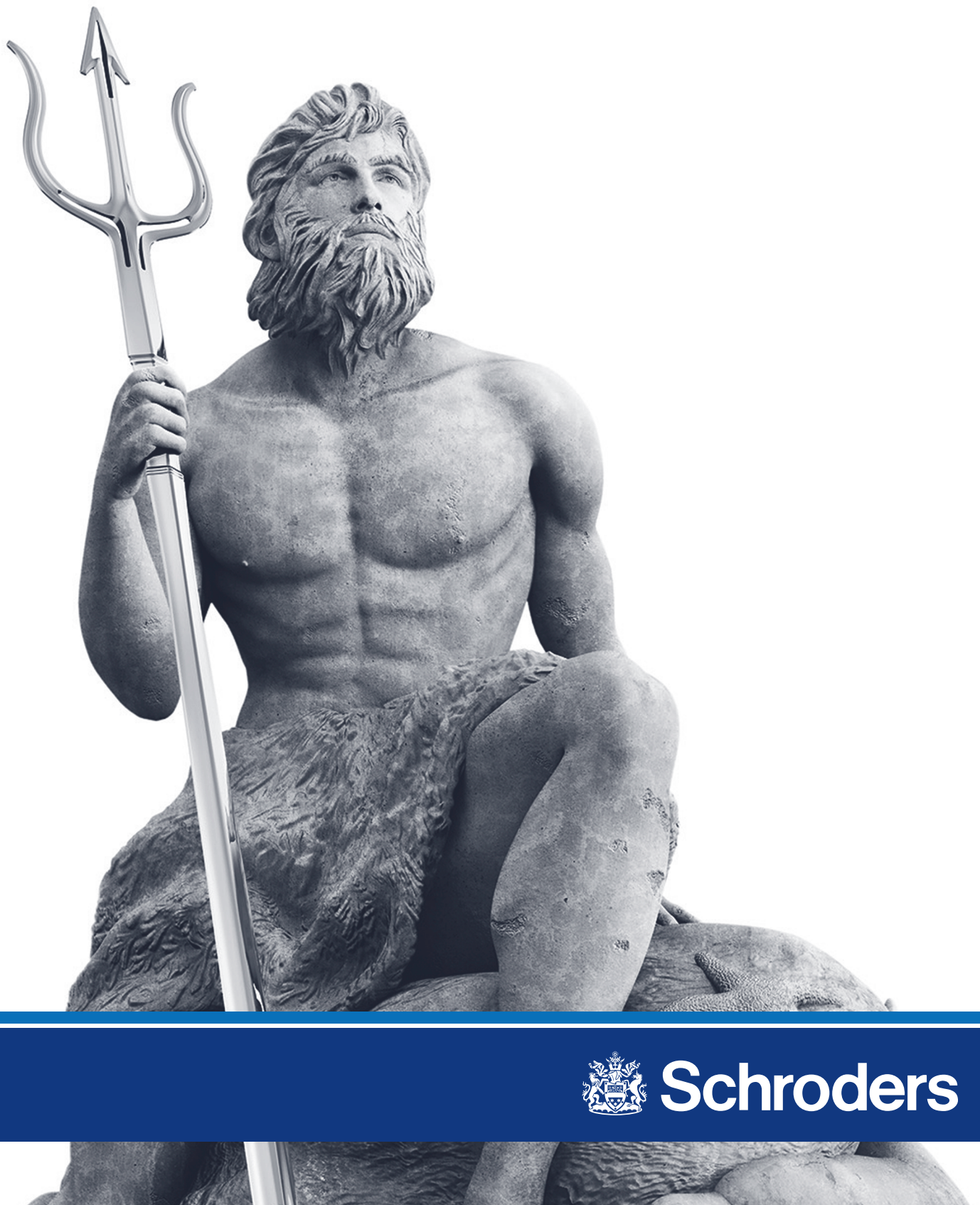


# Schroder Japan Growth Fund plc

Report and Accounts for the year ended 31 July 2015



**Schroders**

# Investment Objective and Advisers

## 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.**

## Financial Conduct Authority Rules implementing the EU Alternative Investment Fund Managers ("AIFM") Directive

Certain pre-sale, regular and periodic disclosures required by the AIFM Directive may be found either in this Annual Report or on the web at [www.schroders.co.uk/its](http://www.schroders.co.uk/its).

## Advisers

### Alternative Investment Fund Manager (the "Manager")

Schroder Unit Trusts Limited  
31 Gresham Street  
London EC2V 7QA

### 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

### Depositary

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

### Independent Auditors

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

### Corporate Broker

Cenkos Securities plc  
6.7.8 Tokenhouse Yard  
London EC2R 7AS

### Registrar

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

Shareholder Helpline: 0800 032 0641\*

Website: [www.shareview.co.uk](http://www.shareview.co.uk)

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

# Directors



*From left to right: John Spedding (Schroder Investment Management Limited for Company Secretary), Richard Greer, Jonathan Taylor, John Scott, Anja Balfour, Andrew Rose (Portfolio Manager).*

## **Jonathan Taylor** (Chairman)

Aged 71, was appointed as a Director of the Company on 29 July 1999 and as Chairman on 20 April 2004. He is Chairman and Managing Director of Dragon Partners Limited. He is a Director of Aberdeen Greater China Fund Inc. and a member of the international advisory board, Datawind Inc. He was previously a Director of Baring Asset Management Limited (1976–1997) where he was closely involved with the development of its client base in Japan. He is a Barrister at law.

## **Anja Balfour**

Aged 51, was appointed as a Director of the Company on 1 May 2013. Mrs Balfour spent 22 years managing Japanese, Far Eastern and International equity portfolios for Stewart Ivory, Baillie Gifford and, latterly, Axa Framlington. She is a non-executive director of Martin Currie Asia Unconstrained Trust plc, F & C Global Smaller Companies PLC and is a trustee of Venture

Scotland, a charity specialising in personal development for young people. She is a member of the CFA Society of the UK and Archangel Informal Investment, a business angel syndicate.

## **Richard Greer**

Aged 61, was appointed as a Director of the Company on 5 November 2009. Mr Greer worked in Japan for fifteen years, for Jardine Matheson and subsequently, as branch manager, for Baring Securities (Japan) Limited, until 1993. He has extensive experience of company research, and headed the group established by the Japanese Ministry of Finance representing the EU investment banks and brokerages. On returning to London, he was global head of research at Barings, Caspian Limited and Commerzbank AG, before becoming a partner at WMG Limited, a wealth management group, and head of marketing at Toscafund Limited. He is now a partner at

Laurel Capital Kingsway LLP, an FCA authorised investment firm specialising in Asia, where he is the Compliance Officer.

## **John Scott**

Aged 63, was appointed a Director of the Company on 20 April 2004. He is Chairman of Scottish Mortgage Investment Trust PLC, Impax Environmental Markets Plc and of Alpha Insurance Analysts, and a non-executive director of JP Morgan Claverhouse Investment Trust plc. He is also a non-executive director of two Guernsey funds, Alternative Asset Opportunities PCC and Bluefield Solar Investment Fund. He previously worked in Hong Kong for Jardine Matheson, and subsequently in London for Lazard for 20 years, during which time he spent three years in Tokyo with responsibility for Lazard Brothers' investment banking activities in Japan.

Each Director is a member of the Audit, Management Engagement and Nomination Committees.

Mr Greer is Chairman of the Nomination and Management Engagement Committees and Mr Scott is Chairman of the Audit Committee.

# Contents

Directors	1
Financial Highlights	3
Comparison of Portfolio Sector Distribution	4
Ten-Year Financial Record	5
Chairman's Statement	6
Manager's Review	8
Investment Portfolio	10
Strategic Report	12
Report of the Directors	20
Remuneration Report	30
Independent Auditors' Report	34
Income Statement	38
Reconciliation of Movements in Shareholders' Funds	38
Balance Sheet	39
Cash Flow Statement	40
Notes to the Accounts	41
Annual General Meeting – Explanation of Special Business	53
Notice of Annual General Meeting	54
Explanatory Notes	55
Company Summary and Shareholder Information	Inside Back Cover

# Financial Highlights

<b>Total returns<sup>1</sup> for the year ended 31 July</b>	<b>2015</b>	<b>2014</b>	
Net asset value ("NAV") per share <sup>2</sup>	<b>24.0%</b>	1.6%	
Share price <sup>2</sup>	<b>30.2%</b>	0.8%	
TSE First Section Total Return Index (in sterling terms) <sup>3</sup>	<b>17.7%</b>	(0.2)%	
<b>Shareholders' funds, NAV and share price discount at 31 July</b>			<b>% Change</b>
Shareholders' funds (£'000)	<b>212,101</b>	173,455	+22.3
NAV per share	<b>169.67p</b>	138.75p	+22.3
Share price	<b>158.75p</b>	123.75p	+28.3
Share price discount	<b>6.44%</b>	10.81%	
<b>Revenue for the year ended 31 July</b>			
Net revenue attributable to shareholders (£'000)	<b>2,693</b>	2,401	+12.2
Return per share	<b>2.15p</b>	1.92p	+12.0
Dividend per share	<b>2.00p</b>	1.80p	+11.1
<b>Gearing<sup>4</sup></b>	<b>12.5%</b>	12.8%	
<b>Ongoing Charges<sup>5</sup></b>	<b>1.09%</b>	1.36%	

<sup>1</sup>Total returns include an adjustment for dividends paid which are assumed to be reinvested back into the Company.

<sup>2</sup>Source: Morningstar.

<sup>3</sup>Source: Thomson Reuters.

<sup>4</sup>Gearing represents borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

<sup>5</sup>Ongoing Charges represents the management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average daily net asset values during the year.

## Comparison of Portfolio Sector Distribution with the TSE First Section Index at 31 July 2015

	Valuation £'000	% of Portfolio	% of Index
Transportation Equipment	28,295	11.8	11.0
Electrical Appliances	27,527	11.5	11.8
Chemicals	22,398	9.4	5.9
Retail Trade	20,502	8.6	4.9
Banks	19,387	8.1	9.7
Land Transportation	15,966	6.7	4.2
Wholesale Trade	15,440	6.5	4.1
Information and Communication	14,209	5.9	7.0
Insurance	12,715	5.3	2.8
Machinery	10,004	4.2	4.6
Pharmaceutical	9,730	4.1	5.0
Rubber Products	7,178	3.0	0.9
Construction	5,692	2.4	2.6
Securities and Commodity	4,897	2.1	1.4
Air Transportation	4,575	1.9	0.7
Non-Ferrous Metals	3,977	1.7	0.9
Other Products	3,732	1.6	1.6
Precision Instruments	3,506	1.5	1.4
Oil and Coal Products	2,935	1.2	0.5
Real Estate	2,479	1.0	2.9
Marine Transportation	1,146	0.5	0.3
Iron and Steel	1,018	0.4	1.3
Foods	819	0.3	4.5
Mining	698	0.3	0.4
Services	–	–	3.2
Electric Power and Gas	–	–	2.3
Other Financing Business	–	–	1.4
Glass and Ceramics Products	–	–	0.9
Textiles and Apparels	–	–	0.7
Metal Products	–	–	0.6
Pulp and Paper	–	–	0.2
Warehousing and Harbour Transport	–	–	0.2
Fishery, Agriculture and Forestry	–	–	0.1
<b>Total</b>	<b>238,825</b>	<b>100.0</b>	<b>100.0</b>

# Ten-Year Financial Record

At 31 July	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total assets (£'000) <sup>1</sup>	172,587	156,292	133,547	126,333	137,076	154,331	150,301	193,027	202,254	243,135
Shareholders' funds (£'000)	142,164	135,626	110,194	107,324	114,971	130,654	125,785	172,908	173,455	212,101
NAV per share (pence)	113.72	108.49	88.15	85.85	91.97	104.52	100.62	138.32	138.75	169.67
Share price (pence)	110.50	99.25	77.50	71.25	78.25	92.88	86.00	124.50	123.75	158.75
Share price discount (%)	(2.83)	(8.52)	(12.08)	(17.01)	(14.92)	(11.14)	(14.53)	(9.99)	(10.81)	(6.44)
Gearing (%) <sup>2</sup>	17.4	13.0	14.1	9.8	12.2	10.0	10.9	11.0	12.8	12.5
Ongoing charges (%) <sup>3</sup>	1.44	1.43	1.47	1.55	1.51	1.49	1.42	1.45	1.36	1.09

Year ended 31 July	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net (loss)/revenue after taxation (£'000)	(295)	(261)	383	715	254	911	1,365	2,354	2,401	2,693
Net (loss)/return per share (pence)	(0.24)	(0.21)	0.31	0.57	0.20	0.73	1.09	1.88	1.92	2.15
Dividends per share (pence)	–	–	–	–	–	–	–	1.75	1.80	2.00

Performance <sup>4</sup>	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
NAV total return	100.0	119.0	113.5	91.9	89.9	96.0	108.6	104.2	144.8	145.2	180.0
Share price total return	100.0	120.4	108.2	84.5	77.7	85.3	101.2	93.7	135.7	136.8	178.0
Benchmark <sup>5</sup>	100.0	121.8	118.1	103.6	104.6	110.7	120.0	111.3	143.6	143.3	168.7

<sup>1</sup>Net assets plus borrowings used for investment purposes.

