

# Schroder Japan Growth Fund plc

Annual Report and Accounts for the year ended 31 July 2016



## 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 in sterling 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.

## Key financial highlights

NET ASSET VALUE ("NAV") TOTAL RETURN ONE YEAR	NAV TOTAL RETURN THREE YEARS	NAV TOTAL RETURN FIVE YEARS
8.2%	36.3%	81.6%
BENCHMARK TOTAL RETURN ONE YEAR	BENCHMARK TOTAL RETURN THREE YEARS	BENCHMARK TOTAL RETURN FIVE YEARS
15.7%	36.0%	62.7%
SHARE PRICE TOTAL RETURN ONE YEAR	SHARE PRICE TOTAL RETURN THREE YEARS	SHARE PRICE TOTAL RETURN FIVE YEARS
3.4%	35.7%	82.0%

## Strategic Report

Financial Highlights	2
Ten Year Financial Record	3
Chairman's Statement	4
Manager's Review	6
Investment Portfolio	9
Strategic Review	11

## Governance

Board of Directors	17
Report of the Directors	19
Report of the Audit Committee	24
Statement of Directors' Responsibilities	26
Remuneration Report	27

## Financial

Independent Auditors' Report	30
Income Statement	34
Statement of Changes in Equity	35
Statement of Financial Position	36
Notes to the Accounts	37

## Annual General Meeting

Annual General Meeting – Explanation of Special Business	50
Notice of Annual General Meeting	51
Explanatory Notes to the Notice of Meeting	52
Shareholder Information	Inside back cover



# Financial Highlights

<b>Total returns<sup>1</sup> for the year ended 31 July</b>	<b>2016</b>	<b>2015</b>
Net asset value ("NAV") per share <sup>2</sup>	<b>8.2%</b>	24.0%
Share price <sup>2</sup>	<b>3.4%</b>	30.2%
TSE First Section Total Return Index (in sterling terms) <sup>3</sup>	<b>15.7%</b>	17.7%

<b>Shareholders' funds, NAV, share price and discount at 31 July</b>	<b>2016</b>	<b>2015</b>	<b>% Change</b>
Shareholders' funds (£'000)	<b>226,688</b>	212,101	+6.9
NAV per share	<b>181.34p</b>	169.67p	+6.9
Share price	<b>162.00p</b>	158.75p	+2.0
Share price discount	<b>10.7%</b>	6.4%	

<b>Revenue and dividend for the year ended 31 July</b>			
Net revenue attributable to shareholders (£'000)	<b>3,898</b>	2,693	+44.7
Return per share	<b>3.12p</b>	2.15p	+45.1
Dividend per share	<b>2.80p</b>	2.00p	+40.0
Gearing <sup>4</sup>	<b>12.1%</b>	12.5%	
Ongoing Charges <sup>5</sup>	<b>1.11%</b>	1.09%	

<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.

# Ten Year Financial Record

At 31 July	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total assets (£'000) <sup>1</sup>	156,292	133,547	126,333	137,076	154,331	150,301	193,027	202,254	243,135	270,783
Shareholders' funds (£'000)	135,626	110,194	107,324	114,971	130,654	125,785	172,908	173,455	212,101	226,688
NAV per share (pence)	108.49	88.15	85.85	91.97	104.52	100.62	138.32	138.75	169.67	181.34
Share price (pence)	99.25	77.50	71.25	78.25	92.88	86.00	124.50	123.75	158.75	162.00
Share price discount (%)	(8.52)	(12.08)	(17.01)	(14.92)	(11.14)	(14.53)	(9.99)	(10.81)	(6.44)	(10.67)
Gearing (%) <sup>2</sup>	13.0	14.1	9.8	12.2	10.0	10.9	11.0	12.8	12.5	12.1
Ongoing charges (%) <sup>3</sup>	1.43	1.47	1.55	1.51	1.49	1.42	1.45	1.36	1.09	1.11

## Year ended 31 July

Net (loss)/revenue after taxation (£'000)	(261)	383	715	254	911	1,365	2,354	2,401	2,693	3,898
Net (loss)/return per share (pence)	(0.21)	0.31	0.57	0.20	0.73	1.09	1.88	1.92	2.15	3.12
Dividend per share (pence)	–	–	–	–	–	–	1.75	1.80	2.00	2.80

Performance <sup>4</sup>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NAV total return	100.0	95.4	77.2	75.5	80.7	91.3	87.5	121.6	123.6	153.1	165.8
Share price total return	100.0	89.8	70.1	64.5	70.8	84.0	77.8	112.7	113.6	147.8	152.9
Benchmark <sup>5</sup>	100.0	96.9	85.1	85.9	90.9	98.5	91.4	117.9	117.7	138.6	160.3

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

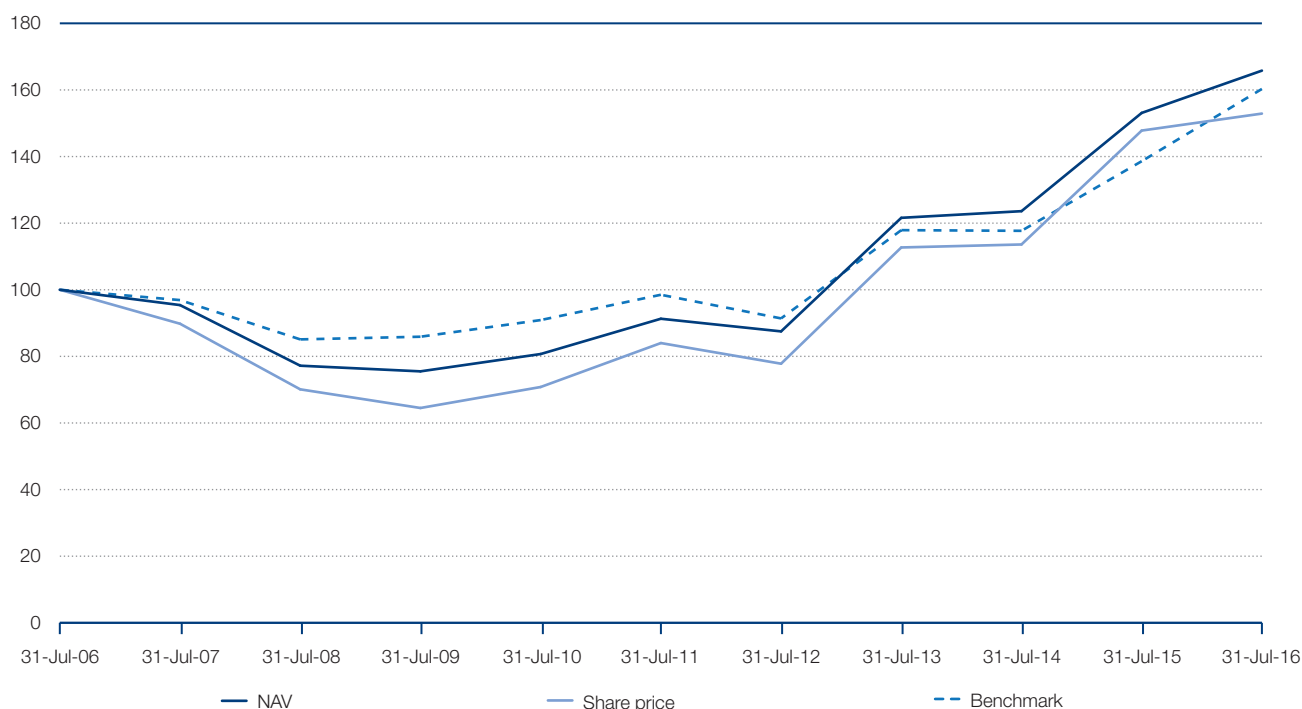
<sup>2</sup>Gearing represents borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

<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 2006.

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

## 10 Year NAV, share price and benchmark total returns



Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 July 2006.

# Chairman's Statement



Jonathan Taylor

## Performance

During the year ended 31 July 2016, the NAV produced a total return in sterling of 8.2% against the benchmark's total return of 15.7%. The year was dominated by the various impacts of the variation in exchange rates between sterling and the yen, with the yen rising by 42% during the year. The Japanese market was weak, declining by 18.6% in local currency terms, and the strength of the yen helped mitigate the weak market for sterling investors. In addition, the Company under-performed its benchmark, reversing its out-performance in the previous year, largely due to the negative impact of its gearing in what proved to be a poor market environment.

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

## Revenue and dividends

As well as the significant impact on revenue from the strength of the yen, we have continued to see increased dividends from investments over the year. This has contributed to an increase in revenue return per share by 45.1% over the year ended 31 July 2016. The Directors have declared a final dividend of 2.8p per share for the year, an increase of 40% over the 2.0p per share paid in respect of the previous year. In view of the substantial impact on earnings for the year from the strength of the yen, the Board has decided to retain approximately 10% of these earnings in its revenue reserve. This dividend will be paid on 7 November 2016 to shareholders on the Register on 14 October 2016, subject to approval by shareholders at the Annual General Meeting on 2 November 2016.

## Gearing

During the year, the Company reviewed its gearing arrangements and has shifted the bulk of its borrowing to a fixed term loan, with an additional revolving credit facility. The Company has entered into a yen 6 billion three year term loan and decreased its revolving credit facility of yen 7 billion to yen 1 billion and extended it for a further twelve months. The gearing level started the year at 12.5% and ended it at 12.1% but this level fluctuated significantly during the year due to the volatile market conditions. 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.

## Purchase of shares for cancellation

The Directors did not use the authority given to them to purchase shares for cancellation during the financial year ended 31 July 2016. 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 Meeting in November 2016 to purchase up to 14.99% of the Company's issued share capital for cancellation.

## Board refreshment

The Board continues to consider its composition, balance and diversity and has a long term refreshment policy in place. Mr Alan Gibbs was appointed as a Director of the Company on 1 February 2016, and will be proposed for election at the forthcoming AGM. Mr Gibbs's biographical details may be found in the Directors' Report on page 18.

# Chairman's Statement

## Outlook

The Manager's Review discusses the extent to which the market has been dominated by macro-economic factors, and the impact this has had on the portfolio's performance. The point I would make is not just that it has, historically, been unusual for the portfolio to underperform the benchmark for a prolonged period, but more pervasively that the market is usually not this pre-occupied with top-down factors for long. Market attention has been almost entirely on how 'defensive' a share has been, to the exclusion of almost any other measure of value. A stable yen; a calmer international environment; investors getting used to a world of negative interest rates – any of these might return the market to a more normal environment where attention is paid to individual companies' growth prospects and their share prices' valuation. That is a world that will provide plenty of stock-picking opportunities for the Company.

