
**SCHRODER
JAPAN
GROWTH
FUND plc**



**Report and Accounts
31 July 2006**



Schroders



INVESTMENT OBJECTIVE

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

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Directors



*From left to right: Back row: John Scott, Jan Kingzett
Front row: Yoshindo Takahashi, Jonathan Taylor, Peter Lyon*

Jonathan Taylor*† (Aged 63) (Chairman) was appointed as a Director of the Company on 29 July 1999 and as Chairman on 20 April 2004. He is Chairman and Managing Director of Dragon Partners Limited. He is a Director of Greater China Fund Inc. and of AVK Securities & Finance Limited of St. Petersburg, Russian Federation. He was previously a Director of Baring Asset Management Limited (1976–1997). He is a Barrister at law.

Jan Kingzett† (Aged 50) was appointed as a Director of the Company on 3 October 2001. He is an executive Director of Schroder Investment Management Limited. He is also a non-executive Director of Schroder AsiaPacific Fund plc and Thos. Agnew & Sons Limited.

Peter Lyon*† (Aged 65) was appointed as a Director of the Company on 31 May 1994. He is a Director of Clay Finlay Inc, a US based institutional fund management group. Between 1990 and 1995 he was the Chief Strategist for Smith New Court, from 1985 to 1990 a Director with County NatWest Investment Management, and between 1975 and 1985 he was a Director, and Head of UK research, at Vickers da Costa.

John Scott*† (Aged 54) was appointed as a Director of the Company on 20 April 2004. He is a non-executive director of Scottish Mortgage Investment Trust PLC, Dunedin Income Growth Investment Trust PLC, Martin Currie Pacific Trust plc and JPMorgan Fleming Claverhouse Investment Trust plc. His other directorships include Xaar plc, Endace Ltd. and Miller Insurance Services Ltd. He previously worked in the Far East for Jardine Matheson & Co, Ltd., (1974–1980), and in London for Lazard Brothers & Co., Limited, (1981–2001), during which time he spent three years in Tokyo with responsibility for Lazard Brothers' investment banking activities in Japan.

Yoshindo Takahashi*† (Aged 65) was appointed as a Director of the Company on 19 December 2005 and is currently Director of the Office of Pharmaceutical Industry Research, a research arm of Japan Pharmaceutical Manufacturers Association. He is also a member of the Management Committee of Executive Partners Inc, a consulting firm for small and emerging companies and a statutory auditor (Independent) of Netprice Corp, an internet shopping company based in Japan. He was previously Executive Director and Dean of Nomura School of Advanced Management (1996–2000) and Executive Vice President of

Nomura Research Institute Ltd (1994–1996). He served as President and then Chairman of Nomura Research Institute Europe Ltd and Nomura Research America Inc. between 1980 and 1991.

* Member of the Audit Committee and the Management Engagement Committee.

† Member of the Nomination Committee.

Mr Lyon is Chairman of the Audit Committee, the Management Engagement Committee and the Nomination Committee.

Financial Highlights

	31 July 2006	31 July 2005	% Change
Total assets (£'000)†	172,587	142,245	+21.3
Borrowings (£'000)	(30,423)	(22,802)	+33.4
Shareholders' funds (£'000)	142,164	119,443	+19.0
Shares in issue ('000)	125,008	125,008	–
Net Asset Value	113.72p	95.55p	+19.0
Share price	110.50p	91.75p	+20.4
Share price discount	2.83%	3.98%	–
TSE First Section Total Return Index Level (in sterling terms)*	8.56	7.03	+21.8
Yen rate to Sterling	213.66	197.35	+8.3
Total expense ratio (TER)**	1.01%	1.03%	–
Market capitalisation (£'000)	138,134	114,695	+20.4

† Calculated in accordance with AIC guidance and comprises shareholders' funds plus gearing used for investment purposes.

* Source: Thompson Financial Datastream.