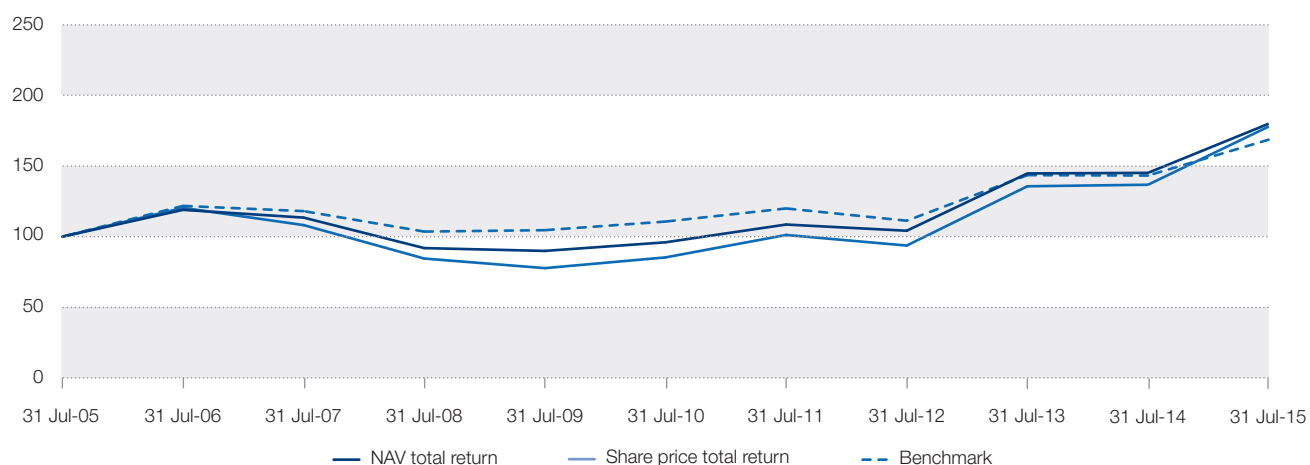
<sup>2</sup>Gearing represents borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

<sup>3</sup>Ongoing Charges represents the management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average daily net asset values during the year. The figures for 2011 and prior years represent the expenses calculated as above, expressed as a percentage of the average month end net asset values during the year.

<sup>4</sup>Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 July 2005.

<sup>5</sup>The Company's Benchmark is the TSE First Section Total Return Index (in sterling terms).

## Ten-Year NAV, share price and benchmark total returns to 31 July 2015



Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 July 2005

# Chairman's Statement

## Performance

I am pleased to report a successful year of performance with the Company's net asset value ("NAV") total return being 24.0%, well above the benchmark which produced a total return of 17.7%. This performance was achieved notwithstanding a weakening in the yen against sterling of 10.3% over the period, which reduced returns for sterling investors.

As a result of strong local market performance over the last 12 months, Japan has increasingly become a focus for investors. This, coupled with the Company's outperformance of the benchmark, has led to additional interest in its shares, with the share price setting an all time high over the year and the discount tightening from 10.8% to 6.4%.

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

Our portfolio manager, Andrew Rose, won the 2015 Morningstar Outstanding Fund Manager award. Their awards recognise individual fund managers that have made a substantial contribution to the retail investment management industry.

## Revenue and dividend

More evidence of the recovery in Japanese profitability has been seen in increased dividends from portfolio companies. The revenue return per share increased by 12.0% over the year ended 31 July 2015 and the Directors have declared a final dividend of 2.00p per share for the year, an increase of 11.1% over the 1.80p per share paid in respect of the previous year. This dividend will be paid on 6 November 2015 to shareholders on the Register on 16 October 2015, subject to approval by shareholders at the Annual General Meeting on 3 November 2015. This year the dividend will be paid entirely from revenue reserve and it is currently expected that this will continue in future.

## Gearing

During the year, the Company increased its revolving credit facility of Yen 5 billion to Yen 7 billion and extended it for a further twelve months. The gearing level, reflecting the higher net asset value, has remained relatively static beginning and ending the year at 12.8% and 12.5% respectively. The Company's gearing continues to operate within pre-agreed limits so that net effective gearing does not represent more than 25% of shareholders' funds.

## Corporate Broker

Following a comprehensive review of promotional activities undertaken on behalf of the Company earlier this year, the Board appointed Cenkos Securities as its Corporate Broker.

## Purchase of shares for cancellation and share issuance

The Directors did not use the authority given to them to purchase shares for cancellation during the financial year ended 31 July 2015. Nevertheless, as the ability to buy back shares is one of a number of tools that may be used to enhance shareholder value and to reduce the discount volatility, the Board will be seeking to renew the share buy-back authority granted at the Company's Annual General



# Chairman's Statement

Meeting in November 2014 to purchase up to 14.99% of the Company's issued share capital for cancellation.

As in previous years, the Board is also seeking authority to issue up to 5% of the issued share capital on a non pre-emptive basis at a premium to net asset value. As part of the Company's premium management programme the Board will look to issue shares in order to provide liquidity to the market and to reduce volatility in any premium to net asset value.

## Board refreshment

The Board continues to consider its composition, balance and diversity and has a long term refreshment policy in place which generally has resulted in Board changes every two to three years. In view of the length of service of two of the Directors, the Board has commenced the search for a new Director. Following such appointment, and allowing an opportunity for any new Director to settle into the role, it is envisaged that at least one of the long serving Directors will retire.

## Outlook

Some of the Company's success this year has been partially overshadowed by events after the end of July. Since then, the NAV has reduced by around 10% as worldwide stock prices fell following the Chinese stock markets' collapse. One judgment for investors is whether this is just a reaction to market events in China (which have little direct impact on the Company's portfolio), or indicative of a more fundamental change in the outlook for global growth. Resolution of this is not made any easier by concern that Abenomics may be running out of steam.

The Manager's review discusses both issues, and your Board takes comfort from the generally optimistic conclusion offered. One obvious hangover from the market correction, however, is that day-to-day volatility in share prices remains high. While this is always threatening to investor confidence, one benefit is that this is likely to be an environment with considerable opportunities for a stock-picker looking for long term value. We want our Manager to continue to find those opportunities.

## Annual General Meeting

The Annual General Meeting will be held at 3.00 p.m. on Tuesday, 3 November 2015, and I hope as many of you as possible will be able to come along to participate. The meeting, as in previous years, will include a presentation by the portfolio manager on the prospects for the Japanese market and the Company's investment strategy.

**Jonathan Taylor**  
Chairman

1 October 2015

## Market Background

The Company's NAV total return for the year of 24.0% outperformed the benchmark total return of 17.7%. Stock selection contributed positively as did maintaining gearing over that period. Stock selection in telecommunications and technology was supportive such as KDDI, TDK and Koito Manufacturing. This offset the drag from holdings adversely affected by the fall in commodity prices such as trading company Mitsui & Co.

After a weak beginning to the year under review the market moved broadly higher thereafter following the second round of quantitative easing in October, a snap general election and postponement of the planned rise in VAT. The yen weakened following the additional monetary easing which reduced returns in sterling, which were healthy nonetheless. Developments at the company level were also generally positive in terms of rising corporate profits and the impact of recently introduced stewardship and corporate governance codes being seen.

Sector trends within the market generally favoured more defensive domestic sectors such as pharmaceuticals, food and railways. The exception was top performer insurance which benefited from improved underwriting performance and rising equity prices. At the other end of the spectrum, global cyclicals and commodity price sensitive areas performed relatively poorly as concerns grew about the health of the global economy and emerging markets in particular.

## Activity

Small cap stock selection has added value over the year and we took some profits in this area, such as in SK Kaken (a paint producer) and Moshi Moshi Hotline (a call centre). In the larger cap part of the market we have maintained our mildly pro cyclical stance and added a new holding in the truck maker Isuzu Motors. Financials continue to offer attractive valuations and we added to bank exposure. We have also taken partial profits amongst electronics and precision companies such as Koito Manufacturing, Nidec and Konica Minolta.

The proceeds of these sales were reinvested in more laggard stocks such as Shinko Electric and Toshiba Tec. The pharmaceutical sector was generally a strong performer and we sold out of Tsumura (a Chinese herbal medicine producer) and added to the existing position in Otsuka Holdings, which had lagged.

## Outlook

The current economic environment is less supportive of the equity market than it was during most of the last year, as evidenced by a sharp correction and increased volatility immediately after the Company's July year end. Whilst the external environment remains uncertain, especially in relation to China, we are more confident that the domestic economy will emerge from its recent soft patch.

The fall in the market has brought stock market valuations back to lower levels. Corporate profit trends bear watching but so far the revisions index overall remains positive, even if it is weaker for manufacturing. Despite specific problems at one leading Japanese company, Toshiba, nothing has happened to undermine the more positive underlying developments in corporate governance, capital efficiency and shareholder returns. On balance we expect market volatility to continue, but remain cautiously optimistic from current levels given these developments at the corporate level.

# Manager's Review

## Investment Policy

Following the sharp divergence in performance between steady domestic growth companies and more cyclical companies, relative valuations appear generally to favour the latter. On a selective basis we expect to find more ideas in this part of the market over coming months.

Net gearing was 12.5% at the end of July 2015, slightly lower than the previous year end.

**Schroder Investment Management Limited**

1 October 2015

# Investment Portfolio

As at 31 July 2015

Company	Industrial classification	Principal activity	Market value of holding £'000	% of total equity shareholders' funds
Toyota Motor	Transportation Equipment	Automobile manufacturer	12,532	5.9
Sumitomo Mitsui Financial	Banks	Banking and other financial services	8,243	3.9
East Japan Railway	Land Transportation	Railway company	7,610	3.6
Hi-Lex	Transportation Equipment	Automobile parts manufacturer	7,598	3.6
KDDI	Information and Communication	Telecommunication services	7,560	3.6
Sompo Japan Nipponkoa	Insurance	Insurance company	7,436	3.5
Bridgestone	Rubber Products	Automobile tyre manufacturer	7,178	3.4
SK Kaken	Chemicals	Paint manufacturer for construction	6,390	3.0
Nippon Telephone & Telegraph	Information and Communication	Telecommunication services	6,163	2.9
Mitsui & Co.	Wholesale Trade	General trading company	6,076	2.9
Seven and I Holdings	Retail Trade	Retail store operator	5,442	2.6
T&D Holdings	Insurance	Life insurance products and services	5,279	2.5
Mitsubishi UFJ Financial	Banks	Banking and other financial services	5,103	2.4
Japan Airlines	Air Transportation	Airline	4,575	2.2
Nidec	Electrical Appliances	Minature motor manufacturer	4,015	1.9
TDK	Electrical Appliances	Electronic components manufacturer	3,816	1.8
Nintendo	Other Products	Game hardware and software	3,732	1.8
Nitto Denko	Chemicals	LCDs manufacturer	3,550	1.7
Koito Manufacturing	Electrical Appliances	Car lighting manufacturer	3,523	1.6
Inabata	Wholesale Trade	Trading company	3,482	1.6
<b>Twenty largest investments</b>			<b>119,303</b>	<b>56.4</b>
Honda Motor	Transportation Equipment	Automobile and motorcycle manufacturer	3,331	1.6
AT Group	Retail Trade	Car distributor	3,290	1.5
Hitachi Ltd	Electrical Appliances	Electrical appliances and industrial machinery manufacturer	3,230	1.5
Santen Pharmaceutical	Pharmaceutical	Pharmaceutical products	3,206	1.5
Canon	Electrical Appliances	Precision equipment	3,179	1.5
Nomura Holdings	Securities and Commodity	Securities company	3,148	1.5
Haseko	Construction	House builder	2,999	1.4
JX Holdings	Oil and Coal products	Petroleum refining and selling	2,935	1.4
Sakata Inx	Chemicals	Printing ink manufacturer	2,880	1.4
Otsuka Holdings	Pharmaceutical	Pharmaceutical products	2,760	1.3
Fujitsu	Electrical Appliances	IT hardware and software	2,692	1.3
Sekisui Chemical	Chemicals	Housebuilder and chemicals producer	2,541	1.2
Seventy Seven Bank	Banks	Banking services	2,541	1.2
Central Japan Railway	Land Transportation	Railway company	2,530	1.2
Dowa Holdings	Non-Ferrous Metals	Mines and produces metal related products	2,528	1.2
Disco	Machinery	Semiconductor equipment producer	2,509	1.2
Hitachi High-Technologies	Wholesale Trade	Semiconductor equipment and medical equipment producer	2,467	1.2
Yamada Denki	Retail Trade	Electronics retailer	2,451	1.1
Hoya	Precision Instruments	Optical lens manufacturer	2,437	1.1
Sankyu	Land Transportation	Plant maintenance and logistics	2,397	1.1
Isuzu Motors	Transportation Equipment	Truck manufacturer	2,266	1.1
ABC-Mart	Retail Trade	Shoe retailer	2,205	1.0
Hitachi Transport System	Land Transportation	Transportation of industrial machinery	2,150	1.0
Fujifilm Holdings	Chemicals	Imaging and information solutions	2,047	1.0
Shimamura	Retail Trade	Clothing store	2,009	0.9