## Annual General Meeting

The Annual General Meeting will be held at 2.30 p.m. on Wednesday, 2 November 2016, 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

4 October 2016

# Manager's Review

## Market background

The Company's NAV total return for the year of 8.2% underperformed the benchmark total return of 15.7% (source: Morningstar/Thompson Reuters).

The market peaked in August 2015 shortly after the Company's year end. Whilst there were short term rallies this level was never revisited over the 12 months, and the decline in local currency was 18.6%. The yen was generally firm over the period, especially following the Brexit vote, with the result that in sterling terms the market actually rose 15.7%.

The declines experienced in local currency initially were due to factors not specific to Japan, such as China's currency devaluation or worries about slower global growth, to which the Japanese market seemed to react in exaggerated fashion. Midway through the year the Bank of Japan introduced negative interest rates. This surprised markets and somewhat counterintuitively led to a stronger yen and contributed to further selling pressure. The market has recovered off lows recorded in February and July but generally traded in a narrower range, amidst nervousness about future macro developments, especially the central bank.

Sector trends were generally dominated by macroeconomic events (the introduction of negative interest rates and Brexit) and consequently increased risk aversion. This was reflected in domestic, defensive and stable growth shares (e.g. in the food, pharmaceutical and telecom sectors) being relatively strong. At the other end of the scale financials, adversely affected by negative interest rates, were prominently weak, as were cyclical sectors. This trend reversed abruptly during the final month of the year, and has continued to do so in the early months of the current year.

## Portfolio performance

The extent to which the market became so dominated by global events surprised us, and with hindsight the portfolio had too much gearing – generally in the low teens – for this environment. This was the main reason behind the underperformance of the index. Some of the same factors which contributed to the market weakness also led to risk aversion within the market and a favouring of domestic/steady growth stocks. Whilst the company had exposure to some of these areas such as telecommunications and retail, this was insufficient in aggregate. This more than offset positive individual stock contributions from holdings such as Nintendo and Sakata Inx.

## Performance attribution – 12 months to 31 July 2016

	Impact
Benchmark return	+15.7%
Stock selection	-1.7%
Sector selection	+0.0%
Gearing	-4.2%
Costs	-1.1%
Residual	-0.5%
<b>Total</b>	<b>+8.2%</b>

Source: Schroders



## Largest positive contributors

Security	Portfolio (%)	Load difference (%)	Absolute return (%)	Impact (%)
Sakata Inx	1.4	1.4	38.5	0.7
Nintendo Co Ltd	1.3	0.8	-0.5	0.7
Koito Manufacturing	1.8	1.6	5.9	0.4
KDDI Corp	3.5	2.0	2.3	0.4
Hitachi High-Tech	1.1	1.1	24.6	0.4
Total				2.7

## Largest negative contributors

Security	Portfolio (%)	Load difference (%)	Absolute return (%)	Impact (%)
Hi-Lex Corp	3.0	3.0	-30.8	-0.4
T&D Holdings	1.8	1.5	-42.0	-0.5
Dowa Holdings	0.9	0.8	-52.5	-0.4
SMFG	3.1	1.6	-38.1	-0.4
77 Bank	0.8	0.8	-49.9	-0.4
Total				-2.2

Past performance is not a guide to future performance and may not be repeated.

Source: FactSet. Contributions are purely indicative as FactSet uses unaudited data. Stock weights are average weights over the period and returns are expressed in JPY.

## Activity

Given the strength in the more defensive areas of the market and often stretched valuations, we unsurprisingly found better opportunities in more cyclical companies or those sold off on short term news flow. One example is Hitachi Credit (a consumer finance company with a significant UK business), which reacted badly in the run-up to the EU referendum and even worse in the aftermath. Our analysis suggested that the impact was likely to be muted and we started a position given the depressed valuations. Another example is Screen Holdings (a semiconductor equipment manufacturer). We are not especially optimistic on the semiconductor capital spending cycle but in Screen our analysis identified company-specific changes in the shape of new management, which led to a re-rating of the shares.

Some of the sales were companies bid up as part of the market focus on defensive earnings streams, such as Shimamura, a retailer which we sold out of. At the end of the year there was a sharp run up in Nintendo shares following the successful launch of a new augmented reality game and we substantially reduced the position.

## Outlook

Market sentiment is still cautious and this is reflected in continued net selling by non-Japanese investors. Caution is, amongst other things, being driven by a fairly lacklustre economic backdrop, lack of clarity surrounding Bank of Japan policy and hence the exchange rate and the fact that a disproportionately large part of domestic buying seems to be coming from "official sources" such as Bank of Japan buying of Exchange Traded Futures as part of its quantitative easing programme.

At the macroeconomic level we take some encouragement from the fact that economic policy is now less dependent on monetary policy alone and looks more balanced, with the fiscal side also contributing. At the company level valuations are attractive and there is tangible evidence of corporate governance reforms of the Abenomics era bearing fruit in the form of improved shareholder returns and the unwinding of cross shareholdings (listed companies owning shares in each other). It is true that the structural reform element of Abenomics remains elusive, at least in terms of key areas such as labour market reform and measures to mitigate the long term adverse demographic headwinds. Even here though, recent elections have strengthened the Prime Minister's hand further and he ought to be well-placed to be more proactive if he chooses. At any rate market scepticism is rife in regard to the reform agenda and it may not take much to provide a positive surprise.

# Manager's Review

## Five largest overweight/underweight sectors and stocks as at 31 July 2016

Company Weight (%)			
8.6	Retail Trade		3.8
9.2	Chemicals		3.4
6.6	Wholesale Trade		2.5
6.5	Land Transportation		2.3
5.1	Insurance		2.3
1.2	Real Estate	-1.7	
7.8	Banks	-1.7	
0.0	Electric Power & Gas	-2.3	
0.0	Services	-3.2	
0.5	Foods	-4.1	

Securities – overweight	Portfolio (%)	Benchmark Index (%)	Difference (%)
Hi-Lex	2.9	0.0	+2.9
Sompo Japan	3.2	0.4	+2.8
Bridgestone	3.2	0.6	+2.6
East Japan Railway	3.3	0.9	+2.4
SK Kaken	2.2	0.0	+2.2

Securities – underweight	Portfolio (%)	Benchmark Index (%)	Difference (%)
Softbank	0.0	1.6	-1.6
Mizuho Financial Group	0.0	1.5	-1.5
Japan Tobacco	0.0	1.3	-1.3
Sony Corp	0.0	1.0	-1.0
Fanuc	0.0	0.9	-0.9

Source: Schroders. Relative to the Benchmark Index, 31 July 2016.

## Investment policy

Some of the divergence of performance between defensives and cyclical has started to unwind, but opportunities are still more likely to be found in the latter, due to relative valuations. Profits have suffered from the strength of the yen leading to downward revisions in 2016. If the yen stabilises at the current level these revisions may exert a less negative impact over the coming months and we would expect investment opportunities to emerge here.

Net gearing was 12.1% at the end of July 2016, slightly lower than the previous year end. We believe that the current consensus on the market is too cautious and that the market will move higher.

### Schroder Investment Management Limited

4 October 2016

Securities shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Investment Portfolio

At 31 July 2016

Stocks in bold are the 20 largest investments, which by value account for 50.8% (2015: 56.3%) of total investments.

	£'000	%
<b>Transportation Equipment</b>		
<b>Toyota Motor</b>	<b>12,692</b>	<b>5.0</b>
<b>Hi-Lex</b>	<b>7,312</b>	<b>2.9</b>
Honda Motor	3,542	1.4
Isuzu Motors	3,539	1.4
Unipres	1,677	0.7
Musashi Seimitsu Industry	1,170	0.5
<b>Total Transportation Equipment</b>	<b>29,932</b>	<b>11.9</b>
<b>Electrical Appliances</b>		
<b>Koito Manufacturing</b>	<b>5,201</b>	<b>2.0</b>
<b>TDK</b>	<b>4,875</b>	<b>1.9</b>
Canon	2,910	1.1
Nidec	2,825	1.1
Hitachi	2,717	1.1
Fujitsu	2,658	1.0
Mitsubishi Electric	2,474	1.0
Screen	1,588	0.6
Konica Minolta	1,308	0.5
Shinko Electric	952	0.4
<b>Total Electrical Appliances</b>	<b>27,508</b>	<b>10.7</b>
<b>Chemicals</b>		
<b>SK Kaken</b>	<b>5,661</b>	<b>2.2</b>
<b>Sekisui Chemical</b>	<b>3,959</b>	<b>1.6</b>
Sakata Inx	3,573	1.4
Fujifilm Holdings	2,206	0.9
Nitto Denko	1,681	0.7
T&K Toka	1,560	0.6
Mitsubishi Gas Chemical	736	0.3
Nippon Shokubai	684	0.3
JSR	680	0.3
Nippon Soda	657	0.3
<b>Total Chemicals</b>	<b>21,397</b>	<b>8.6</b>
<b>Information and Communication</b>		
<b>KDDI</b>	<b>10,210</b>	<b>4.0</b>
<b>Nippon Telephone &amp; Telegraph</b>	<b>8,973</b>	<b>3.5</b>
Chubu Nippon Broadcasting	654	0.3
<b>Total Information and Communication</b>	<b>19,837</b>	<b>7.8</b>
<b>Land Transportation</b>		
<b>East Japan Railway</b>	<b>8,339</b>	<b>3.3</b>
<b>Sankyu</b>	<b>4,123</b>	<b>1.6</b>
Central Japan Railway	3,450	1.4
Hitachi Transport System	3,021	1.2
Yamato Holdings	831	0.3
<b>Total Land Transportation</b>	<b>19,764</b>	<b>7.8</b>

