
Taxation (note 4)	(117)	–	(117)	(109)	–	(109)	(259)	–	(259)
Net return/(loss) on ordinary activities after taxation	930	(6,043)	(5,113)	963	12,615	13,578	2,354	44,769	47,123
Return per share (note 5)	0.74p	(4.83)p	(4.09)p	0.77p	10.09p	10.86p	1.88p	35.81p	37.69p

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 Company has no recognised gains and losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has 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 2014 (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 2013	12,501	7	97,205	3	65,147	(1,955)	172,908
Net (loss)/return on ordinary activities	–	–	–	–	(6,043)	930	(5,113)
Dividend paid in the period	–	–	–	–	(2,188)	–	(2,188)
At 31 January 2014	12,501	7	97,205	3	56,916	(1,025)	165,607

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 year ended 31 July 2013 (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 2012	12,501	7	97,205	3	20,378	(4,309)	125,785
Net return on ordinary activities	–	–	–	–	44,769	2,354	47,123
At 31 July 2013	12,501	7	97,205	3	65,147	(1,955)	172,908

Balance Sheet

	(Unaudited) At 31 January 2014 £'000	(Unaudited) At 31 January 2013 £'000	(Audited) At 31 July 2013 £'000
Fixed assets			
Investments held at fair value through profit or loss	187,830	154,724	192,647
Current assets			
Debtors	391	619	189
Cash at bank and in hand	2,360	6,261	1,023
	2,751	6,880	1,212
Current liabilities			
Creditors: amounts falling due within one year	(24,974)	(22,241)	(20,951)
Net current liabilities	(22,223)	(15,361)	(19,739)
Net assets	165,607	139,363	172,908
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	56,916	32,993	65,147
Revenue reserve	(1,025)	(3,346)	(1,955)
Total equity shareholders' funds	165,607	139,363	172,908
Net asset value per share (note 6)	132.48p	111.48p	138.32p

Cash Flow Statement

	(Unaudited) For the six months ended 31 January 2014 £'000	(Unaudited) For the six months ended 31 January 2013 £'000	(Audited) For the year ended 31 July 2013 £'000
Net cash inflow from operating activities (note 7)	380	583	1,611
Net cash outflow from servicing of finance	(150)	(140)	(252)
Taxation paid	(117)	(110)	(256)
Dividend paid	(2,188)	–	–
Net cash outflow from investment activities	(2,717)	(3,514)	(9,357)
Net cash outflow in the period	(4,792)	(3,181)	(8,254)
Reconciliation of net cash flow to movement in net debt			
Net cash outflow in the period	(4,792)	(3,181)	(8,254)
Exchange movements	2,383	2,461	2,911
Changes in net debt arising from cash flows	(2,409)	(720)	(5,343)
Net debt at the beginning of the period	(19,096)	(13,753)	(13,753)
Net debt at the end of the period	(21,505)	(14,473)	(19,096)
Represented by:			
Cash at bank and in hand	2,360	6,261	1,023
Bank loan	(23,865)	(20,734)	(20,119)
Net debt	(21,505)	(14,473)	(19,096)

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 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 Recommend 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 2013.

3. Dividend

	(Unaudited) For the six months ended 31 January 2014 £'000	(Unaudited) For the six months ended 31 January 2013 £'000	(Audited) For the year ended 31 July 2013 £'000
Final dividend of 1.75p in respect of the year ended 31 July 2013 (2012: nil)	2,188	–	–

No interim dividend has been declared in respect of the six months ended 31 January 2014.

4. Taxation

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

5. Return per share

	(Unaudited) For the six months ended 31 January 2014 £'000	(Unaudited) For the six months ended 31 January 2013 £'000	(Audited) For the year ended 31 July 2013 £'000
Revenue return	930	963	2,354
Capital (loss)/ return	(6,043)	12,615	44,769
Total (loss)/ return	(5,113)	13,578	47,123
Weighted average number of Ordinary shares in issue during the period	125,008,200	125,008,200	125,008,200
Revenue return per share	0.74p	0.77p	1.88p
Capital (loss)/return per share	(4.83)p	10.09p	35.81p
Total (loss)/return per share	(4.09)p	10.86p	37.69p

6. 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 2014 of 125,008,200 (31 January 2013 and 31 July 2013: same).

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

	(Unaudited) For the six months ended 31 January 2014 £'000	(Unaudited) For the six months ended 31 January 2013 £'000	(Audited) For the year ended 31 July 2013 £'000
Total (loss)/return on ordinary activities before finance costs and taxation	(4,879)	13,817	47,616
Less capital loss/(return) on ordinary activities before finance costs and taxation	5,961	(12,706)	(44,933)
Less management fee charged to capital	(653)	(511)	(1,158)
Decrease/(increase) in accrued dividends and interest receivable	7	16	(25)
(Increase)/decrease in other debtors	(16)	(24)	7
(Decrease)/increase in accrued expenses	(40)	(9)	104
Net cash inflow from operating activities	380	583	1,611

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