# Investment Portfolio

As at 31 July 2015

Company	Industrial classification	Principal activity	Market value of holding £'000	% of total equity shareholders' funds
Mitsubishi Corp	Wholesale Trade	General trading company	2,007	0.9
H2O Retailing	Retail Trade	Department store	1,931	0.9
Astellas Pharma	Pharmaceutical	Pharmaceutical products	1,926	0.9
Mitsui Fudosan	Real Estate	Leasing and sale of real estate	1,898	0.9
Mitsubishi Electric	Electrical Appliances	Electronic equipment manufacturer	1,804	0.9
Toshiba Tec Corporation	Electrical Appliances	Point of sales equipment manufacturer	1,762	0.8
Nafco	Retail Trade	Operator of home and furniture stores	1,754	0.8
Tokai Tokyo Securities	Securities and Commodity	Stockbroker	1,749	0.8
Konica Minolta	Electrical Appliances	Office equipment manufacturer	1,704	0.8
Fukuoka Financial	Banks	Banking and other financial services	1,668	0.8
Sumitomo Heavy Industries	Machinery	Industrial machinery manufacturer	1,661	0.8
Nippon Thompson	Machinery	Needle roller bearings manufacturer	1,628	0.8
Unipres	Transportation Equipment	Automobile parts manufacturer	1,579	0.7
JGC	Construction	Construction of plants and facilities	1,533	0.7
Nabtesco	Machinery	Precision motors for robots manufacturer	1,503	0.7
JTEKT	Machinery	Ball and roller bearings manufacturer	1,467	0.7
Sumitomo Electric Industries	Non-Ferrous Metals	Cable electronic equipment manufacturer	1,449	0.7
Don Quijote	Retail Trade	Discount store operator	1,420	0.7
Sumitomo Corporation	Wholesale Trade	General trading company	1,408	0.7
T&K Toka	Chemicals	Printing ink manufacturer	1,362	0.6
Mitsubishi Gas Chemical	Chemicals	Chemical products manufacturer	1,292	0.6
Yamato Holdings	Land Transportation	Delivery service company	1,279	0.6
Sankyo	Machinery	Pachinko machine manufacturer	1,236	0.6
Sanki Engineering	Construction	Air conditioning system installer	1,160	0.5
Mitsui O.S.K. Lines	Marine Transportation	Shipping	1,146	0.5
Shimadzu	Precision Instruments	Precision tools and equipment manufacturer	1,069	0.5
Mirai Industry	Chemicals	Piping materials manufacturer	1,018	0.5
Shinko Electric	Electrical Appliances	Semiconductor equipment manufacturer	997	0.5
Chiba Bank	Banks	Banking services	996	0.5
Musashi Seimitsu Industry	Transportation Equipment	Automobile parts manufacturer	989	0.5
Kissei Pharmaceuticals	Pharmaceutical	Pharmaceutical products	983	0.4
Kaneka	Chemicals	Chemical products manufacturer	856	0.4
Takeda Pharmaceutical	Pharmaceutical	Pharmaceutical products	855	0.4
Musashino Bank	Banks	Banking services	836	0.4
Sapporo Breweries	Foods	Alcoholic beverages	819	0.4
Toshiba	Electrical Appliances	Semiconductor and power plant manufacturer	805	0.4
Nippon Soda	Chemicals	Chemical products manufacturer	781	0.4
JSR	Chemicals	Synthetic rubber manufacturer	699	0.3
Inpex	Mining	Energy exploration	698	0.3
Daikyo	Real Estate	Real estate development and sales	581	0.3
Chubu Nippon Broadcasting	Information and Communication	Commercial broadcaster	486	0.2
<b>Total investments</b>			<b>238,825</b>	<b>112.6</b>
<b>Net current liabilities</b>			<b>(26,724)</b>	<b>(12.6)</b>
<b>Total equity shareholders' funds</b>			<b>212,101</b>	<b>100.0</b>

At 31 July 2014 the twenty largest investments represented 56.3% of total equity shareholders' funds.

## Company structure

The Company conducts business as an investment trust. It has been approved by HM Revenue & Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010, by way of a one-off application and the Company will continue to conduct its affairs in a manner which will enable it to retain this status.

The Company is domiciled in the UK and is an investment company within the meaning of Section 833 of the Companies Act 2006.

The Company is not a close company for taxation purposes.

It is not intended that the Company should have a limited life. 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 Annual General Meeting in 2019 and thereafter at five yearly intervals.

## Business model

The Company's business model may be demonstrated by the diagram below.



## Role and composition of the Board

The Board considers its key performance indicators to be outperformance against the benchmark index over the long term, effective promotion of the Company and discount control and reviewing ongoing costs to help to ensure that the Company remains an appropriate investment vehicle for existing shareholders and attractive to potential investors.

The Board is the Company's governing body; it sets the Company's strategy and is collectively responsible to shareholders for its long term success. The Board is responsible for appointing and subsequently monitoring the activities of the Manager and other service providers to ensure that the investment objectives of the Company continue to be met. The Board also ensures that the Manager adheres to the investment restrictions set by the Board and acts within the parameters set by it in respect of any gearing. It also identifies and monitors the key risks facing the Company.

Investment activities are predominantly monitored through quarterly Board meetings at which the Board receives detailed reports and updates from the portfolio manager, who attends each Board meeting. Services from other key service providers are reviewed as appropriate.

The Company promotes its shares to a broad range of investors including discretionary wealth managers, private investors, financial advisers and institutions which have the potential to be long term supporters of the investment strategy. The Company seeks to achieve this through its Manager and Corporate Broker, which promote the shares of the Company through regular contact with both current and potential shareholders. These activities consist of investor functions, one-on-one meetings, regional road shows and attendances at conferences for professional investors. In addition the Company's shares are supported by the Manager's wider marketing of investment companies targeted at all types of investors; this includes maintaining close relationships with adviser and execution only platforms, advertising in the trade press, maintaining relationships with financial journalists and the provision of digital information on the Schroders website.

In order to support the promotion of the Company by assisting in reducing the volatility of the discount, the Board monitors the discount of the Company's share price to its underlying net asset value and the discounts of peer group companies and considers the use of its share buy-back authority on a regular basis.

The Board continues to review the Company's Ongoing Charges to ensure that the total costs incurred by shareholders in the running of the Company remain competitive when measured against both closed and open ended peers. An analysis of the Company's costs, including management fees, Directors' fees and general expenses, is submitted to each Board meeting. Management fees are reviewed at least annually and were substantially reduced following review in March 2014.

As at 31 July 2015, the Board comprised three men and one woman. All Directors are non-executive and are considered to be independent. The Board's approach to diversity is that candidates for Board vacancies are selected based on their skills and experience, which are matched against the balance of skills and experience of the existing Board, taking into account the specific criteria for the role being offered. Candidates are not specifically selected on the grounds of their gender or race but diversity is taken into account when the Board examines its overall balance, skill set and experience.

## Investment management

The Manager is authorised and regulated by the Financial Conduct Authority ("FCA") and provides portfolio management, risk management, accounting and company secretarial services to the Company under the terms of an Alternative Investment Fund Manager agreement ("AIFM Agreement"). The Manager also provides general marketing support for the Company and manages relationships with key investors in conjunction with the Chairman, other Board members and/or the Corporate Broker as appropriate.

The Schroders Group manages £309.9 billion (as at 30 June 2015) on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset and alternatives.

The Manager implements the investment strategy, managing the Company's assets in line with appropriate restrictions placed on it by the Board, including limits on the type and relative size of holdings which may be held in the portfolio and on the use of

gearing, hedging, cash, derivatives and other financial instruments. Schroders also acts as Company Secretary, providing the Board with corporate governance support and advising on key relationships with other service providers, whose services are subject to regular review.

## Investment objective

The principal investment objective of the Company 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.

## Investment policy

The Manager utilises an active stock driven investment approach, drawing on Schroders' extensive research resources in Japan. The portfolio is principally invested in a broad range of companies quoted on the Tokyo Stock Exchange, the regional stock markets of Fukuoka, Hiroshima, Kyoto, Nagoya, Niigata, Osaka and Sapporo and the Japanese over the counter (OTC) market. Investments may also be made in companies listed elsewhere but controlled from Japan or with a material exposure to the Japanese economy. There are no constraints on size of company or sector allocation. This flexibility will allow the Manager to take advantage of changes in market sentiment and in the domestic economic cycle as it develops.

The portfolio is mainly invested in equities but may also be invested in warrants, convertibles and other derivative instruments where appropriate. The Company may invest up to 5% of its assets in securities which are not listed on any stock exchange, but would not normally make such investment except where the Manager expects that the securities will shortly become listed on a Japanese stock market.

## Gearing

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 envisage gearing levels in excess of 25% of Shareholders' funds, where gearing is defined as borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

The Company utilises a revolving credit facility, currently in the amount of Yen 7 billion (31 July 2014: Yen 5 billion). The Board has set parameters within which the Manager is authorised to use the credit facility and draw down funds.

## Leverage

The AIFM Directive requires the Manager to set maximum levels of leverage, using a wider definition than gearing and including the use of derivatives. The "Leverage Ratio" represents the sum of the Leverage generated by all financial instruments held by the Company, as calculated in accordance with the detailed requirements of the AIFM Directive, divided by the Company's net asset value. Details on how the amount of Leverage is calculated for each class of financial instrument may be found by referring to the AIFM Directive or to the detailed guidance published by the Association of Investment Companies in September 2013. The AIFM Directive requires that ratios are calculated in accordance with two methodologies, the "Gross Method" and the "Commitment Method". The essential difference between the two is that the Commitment Method allows netting off for the effect of hedges under certain strict conditions.



# Strategic Report

The Manager has set a maximum limit of 2.0 for both the Gross and Commitment Methods of calculating the ratio but expects that, under normal market conditions, the figures will be substantially lower than this limit. At 31 July 2015, the Company's Gross ratio and its Commitment ratio were both 1.14.

The Manager may change the maximum limits from time to time. Any change would be disclosed to shareholders in accordance with the AIFM Directive.

## Investment process

### Investment philosophy and process

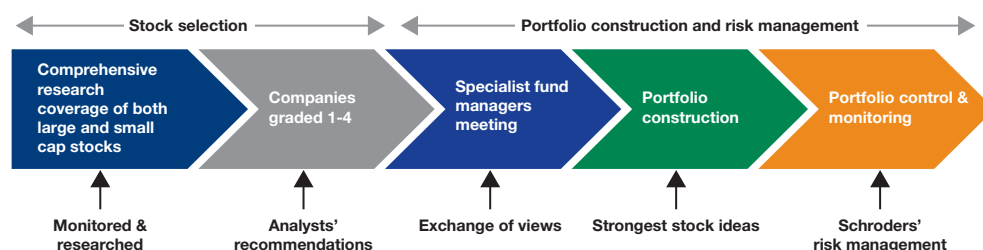
The Manager's Japanese equity investment philosophy is based on the belief that a competitive advantage can be gained from in-house research which should translate into superior investment performance through disciplined portfolio construction.

The research focuses on long term value creation and strength of franchise, targeting undervalued companies where the long term growth prospects are not fully priced in. The Manager prefers companies that can generate and sustain above average returns on their capital, and also looks for opportunities in turn around situations where companies can improve returns from depressed levels.

### Investment process

The Manager uses a disciplined approach to managing the portfolio. It has a repeatable process that starts with research and portfolio construction, and is supported by ongoing monitoring and portfolio control. The research is based on an intensive programme of company meetings: over 3,000 each year.

### Disciplined and repeatable approach



The portfolio manager, Andrew Rose, has been part of Schroders' Japanese team since 1981. While he is currently based in London, he relies heavily on the in-house research team in Tokyo. Being based in London gives the portfolio manager the best of both worlds: access to an experienced group of specialists in Japan and exposure to broader investment input in London.

Management of the portfolio is "bottom up" and long term: the screening process begins with fundamental company analysis rather than shorter term macroeconomic impacts like changes in exchange rates. Given the long term approach, portfolio turnover tends to be low. A stock will not be bought unless the Manager has met the management of the company concerned. Risk monitoring tools check that the bottom up approach is on track.

### Portfolio construction

An important part of the portfolio construction process is the debate and peer group challenge which takes place at a formal meeting twice a month. This meeting provides a forum to discuss and debate investment views and strategy, together with stock positions and stock ideas, and importantly serves to ensure vigorous debate.

Portfolio construction for the Company is then the responsibility of the portfolio manager. His focus is on the highest conviction stock ideas within the context of an appropriate risk management framework, while also setting, in conjunction with the Board, the gearing of the portfolio.

## Investment restrictions and spread of investment risk

The key restrictions imposed on the Manager are that: a) no more than 15% of the Company's total net assets, at the date of acquisition, may be invested in any one company; b) no more than 10% of the value of the Company's gross assets may be invested in other listed investment companies unless such companies have a stated investment policy not to invest more than 15% of their gross assets in other listed companies; c) the Company will not invest more than 15% of its gross assets in other listed investment companies or investment trusts; d) no more than 15% of the Company's total net assets may be invested in open-ended funds; and e) no more than 25% of the Company's total net assets may be invested in the aggregate of unlisted investments and holdings representing 20% or more of the equity capital of any company.