	£'000	%
<b>Retail Trade</b>		
<b>Seven and I Holdings</b>	<b>4,834</b>	<b>1.9</b>
AT Group	3,863	1.5
ABC-Mart	2,379	0.9
H2O Retailing	2,053	0.8
Nafco	1,949	0.8
Izumi	1,864	0.7
Don Quijote	1,546	0.6
<b>Total Retail Trade</b>	<b>18,488</b>	<b>7.2</b>
<b>Wholesale Trade</b>		
<b>Mitsui &amp; Co.</b>	<b>5,766</b>	<b>2.3</b>
Yamada Denki	3,578	1.4
Inabata	3,485	1.4
Hitachi High-Technologies	2,381	0.9
Sumitomo Corporation	1,432	0.6
Mitsubishi	1,248	0.5
<b>Total Wholesale Trade</b>	<b>17,890</b>	<b>7.1</b>
<b>Banks</b>		
<b>Sumitomo Mitsui Financial</b>	<b>8,163</b>	<b>3.2</b>
<b>Mitsubishi UFJ Financial</b>	<b>4,428</b>	<b>1.7</b>
Seventy Seven Bank	1,829	0.7
Fukuoka Financial	1,643	0.6
Chiba Bank	711	0.3
Musashino Bank	631	0.2
<b>Total Banks</b>	<b>17,405</b>	<b>6.7</b>
<b>Pharmaceutical</b>		
<b>Otsuka Holdings</b>	<b>4,582</b>	<b>1.8</b>
<b>Santen Pharmaceutical</b>	<b>4,524</b>	<b>1.8</b>
Astellas Pharma	3,176	1.3
Kissei Pharmaceuticals	1,027	0.4
<b>Total Pharmaceutical</b>	<b>13,309</b>	<b>5.3</b>
<b>Insurance</b>		
<b>Sompo Japan Nipponkoa</b>	<b>8,010</b>	<b>3.2</b>
<b>T&amp;D Holdings</b>	<b>4,207</b>	<b>1.7</b>
<b>Total Insurance</b>	<b>12,217</b>	<b>4.9</b>
<b>Machinery</b>		
Disco	3,860	1.5
Nabtesco	2,216	0.9
Sumitomo Heavy Industries	1,830	0.7
JTEKT	1,710	0.7
Nippon Thompson	1,287	0.5
Sankyo	828	0.3
<b>Total Machinery</b>	<b>11,731</b>	<b>4.6</b>

# Investment Portfolio

	£'000	%
<b>Rubber Products</b>		
<b>Bridgestone</b>	<b>8,195</b>	<b>3.2</b>
<b>Total Rubber Products</b>	<b>8,195</b>	<b>3.2</b>
<b>Construction</b>		
Haseko	3,684	1.4
JGC	2,203	0.9
Sanki Engineering	1,519	0.6
<b>Total Construction</b>	<b>7,406</b>	<b>2.9</b>
<b>Air Transportation</b>		
<b>Japan Airlines</b>	<b>5,090</b>	<b>2.0</b>
<b>Total Air Transportation</b>	<b>5,090</b>	<b>2.0</b>
<b>Securities and Commodity</b>		
Nomura Holdings	2,404	0.9
Tokai Tokyo Securities	1,472	0.6
<b>Total Securities and Commodity</b>	<b>3,876</b>	<b>1.5</b>
<b>Precision Instruments</b>		
Hoya	1,888	0.8
Shimadzu	1,596	0.6
Topcon	379	0.1
<b>Total Precision Instruments</b>	<b>3,863</b>	<b>1.5</b>
<b>Non-Ferrous Metals</b>		
Dowa Mining	1,858	0.7
Sumitomo Electric Industries	1,596	0.6
<b>Total Non-Ferrous Metals</b>	<b>3,454</b>	<b>1.3</b>
<b>Oil and Coal products</b>		
JX Holdings	3,179	1.3
<b>Total Oil and Coal products</b>	<b>3,179</b>	<b>1.3</b>

	£'000	%
<b>Real Estate</b>		
Mitsui Fudosan	1,785	0.7
Nomura Real Estate	1,009	0.4
<b>Total Real Estate</b>	<b>2,794</b>	<b>1.1</b>
<b>Foods</b>		
Sapporo Breweries	1,781	0.7
<b>Total Foods</b>	<b>1,781</b>	<b>0.7</b>
<b>Other Financing Business</b>		
Hitachi Capital	1,406	0.6
<b>Total Other Financing Business</b>	<b>1,406</b>	<b>0.6</b>
<b>Marine Transportation</b>		
Mitsui O.S.K. Lines	876	0.3
<b>Total Marine Transportation</b>	<b>876</b>	<b>0.3</b>
<b>Other Products</b>		
Nintendo	822	0.3
<b>Total Other Products</b>	<b>822</b>	<b>0.3</b>
<b>Iron and Steel</b>		
Mirai Industry	733	0.3
<b>Total Iron and Steel</b>	<b>733</b>	<b>0.3</b>
<b>Mining</b>		
Inpex	600	0.2
<b>Total Mining</b>	<b>600</b>	<b>0.2</b>
<b>Warehousing and Harbour Transportation Services</b>		
Kintetsu World Express	561	0.2
<b>Total Warehousing and Harbour Transportation Services</b>	<b>561</b>	<b>0.2</b>
<b>Total investments</b>	<b>254,114</b>	<b>100.0</b>

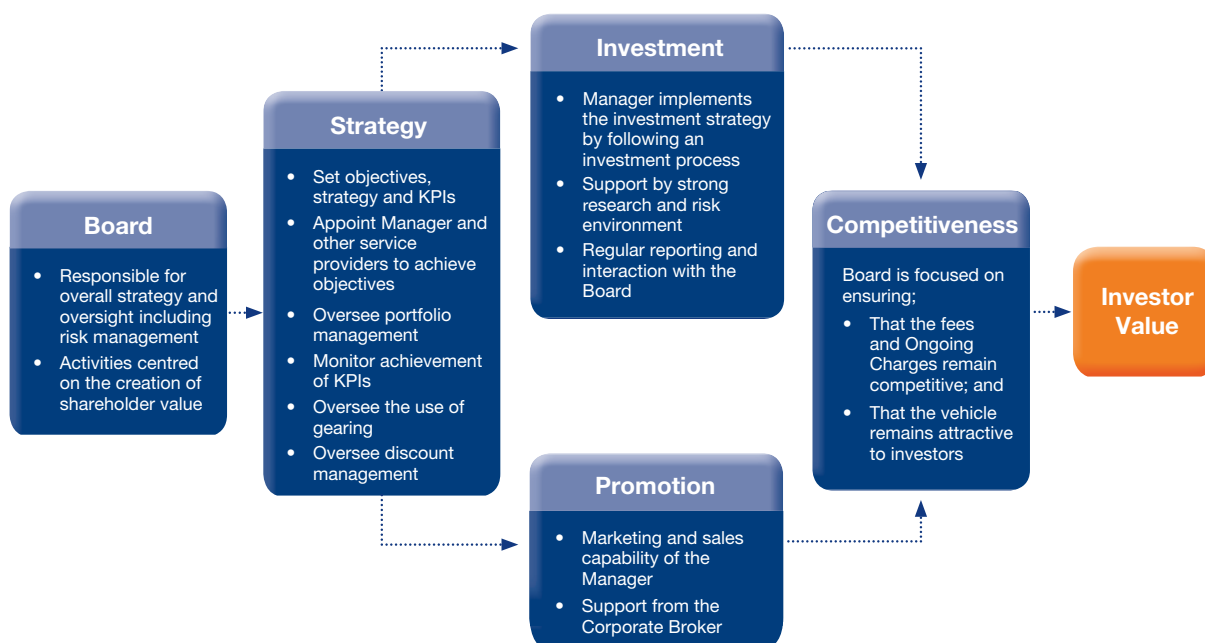
## Business model

The Company carries on 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 it is intended that 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 but the Directors consider it desirable that the shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, the Articles of Association 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.

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



## Investment objective and policy

Details of the Company's investment objective and policy may be found on the inside front cover.

The Board has appointed the Manager, Schroder Unit Trusts Limited, to implement the investment strategy and to manage the Company's assets in line with the 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 as appropriate.

## 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.

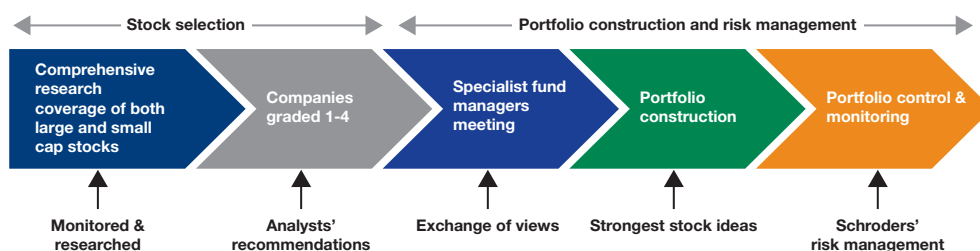
The research focuses on long term value creation and strength of franchise, targeting undervalued companies where the long term growth prospects are not fully priced in. The Manager prefers companies that can generate and sustain above average returns on their capital, and also looks for opportunities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



# Strategic Review

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 87 investments spread over 26 sectors (at 31 July 2016).

## Promotion

The Company promotes its shares to a broad range of investors 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.

Promotion is focused via three channels:

- Discretionary Fund Managers. The Manager promotes the Company via both London and regional teams. This market is the largest channel by a significant margin.

- Execution Only investors. The Company promotes its shares via engaging with platforms and through its website. Volume is smaller but platforms have experienced strong growth in recent times and are an important focus for the Manager.
- The Company also promotes its shares to institutional investors.

The Board also seeks active engagement with investors and meetings with the Chairman are offered to professional investors where appropriate. These activities consist of investor lunches, 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 Schroders' website.

Details of the Board's approach to discount management and share issuance may be found in the Chairman's Statement on page 4 and in the Explanation of Special Business at the AGM on page 50.

## Key performance indicators

The Board measures the development and success of the Company's business through achievement of the Company's investment objective, which is considered to be the most significant key performance indicator for the Company.

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 peer group funds. An analysis of the Company's costs, including management fees, Directors' fees and general expenses, is submitted to each Board meeting. The management fee is reviewed at least annually.

## Corporate and social responsibility

### Board diversity

As at 31 July 2016, the Board comprised three men and one woman. 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 overall Board taking into account the specific criteria for the role being offered. Candidates are not specifically selected on the grounds of their gender but this is taken into account when the Board examines its overall balance, skill set and experience.

### 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. The Board expects 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). The Board notes 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 through regular reporting by the Manager on its engagement activity, how it is integrated into the investment process, and the outcomes of the activity.

### Anti-bribery and corruption policy

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

### Greenhouse gas emissions

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

## 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 affecting the Company's business as an investment trust and has established associated policies and processes designed to manage and, where possible, mitigate those risks, which are monitored by the Audit Committee on an ongoing basis. This system assists the Board in determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. Both the principal risks and the monitoring system are also subject to robust review at least annually. The last review took place in September 2016.

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 which have remained unchanged throughout the year, and actions taken by the Board and, where appropriate, its Committees, to manage and mitigate these risks and uncertainties, is set out below.