** Calculated in accordance with AIC guidance and expressed as a percentage of average monthly net assets. Expenses exclude finance costs and are net of tax relief (if tax relief is ignored the TER (in the current year) would be 1.44%).

Sector Analysis

Analysis of the Portfolio Sector Distribution with the TSE First Section Index (%) as at 31 July 2006

	Valuation £'000	% of Portfolio	% of Index
Electrical Appliances	24,296	14.53	14.00
Transportation Equipment	13,982	8.35	8.80
Banks	13,074	7.81	14.80
Chemicals	13,025	7.77	5.30
Pharmaceutical	11,899	7.10	4.30
Land Transportation	11,712	7.00	3.30
Wholesale Trade	11,593	6.92	4.30
Real Estate	9,747	5.82	2.50
Insurance	9,735	5.82	2.90
Retail Trade	9,265	5.54	3.60
Machinery	9,116	5.45	4.10
Information & Communication	7,232	4.32	4.60
Rubber Products	5,211	3.11	0.50
Glass & Ceramics Products	3,410	2.04	1.20
Other Financing Business	2,993	1.79	2.00
Pulp & Paper	2,567	1.53	0.40
Securities & Commodity	2,295	1.37	2.30
Services	2,029	1.21	1.40
Iron & Steel	1,436	0.86	2.60
Construction	1,359	0.81	2.00
Non-Ferrous Metals	1,079	0.64	1.30
Other Products	354	0.21	1.70
Fishery, Agriculture & Forestry	–	–	0.10
Warehousing & Harbour Transport	–	–	0.20
Mining	–	–	0.30
Air Transportation	–	–	0.40
Marine Transportation	–	–	0.50
Metal Products	–	–	0.60
Oil & Coal Products	–	–	0.80
Textiles & Apparels	–	–	1.10
Precision Instruments	–	–	1.30
Foods	–	–	2.70
Electric Power & Gas	–	–	4.10
Total	167,409	100.00	100.00

Long Term Record to 31 July

	Total assets £'000	Shareholders' funds £'000	Undiluted asset value pence	Price of ordinary shares pence	Share Price discount %	Price of warrants pence
2006	172,587	142,164	113.72p	110.50p	(2.83)	–
2005	142,245	119,443	95.55p	91.75p	(3.98)	–*
2004	130,995	111,259	89.00p	79.50p	(10.67)	1.25p
2003	109,842	89,199	71.36p	65.75p	(7.86)	3.75p
2002	114,112	92,731	74.18p	69.25p	(6.65)	9.50p
2001	135,540	113,065	90.45p	81.00p	(10.45)	14.75p
2000	161,703	137,329	109.86p	89.00p	(17.76)	19.25p
1999	144,949	123,434	98.75p	92.25p	(6.58)	28.50p
1998	82,653	72,069	57.66p	52.75p	(8.52)	17.75p
1997	97,291	97,291	77.83p	75.50p	(2.99)	22.25p

* The final date for the exercise of warrants was 30 November 2004.

Long Term Record to 31 July

	Cost of running trust† £'000	Actual gearing ratio††	Potential gearing ratio†††
2006	2,102	1.17	1.21
2005	1,655	1.16	1.19
2004	1,627	1.14	1.18
2003	1,334	1.22	1.23
2002	1,492	1.18	1.23
2001	1,727	1.17	1.20
2000	1,844	1.12	1.18
1999	1,412	1.17	1.17
1998	1,185	1.07	1.15
1997	1,244	1.00	1.00

† Operating expenses, excluding share dealing and finance costs.

†† Total assets less cash and fixed interest assets, divided by shareholders' funds.