In accordance with the investment objective, the Company, while being invested in a single country, ensures that the objective of spreading risk has been achieved by holding 86 investments spread over 33 sectors (at 31 July 2015).

## 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 Chairman's Statement on pages 6 and 7 and the Manager's Review on pages 8 and 9.

## Principal risks and uncertainties

The Board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness. The Board has adopted a detailed matrix of principal risks identifying significant strategic, investment, financial, regulatory, custodial and service provider risks relevant to the Company's business as an investment company and has put in place an appropriate monitoring system. This system assists the Board in determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. Both the principal risks and the monitoring system are subject to robust review at least annually. The last review took place in September 2015.

Risk assessment includes consideration of the scope and quality of the systems of internal control operating within key service providers, and ensures regular communication of the results of monitoring by such providers to the Board, including 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 from the Board's on going risk assessment which has been in place throughout the financial year and up to the date of this report.

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.

A summary of the principal risks and uncertainties faced by the Company, and actions taken to mitigate these risks and uncertainties, is set out below.

## **Strategy and competitiveness risk**

Over time, the Company's investment strategy and asset class may become out of favour with investors or fail to meet their investment objectives, or the Company's cost base could become uncompetitive, particularly in light of open ended alternatives. This may result in a wide discount of the share price to underlying asset value both in absolute terms and comparative to the peer group.

In order to mitigate this risk, the Directors periodically review whether the Company's investment remit remains appropriate and monitor the success of the Company in meeting its stated objectives at each Board meeting. The Manager monitors the share price relative to net asset value and the Directors review the marketing and distribution activity undertaken by the Manager and the Corporate Broker at each Board meeting.

The level of fees charged by the Manager and the Company's other service providers is also monitored by the Board and the ongoing competitiveness of management fee levels is considered annually by the Management Engagement Committee and the Board.

## **Investment management risk**

The Manager's investment strategy (for example in terms of asset allocation employed by the Manager or the level of gearing), if inappropriate, may result in the Company underperforming the market and/or peer group companies.

To mitigate this risk, the Board reviews at each Board meeting the Manager's compliance with the agreed investment restrictions; investment performance and risk against investment objectives and strategy; the portfolio's risk profile; and appropriate strategies to mitigate any negative impact of substantial changes in markets. The Board also receives an annual presentation from the Manager's internal audit function and conducts an annual review of the ongoing suitability of the Manager.

## **Financial and currency risk**

The Company is exposed to the effect of market and currency fluctuations due to the nature of its business. A significant fall in Japanese equity markets would have an adverse impact on the market value of the Company's underlying investments and, as the Company invests predominantly in underlying assets which are denominated in yen, its exposure to changes in the exchange rate between sterling and yen has the potential to have a significant impact on returns.

To mitigate this risk, the Directors consider the risk profile of the portfolio at each Board meeting and discuss appropriate strategies to mitigate any negative impact of substantial changes in markets or currency with the Manager. While the Directors consider the Company's hedging policy on a regular basis, the Company did not engage in currency hedging to reduce the risk of currency fluctuations and the volatility of returns which might result from such currency exposure during the year ended 31 July 2015.

The Board also monitors the Manager's use of gearing and leverage in accordance with agreed guidelines and restrictions set out in the Company's investment policy. The Company utilises a credit facility, currently in the amount of Yen 7 billion, which increases the funds available for investment through borrowing. While this has the potential to enhance investment returns in rising markets, in falling markets the impact could be detrimental to performance.

To mitigate this risk, the Directors keep the Company's gearing under continual review and impose strict restrictions on borrowings. The Company's gearing continues to operate within pre-agreed limits so that it does not exceed 25% of shareholders' funds.

A full analysis of the financial risks facing the Company is set out in note 21 on pages 47 to 51.

## **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 could ultimately lose its investment trust status and capital gains within the Company's portfolio could, as a result, be subject to Capital Gains Tax.

In addition, 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 which could damage the Company's reputation, including suspension from listing on the London Stock Exchange or a qualified audit report.

To mitigate these risks, the Board receives confirmation from the Manager and other key service providers at each Board meeting of compliance with relevant laws and regulations. Shareholder documents and announcements, including the Company's published Half Year and Annual Reports are subject to stringent review processes, and procedures are in place to safeguard against the disclosure of inside information.

## **Custody and Depositary risk**

Safe custody of the Company's assets may be compromised through control failures by the Depositary, including cyber hacking. To mitigate this risk, the Board receives quarterly reports from the Depositary confirming safe custody of the Company's assets, including cash, and portfolio holdings are independently reconciled by the Manager. In addition the existence of assets is subject to annual external audit and the Depositary's audited internal controls reports are reviewed by the Audit Committee and any concerns investigated.

## **Service provider risk**

The Company has no employees and has delegated certain functions to a number of service providers, principally the Manager, Depositary and Registrar. Failure of controls and poor performance of any service provider could lead to reputational damage or loss. The Board is therefore reliant on the effective operation of the systems of its service providers. To mitigate this risk, the Board considers regular reports from key service providers and monitors the quality of services provided, and the Management Engagement Committee conducts an annual review of services to ensure that they remain appropriate. The Audit Committee also reviews annual audited internal controls reports from its key service providers, which includes confirmation of business continuity arrangements.

## **Viability statement**

In accordance with provision C.2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in September 2014 (the "Code"), the Directors have assessed the prospects of the Company over the four year period to the Annual General Meeting in 2019. The Directors believe this period to be appropriate as they will be required by the Articles of Association to put forward a proposal for the continuation of the Company at that meeting and therefore cannot presume that such resolution will be passed by shareholders.

In its assessment of the viability of the Company, the Directors have considered each of the Company's principal risks and uncertainties detailed on pages 16 to 18 and in particular the impact of a significant fall in the Japanese equity market on the value of the Company's investment portfolio. The Directors have also considered the Company's income and expenditure projections and the fact that the Company's investments comprise readily realisable securities which can be sold to meet funding requirements if necessary.

Based on the Company's processes for monitoring operating costs, share price discount, the Manager's compliance with the investment objective, asset allocation, the portfolio risk profile, gearing, counterparty exposure, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the four year period to the Annual General Meeting in 2019.

## Responsible Investment Policy

The Company delegates to its Manager the responsibility for taking environmental, social and governance (ESG) issues into account when assessing the selection, retention and realisation of investments. The Board expects the Manager to engage with investee companies on social, environmental and business ethics issues and to promote best practice. We also expect the Manager to exercise the Company's voting rights in consideration of these issues.

A description of the Manager's policy on these matters can be found on the Schroders' website at [www.schroders.com/ri](http://www.schroders.com/ri). We note that Schroders believes that companies with good ESG management often perform better and deliver superior returns over time. Engaging with companies to understand how they approach ESG management is an integral part of the investment process. Schroders is compliant with the UK Stewardship Code and its compliance with the principles therein is reported on its website.

The Board monitors the implementation of this policy by asking the Manager to regularly report on the engagement activity, how it is integrated into the investment process, and the outcomes of the activity.

## Future developments

The future performance of the Company depends upon the success of the Company's investment strategy in the light of economic factors and Japanese equity market developments. Further comments on the outlook for the Company for the next 12 months are set out in both the Chairman's Statement on pages 6 and 7 and the Manager's Review on pages 8 and 9.

By Order of the Board

**Schroder Investment Management Limited**

Company Secretary

1 October 2015

# Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31 July 2015.

## Revenue and earnings

The net revenue return before finance costs and taxation for the year was £3,174,000 (2014: £2,811,000). After deducting finance costs and taxation the amount available for distribution to shareholders was £2,693,000 (2014: £2,401,000), equivalent to net revenue of 2.15p (2014: 1.92p) per Ordinary share.

## Dividend

The Directors have recommended the payment of a final dividend for the year of 2.00p per share (2014: 1.80p) payable on 6 November 2015 to shareholders on the Register on 16 October 2015, subject to approval by shareholders at the Annual General Meeting on 3 November 2015.

The 2014 final dividend amounting £2,250,000 is accounted for in the current year and of this amount, £446,000 has been charged to the revenue reserve, sufficient to offset the brought forward balance on that reserve, and the balance of £1,804,000 charged to a capital reserve. Henceforth the Company will be able to distribute all of its revenue after taxation as a dividend, without having to utilise capital reserves.

## Directors and their interests

The Directors of the Company and their biographical details can be found on page 1 of the Report and Accounts. All Directors held office throughout the year under review.

Jan Kingzett, an employee of the Manager, retired as a Director on 5 November 2014. No other Director has any material interest in any contract which is significant to the Company's business.

In accordance with the Company's Articles of Association and the UK Corporate Governance Code which recommends that Directors who have served for more than nine years seek annual re-election, Mr Taylor, Mr Scott and Mr Greer will retire at the Annual General Meeting, and being eligible, offer themselves for re-election. Mr Taylor and Mr Scott are considered to be independent in character and judgement, notwithstanding that they have served on the Board for more than nine years.

Re-appointment is not automatic and follows a formal process of evaluation of each Director's performance. The evaluation of Mr Taylor and Mr Scott, being Directors who are subject to annual re-election, has involved particularly rigorous assessment of their independence and contribution.

The Board, having taken all relevant matters into account, considers that Mr Taylor, Mr Scott and Mr Greer continue to demonstrate commitment to their roles, provide valuable contributions to the deliberations of the Board and remain free from conflicts with the Company and its Directors. It therefore recommends that shareholders vote in favour of their re-elections.

# Report of the Directors

The interests of Directors, including their connected persons, in the Company's share capital at the beginning and end of the financial year ended 31 July 2015, all of which were beneficial were as follows:

	Ordinary shares of 10p each at 31 July 2015	Ordinary shares of 10p each at 1 August 2014
Jonathan Taylor	23,000	5,000
Anja Balfour	5,000	5,000
Richard Greer	31,689	31,689
Jan Kingzett*	N/A	15,000
John Scott	8,170	8,170

\*Mr Kingzett retired as a Director on 5 November 2014.

The information in the above table has been audited (see Independent Auditor's Report on pages 34 to 37).

There have been no changes in the above holdings between the end of the financial year and the date of the Report.

## Share capital

As at the date of this Report, the Company had 125,008,200 Ordinary shares of 10p each in issue. No shares were held in Treasury. Accordingly, the total number of voting rights in the Company at the date of this Report is 125,008,200. There were no changes to share capital during the year under review.

## Substantial share interests

As at the date of this Report, the Company has received notifications in accordance with the FCA's Disclosure and Transparency Rule 5.1.2R of the following interests in 3% or more of the voting rights attaching to the Company's issued share capital:

	Number of Ordinary shares	Percentage of total voting rights
Derbyshire County Council	9,025,000	7.22%
Lazard Asset Management LLC	8,905,266	7.12%
Investec Wealth & Investment Limited	7,950,248	6.36%
Wells Capital Management, Inc	6,266,789	5.01%
1607 Capital Partners, LLC	6,079,892	4.86%

## Manager

The Company is an Alternative Investment Fund as defined by the AIFM Directive and has appointed Schroder Unit Trusts Limited ("SUTL") as the Manager in accordance with the terms of an AIFM Agreement. The Manager has, with the approval of the Company, delegated investment management, accounting and company secretarial services to Schroder Investment Management Limited. The AIFM Agreement, which is governed by the laws of England and Wales, can be terminated by either party on twelve months' notice or on immediate notice in the event of certain breaches or the insolvency of either party. As at the date of this Report no such notice had been given by either party.

# Report of the Directors

From 31 July 2014, the Manager has been entitled to a fee at the rate of 0.75% on assets up to and including £200 million and 0.65% thereafter. Previously the fee was charged at a rate of 1% per annum on the first £150 million and 0.95% thereafter. The fee continues to be charged on the value of the Company's assets under management, net of current liabilities other than short term borrowings.

A marketing support fee of £50,000 per annum is also payable to the Manager in respect of the promotion of the Company.

During the year ended 31 July 2015 the Manager was entitled to receive a fee of £90,000 for secretarial services provided to the Company.

Details of all fees payable to the Manager are set out in note 18 on page 47 of this Report.

The Board continues to consider that the Manager has the appropriate depth of resource to achieve above average returns in the longer term. The Manager is supported by significant depth of knowledge and experience in Japan, with regional resources and local analysts. In addition, the portfolio manager is highly experienced and has recently won the 2015 Morningstar Outstanding Fund Manager Award.

In light of the above the Board considers that the Manager's continued appointment is in the best interests of shareholders.

## Depositary

HSBC Bank plc, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, has been appointed to carry out certain duties of a Depositary specified in the AIFM Directive including, in relation to the Company, as follows:

- safekeeping of the assets of the Company which are entrusted to it;
- cash monitoring and verifying the Company's cash flows; and
- oversight of the Company and the Manager to the extent described in the AIFM Directive.

In carrying out such functions the Depositary shall act honestly, fairly, professionally, independently and in the interests of the shareholders of the Company.