Risk	Mitigation and management
<b>Strategic risk</b>	
The Company's investment objectives may become out of line with the requirements of investors, resulting in a wide discount of the share price to underlying net asset value.	<p>Appropriateness of the Company's investment remit periodically reviewed and success of the Company in meeting its stated objectives is monitored.</p> <p>Share price relative to net asset value monitored.</p> <p>Marketing and distribution activity is actively reviewed.</p>
<b>Investment management risk</b>	
The Manager's investment strategy, if inappropriate, may result in the Company underperforming the market and/or peer group companies, leading to the Company and its objectives becoming unattractive to investors.	<p>Review of the Manager's compliance with the agreed investment restrictions, investment performance and risk against investment objectives and strategy; relative performance; the portfolio's risk profile; and appropriate strategies employed to mitigate any negative impact of substantial changes in markets.</p> <p>Annual review of the ongoing suitability of the Manager.</p>
<b>Financial and currency risk</b>	
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 could 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.	<p>Risk profile of the portfolio considered and appropriate strategies to mitigate any negative impact of substantial changes in markets discussed with the Manager.</p> <p>Board considers overall hedging policy on a regular basis.</p>
The Company's cost base could become uncompetitive, particularly in light of open ended alternatives.	<p>Ongoing competitiveness of all service provider fees subject to periodic benchmarking against competitors.</p> <p>Annual consideration of management fee levels.</p>

Risk	Mitigation and management
<b>Custody risk</b>	
<p>Safe custody of the Company's assets may be compromised through control failures by the Depositary, including cyber hacking.</p>	<p>Depositary reports on safe custody of the Company's assets, including cash, and portfolio holdings are independently reconciled with the Manager's records. Review of audited internal controls reports covering custodial arrangements. Annual report from the Depositary on its activities, including matters arising from custody operations.</p>
<b>Gearing and leverage risk</b>	
<p>The Company utilises credit facilities. These arrangements increase 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.</p>	<p>Gearing is monitored and strict restrictions on borrowings imposed: gearing continues to operate within pre-agreed limits so as not to exceed 25% of shareholders' funds.</p> <p>The Company reviewed its gearing arrangements during the year and, to take advantage of the current low interest rate environment, entered into a three year fixed term loan of yen 6 billion and reduced its revolving credit facility from yen 7 billion to yen 1 billion.</p>
<b>Accounting, legal and regulatory risk</b>	
<p>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.</p> <p>Breaches of the UK Listing Rules, the Companies Act or other regulations with which the Company is required to comply, could lead to a number of detrimental outcomes.</p>	<p>Confirmation of compliance with relevant laws and regulations by key service providers.</p> <p>Shareholder documents and announcements, including the Company's published Annual Report, are subject to stringent review processes.</p> <p>Procedures have been established to safeguard against disclosure of inside information.</p>
<b>Service provider risk</b>	
<p>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 disruption, reputational damage or loss.</p>	<p>Service providers appointed subject to due diligence processes and with clearly-documented contractual arrangements detailing service expectations.</p> <p>Regular reporting by key service providers and monitoring of the quality of services provided.</p> <p>Review of annual audited internal controls reports from key service providers, including confirmation of business continuity arrangements.</p>

## Risk assessment and internal controls

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 Audit Committee, 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 Audit Committee's ongoing risk assessment which has been in place throughout the financial year and up to the date of this Report.

A full analysis of the financial risks facing the Company is set out in note 20 on pages 44 to 49.

## Viability statement

Given the nature of the Company's business as an investment trust, the Directors have assessed the Company's viability over a five year period.

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 14 and 15 and in particular the impact of a significant fall in Japanese equity markets 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, and on that basis consider that five years is an appropriate time period. While the Articles of Association require that a proposal for the continuation of the Company be put forward at the Company's Annual General Meeting in 2019, the Directors have no reason to believe that such a resolution will not be passed by shareholders.

Based on the Company's processes for monitoring operating costs, the Board's view that the Manager has the appropriate depth and quality of resource to achieve superior returns in the longer term, the portfolio risk profile, limits imposed on 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 five year period of their assessment.

## Going concern

Having assessed the principal risks and the other matters discussed in connection with the viability statement set out above, and the "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" published by the Financial Reporting Council in 2014, the Directors consider it appropriate to adopt the going concern basis in preparing the accounts.

By Order of the Board

**Schroder Investment Management Limited**

Company Secretary

4 October 2016



# Board of Directors



**Jonathan Taylor**

**Status:** Independent Non-Executive Chairman

**Length of service:** 17 years, appointed a Director in July 1999 and Chairman in April 2004

**Experience:** Mr Taylor is Chairman and Managing Director of Dragon Partners Limited. He is a Director of Aberdeen Greater China Fund 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.

**Committee membership:** Audit, Management Engagement and Nomination Committees

**Current remuneration:** £35,000 per annum

**Connections with the Manager:** None

**Material interests in any contract which is significant to the Company's business:** None

**Shared Directorships with any other Directors of the Company:** None

**Date elected/last re-elected:** 2015



**Anja Balfour**

**Status:** Independent Non-Executive Director

**Length of Service:** 3 years, appointed a Director in May 2013

**Experience:** 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.

**Committee membership:** Audit, Management Engagement and Nomination Committees (Chairman of the Audit Committee)

**Current remuneration:** £28,000 per annum

**Connections with the Manager:** None

**Material interests in any contract which is significant to the Company's business:** None

**Shared Directorships with any other Directors of the Company:** None

**Date elected/last re-elected:** 2013

# Board of Directors



**Alan Gibbs**

**Status:** Independent Non-Executive Director

**Length of Service:** Appointed a Director in February 2016

**Experience:** Mr Gibbs worked for the Fleming Group for 17 years with responsibility for investments in Japan and throughout the Far East, after which he helped set up and run two Far Eastern brokerages before joining J.O. Hambro (latterly Waverton), where he ran Far Eastern funds. Mr Gibbs is now Chairman of the Burdett Trust, a nursing charity and an independent non-executive Director of the M&G Charibond Charities Fixed Interest Common Investment Fund (Charibond) and a member of the Advisory Committee of the M&G Equities Investment Fund for Charities (Charifund).

**Committee membership:** Audit, Management Engagement and Nomination Committees

**Current remuneration:** £25,000 per annum

**Connections with the Manager:** None

**Material interests in any contract which is significant to the Company's business:** None

**Shared Directorships with any other Directors of the Company:** None

**Date elected/last re-elected:** N/A



**Richard Greer**

**Status:** Independent Non-Executive Director

**Length of Service:** 6 years, appointed a Director in November 2009

**Experience:** 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.

**Committee membership:** Audit, Management Engagement and Nomination Committees (Chairman of the Management Engagement and Nomination Committees)

**Current remuneration:** £25,000 per annum

**Connections with the Manager:** None

**Material interests in any contract which is significant to the Company's business:** None

**Shared Directorships with any other Directors of the Company:** None

**Date elected/last re-elected:** 2015

# Report of the Directors

The Directors submit their Report and the audited financial statements of the Company for the year ended 31 July 2016.

## Revenue and dividend

The net revenue return before finance costs and taxation for the year was £4,544,000 (2015: £3,174,000). After deducting finance costs and taxation the amount available for distribution to shareholders was £3,898,000 (2015: £2,693,000), equivalent to net revenue of 3.12p (2015: 2.15p) per Ordinary share.

The Directors have recommended the payment of a final dividend for the year of 2.80p per share (2015: 2.00p) payable on 7 November 2016 to shareholders on the Register on 14 October 2016, subject to approval by shareholders at the Annual General Meeting on 2 November 2016.

## Directors and their interests

The Directors of the Company and their biographical details can be found on pages 17 and 18. All Directors held office throughout the year under review with the exception of Mr John Scott who resigned on 31 December 2015 and Mr Gibbs who was appointed as a Director on 1 February 2016. Details of Directors' share interests in the Company are set out in the Remuneration Report on page 29.

In accordance with the Company's Articles of Association and the UK Corporate Governance Code, at the forthcoming Annual General Meeting Mr Gibbs will seek election as a Director, this being the first AGM since his appointment. Mr Taylor and Mrs Balfour will retire and, being eligible, offer themselves for re-election.

Re-appointment as a Director is not automatic and follows a formal process of evaluation of each Director's performance and Directors who have served for more than six years are subject to particularly rigorous assessment of their independence and contribution.

Whilst the Board does not believe that length of service, by itself, necessarily affects a Director's independence of character or judgment, Directors are also required to retire each year if they have served more than nine years on the Board, but may then offer themselves for re-election. The Board has assessed the independence of all Directors. All Directors are considered to be independent in character and judgment.

The Board, having taken all relevant matters into account, considers that Mr Taylor and Mrs Balfour 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-election. It also recommends that shareholders vote in favour of the election of Mr Gibbs.

## Share capital

As at the date of this Report, the Company had 125,008,200 ordinary shares of 10p in issue. Accordingly, the total number of voting rights in the Company at the date of this Report is 125,008,200. No shares are held in Treasury. There have been no changes to the Company's 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 Guidance 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
Investec Wealth & Investment Limited	12,508,696	10.01
Derbyshire County Council	9,025,000	7.22
Lazard Asset Management LLC	8,675,064	6.93
1607 Capital Partners LLC	6,452,472	5.16
Rathbone Brothers PLC	6,254,245	5.00
Wells Capital Management, Inc	6,145,087	4.92

# Report of the Directors

## Key service providers

The Board has adopted an outsourced business model and has appointed the following key service providers:

### 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 Alternative Investment Fund Manager ("AIFM") Agreement. 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.

SUTL 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 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 or the corporate broker as appropriate. The Manager has delegated investment management, accounting and company secretarial services to another wholly owned subsidiary of Schroders plc, Schroder Investment Management Limited. The Manager has in place appropriate professional indemnity cover.

The Schroders Group manages £343.8 billion (as at 30 June 2016) 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 is entitled to a fee at the rate of 0.75% per annum on assets up to and including £200 million and 0.65% per annum thereafter, 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 2016 the Manager was entitled to receive a fee of £90,000 for secretarial services provided to the Company.

The management fee payable in respect of the year ended 31 July 2016 amounted to £1,712,000 (2015: £1,631,000).

Details of all amounts payable to the Manager are set out in note 17 on page 43.

The Board has reviewed the performance of the Manager during the year under review and continues to consider that it has the appropriate depth and quality of resource to deliver superior returns over the longer term. The Manager is supported by significant depth of knowledge and experience in Japan, with regional resources and local analysts. Thus, the Board considers that the Manager's appointment under the terms of the AIFM Agreement, further details of which are set out above, is in the best interests of shareholders as a whole.

### Depositary

HSBC Bank plc, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, carries 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.

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.

## 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 trust 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 “Code”) which applies to accounting periods beginning on or after 1 October 2014 and the disclosures in this Statement report against its provisions. 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 Going Concern statement set out on page 16 and the Statement of Directors’ Responsibilities set out on page 26, 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 Code, save in respect of the appointment of a Senior Independent Director, where departure from the Code is considered appropriate given the Company’s position as an investment 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 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.

## Operation of the Board

### 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 17. He has no conflicting relationships.

### Role and operation of the Board

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.

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 relevant management, regulatory and financial information in a timely manner and that they 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 investment trust 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 regularly provided 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. Training and development needs are included as part of the evaluation process and are agreed with the Chairman.



# Report of the Directors

## 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.

## Board evaluation

In order to review the effectiveness of the Board, the Committees and the individual Directors, a thorough evaluation process is in place. This is implemented by way of a questionnaire and discussions with the Chairman. In respect of the Chairman himself, 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 building and developing individual and collective strengths. The last evaluation took place in September 2016.

## 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 and to the date of this report.

## Directors' attendance at meetings

Four Board meetings are usually scheduled each year to deal with matters including: the setting and monitoring of investment strategy; approval of borrowings and/or cash positions; review of investment performance, the level of discount of the Company's shares to underlying net asset value and promotion of the Company and an evaluation of service providers. In addition, a strategy meeting is held each year. Additional meetings of the Board are arranged as required.

The number of meetings of the Board and its committees held during the financial year and the attendance of individual Directors is 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
Alan Gibbs <sup>1</sup>	2/2	N/A	1/1	N/A
Richard Greer	4/4	1/1	2/2	1/1
John Scott <sup>2</sup>	2/2	1/1	1/1	1/1

<sup>1</sup>Mr Gibbs was appointed as a Director on 1 February 2016.

<sup>2</sup>Mr Scott retired as a Director on 31 December 2015.

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

## Relations with shareholders

Shareholder relations are given high priority by both the Board and the Manager. The Company communicates with shareholders through its webpage and the Annual Report which aims 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 outside back 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 the Board.

## Committees

In order to assist the Board in fulfilling its governance responsibilities, it has delegated certain functions to Committees. The roles and responsibilities of these Committees, together with details of work undertaken during the year under review, is outlined over the next few pages.

The Committees of the Board have defined Terms of Reference which are available on the webpage [www.schroderjapangrowthfund.com](http://www.schroderjapangrowthfund.com). Membership of the Committees is set out on pages 17 and 18.

## Nomination Committee

The Nomination Committee is responsible for succession planning bearing in mind the balance of skills, knowledge, experience and diversity existing on the Board and will recommend to the Board when the further recruitment of non-executive Directors is required. The Nomination Committee aims to maintain a balance of relevant skills, experience and length of service of the Directors serving on the Board, taking gender into account.

To discharge its duties the Nomination Committee met on one occasion during the year to consider Board balance, skills and succession planning, including the appointment of a new Director. The Committee utilised the services of an external search consultancy, Fletcher Jones Executive Search, in the selection of suitable candidates for a new Director. Fletcher Jones Executive Search has no other connection with the Company.

Before the appointment of a new Director, the Nomination Committee prepares a description of the role and capabilities required for a particular appointment. While the Committee is dedicated to selecting the best person for the role, the Board also recognises the importance of diversity. The Board agrees that its members should overall possess a range of experience, knowledge, professional skills and personal qualities as well as independence necessary to provide effective oversight of the affairs of the Company. These qualities are taken into account in considering the appointment of a new Director. The Board does not consider it appropriate or to be in the interests of shareholders as a whole to establish prescriptive diversity targets.

Candidates are drawn from suggestions put forward either from recommendation from within the Company or by the use of an external agency. Candidates are then interviewed by members of the Committee, which makes a recommendation to 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 management contract is competitive and reasonable for the shareholders, and that the Company maintains appropriate administrative and company secretarial support. The Committee also reviews the services provided by other service providers. All Directors are members of the Management Engagement Committee which is chaired by the Chairman of the Board. The Board considers each member of the Committee to be independent.

To discharge its duties the Committee met on one occasion during the year to consider its terms of reference, the performance and suitability of the Manager, the terms and conditions of the AIFM Agreement, the performance and suitability of other service providers, and the fees paid to Directors.

By Order of the Board

**Schroder Investment Management Limited**  
Company Secretary

4 October 2016

# Report of the Audit Committee

The responsibilities and work carried out by the Audit Committee in the year under review are set out in the following report. The duties and responsibilities of the Committee may be found in the Terms of Reference. Membership of the Committee is as set out on pages 17 and 18. The Board has satisfied itself that at least one of the Committee's members has recent and relevant financial experience.

The Audit Committee met twice during the year ended 31 July 2016. The Audit Committee discharged its responsibilities by:

- considering its Terms of Reference;
- reviewing the operational controls maintained by the Manager and Depositary;
- reviewing the Half Year and Annual Report and Accounts and related audit plan and engagement letter;
- reviewing the need for an internal audit function;
- reviewing the independence of the Auditors;
- evaluating the Auditors' performance; and
- reviewing the principal risks faced by the Company and the system of internal control.

## Annual report and financial statements

During its review of the Company's financial statements for the year ended 31 July 2016, 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 its reporting:

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

As a result of the work performed, the Committee has concluded that the Annual Report for the year ended 31 July 2016, 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, and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the statement of Directors' Responsibilities on page 26.

## 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 its 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.

# Report of the Audit Committee

Representatives of the Auditors attend the Audit Committee meeting at which the draft Annual Report and Accounts is considered. Having reviewed the performance of the Auditors as described above, the Committee considered it appropriate to recommend the firm's re-appointment.

The Auditors are required to rotate the Senior Statutory Auditor every five years. This is the fourth year that the Senior Statutory Auditor has conducted the audit of the Company's financial statements. PricewaterhouseCoopers LLP has provided audit services to the Company from its incorporation in 1994 to date. The Audit Committee is aware that the European Union has proposed changes which will substantially change the statutory audit of public interest enterprises which includes UK listed companies. These changes are in addition to guidance issued by the Finance Reporting Council and the findings of the UK Competition Commission. The Audit Committee has kept this matter under review and has concluded that PricewaterhouseCoopers LLP must be replaced before commencement of the audit in 2020, and the Audit Committee will put the audit out to tender before that date.

There are no contractual obligations restricting the choice of external auditors.

## Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office. Accordingly, resolutions to re-appoint PricewaterhouseCoopers LLP as auditors to the Company, and to authorise the Directors to determine their remuneration will be proposed at the AGM.

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

## Provision of non-audit services

The Audit Committee has reviewed the FRC's Guidance on Audit Committees and has formulated a policy on the provision of non-audit services by the Company's Auditors. The Audit Committee has determined that the Company's appointed Auditors will not be considered for the provision of certain non-audit services, such as accounting and preparation of the financial statements, internal audit and custody. The Auditors may, if required, provide other non-audit services however, and this will be judged on a case-by-case basis.

The Auditors have provided taxation compliance services to the Company during the year, for which they received a fee of £2,000 (2015: £2,000).

## 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 Audit Committee will continue to monitor the system of internal control in order to provide assurance that it operates as intended and the Directors will continue to annually review whether an internal audit function is needed.

**Anja Balfour**

Audit Committee Chairman

4 October 2016

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, Strategic Report, the Report of the Directors, 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 the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard (FRS) 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" 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 return 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions in FRS 102, used in the preparation of financial statements; 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.

The Manager is responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 17 and 18, confirm 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;
- the Strategic Report contained in the Report and Accounts 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
- the Annual 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 and performance, business model and strategy.

By order of the Board

**Jonathan Taylor**  
Chairman

4 October 2016



## 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 following Remuneration Policy is currently in force and is subject to a binding vote every three years. The full policy provisions will continue to apply until the AGM to be held in 2017 unless a revised remuneration policy is approved by shareholders prior to such AGM. In addition, the below Directors' annual report on 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, 99.82% 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.

At the AGM held on 3 November 2015, 99.89% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Report on Remuneration for the year ended 31 July 2015 were in favour, while 0.11% were against. 24,700 votes were withheld.

## 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 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. Directors' fees 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 exclusively comprise non-executive Directors. No Director past or present has an entitlement to a pension, and the Company has not, and does not intend to operate a share scheme for Directors or 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. 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 Annual General Meeting 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 fee levels of 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

## Directors' annual report on remuneration

This Report sets out how the Directors' remuneration policy was implemented during the year ended 31 July 2016.

### Fees paid to Directors

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 2016 and the previous financial year:

Director	Salary/fees	
	2016 £	2015 £
Jonathan Taylor (Chairman)	34,000	31,000
Anja Balfour	26,125	22,500
Alan Gibbs <sup>1</sup>	12,500	–
Richard Greer	24,375	22,500
Jan Kingzett <sup>2</sup>	–	4,875
John Scott <sup>3</sup>	11,042	25,500
<b>Total</b>	<b>108,042</b>	<b>106,375</b>

<sup>1</sup>Appointed as a Director on 1 February 2016.

<sup>2</sup>Retired as a Director on 5 November 2014. The fees payable to Mr Kingzett were paid to a third party for making his services available.

<sup>3</sup>Retired as a Director on 31 December 2015.

The information in the above table has been audited.

### Consideration of matters relating to Directors' remuneration

Directors' remuneration was last reviewed by the Board in September 2016. The members of the Board at the time that remuneration levels were considered were as set out on pages 17 and 18. Although no external advice was sought in considering the levels of Directors' fees, information on fees paid to Directors of other investment trusts managed by Schroders and peer group companies provided by the Manager and corporate broker was taken into consideration.

Following the annual review, the Board decided that Directors' fees should remain unchanged. Directors' fees were last increased with effect from 1 November 2015. From that date, the fee paid to the Chairman increased to £31,000 per annum and the fees paid to Directors increased to £21,000 per annum. The additional fee paid to the Chairman of the Audit Committee of £3,000 per annum remained unchanged. In addition, it was agreed at that time 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 as reflected in the table above.

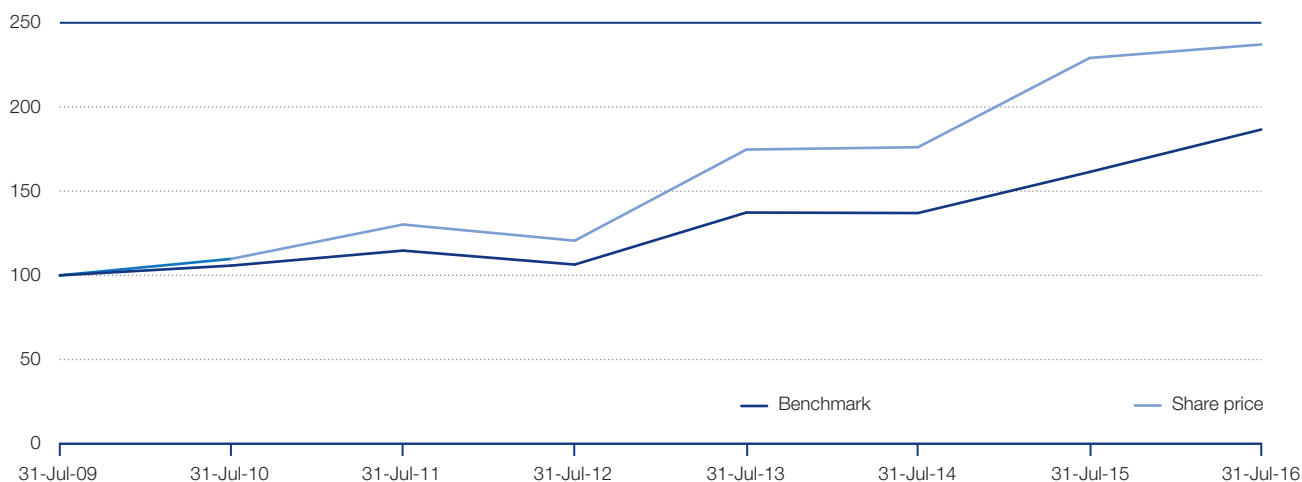
### Expenditure by the Company on remuneration and distributions to shareholders

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 investment objective.