The Depositary is liable to the Company for the loss of any financial instrument held in custody, unless the Depositary is permitted to and has discharged such liability under the AIFM Directive and the Depositary Agreement. The Manager will inform investors of any changes with respect to the Depositary's liability for the loss of any financial instrument held in custody. The Depositary is also liable to the Company for all other losses suffered by it as a result of the Depositary's fraud, negligence and/or intentional failure to properly fulfil its duties. Under the Depositary Agreement, the Company has agreed to indemnify the Depositary against certain liabilities for direct losses suffered by the Depositary except in the case of any liability arising from applicable law or from the negligence, fraud or wilful default of the Depositary.

The Company, the Manager and the Depositary may terminate the Depositary Agreement at any time by giving 90 days' notice in writing. The Depositary may only be removed from office when a new Depositary is appointed by the Company.



## Registrar

The Company has appointed Equiniti Limited to act as Registrar. The services provided in their capacity as Registrar include share register maintenance, including the cancellation and allotment of shares as required; handling shareholder queries and correspondence; arranging for the payment of dividends, maintenance and reconciliation of associated bank accounts; meeting management for company meetings including registering of proxy votes and scrutineer services as and when required; and corporate action services.

## Greenhouse gas emissions

As the Company outsources its operations to third parties, it has no greenhouse gas emissions to report.

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Strategic Report, the Report of the Directors including the Corporate Governance Statement, 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 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements respectively; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

Each of the Directors, whose names and functions are set out on page 1 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 return of the Company;

# Report of the Directors

- the Strategic Report 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; and
- they consider that the Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

## Going concern

Having assessed the principal risks and the other matters discussed in connection with the Viability Statement, the Directors consider it appropriate to adopt the going concern basis in preparing the accounts.

A statement on the medium term viability of the Company can be found in the Strategic Report on pages 18 and 19.

## Provision of information to the Auditors

The Directors at the date of approval of this Report confirm that, so far as each of them 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 ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

## Independent Auditors

The Company's Auditors, PricewaterhouseCoopers LLP, have expressed their willingness to remain in office and resolutions to re-appoint them as Auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

## 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 Financial Reporting Council published a revised version of the UK Corporate Governance Code in September 2014 (the "2014 Code") which applies to accounting periods beginning on or after 1 October 2014. The Code is published by the UK Financial Reporting Council and is available to download from [www.frc.org.uk](http://www.frc.org.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 23 and 24, indicates how the Company has complied with the principles of good governance of the Code and its requirements on Internal Control.

The Board believes that the Company has, throughout the year under review, complied with all relevant provisions set out in the UK Corporate Governance Code published in 2012, 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 trust. 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 chair of the Audit Committee effectively acts as

# Report of the Directors

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.

In November 2014, the Board reviewed the provisions of the revised UK Corporate Governance Code and has chosen to report its compliance with the 2014 Code on this occasion as it believes it has been in compliance with the 2014 Code since that time.

## Operation and composition of the Board

### Composition

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

### Chairman

The Chairman is an independent non-executive Director who is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chairman's other significant commitments are detailed on page 1 of the Report and Accounts. He has no conflicting relationships.

### Role and operation of the Board

The role of the Board is set out in the Strategic Report on pages 12 and 13.

A formal schedule of matters specifically reserved for decision by the Board has been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

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 Manager and other key advisers and ad hoc reports and information are supplied to the Board as required.

The Board is satisfied that it is of sufficient size with an appropriate balance of diverse skills and experience, independence and knowledge of the Company, its sector and the wider industry, to enable it to discharge its duties and responsibilities effectively and that no individual or group of individuals dominates decision making.

### Training and development

On appointment, Directors receive a full, formal and tailored induction. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars and training and development needs are included as part of the evaluation process and are agreed with the Chairman.

### 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.

# Report of the Directors

## Board evaluation

In order to review the effectiveness of the Board, the Committees and the individual Directors, a thorough appraisal process has been put in place. This is implemented by way of a questionnaire and discussions with the Chairman. In respect of the Chairman, discussions are held between the Directors and the Audit Committee chairman. The process is considered by the Board to be constructive in terms of identifying areas for improving the functioning and performance of the Board and the Committees, the contribution of individual Directors and builds on and develops individual and collective strengths. The last evaluation took place in June 2015.

## Directors' and officers' liability insurance and indemnity

Directors' and officers' liability insurance cover was in place for the Directors throughout the year. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgment is given in their favour by the Court. This indemnity was in place throughout the year under review.

## Directors' attendance at meetings

Four Board meetings are scheduled for the coming year to deal with matters including the setting and monitoring of investment strategy, approval of borrowings, the review of investment performance, the level of the discount or premium to net asset value and the evaluation of service providers. In addition, a strategy meeting is held each year. Additional meetings of the Board may be arranged as required.

The number of meetings of the Board and its committees held during the financial year and the attendance of individual directors are shown below. Whenever possible all Directors attend the Annual General Meeting.

Director	Board	Nomination Committee	Audit Committee	Management Engagement Committee
Jonathan Taylor	4/4	1/1	2/2	1/1
Anja Balfour	4/4	1/1	2/2	1/1
Richard Greer	4/4	1/1	2/2	1/1
Jan Kingzett*	1/1	1/1	N/A	N/A
John Scott	4/4	1/1	2/2	1/1

\*Mr Kingzett retired as a Director on 5 November 2014.

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

## Board Committees and their activities

The Committees of the Board have defined Terms of Reference which are available on the website at [www.schroderjapangrowthfund.com](http://www.schroderjapangrowthfund.com). Membership of the Committees is set out on page 1 of this Report.

## Audit Committee

The role of the Audit Committee is to ensure that the Company maintains the highest standards of integrity in financial reporting and internal control. Given the size of the Board, the Board considers it is appropriate for all Directors, including the Chairman,

# Report of the Directors

to sit on the Audit Committee. The Chairman of the Board does not Chair the Audit Committee. The Board considers each member of the Committee to be independent.

The Audit Committee met twice during the year to consider the operational controls maintained by the Manager and Depositary, the Half Year and Annual Accounts and the Audit Plan and engagement letter, the independence of the Auditors and evaluation of the Auditors. The Board has satisfied itself that at least one of the Committee's members has recent and relevant financial experience (see the Directors' biographies on page 1 of this Report).

During its review of the Company's financial statements for the year ended 31 July 2015, the Audit Committee considered the following significant issues, including consideration of principal risks and uncertainties in light of the Company's activities, and issues communicated by the Auditors during their reporting:

<b>Issue considered</b>	<b>How the issue was addressed</b>
– Overall accuracy of the Annual Report and Accounts	– Consideration of the draft Annual Report and Accounts, the letter from the Manager in support of the letter of representation to the Auditors and the Auditors' Report to the Audit Committee.
– Calculation of the investment management fee	– Consideration of methodology used to calculate fees, matched against the criteria set out in the AIFM Agreement.
– Valuation and existence of holdings	– Review of portfolio holdings and assurance reports on controls from the Manager and Depositary.
– Compliance with S1158 of the Corporation Tax Act 2010	– Consideration of compliance criteria.
– Internal Controls and risk management	– Consideration of several key aspects of internal control and risk management operating within the Manager and Depositary.

## **Effectiveness of the independent audit process**

The Audit Committee evaluated the effectiveness of the independent audit firm and process prior to making a recommendation on their re-appointment at the forthcoming Annual General Meeting. This evaluation involved an assessment of the effectiveness of the Auditors' performance against agreed criteria including: qualification; knowledge, expertise and resources; independence policies; effectiveness of audit planning; adherence to auditing standards; and overall competence. As part of the evaluation, the Committee considered feedback from the Manager on the audit process and the year end report from the Auditors, which details compliance with regulatory requirements, on safeguards that have been established, and on their own internal quality control procedures. The members of the Committee also met the Auditors without representatives of the Manager present.

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 as described above, the Committee considered it appropriate to recommend the firm's re-appointment.

# Report of the Directors

The Auditors are required to rotate the Senior Statutory Auditor every five years. This is the third year that the current Senior Statutory Auditor has conducted the audit of the Company's financial statements.

The European Parliament and the Council of the European Union adopted an amending Directive on statutory audits of annual accounts and consolidated accounts in April 2014, which will apply to certain companies, including the Company, in respect of financial years commencing on or after 17 June 2016. The reforms include the mandatory periodic tendering of the audit contract and rotation of audit firms. The Board will consider the impact of the reforms once implemented into UK law.

## Provision of non-audit services

The Audit Committee has adopted a policy on the engagement of the Company's Auditors to supply non-audit services to the Company. £2,000 (2014: £2,000) is payable to the Auditors in respect of the submission of tax returns for the year under review. The Committee ensures that auditor objectivity and independence are safeguarded by a policy requiring pre-approval by the Committee for all non-audit services, which takes into consideration confirmation from the Auditors that they have adequate arrangements in place to safeguard their objectivity and independence in carrying out such work, within the meaning of the regulatory and professional requirements to which they are subject; the fees to be incurred relative to the audit fees; the nature of the non-audit services; and whether the Auditors' skills and experience make them the most suitable supplier of such services and whether they are in a position to provide them.

## Nomination Committee

The Nomination Committee advises the Board on succession planning bearing in mind the balance of skills, knowledge and experience existing on the Board and will make recommendations to the Board in this regard. The Nomination Committee advises the Board on its balance of relevant skills, experience, gender, race, ages and length of service of the Directors serving on the Board.

Before the appointment of a new Director, the Nomination Committee prepares a description of the role and capabilities required for a particular appointment. The Committee is dedicated to selecting the best person for the role, while recognising the importance of diversity.

Candidates are drawn from suggestions put forward from within the Company or by the use of an external agency. Candidates are then interviewed by members of the Nomination Committee which makes final recommendations to the Board.

The Committee met on one occasion during the year under review to consider its terms of reference and the balance, skills and experience of the Board.

## Management Engagement Committee

The role of the Management Engagement Committee is to ensure that the Manager remains suitable to manage the portfolio, that the terms of the AIFM Agreement are competitive and reasonable for shareholders, that Directors' fees remain competitive and that the Company maintains appropriate administrative and company secretarial support. The Committee also reviews the services provided by other service providers. 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 31 July 2015 and considered its terms of reference, the performance and suitability of

# Report of the Directors

the Manager, the terms and conditions of the AIFM Agreement, the performance and suitability of other service providers, and the fees paid to Directors.

## Relations with shareholders

Shareholder relations are given high priority by both the Board and the Manager. The prime medium by which the Company communicates with shareholders is through the Half Year Report and the Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and its results.

The Chairmen of the Board and its Committees attend the Annual General Meeting ("AGM") and are available to respond to queries and concerns from shareholders.

It is the intention of the Board that the Annual Report and Notice of the AGM be issued to shareholders so as to provide at least 20 working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so by writing to the Company Secretary at the address given on the inside front cover.

The Company has adopted a policy on complaints and other shareholder communications which ensures that shareholder complaints and communications addressed to the Company Secretary, the Chairman or the Board are, in each case, considered by the Chairman and by the Board.

## Anti bribery and corruption policy

The Company continues to be committed to carrying out its business fairly, honestly and openly and to operate an anti bribery and corruption policy.

This policy expressly prohibits any Director or persons acting on the Company's behalf from accepting, offering, soliciting, paying or authorising any payment, gift or hospitality to secure any improper benefit for themselves or the Company. The Company has implemented this policy to ensure compliance with the Bribery Act 2010. In pursuance of this policy, the Board has undertaken due diligence in respect of persons who perform services for and on behalf of the Company and has obtained assurances that appropriate anti bribery and corruption policies are in operation.

## Internal audit

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not employ any staff. The Board will continue to review annually whether an internal audit function is needed.

## Internal control and risk management systems

Information on the Company's internal control and risk management systems can be found in the Strategic Report on pages 16 to 18.

By Order of the Board

**Schroder Investment Management Limited**  
Company Secretary

1 October 2015

# Remuneration Report

## Introduction

This Report has been prepared in accordance with the relevant provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The Directors' Annual Report on Remuneration is subject to shareholder approval at the forthcoming Annual General Meeting ("AGM").

## Directors' Remuneration Policy

The determination of the Directors' fees is a matter dealt with by the Management Engagement Committee and the Board.

It is the Board's policy to determine the level of Directors' remuneration having regard to amounts payable to non-executive directors in the industry generally, the role that individual directors fulfil in respect of Board and Committee responsibilities, and time committed to the Company's affairs, taking into account the aggregate limit of fees set out in the Company's Articles of Association. This aggregate level of Directors' fees is currently set at £175,000 per annum and any increase in this level requires approval by the Board and the Company's shareholders. The Chairman of the Board and the chairman of the Audit Committee each receive fees at a higher rate than the other Directors to reflect their additional responsibilities. The fees payable to Directors are not performance related. They are set at a level to recruit and retain individuals of sufficient calibre, with the level of knowledge, experience and expertise necessary to promote the success of the Company in reaching its short and long term strategic objectives.

The Board and its Committees are comprised of non-executive Directors. No Director past or present has an entitlement to pensions, and the Company has not awarded, and does not intend to award, any share options or long term performance incentives to any Director. No Director has a service contract with the Company, however, Directors have a letter of appointment with the Company and are not entitled to notice in the event of termination. Directors do not receive exit payments and are not provided with any compensation for loss of office. No other payments are made to Directors other than the reimbursement of reasonable out-of-pocket expenses incurred in attending to the Company's business.