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	Change %
Remuneration paid to Directors	108	106	+1.9
Distributions paid to shareholders – dividends	2,500	2,250	+11.1

# Remuneration Report

## 7 year share price and benchmark total returns



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

### Directors' share interests

The Company's Articles of Association do not require Directors to own shares in the Company. The interests of Directors, including those of connected persons, at the beginning and end of the financial year under review are set out below.

	At 31 July 2016	At 1 August 2015
Jonathan Taylor	23,000	23,000
Anja Balfour	9,000	5,000
Alan Gibbs <sup>1</sup>	–	–
Richard Greer	31,689	31,689
John Scott <sup>2</sup>	N/A	8,170

<sup>1</sup>Appointed as a Director 1 February 2016.

<sup>2</sup>Retired as a Director on 31 December 2015.

The information in the above table has been audited (see Independent Auditors' Report on pages 30 to 33).

### Jonathan Taylor

Chairman

4 October 2016

# 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 2016 and of its profit 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

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 July 2016;
- the Income Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the accounts, 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 United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

## Our audit approach

### Overview

#### Materiality

- Overall materiality: £2.27 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 ("HSBC"), who 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	How our audit addressed the area of focus
<b>Income from investments</b> Refer to pages 24 and 25 (Report of the Audit Committee), page 37 (Accounting Policies) and page 39 (Notes to the Accounts). ISAs (UK & Ireland) presume there is a risk of fraud in income recognition. We considered this risk to specifically relate to the risk of overstating investment gains and the misclassification of dividend income as capital rather than revenue due to the pressure management may feel to achieve capital growth in line with the objective of the Company. We focused on the valuation of investments with respect to gains on investments and 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').	<p>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.</p> <p>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.</p> <p>We understood and assessed the design and implementation of key controls surrounding income recognition.</p> <p>The gains/losses on investments held at fair value comprise realised and unrealised gains/losses. For unrealised gains and losses, we tested the valuation of the portfolio at the year end (see below), together with testing the reconciliation of opening and closing investments. For realised gains/losses, we tested disposal proceeds by agreeing the proceeds to bank statements and we re-performed the calculation of a sample of realised gains/losses. No misstatements were identified by our testing which required reporting to those charged with governance.</p> <p>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.</p> <p>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.</p> <p>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. We then tested the classification of income and capital special dividends to independent third party sources. We did not find any special dividends that were not treated in accordance with the AIC SORP. Our testing did not identify any misstatements.</p>
<b>Valuation and existence of investments</b> Refer to pages 24 and 25 (Report of the Audit Committee), page 37 (Accounting Policies) and page 41 (Notes to the Accounts). The investment portfolio at 31 July 2016 comprised listed equity investments of £254 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 Statement of Financial Position in the financial statements.	<p>We tested the valuation of the listed investments by agreeing the prices used in the valuation to independent third party sources.</p> <p>No misstatements were identified by our testing which required reporting to those charged with governance.</p> <p>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.</p> <p>No differences were identified by our testing which required reporting to those charged with governance.</p>

## 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, the accounting processes and controls, and the industry in which the Company operates.

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

As part of our risk assessment, we assessed the control environment in place at the Manager and HSBC to the extent relevant to our audit. This assessment involved obtaining and reading the relevant control reports, issued by the independent auditors of the Manager and HSBC in accordance with generally accepted assurance standards for such work, to gain an understanding of the Manager's and HSBC's control environment and to consider the operating and accounting structure at the Manager and HSBC. 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 on the individual financial statement line items and disclosures and in evaluating 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	£2.27 million (2015: £2.1 million).
How we determined it	1% of net assets.
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.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £114,000 (2015: £106,000) 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 Directors' statement, set out on page 16, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. 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 and compliance with applicable requirements

#### Companies Act 2006 reporting

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.
<ul style="list-style-type: none"> <li>the statement given by the Directors on page 26, in accordance with provision C.1.1 of 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 position and 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.
<ul style="list-style-type: none"> <li>the section of the Annual Report on pages 24 and 25, 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.

### The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

<ul style="list-style-type: none"> <li>the Directors' confirmation on page 14 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>the Directors' explanation on page 16 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul>	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.



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

## 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.

## Corporate governance statement

Under the Listing Rule we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed this review.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Directors

As explained more fully in the Statements of Directors' Responsibilities, 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 primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in 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 testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report 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. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

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

4 October 2016

### Notes:

- The maintenance and integrity of the Schroder Japan Growth Fund plc 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 in other jurisdictions.

# Income Statement

for the year ended 31 July 2016

		2016			2015		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	2	–	25,692	25,692	–	36,671	36,671
Net foreign currency (losses)/gains		–	(11,102)	(11,102)	–	2,829	2,829
Income from investments	3	5,588	–	5,588	4,139	–	4,139
Other interest receivable and similar income	3	1	–	1	–	–	–
<b>Gross return</b>		<b>5,589</b>	<b>14,590</b>	<b>20,179</b>	4,139	39,500	43,639
Investment management fee	4	(514)	(1,198)	(1,712)	(489)	(1,142)	(1,631)
Administrative expenses	5	(531)	–	(531)	(476)	–	(476)
<b>Net return before finance costs and taxation</b>		<b>4,544</b>	<b>13,392</b>	<b>17,936</b>	3,174	38,358	41,532
Finance costs	6	(87)	(203)	(290)	(67)	(155)	(222)
<b>Net return on ordinary activities before taxation</b>		<b>4,457</b>	<b>13,189</b>	<b>17,646</b>	3,107	38,203	41,310
Taxation on ordinary activities	7	(559)	–	(559)	(414)	–	(414)
<b>Net return on ordinary activities after taxation</b>		<b>3,898</b>	<b>13,189</b>	<b>17,087</b>	2,693	38,203	40,896
<b>Return per share</b>	9	<b>3.12p</b>	<b>10.55p</b>	<b>13.67p</b>	2.15p	30.56p	32.71p

The “Total” column of this statement is the profit and loss account of the Company. The “Revenue” and “Capital” columns represent supplementary information prepared under guidance issued by The Association of Investment Companies. The Company has no recognised gains and losses other than those included in the Income Statement and Statement of Changes in Equity.

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

The notes on pages 37 to 49 form an integral part of these accounts.

# Statement of Changes in Equity

for the year ended 31 July 2016

	Called-up share capital £'000	Share premium £'000	Warrant exercise reserve £'000	Share purchase reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 July 2014	12,501	7	3	97,205	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)
At 31 July 2015	12,501	7	3	97,205	99,692	2,693	212,101
Net return on ordinary activities	–	–	–	–	13,189	3,898	17,087
Dividend paid in the year	–	–	–	–	–	(2,500)	(2,500)
<b>At 31 July 2016</b>	<b>12,501</b>	<b>7</b>	<b>3</b>	<b>97,205</b>	<b>112,881</b>	<b>4,091</b>	<b>226,688</b>

The notes on pages 37 to 49 form an integral part of these accounts.

# Statement of Financial Position

at 31 July 2016

	Note	2016 £'000	2015 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	10	254,114	238,825
<b>Current assets</b>			
Debtors	11	1,077	463
Cash at bank and in hand		16,565	4,614
		17,642	5,077
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	12	(973)	(31,801)
<b>Net current assets/(liabilities)</b>		16,669	(26,724)
<b>Total assets less current liabilities</b>		270,783	212,101
Creditors: amounts falling due after more than one year	13	(44,095)	–
<b>Net assets</b>		226,688	212,101
<b>Capital and reserves</b>			
Called-up share capital	14	12,501	12,501
Share premium	15	7	7
Warrant exercise reserve	15	3	3
Share purchase reserve	15	97,205	97,205
Capital reserves	15	112,881	99,692
Revenue reserve	15	4,091	2,693
<b>Total equity shareholders' funds</b>		226,688	212,101
<b>Net asset value per share</b>	16	181.34p	169.67p

These accounts were approved and authorised for issue by the Board of Directors on 4 October 2016 and signed on its behalf by:

**Jonathan Taylor**

Chairman

The notes on pages 37 to 49 form an integral part of these accounts.

Registered in England and Wales

Company registration number: 2930057

## 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 November 2014 and which superseded the SORP issued 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 accounts are presented in sterling and amounts have been rounded to the nearest thousand.

The Company has adopted Financial Reporting Standard (FRS) 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the amended SORP, both of which became effective for periods beginning on or after 1 January 2015. FRS 102 replaces all extant standards applicable to the Company's accounts. As a result there are some presentational changes to the accounts but no change in the way numbers are measured. The adoption of FRS 102 has not affected the reported financial position or financial performance of the Company.

The changes to these accounts required by FRS 102 and the amended SORP may be summarised briefly as follows:

- the reconciliation of movements in shareholders' funds has been renamed "Statement of changes in equity";
- the balance sheet has been renamed "Statement of financial position";
- the Company no longer presents a statement of cash flows or the two related notes, as it is no longer required for an investment company which meets certain specified conditions; and
- footnotes have been added to note 15, indicating which of the Company's reserves are regarded as distributable.

Other than these changes, the accounting policies applied to these accounts are consistent with those applied in the accounts for the year ended 31 July 2015.

The Company has adopted early an amendment to paragraph 34.22 of FRS 102, issued by the Financial Reporting Council in March 2016 regarding the categorisation of financial instruments into the fair value hierarchy in note 19. As a result of this amendment, the criteria used to allocate financial instruments into the three levels remain unchanged from prior years.

### (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 "investment holding gains and losses".

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 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.

# Notes to the Accounts

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 41.

## **(f) Finance 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 in accordance with FRS 102.

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.

## **(h) Taxation**

The tax charge for the year is based on amounts expected to be received or paid.

Deferred tax is accounted for in accordance with FRS 102.

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 accounting date and is measured on an undiscounted basis.

## **(i) Foreign currency**

In accordance with FRS 102, the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. 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 and 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 102, the final dividend is included in the accounts in the year in which it is paid.



# Notes to the Accounts

## 2. Gains on investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Gains on sales of investments based on historic cost	9,617	5,241
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold in the year	(6,700)	(3,119)
Gains on sales of investments based on the carrying value at the previous balance sheet date	2,917	2,122
Net movement in investment holding gains and losses	22,775	34,549
<b>Gains on investments held at fair value through profit and loss</b>	<b>25,692</b>	<b>36,671</b>

## 3. Income

	2016 £'000	2015 £'000
<b>Income from investments:</b>		
Overseas dividends	5,588	4,139
<b>Other interest receivable and similar income</b>		
Deposit interest	1	–
<b>Total income</b>	<b>5,589</b>	<b>4,139</b>

## 4. Investment management fee

	Revenue £'000	2016 Capital £'000	Total £'000	Revenue £'000	2015 Capital £'000	Total £'000
Management fee	514	1,198	1,712	489	1,142	1,631

The basis for calculating the investment management fee is set out in the Report of the Directors on page 20 and details of all amounts payable to the Manager are given in note 17 on page 43.

## 5. Administrative expenses

	2016 £'000	2015 £'000
Administration expenses	259	207
Directors' fees <sup>1</sup>	108	106
Company secretarial fee	90	90
Marketing support fee	50	50
Auditors' remuneration for audit services	22	21
Auditors' remuneration for taxation compliance services	2	2
	<b>531</b>	<b>476</b>

<sup>1</sup>Details of all amounts payable to Directors are given in the Remuneration Report on page 28.

## 6. Finance costs

	Revenue £'000	2016 Capital £'000	Total £'000	Revenue £'000	2015 Capital £'000	Total £'000
Interest on bank loans and overdrafts	87	203	290	67	155	222

# Notes to the Accounts

## 7. Taxation

	2016 £'000	2015 £'000
<b>(a) Analysis of charge in the year:</b>		
Irrecoverable overseas tax	559	414
<b>Current tax charge for the year</b>	<b>559</b>	<b>414</b>

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

The tax assessed for the year is lower (2015: lower) than the Company's applicable rate of corporation tax for the year of 20.00% (2015: 20.67%).

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

	Revenue £'000	2016 Capital £'000	Total £'000	Revenue £'000	2015 Capital £'000	Total £'000
Net return on ordinary activities before taxation	4,457	13,189	17,646	3,107	38,203	41,310
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax for the year of 20.00% (2015: 20.67%)	891	2,638	3,529	642	7,897	8,539
Effects of:						
Capital returns on investments	–	(2,918)	(2,918)	–	(8,165)	(8,165)
Income not chargeable to corporation tax	(1,118)	–	(1,118)	(855)	–	(855)
Unrelieved expenses	227	280	507	213	268	481
Irrecoverable overseas tax	559	–	559	414	–	414
<b>Current tax charge for the year</b>	<b>559</b>	<b>–</b>	<b>559</b>	<b>414</b>	<b>–</b>	<b>414</b>

### (c) Deferred taxation

The Company has an unrecognised deferred tax asset of £4,008,000 (2015: £3,946,000) based on a prospective corporation tax rate of 18% (2015: 20%). The reduction in the standard rate of corporation tax was substantively enacted in October 2015 and is effective from 1 April 2020.

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 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

	2016 £'000	2015 £'000
<b>Dividend paid and proposed</b>		
2015 final dividend of 2.00p paid out of revenue profits (2014: 1.80p paid partly out of capital and partly out of revenue <sup>1</sup> )	2,500	2,250
2016 final dividend proposed of 2.80p (2015: 2.00p) to be paid out of revenue profits	3,500	2,500

<sup>1</sup>The 2014 dividend paid amounted to £2,250,000 and of this amount, £1,804,000 was paid out of capital and the balance of £446,000 was paid out of revenue, as this was the total amount available on the revenue reserve brought forward at 1 August 2013.

The proposed dividend amounting to £3,500,000 (2015: £2,500,000) is the amount used for the basis of determining whether the Company has satisfied the distribution requirements of Section 1158 of the Corporation Tax Act 2010. The revenue available for distribution by way of dividend for the year is £3,898,000 (2015: £2,693,000).

# Notes to the Accounts

## 9. Return per share

	2016 £'000	2015 £'000
Revenue return	3,898	2,693
Capital return	13,189	38,203
Total return	17,087	40,896
Weighted average number of ordinary shares in issue during the year	125,008,200	125,008,200
Revenue return per share	3.12p	2.15p
Capital return per share	10.55p	30.56p
<b>Total return per share</b>	<b>13.67p</b>	<b>32.71p</b>

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

	2016 £'000	2015 £'000
Opening book cost	166,962	156,499
Opening investment holding gains	71,863	40,433
Opening valuation	238,825	196,932
Purchases at cost	18,153	21,031
Sales proceeds	(28,556)	(15,809)
Gains on sales of investments based on the carrying value at the previous balance sheet date	2,917	2,122
Net movement in investment holding gains and losses	22,775	34,549
Closing valuation	254,114	238,825
Closing book cost	166,176	166,962
Closing investment holding gains	87,938	71,863
<b>Total investments held at fair value through profit or loss</b>	<b>254,114</b>	<b>238,825</b>

All investments are listed on a recognised stock exchange.

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

	2016 £'000	2015 £'000
On acquisitions	15	19
On disposals	23	15
	38	34

## 11. Debtors

	2016 £'000	2015 £'000
Securities sold awaiting settlement	713	248
Dividends and interest receivable	333	183
Other debtors	31	32
	1,077	463

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

# Notes to the Accounts

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

	2016 £'000	2015 £'000
Bank loan	–	31,034
Securities purchased awaiting settlement	370	186
Other creditors and accruals	603	581
	<b>973</b>	31,801

During the year, the Company extended its credit facility with Scotiabank to 18 January 2017, but with a reduced limit of yen 1.0 billion (2015: yen 7.0 billion). The facility was undrawn at the year end (2015: yen 6.0 billion). The facility is unsecured but is subject to covenants and restrictions which are customary for a facility of this nature, all of which have been complied with. Further details of the facility are given in note 20 on page 46.

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

## 13. Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Bank loan	<b>44,095</b>	–

The bank loan is a yen 6.0 billion three year term loan with Scotiabank, expiring on 18 January 2019, and carrying a fixed interest rate of 0.82% per annum. The loan is unsecured but is subject to certain undertakings and restrictions, all of which have been complied with.

The Directors consider that the carrying amount of the bank loan approximates to its fair value.

## 14. Called-up share capital

	2016 £'000	2015 £'000
<b>Ordinary shares allotted, called-up and fully paid:</b>		
125,008,200 ordinary shares of 10p each	<b>12,501</b>	12,501

## 15. Reserves

	Share premium <sup>1</sup> £'000	Warrant exercise reserve <sup>1</sup> £'000	Share purchase reserve <sup>2</sup> £'000	Capital reserves		Revenue reserve <sup>4</sup> £'000
				Gains and losses on sales of investments <sup>2</sup> £'000	Investment holding gains and losses <sup>3</sup> £'000	
Opening balance	7	3	97,205	17,739	81,953	2,693
Gains on sales of investments based on the carrying value at the previous balance sheet date	-	-	-	2,917	-	-
Net movement in investment holding gains and losses	-	-	-	-	22,775	-
Transfer on disposal of investments	-	-	-	6,700	(6,700)	-
Realised exchange gains on cash and short term deposits	-	-	-	1,960	-	-
Exchange loss on foreign currency loan	-	-	-	-	(13,062)	-
Management fee and finance costs allocated to capital	-	-	-	(1,401)	-	-
Dividend paid	-	-	-	-	-	(2,500)
Retained revenue for the year	-	-	-	-	-	3,898
<b>Closing balance</b>	<b>7</b>	<b>3</b>	<b>97,205</b>	<b>27,915</b>	<b>84,966</b>	<b>4,091</b>

The Company's Articles of Association permit dividend distributions out of realised capital profits.

<sup>1</sup>These reserves are not distributable.

<sup>2</sup>These are realised (distributable) capital reserves which may be used to repurchase the Company's own shares or distributed as dividends.

<sup>3</sup>This reserve comprises holding gains on liquid investments (which may be deemed to be realised) and other amounts which are unrealised. An analysis has not been made between those amounts that are realised (and may be distributed as dividends or used to repurchase the Company's own shares) and those that are unrealised.

<sup>4</sup>The revenue reserve may be distributed as dividends or used to repurchase the Company's own shares.

## 16. Net asset value per share

	2016	2015
Net assets attributable to shareholders (£'000)	226,688	212,101
Shares in issue at the year end	125,008,200	125,008,200
Net asset value per share	181.34p	169.67p

## 17. Transactions with the Manager

Under the terms of the AIFM Agreement, the Manager is entitled to receive a management fee, a marketing support fee and a company secretarial fee. Details of the AIFM agreement are given in the Report of the Directors on page 20. 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 2016 amounted to £1,712,000 (2015: £1,631,000), of which £459,000 (2015: £437,000) was outstanding at the year end. The marketing support fee payable to the Manager amounted to £50,000 (2015: £50,000) of which £13,000 (2015: £13,000) was outstanding at the year end. The company secretarial fee payable to the Manager amounted to £90,000 (2015: £90,000) of which £23,000 (2015: £23,000) was outstanding at the year end.

## 18. Related party transactions

Details of the remuneration payable to Directors are given in the Remuneration Report on page 28 and details of Directors' shareholdings are given in the Remuneration Report on page 29. There have been no other transactions with related parties during the year (2015: nil).

## 19. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 102 that are held at fair value comprise its investment portfolio. The Company currently holds no derivative financial instruments.

FRS 102 requires financial instruments to be categorised into a hierarchy consisting of the three levels below. Note that the criteria used to categorise investments include an amendment to paragraph 34.22 of FRS 102, issued by the Financial Reporting Council in March 2016, and which the Company has early adopted.

Level 1 – valued using unadjusted quoted prices in active markets for identical assets.

Level 2 – valued using observable inputs other than quoted prices included within Level 1.

Level 3 – valued using inputs that are unobservable.

Details of the valuation techniques used by the Company are given in note 1(b) on page 37.

At 31 July 2016, all investments in the Company's portfolio are categorised as Level 1 (2015: same).

## 20. 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 and a term loan with Scotiabank, the purpose of which are to manage working capital requirements and to gear the Company as appropriate.

### (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 the Company's policy not to hedge against foreign currency risk.