The terms of Directors' letters of appointment are available for inspection at the Company's registered office address during normal business hours and during the AGM at the location of such meeting.

The Board did not seek the views of shareholders in setting this Remuneration Policy. Any comments on the Policy received from shareholders would be considered on a case-by-case basis.

As the Company does not have any employees, no employee pay and employment conditions were taken into account when setting this Remuneration Policy and no employees were consulted in its construction.

Directors' fees are reviewed annually and take into account research from third parties on the levels of fees paid to directors of peer group companies, as well as industry norms and factors affecting the time commitment expected of the Directors. New Directors are subject to the provisions set out in this Remuneration Policy.



# Remuneration Report

## Annual Report on implementation of the Directors' Remuneration Policy

This Report sets out how the Directors' Remuneration Policy was implemented during the year ended 31 July 2015.

### Fees paid to Directors

During the year ended 31 July 2015, the Chairman was paid a fee of £27,000, and the other members of the Board were each paid a fee of £18,500. Members of the Audit Committee each received an additional fee of £2,000 per annum and members of the Management Engagement and Nomination Committee each received an additional £1,000 per annum for their contribution to the deliberation of such committee. The Chairman of the Audit Committee received an additional £3,000.

The following amounts were paid by the Company to the Directors for services as non-executive Directors in respect of the year ended 31 July 2015 and the previous financial year:

Director	Salary/fees	
	2015 £	2014 £
Jonathan Taylor	31,000	30,500
Anja Balfour	22,500	22,125
Richard Greer	22,500	22,125
Jan Kingzett <sup>1</sup>	4,875	19,125
John Scott	25,500	25,125
Peter Lyon <sup>2</sup>	N/A	5,682
<b>Total</b>	<b>106,375</b>	<b>124,682</b>

<sup>1</sup>Retired as a Director on 5 November 2014.

<sup>2</sup>Retired as a Director on 7 November 2013.

The information in the above table has been audited.

### Consideration of matters relating to Directors' remuneration

Directors' remuneration levels were last reviewed by the Management Engagement Committee and the Board in September 2015. The members of the Committee at the time that remuneration levels were considered were as set out on page 1. No external advice was sought in considering Directors' fee levels. However information on fees paid to Directors of other investment trusts managed by Schroders and peer group companies was taken into consideration.

Following this review, the Board agreed that the fee paid to the Chairman will increase to £31,000 per annum and the fees paid to Directors will increase to £21,000 per annum. The additional fee paid to the Chairman of the Audit Committee will remain at £3,000 per annum. These increases will take effect from 1 November 2015.

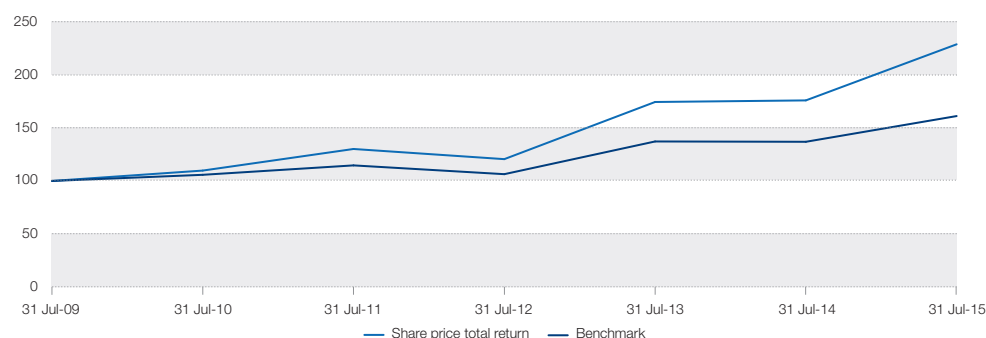
In addition, it was agreed that fees paid to Directors for membership of committees should be amalgamated into the overall fees paid to Directors with effect from the same date.

Fees were last increased in November 2013 and the Board is minded to consider increases in fees on a three yearly cycle. However, fees will continue to be reviewed on an annual cycle.

# Remuneration Report

## Performance graph

A graph showing the Company's share price total return compared with its Benchmark, the TSE First Section Total Return Index, over the last six years is shown below.



Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 July 2009.

## Expenditure by the Company on Directors' Remuneration compared with Distributions to Shareholders

The table below compares the remuneration paid to Directors to distributions made to shareholders during the year under review and the prior financial year. In considering these figures, shareholders should take into account the Company's principal investment objective of achieving capital growth.

	Year ended 31 July 2015 £'000	Year ended 31 July 2014 £'000	Change %
Remuneration paid to Directors	106	125	-15.2
Distributions to shareholders – dividends	2,250	2,188	2.8

## Directors' share interests

The Company's Articles of Association do not contain a provision requiring Directors to own shares in the Company. The shareholdings of Directors, including those of connected persons, at the beginning and end of the financial year under review are set out in the Report of the Directors on page 21. Such information has been audited.

The Company does not operate a share scheme for Directors nor does it award Directors share options.

## Implementation of the Remuneration Policy for the year ending 31 July 2016

The Board does not intend to make any significant changes to the implementation of the Remuneration Policy as set out in this Report for the year ending 31 July 2016.

## Shareholder approval

### Directors' Remuneration Policy

The above Remuneration Policy is currently in force and is subject to a binding vote every three years. An ordinary resolution to approve this Policy was approved by shareholders at the last AGM, the full policy provisions will continue to apply until the AGM held in 2017 unless a revised Remuneration Policy is approved prior to such AGM.

# Remuneration Report

At the AGM held on 5 November 2014, 99.82% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Directors' Remuneration Policy were in favour while 0.18% were against. 47,280 votes were withheld.

## **Director's Annual Report on Remuneration**

The above Report on Directors' Remuneration is subject to an annual advisory vote. An ordinary resolution to approve this Report will be put to shareholders at the forthcoming AGM.

At the AGM held on 5 November 2014, 99.86% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Remuneration Report for the year ended 31 July 2014 were in favour while 0.14% were against. 63,161 votes were withheld.

### **Jonathan Taylor**

Chairman

1 October 2015

# Independent Auditors' Report to the Members of Schroder Japan Growth Fund plc

## Report on the financial statements

### Our opinion

In our opinion, Schroder Japan Growth Fund plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 July 2015 and of its net return 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.

### What we have audited

Schroder Japan Growth Fund plc's financial statements comprise:

- the Balance Sheet as at 31 July 2015;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Reconciliation of Movements in Shareholders' Funds for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Our audit approach

### Overview

#### Materiality

- Overall materiality: £2.1 million which represents 1% of net assets.

#### Audit scope

- The Company is a standalone Investment Trust Company and engages Schroder Unit Trusts Limited (the "Manager") to manage its assets.
- We conducted our audit of the financial statements at the offices of HSBC Securities Services (the "Administrator") to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

#### Areas of focus

- Income from investments
- Valuation and existence of investments

### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

# Independent Auditors' Report to the Members of Schroder Japan Growth Fund plc

## Area of focus

### Income from Investments

Refer to pages 26 to 28 (Audit Committee Report), page 41 (Accounting Policies) and page 42 (Notes to the Accounts).

We focused on the accuracy and completeness of dividend income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP').

This is because incomplete or inaccurate income could have a material impact on the Company's net asset value.

## How our audit addressed the area of focus

We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy.

We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy.

We understood and assessed the design and implementation of key controls surrounding income recognition.

In addition, we tested dividend receipts by agreeing the dividend rates from a sample of investments to independent third party sources.

No misstatements were identified by our testing which required reporting to those charged with governance.

To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared for a sample of investment holdings in the portfolio.

Our testing did not identify any unrecorded dividends.

We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP.

### Valuation and existence of investments

Refer to pages 26 to 28 (Audit Committee Report), page 41 (Accounting Policies) and page 45 (Notes to the Accounts).

The investment portfolio at 31 July 2015 comprised listed equity investments of £239 million.

We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements.

We tested the valuation of the listed investments by agreeing the prices used in the valuation to independent third party sources.

No misstatements were identified by our testing which required reporting to those charged with governance.

We agreed the existence of investments to independent third party sources by agreeing the holdings of investments to an independent confirmation from the Custodian, HSBC Bank plc.

No differences were identified by our testing which required reporting to those charged with governance.

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the types of investments within the Company, the involvement of the Manager and Administrator, the accounting processes and controls, and the industry in which the Company operates.

The Manager outsources certain accounting and administrative functions to the Administrator.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment involved obtaining and reading the relevant control reports, issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work, to gain an understanding of both the Manager's and Administrator's control environment and to consider the operating and accounting structure at both the Manager and the Administrator. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£2.1 million (2014: £1.7 million).
How we determined it	1% of net assets.

# Independent Auditors' Report to the Members of Schroder Japan Growth Fund plc

Rationale for benchmark applied

We have applied this benchmark, a generally accepted auditing practice for investment trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £106,000 (2014: £87,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Going concern

Under the Listing Rules we are required to review the Report of the Directors, set out on page 24, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

## Other required reporting

### Consistency of other information

#### Companies Act 2006 opinion

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

### ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

<ul style="list-style-type: none"><li>– information in the Annual Report is:<ul style="list-style-type: none"><li>– materially inconsistent with the information in the audited financial statements; or</li><li>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or</li><li>– otherwise misleading.</li></ul></li></ul>	We have no exceptions to report arising from this responsibility.
<ul style="list-style-type: none"><li>– the statement given by the Directors on page 24, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.</li></ul>	We have no exceptions to report arising from this responsibility.
<ul style="list-style-type: none"><li>– the section of the Annual Report on pages 26 to 28, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li></ul>	We have no exceptions to report arising from this responsibility.

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## Directors' remuneration

### Directors' Remuneration Report – Companies Act 2006 opinion

In our opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

# Independent Auditors' Report to the Members of Schroder Japan Growth Fund plc

## Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, 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 ISAs (UK & 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.

### What an audit of financial statements involves

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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through understanding the control environment at the Manager and the Administrator, and substantive procedures.

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Richard McGuire (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

1 October 2015

### Notes:

- The maintenance and integrity of the webpage is the responsibility of the Manager; 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.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation.

# Income Statement

for the year ended 31 July 2015

	Note	2015			2014		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	2	–	36,671	36,671	–	(1,383)	(1,383)
Net foreign currency gains		–	2,829	2,829	–	3,168	3,168
Income from investments	3	4,139	–	4,139	3,793	–	3,793
Other interest receivable and similar income	3	–	–	–	1	–	1
<b>Gross return</b>		<b>4,139</b>	<b>39,500</b>	<b>43,639</b>	3,794	1,785	5,579
Investment management fee	4	(489)	(1,142)	(1,631)	(551)	(1,285)	(1,836)
Administrative expenses	5	(476)	–	(476)	(432)	–	(432)
<b>Net return before finance costs and taxation</b>		<b>3,174</b>	<b>38,358</b>	<b>41,532</b>	2,811	500	3,311
Finance costs	6	(67)	(155)	(222)	(71)	(166)	(237)
<b>Net return on ordinary activities before taxation</b>		<b>3,107</b>	<b>38,203</b>	<b>41,310</b>	2,740	334	3,074
Taxation on ordinary activities	7	(414)	–	(414)	(339)	–	(339)
<b>Net return on ordinary activities after taxation</b>		<b>2,693</b>	<b>38,203</b>	<b>40,896</b>	2,401	334	2,735
<b>Return per share</b>	9	<b>2.15p</b>	<b>30.56p</b>	<b>32.71p</b>	1.92p	0.27p	2.19p

The “Total” column of this statement is the profit and loss account of the Company, and 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 year.

## Reconciliation of Movements in Shareholders' Funds

for the year ended 31 July 2015

	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 return on ordinary activities	–	–	–	–	334	2,401	2,735
Dividend paid in the year	–	–	–	–	(2,188)	–	(2,188)
At 31 July 2014	12,501	7	97,205	3	63,293	446	173,455
Net return on ordinary activities	–	–	–	–	38,203	2,693	40,896
Dividend paid in the year	–	–	–	–	(1,804)	(446)	(2,250)
<b>At 31 July 2015</b>	<b>12,501</b>	<b>7</b>	<b>97,205</b>	<b>3</b>	<b>99,692</b>	<b>2,693</b>	<b>212,101</b>

The notes on pages 41 to 52 form an integral part of these accounts.



# Balance Sheet

at 31 July 2015

	Note	2015 £'000	2014 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	10	238,825	196,932
<b>Current assets</b>			
Debtors	11	463	571
Cash at bank and in hand		4,614	6,575
		5,077	7,146
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	12	(31,801)	(30,623)
<b>Net current liabilities</b>		<b>(26,724)</b>	<b>(23,477)</b>
<b>Total assets less current liabilities</b>		<b>212,101</b>	173,455
<b>Net assets</b>		<b>212,101</b>	173,455
<b>Capital and reserves</b>			
Called-up share capital	13	12,501	12,501
Share premium	14	7	7
Share purchase reserve	14	97,205	97,205
Warrant exercise reserve	14	3	3
Capital reserves	14	99,692	63,293
Revenue reserve	14	2,693	446
<b>Total equity shareholders' funds</b>		<b>212,101</b>	173,455
<b>Net asset value per share</b>	15	<b>169.67p</b>	138.75p

These accounts were approved and authorised for issue by the Board of Directors on 1 October 2015 and signed on its behalf by:

**Jonathan Taylor**

Chairman

The notes on pages 41 to 52 form an integral part of these accounts.

Registered in England and Wales  
Company registration number: 2930057

# Cash Flow Statement

for the year ended 31 July 2015

	Note	2015 £'000	2014 £'000
<b>Net cash inflow from operating activities</b>	<b>16</b>	<b>1,975</b>	1,482
<b>Servicing of finance</b>			
Interest paid		(222)	(267)
<b>Net cash outflow from servicing of finance</b>		<b>(222)</b>	(267)
<b>Taxation</b>			
Overseas tax paid		(409)	(335)
<b>Investment activities</b>			
Purchases of investments		(22,084)	(18,631)
Sales of investments		15,965	13,643
<b>Net cash outflow from investment activities</b>		<b>(6,119)</b>	(4,988)
Dividend paid		(2,250)	(2,188)
<b>Net cash outflow before financing</b>		<b>(7,025)</b>	(6,296)
<b>Financing</b>			
Loan drawn down		5,438	12,489
<b>Net cash inflow from financing</b>		<b>5,438</b>	12,489
<b>Net cash (outflow)/inflow in the year</b>	<b>17</b>	<b>(1,587)</b>	6,193

The notes on pages 41 to 52 form an integral part of these accounts.

# Notes to the Accounts

## 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 last traded prices as quoted on the Tokyo Stock Exchange.

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 and unrealised exchange gains and losses on foreign currency loans are included in the income statement and in capital reserves.

### (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.

Overseas dividends are included gross of any withholding tax.

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.

### (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 investment 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 mainly comprise brokerage commission. Details of transaction costs are given in note 10 on page 45.

### (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 at bank and in hand 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.

# Notes to the Accounts

## (h) Taxation

Current tax is provided at the amounts expected to be paid or received. 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 the capital column of the income statement 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) 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. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that Sterling is the functional currency. Sterling is 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 denominated in foreign currencies at the year end, are translated at the rates of exchange prevailing at the year end.

## (j) Dividend payable

In accordance with FRS 21 : "Events after the balance sheet date", the dividend is included in the accounts in the year in which it is paid.

## 2. Gains/(losses) on investments held at fair value through profit or loss

	2015 £'000	2014 £'000
Gains on sales of investments based on historic cost	5,241	1,643
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold in the year	(3,119)	(1,469)
Gains on sales of investments based on the carrying value at the previous balance sheet date	2,122	174
Net movement in investment holding gains and losses	34,549	(1,557)
<b>Gains/(losses) on investments held at fair value through profit or loss</b>	<b>36,671</b>	<b>(1,383)</b>

## 3. Income

	2015 £'000	2014 £'000
Income from investments:		
Overseas dividends	4,139	3,793
Other interest receivable and similar income:		
Deposit interest	-	1
<b>Total income</b>	<b>4,139</b>	<b>3,794</b>

## 4. Investment management fee

	2015			2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	489	1,142	1,631	551	1,285	1,836

The basis for calculating the investment management fee is set out in the Report of the Directors on page 22.

# Notes to the Accounts

## 5. Administrative expenses

	2015 £'000	2014 £'000
Administration expenses	207	195
Directors' fees	106	125
Company secretarial fee	90	90
Marketing support fee	50	–
Auditors' remuneration for audit services	21	20
Auditors' remuneration for taxation compliance services	2	2
	<b>476</b>	432

## 6. Finance costs

	2015			2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest on bank loans and overdrafts	67	155	222	71	166	237

## 7. Taxation

### (a) Analysis of charge in the year:

	2015 £'000	2014 £'000
Irrecoverable overseas tax	414	339
<b>Current tax charge for the year</b>	<b>414</b>	339

### (b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2014: lower) than the Company's applicable rate of corporation tax for the year of 20.67% (2014: 22.33%)

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

	2015			2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net return on ordinary activities before taxation	3,107	38,203	41,310	2,740	334	3,074
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax for the year of 20.67% (2014: 22.33%)	642	7,897	8,539	612	75	687
Effects of:						
Capital returns on investments	–	(8,165)	(8,165)	–	(399)	(399)
Income not chargeable to corporation tax	(855)	–	(855)	(847)	–	(847)
Unrelieved expenses	213	268	481	235	324	559
Irrecoverable overseas tax	414	–	414	339	–	339
<b>Current tax charge for the year</b>	<b>414</b>	<b>–</b>	<b>414</b>	339	–	339

# Notes to the Accounts

## (c) Deferred taxation

The Company has an unrecognised deferred tax asset of £3,946,000 (2014: £3,481,000) based on the current corporation tax rate of 20% (2014: 20%) effective from 1 April 2015. 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 retain its status 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.

## 8. Dividends

### Dividend paid and proposed

	2015 £'000	2014 £'000
2014 final dividend paid of 1.80p (2013: 1.75p)	2,250	2,188

	2015 £'000	2014 £'000
2015 final dividend proposed of 2.00p (2014: 1.80p)	2,500	2,250

The proposed dividend amounting to £2,500,000 is the amount used for the basis of determining whether the Company has satisfied the distribution requirements of Section 1158 ("S1158") of the Corporation Tax Act 2010. The revenue available for distribution by way of dividend for the year is £2,693,000. The Company was not required to pay a dividend in respect of the prior year in order to satisfy the requirements of S1158 as the balance on its accumulated revenue reserve was within the amount it was allowed to retain for the year. However the Company did pay a dividend, in line with its policy of distributing substantially all of its net revenue earned in the year. The 2014 dividend paid during the year was funded partly from capital and partly from revenue reserve.

## 9. Return per share

	2015	2014
Revenue return (£'000)	2,693	2,401
Capital return (£'000)	38,203	334
Total return (£'000)	40,896	2,735
Weighted average number of ordinary shares in issue during the year	125,008,200	125,008,200
Revenue return per share	2.15p	1.92p
Capital return per share	30.56p	0.27p
<b>Total return per share</b>	<b>32.71p</b>	2.19p

# Notes to the Accounts

## 10. Investments held at fair value through profit or loss

	2015 £'000	2014 £'000
Opening book cost	156,499	149,188
Opening investment holding gains	40,433	43,459
Opening valuation	196,932	192,647
Purchases at cost	21,031	19,685
Sales proceeds	(15,809)	(14,017)
Gains on sales of investments based on the carrying value at the previous balance sheet date	2,122	174
Net movement in investment holding gains and losses	34,549	(1,557)
Closing valuation	238,825	196,932
Closing book cost	166,962	156,499
Closing investment holding gains	71,863	40,433
<b>Total investments held at fair value through profit or loss</b>	<b>238,825</b>	<b>196,932</b>

All investments are listed on a recognised stock exchange.

The following transaction costs, mainly comprising brokerage commissions, were incurred during the year:

	2015 £'000	2014 £'000
On acquisitions	19	18
On disposals	15	11
	34	29

## 11. Debtors

	2015 £'000	2014 £'000
Securities sold awaiting settlement	248	404
Dividends and interest receivable	183	138
Other debtors	32	29
	463	571

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

## 12. Creditors: amounts falling due within one year

	2015 £'000	2014 £'000
Bank loan	31,034	28,799
Securities purchased awaiting settlement	186	1,239
Other creditors and accruals	581	585
	31,801	30,623

The bank loan comprises Yen 6 billion (2014: Yen 5 billion) drawn down on the Company's Yen 7 billion (2014: Yen 5 billion) credit facility with Scotiabank which has been extended to 30 April 2016. Drawings on the Facility are unsecured but are subject to covenants and restrictions which are customary for a facility of this nature and all of these have been complied with. Further details of the facility are given in note 21 on pages 47 to 51.

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

	2015 £'000	2014 £'000
Ordinary shares allotted, called-up and fully paid: 125,008,200 ordinary shares of 10p each	12,501	12,501

## 14. Reserves

	Share premium £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserves		Revenue reserve £'000
				Gains and losses on sales of investments £'000	Investment holding gains and losses £'000	
Opening balance	7	97,205	3	15,973	47,320	446
Gains on sales of investments based on the carrying value at the previous balance sheet date	-	-	-	2,122	-	-
Net movement in investment holding gains and losses	-	-	-	-	34,549	-
Transfer on disposal of investments	-	-	-	3,119	(3,119)	-
Realised exchange losses on cash and short term deposits	-	-	-	(374)	-	-
Exchange gain on foreign currency loan	-	-	-	-	3,203	-
Management fee and finance costs allocated to capital	-	-	-	(1,297)	-	-
Dividend paid	-	-	-	(1,804)	-	(446)
Retained revenue for the year	-	-	-	-	-	2,693
<b>Closing balance</b>	<b>7</b>	<b>97,205</b>	<b>3</b>	<b>17,739</b>	<b>81,953</b>	<b>2,693</b>

## 15. Net asset value per share

	2015	2014
Net assets attributable to shareholders (£'000)	212,101	173,455
Shares in issue at the year end	125,008,200	125,008,200
<b>Net asset value per share</b>	<b>169.67p</b>	138.75p

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

	2015 £'000	2014 £'000
Total return on ordinary activities before finance costs and taxation	41,532	3,311
Less capital return on ordinary activities before finance costs and taxation	(38,358)	(500)
Less management fee allocated to capital	(1,142)	(1,285)
(Increase)/decrease in accrued dividends and interest receivable	(50)	8
Increase in other debtors	(3)	(19)
Decrease in accrued expenses	(4)	(33)
<b>Net cash inflow from operating activities</b>	<b>1,975</b>	1,482



# Notes to the Accounts

## 17. Analysis of changes in net debt

	2014 £'000	Cash flow £'000	Exchange movements £'000	2015 £'000
Cash at bank and in hand	6,575	(1,587)	(374)	4,614
Bank loan	(28,799)	(5,438)	3,203	(31,034)
<b>Net debt</b>	<b>(22,224)</b>	<b>(7,025)</b>	<b>2,829</b>	<b>(26,420)</b>

## 18. Transactions with the Manager

Under the terms of the AIFM Agreement, the Manager is entitled to receive a management fee, a marketing support fee (with effect from 31 July 2014) and a company secretarial fee. Details of the AIFM Agreement are given in the Report of the Directors on pages 21 and 22. Any investments in funds managed or advised by the Manager or any of its associated companies are excluded from the assets used for the purpose of the management fee calculation and therefore incur no fee.

The management fee payable in respect of the year ended 31 July 2015 amounted to £1,631,000 (2014: £1,836,000), of which £437,000 (2014: £482,000) was outstanding at the year end. The marketing support fee payable to the Manager amounted to £50,000 (2014: nil) of which £13,000 was outstanding at the year end. The company secretarial fee payable to the Manager amounted to £90,000 (2014: £90,000) of which £23,000 (2014: £23,000) was outstanding at the year end.

Mr Kingzett, who is an employee of Schroders, retired as a Director of the Company on 5 November 2014.

## 19. Related party transactions

The Company has no related parties other than its Directors. Details of the remuneration payable to Directors are given in the Remuneration Report on page 31 and details of Directors' shareholdings are given in the Report of the Directors on page 21.

## 20. 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.

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 41

At 31 July 2015, the Company's investment portfolio comprised entirely equity investments included in Level 1 (2014: same).

There have been no transfers between levels 1, 2 or 3 during the year (2014: nil).

## 21. Financial instruments' exposure to risk and risk management policies

The investment objective is set out on the inside front cover of this report. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets or a reduction in profits available for dividends.

These risks include market risk (comprising currency risk, 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 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 shares of Japanese companies which are held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations; and
- a credit facility with Scotiabank, the purpose of which is to assist in financing the Company's operations.

# Notes to the Accounts

## (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 three elements – currency risk, interest rate risk and market price risk. Information to enable an evaluation of the nature and extent of these three elements of market risk is given in parts (i) to (iii) 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.

## (i) Currency risk

The Company's functional currency and the currency in which it reports, is Sterling. However the Company's assets, liabilities and income are almost entirely denominated in Yen. As a result, movements in exchange rates will affect the Sterling value of those items.

### Management of currency risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board, which meets on at least four occasions each year. The Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the Yen/Sterling exchange rate. Yen denominated borrowing is used to reduce the exposure of the Company's portfolio to the Yen/Sterling exchange rate. Income is converted to Sterling on receipt. The Company may use short term forward currency contracts to manage working capital requirements. It is currently not the Company's policy to hedge against foreign currency risk.

### Foreign currency exposure

The fair value of the Company's monetary items that have exposure to the Yen at 31 July are shown below. The Company's investments (which are not monetary items) have been included separately in the analysis so as to show the overall level of exposure.