# Notes to the Accounts

## 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.

	2016 £'000	2015 £'000
Debtors (securities sold awaiting settlement, dividends and interest receivable)	1,046	431
Cash at bank and in hand	12,329	2,567
Creditors (securities purchased awaiting settlement)	(370)	(186)
Bank loans (including accrued interest payable)	(44,107)	(31,053)
Foreign currency exposure on net monetary items	(31,102)	(28,241)
Investments held at fair value through profit or loss that are equities	254,114	238,825
<b>Total net foreign currency exposure</b>	<b>223,012</b>	<b>210,584</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% (2015: 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:

	2016 £'000	2015 £'000
Income statement – return after taxation		
Revenue return	494	366
Capital return	(3,131)	(2,840)
Total return after taxation for the year	(2,637)	(2,474)
<b>Net assets</b>	<b>(2,637)</b>	<b>(2,474)</b>

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

	2016 £'000	2015 £'000
Income statement – return after taxation		
Revenue return	(494)	(366)
Capital return	3,131	2,840
Total return after taxation for the year	2,637	2,474
<b>Net assets</b>	<b>2,637</b>	<b>2,474</b>

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

# Notes to the Accounts

periods and therefore exposure to interest rate risk is not significant. The Company's three year term loan carries a fixed rate of interest and therefore does not give rise to any interest rate risk.

## 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:

	2016 £'000	2015 £'000
Exposure to floating interest rates:		
Cash at bank and in hand	16,565	4,614
Creditors: amounts falling due within one year – borrowings on the credit facility	–	(31,034)
<b>Total exposure</b>	<b>16,565</b>	<b>(26,420)</b>

Interest receivable on cash balances is at a margin below LIBOR (2015: same).

During the year, in addition to arranging the term loan, the Company extended its credit facility with Scotiabank to 18 January 2017, but with a reduced limit. Under the terms of the agreement, the Company may draw down up to yen 1.0 billion (2015: yen 7.0 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. The facility was undrawn at 31 July 2016 (31 July 2015: yen 6.0 billion drawn down at an interest rate of 0.72% per annum).

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

	2016 £'000	2015 £'000
Maximum debit interest rate exposure during the year – net debt	(29,818)	(26,603)
Maximum credit/minimum debit interest rate exposure during the year – net cash/(debt)	16,565	(22,715)

## Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1.0% (2015: 1.0%) increase or decrease in interest rates. 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 and which are exposed to interest rate movements, with all other variables held constant.

	2016		2015	
	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	166	(166)	(47)	47
Capital return	–	–	(217)	217
Total return after taxation	166	(166)	(264)	264
<b>Net assets</b>	<b>166</b>	<b>(166)</b>	<b>(264)</b>	<b>264</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 the Company's 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 comprised its portfolio of investments as follows:

	2016 £'000	2015 £'000
Investments held at fair value through profit or loss	254,114	238,825

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 9 and 10. The portfolio 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% (2015: 10%) in the fair values of the Company's investments. 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 exposure to market price risk through its portfolio of investments and includes the impact on the management fee but assumes all other variables are held constant.

	2016		2015	
	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	(50)	50	(47)	47
Capital return	25,296	(25,296)	23,774	(23,774)
Total return after taxation and net assets	25,246	(25,246)	23,727	(23,727)
<b>Percentage change in net asset value</b>	<b>11.1%</b>	<b>(11.1%)</b>	11.2%	(11.2%)

## (b) Liquidity risk

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

## Management of the risk

Liquidity risk is not significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of a credit facility. The Board's policy is for the Company to remain fully invested in normal market conditions and that the credit facility be used to manage working capital requirements and to gear the Company as appropriate.

# Notes to the Accounts

## Liquidity risk exposure

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

	2016			2015
	Three months or less £'000	Two to three years £'000	Total £'000	Three months or less £'000
<b>Creditors: amounts falling due within one year</b>				
Drawings on the credit facility – including interest	–	–	–	31,055
Securities purchased awaiting settlement	370	–	370	186
Other creditors and accruals	591	–	591	562
<b>Creditors: amounts falling due after more than one year</b>				
Term loan – including interest	–	44,995	44,995	–
	<b>961</b>	<b>44,995</b>	<b>45,956</b>	31,803

## (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.

### 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 A1 with Moody’s.

The Company’s investments are held in accounts which are segregated from the Custodian’s own trading assets. If 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 Statement of Financial Position, represent the maximum exposure to credit risk at the current and comparative year end.

	2016		2015	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
<b>Fixed assets</b>				
Investments held at fair value through profit or loss	254,114	–	238,825	–
<b>Current assets</b>				
Debtors – securities sold awaiting settlement, dividends and interest receivable and other debtors	1,077	1,077	463	463
Cash at bank and in hand	16,565	16,565	4,614	4,614
	<b>271,756</b>	<b>17,642</b>	243,902	5,077

No debtors are past their due date and no provision has been made for impairment.

## (d) Fair values of financial assets and financial liabilities

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

## 21. Capital management policies and procedures

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

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

	2016 £'000	2015 £'000
<b>Debt</b>		
Bank loans, including any drawings on the credit facility	44,095	31,034
<b>Equity</b>		
Called-up share capital	12,501	12,501
Reserves	214,187	199,600
	226,688	212,101
<b>Total debt and equity</b>	<b>270,783</b>	243,135

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise total 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.

	2016 £'000	2015 £'000
Borrowings used for investment purposes, less cash	27,530	26,420
Net assets	226,688	212,101
<b>Gearing</b>	<b>12.1%</b>	12.5%

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 Wednesday, 2 November 2016 at 2.30 p.m. The formal Notice of Meeting is set out on page 51.

**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.**

## **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 do not intend to allot shares pursuant to these authorities other than to take advantage of opportunities in the market as they arise and 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 2017 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 3 November 2015, 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 2016 AGM will lapse at the conclusion of the AGM in 2017 unless renewed, varied 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 31 Gresham Street, London EC2V 7QA on Wednesday, 2 November 2016 at 2.30 p.m. to consider 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 2016.
2. To approve a final dividend of 2.80p per share for the year ended 31 July 2016.
3. To approve the Directors' Annual Report on Remuneration for the year ended 31 July 2016.
4. To elect Alan Gibbs as a Director of the Company.
5. To re-elect Jonathan Taylor as a Director of the Company.
6. To re-elect Anja Balfour as a Director of the Company.
7. To re-appoint PricewaterhouseCoopers LLP as Auditors to the Company.
8. To authorise the Directors to determine the remuneration of PricewaterhouseCoopers LLP as Auditors to the Company.
9. To consider, and if thought fit, pass the following resolution as an ordinary resolution:  
"THAT in substitution for all existing authorities the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 551 of the Act) up to an aggregate nominal amount of £625,041 (being 5% of the issued ordinary share capital, at the date of this Notice) for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company, but that the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Board may allot relevant securities in pursuance of that offer or agreement."
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 (including any shares held in Treasury) (as defined in section 560(1) of the Act) pursuant to the authority given in accordance with section 551 of the Act by the said Resolution 9 and/or where such allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £625,041 (representing 5% of the aggregate nominal amount of the share capital in issue at the date of this Notice); 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 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 10p each in the capital of the Company ("Shares") at whatever discount the prevailing market price represents to the prevailing net asset value per Share provided that:
  - (a) the maximum number of Shares which may be purchased is 18,738,729, representing 14.99% of the Company's issued ordinary share capital as at the date of this Notice;
  - (b) the maximum price (exclusive of expenses) which may be paid for a Share shall not exceed the higher of;
    - i) 105% of the average of the middle market quotations for the Shares as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase; and
    - ii) the last independent bid and the highest current independent bid on the London Stock Exchange;
  - (c) the minimum price (exclusive of expenses) which may be paid for a Share shall be 10p, being the nominal value per Share;
  - (d) this authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company in 2017 (unless previously renewed, varied or revoked by the Company prior to such date);
  - (e) the Company may make a contract to purchase Shares under the authority hereby conferred which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract; and
  - (f) any Shares so purchased will be cancelled."

By order of the Board

For and on behalf of

Schroder Investment Management Limited

Registered Number: 2930057

4 October 2016

Registered Office:

31 Gresham Street,

London EC2V 7QA

# Explanatory Notes to the Notice of Meeting

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(0) 121 415 0207 for overseas callers, 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 2.30 p.m. on Monday, 31 October 2016. If you have any difficulties with online voting, you should contact the shareholder helpline on 0800 032 0641 (or +44(0) 121 415 0207 for overseas callers).

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.

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 6.30 p.m. on 31 October 2016, or 6.30 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 6.30 p.m. on 31 October 2016 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 (ID RA19) 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 election or re-election are set out on pages 17 and 18 of the Company's Annual Report and Accounts for the year ended 31 July 2016.
7. As at 4 October 2016, 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 of the Company as at 4 October 2016 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 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 Annual General Meeting 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.

# Shareholder Information

## Webpage 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 ordinary share price and copies of Report and Accounts and other documents published by the Company as well as information on the Directors, Terms of Reference of Committees and other governance arrangements. In addition, the webpage contains links to announcements made by the Company to the market, Equiniti's shareview service and Schroders' website. There is also a section entitled "How to Invest".

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

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

## ISA status

The Company's shares are eligible for stocks and shares ISAs.

## Non-Mainstream Pooled Investments (NMPI) 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.

## Financial calendar

Half year results announced	March
Financial year end	31 July
Annual results announced	September/October
Final dividend paid	November
Annual General Meeting	November

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

The Company's leverage policy and details of limits on leverage required under the AIFM Directive are published on the website at [www.schroders.co.uk/its](http://www.schroders.co.uk/its).

### Preferential treatment of investors

The Company's investors purchase shares on the open market and therefore the Company is not in a position to influence the treatment of investors. No investor receives preferential treatment.

### Liquidity risk management

The Company's shares are traded on the London Stock Exchange through market intermediaries. There are no special rights to redemption.

### 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 AIFM disclosures on the website [www.schroders.co.uk/its](http://www.schroders.co.uk/its).

Any changes to the following information will be provided through a regulatory news service without undue delay and in accordance with the Directive:

- (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.

### 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)

## 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

### Depository and Custodian

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

### Lending Bank

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

### Registrars

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

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.

### Corporate Broker

Cenkos Securities plc  
6.7.8 Tokenhouse Yard  
London EC2R 7AS

### Independent Auditors

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

### Shareholder enquiries

General enquiries about the Company should be addressed to the Company Secretary at the Company's Registered Office.

### Dealing Codes

ISIN: GB0008022849  
SEDOL: 0802284  
Ticker: SJG

### Global Intermediary Identification Number (GIIN)

7T0909.99999.SL.826



# Schroders