	2015 Yen £'000	2014 Yen £'000
Debtors (securities sold awaiting settlement, dividends and interest receivable)	431	542
Cash at bank and in hand	2,567	5,948
Creditors (securities purchased awaiting settlement)	(186)	(1,239)
Bank loan (including accrued interest payable)	(31,053)	(28,818)
<b>Foreign currency exposure on net monetary items</b>	<b>(28,241)</b>	<b>(23,567)</b>
Investments held at fair value through profit or loss that are equities	238,825	196,932
<b>Total net foreign currency exposure</b>	<b>210,584</b>	<b>173,365</b>

The above year end amounts are broadly representative of the exposure to foreign currency risk during the current and comparative year.

### Foreign currency sensitivity

The following tables illustrate the sensitivity of return after taxation for the year and net assets with regard to the Company's monetary financial assets, financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and assumes a 10% (2014: 10%) appreciation or depreciation in Sterling against the Yen, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

If Sterling had weakened by 10% this would have had the following effect:

	2015 £'000	2014 £'000
Income statement - return after taxation		
Revenue return	366	338
Capital return	(2,840)	(2,373)
<b>Total return after taxation for the year</b>	<b>(2,474)</b>	<b>(2,035)</b>
<b>Net assets</b>	<b>(2,474)</b>	<b>(2,035)</b>

# Notes to the Accounts

Conversely if Sterling had strengthened by 10% this would have had the following effect:

	2015 £'000	2014 £'000
Income – statement return after taxation		
Revenue return	(366)	(338)
Capital return	2,840	2,373
<b>Total return after taxation for the year</b>	<b>2,474</b>	2,035
<b>Net assets</b>	<b>2,474</b>	2,035

In the opinion of the Directors, the above sensitivity analysis is broadly representative of the current and comparative year.

## (ii) 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 to 25% where gearing is defined as borrowings used for investment purposes, 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:

	2015 £'000	2014 £'000
Exposure to floating interest rates:		
Cash at bank and in hand	4,614	6,575
Creditors: amounts falling due within one year – borrowings on the credit facility	(31,034)	(28,799)
<b>Total exposure</b>	<b>(26,420)</b>	(22,224)

Interest receivable on cash balances is at a margin below LIBOR (2014: same).

The Company has extended its credit facility with Scotiabank to 30 April 2016. Under the terms of the agreement, the Company may draw down up to Yen 7 billion or the equivalent in another currency as agreed with the lender. Interest is payable at a rate of LIBOR as quoted in the market for the relevant currency and 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 31 July 2015, the Company had drawn down Yen 6 billion (2014: Yen 5 billion) on this facility at an interest rate of 0.72% (2014: 0.80%) 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 has fluctuated. The maximum and minimum net interest rate exposure during the year has been as follows:

	2015 £'000	2014 £'000
Maximum interest rate exposure during the year – net loan balances	(26,603)	(23,156)
Minimum interest rate exposure during the year – net loan balances	(22,715)	(19,601)

### Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1.0% (2014: 1.0%) 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.

# Notes to the Accounts

	2015		2014	
	1.0% increase in rate £'000	1.0% decrease in rate £'000	1.0% increase in rate £'000	1.0% decrease in rate £'000
Income statement – return after taxation				
Revenue return	(47)	47	(21)	21
Capital return	(217)	217	(202)	202
<b>Total return after taxation</b>	<b>(264)</b>	<b>264</b>	<b>(223)</b>	<b>223</b>
<b>Net assets</b>	<b>(264)</b>	<b>264</b>	<b>(223)</b>	<b>223</b>

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.

### (iii) 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 four 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.

#### Market price risk exposure

The Company's total exposure to changes in market prices at 31 July comprises its holdings in equity investments as follows:

	2015 £'000	2014 £'000
Equity investments held at fair value through profit or loss	238,825	196,932

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 pages 10 and 11. The portfolio principally comprises securities listed on Japanese stock markets. 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 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% (2014: 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 and includes the impact on the management fee but assumes that all other variables are held constant.

	2015		2014	
	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	(47)	47	(44)	44
Capital return	23,774	(23,774)	19,590	(19,590)
<b>Total return after taxation and net assets</b>	<b>23,727</b>	<b>(23,727)</b>	<b>19,546</b>	<b>(19,546)</b>
Percentage change in net asset value	<b>11.2%</b>	<b>(11.2%)</b>	11.3%	(11.3%)

#### (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

# Notes to the Accounts

remain fully invested in normal market conditions and that the credit facility be used to manage 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:

	Three months or less 2015 £'000	Three months or less 2014 £'000
<b>Creditors: amounts falling due within one year</b>		
Bank loan - including interest	31,055	28,821
Securities purchased awaiting settlement	186	1,239
Other creditors and accruals	562	566
	<b>31,803</b>	30,626

## (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

The Custodian of the Company's assets is HSBC Bank plc which has Long Term Credit Ratings of AA- with Fitch and Aa2 with Moody's. The Company's investments are held in accounts which are segregated from the Custodian's own trading assets. If the the Custodian were to become insolvent, the Company's right of ownership of its investments is clear and they are therefore protected. However the Company's cash balances are all deposited with the Custodian as banker and held on the Custodian's balance sheet. Accordingly, in accordance with usual banking practice, the Company will rank as a general creditor to the Custodian in respect of cash balances.

### 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.

	2015		2014	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets				
Investments held at fair value through profit or loss	238,825	-	196,932	-
Current assets				
Debtors - dividends and interest receivable and other debtors	463	463	571	571
Cash at bank and in hand	4,614	4,614	6,575	6,575
	<b>243,902</b>	<b>5,077</b>	204,078	7,146

No debtors are past their due date and none have been provided for.

## (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

## 22. 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:

	2015 £'000	2014 £'000
<b>Debt</b>		
<b>Bank loan</b>	<b>31,034</b>	28,799
<b>Equity</b>		
Called-up share capital	<b>12,501</b>	12,501
Reserves	<b>199,600</b>	160,954
	<b>212,101</b>	173,455
<b>Total debt and equity</b>	<b>243,135</b>	202,254

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 gearing to 25%. Gearing for this purpose is defined as borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

	2015	2014
Borrowings used for investment purposes, less cash (£'000)	<b>26,420</b>	22,224
Net assets (£'000)	<b>212,101</b>	173,455
Gearing	<b>12.5%</b>	12.8%

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 for cancellation, which takes into account the share price discount;
- the opportunity for issues of new shares; and
- the level of dividend distribution in excess of that which is required to be distributed.

# Annual General Meeting – Explanation of Special Business

**The Annual General Meeting (“AGM”) of the Company will be held on Tuesday, 3 November 2015 at 3.00 p.m. The formal Notice of Meeting is set out on page 54.**

**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.**

## Special business to be proposed at the AGM

### **Resolution 9 – Directors’ authority to allot shares (Ordinary Resolution) and Resolution 10 – Power to disapply pre-emption rights (Special Resolution)**

The Directors are seeking authority to allot a limited number of unissued ordinary shares for cash without first offering them to existing shareholders in accordance with statutory pre-emption procedures.

Appropriate resolutions will be proposed at the forthcoming AGM and are set out in full in the Notice of AGM. An ordinary resolution will be proposed to authorise the Directors to allot shares up to a maximum aggregate nominal amount of £625,041 (being 5% of the issued share capital as at the date of the Notice of the AGM). A special resolution will also be proposed to give the Directors authority to allot securities for cash on a non pre-emptive basis up to a maximum aggregate nominal amount of £625,041 (being 5% of the Company’s issued share capital as at the date of the Notice of the AGM).

The Directors intend to allot shares pursuant to these authorities in order to provide liquidity to the market and to reduce volatility in any premium to net asset value, but only if they believe it to be advantageous to the Company’s existing shareholders to do so and when it would not result in any dilution of NAV per share.

If approved, both of these authorities will expire at the conclusion of the AGM in 2016 unless renewed, varied or revoked earlier.

### **Resolution 11 – Authority to make market purchases of the Company’s own shares (Special Resolution)**

At the AGM held on 5 November 2014, the Company was granted authority to make market purchases of up to 18,738,729 ordinary shares of 10p each for cancellation. No shares have been bought back under this authority and the Company therefore has remaining authority to purchase up to 18,738,729 Ordinary shares. This authority 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 to give the Company authority to make market purchases of up to 14.99% of the Ordinary shares in issue as at the date of the Notice of the AGM. The Directors will exercise this authority only if the Directors 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. If renewed, the authority to be given at the 2015 AGM will lapse at the conclusion of the AGM in 2016 unless renewed or revoked earlier.

## 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.

# Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of Schroder Japan Growth Fund plc will be held at 3.00 p.m. on Tuesday, 3 November 2015 at 31 Gresham Street, London EC2V 7QA to consider and, if thought fit, to pass the following resolutions, of which resolutions 1 to 9 will be proposed as Ordinary Resolutions and resolutions 10 and 11 will be proposed as Special Resolutions.

1. To receive the Report of the Directors and the audited Accounts for the year ended 31 July 2015.
2. To approve a final dividend of 2.00p per share for the financial year ended 31 July 2015.
3. To approve the Directors' Annual Report on Remuneration for the year ended 31 July 2015.
4. To re-elect Mr Jonathan Taylor as a Director of the Company.
5. To re-elect Mr John Scott as a Director of the Company.
6. To re-elect Mr Richard Greer as a Director of the Company.
7. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company.
8. To authorise the Directors to determine the remuneration of PricewaterhouseCoopers LLP as Auditors of the Company.
9. 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 £625,041 (representing 5% of the share capital in issue on 1 October 2015); 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."
10. To consider and, if thought fit, to pass the following resolution as a Special Resolution:  
"That, subject to the passing of Resolution 9 set out above, the Directors be and are hereby empowered, pursuant to Section 571 of the Act, to allot equity securities (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 9 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 £625,041 (representing 5% of the aggregate nominal amount of the share capital in issue on 1 October 2015); 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."
11. 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 10p 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 18,738,729, representing 14.99% of the issued Ordinary share capital as at 1 October 2015;
  - (b) the minimum price which may be paid for an Ordinary share is 10p;
  - (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."

By Order of the Board  
Schroder Investment Management Limited  
Company Secretary

Registered Office:  
31 Gresham Street  
London EC2V 7QA

Registered Number: 2930057

1 October 2015



# 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](http://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](http://www.shareview.co.uk) and clicking on the link to vote. 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 3.00 p.m. on 1 November 2015. 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 Annual 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 1 November 2015, 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 1 November 2015 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](http://www.euroclear.com). 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.
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 re-election are set out on page 1 of the Company's Annual Report and Accounts for the year ended 31 July 2015.
7. As at 1 October 2015, 125,008,200 Ordinary shares of 10 pence each were in issue (no shares were held in Treasury). Therefore, the total number of voting rights in the Company as at 1 October 2015 was 125,008,200.
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 webpage, [www.schroderjapangrowthfund.com](http://www.schroderjapangrowthfund.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 Japan Growth Fund plc is an independent investment trust, whose shares are listed on the London Stock Exchange. As at 1 October 2015, the Company had 125,008,200 Ordinary shares of 10p 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 TSE First Section Total Return Index. The Company measures its performance on a total return basis.

It is not intended that the Company should have a limited life. 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 2019 Annual General Meeting and thereafter at five yearly intervals.

## Website and Share Price Information

The Company has a dedicated webpage, which may be found at [www.schroderjapangrowthfund.com](http://www.schroderjapangrowthfund.com). The webpage 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 and copies of the 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 webpage contains links to announcements made by the Company to the market, Equiniti's shareview service and Schroders' full website. There is also a link entitled "How to invest".

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](http://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](http://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](http://www.theaic.co.uk).

## Non-Mainstream Pooled Investments (NPMI) Status

The Company currently conducts its affairs so that its shares can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

## AIFM Directive Disclosures

### Periodic and Regular Disclosure under the Directive

- (a) none of the Company's assets are subject to special arrangements arising from their illiquid nature;
- (b) there are no new arrangements for managing the liquidity of the Company including, but not limited to, any material changes to the liquidity management systems and procedures employed by the Manager in place. Shareholders will be notified immediately where the issue, cancellation, sale and redemption of shares is suspended, when redemptions are suspended or where other similar special arrangements are activated;
- (c) the current risk profile of the Company and the risk management systems employed by the Manager to manage those risks can be found in the Strategic Report; and
- (d) the total amount of leverage employed by the Company may be found in the Strategic Report.

Any changes to the following information will be provided through a regulatory news service without undue delay:

- (a) the maximum level of leverage which the Manager may employ on behalf of the Company; and
- (b) the right of re-use of collateral or any changes to any guarantee granted under any leveraging arrangement.

### AIFM Remuneration Disclosures

The information required under the AIFM Directive to be made available to investors in the Company on request in respect of remuneration paid by the AIFM to its staff, and, where relevant, carried interest paid by the Company, can be found on the website [www.schroders.co.uk/its](http://www.schroders.co.uk/its).



[www.schroderjapangrowthfund.com](http://www.schroderjapangrowthfund.com)

[www.schroders.co.uk/its](http://www.schroders.co.uk/its)

**Dealing codes**

ISIN: GB0008022849  
SEDOL: 0802284  
Ticker: SJG

**Global Intermediary Identification Number (GIIN)**

7T0909.99999.SL.826