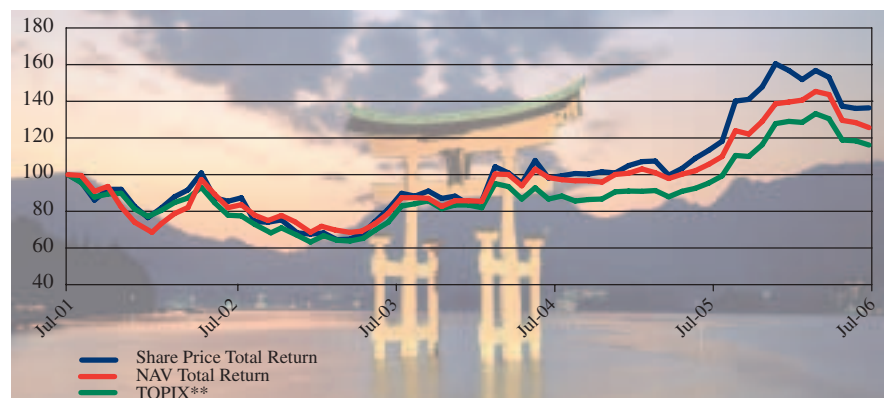
††† Total assets divided by shareholders' funds.

Total Returns* to 31 July

Total Return	NAV	Share Price	Share Benchmark Index
2006	125.66	136.42	116.15
2005	105.64	113.27	95.39
2004	98.40	98.15	86.70
2003	78.89	81.17	74.08
2002	82.01	85.49	77.88
2001	100.00	100.00	100.00

* Source: Schroder Investment Management Limited.

NAV/Share Price vs Benchmark



** Rebased to the TSE First Section Total Return Index (TOPIX) Level at 100 (in sterling terms) at July 2001.

Chairman's Statement

Performance

The year to 31 July 2006, in overall terms, built on the increase in absolute returns in 2005, and the net asset value per share increased by 19.0% (from 95.55p per share to 113.72p per share). The share price increased by 20.4% over the year as the discount narrowed slightly from 4.0% to 2.8%. Whilst performance during the year was slightly behind the benchmark, the TSE First Section Total Return Index, long-term performance of both the net asset value and share price remains significantly ahead of the Index.

Performance during the year can be split into two distinct halves. The first half of the year saw an increase in net asset value of 32.2%, whilst the second half saw a decline of 9.9% following corporate scandals, macroeconomic concerns and disappointing projections for corporate earnings growth.

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

Gearing

During the year ended 31 July 2006 the Company increased total borrowings to Yen 6.5 billion (from Yen 4.5 billion). All of the borrowings were obtained via a revolving credit facility to provide the greatest flexibility.

As previously stated, the Directors do not foresee gearing levels in excess of 25% of shareholders' funds. The gearing continues to be operated within the limits agreed by the Board. At the beginning of the year, the effective gearing ratio (borrowings less cash and short-term deposits as a percentage of net assets) was 15.5%, and this had increased to 17.4% at 31 July 2006.

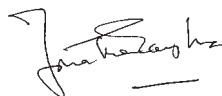
Purchase of Shares for Cancellation

At the Company's last Annual General Meeting in November 2005, the Company was given the authority to purchase up to 14.99% of the Company's issued share capital for cancellation. The share buy-back facility is one of a number of tools that may be used to enhance shareholder value and to reduce the discount volatility. During the year ended 31 July 2006, the Directors did not use the authority given to them and no purchases for cancellation were undertaken.

The Board continues to consider whether purchases should be made on a regular basis, and therefore proposes that the authority be renewed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at 3.30 p.m. on Wednesday 8 November 2006 and shareholders are invited to attend. The meeting will follow our usual format, which includes a presentation on the prospects for the Japanese economy and investment strategy.



Jonathan Taylor

Chairman

27 September 2006

Investment Manager's Review

Performance

The Company's net asset value rose 19.0% during the year ended 31 July 2006. This compares to an increase of 21.8% in the Tokyo Stock Exchange "TSE" First Section Total Return Index.

Commodity related sectors, such as steel and metals, continued to perform well against a backdrop of rising prices, and financials, such as banks and insurance, also performed strongly, discounting the positive impact of rising interest rates.

All the gains in the market were recorded during the latter half of 2005. Prime Minister Koizumi's decision to call a snap election, which subsequently consolidated the position of the reformist element within the ruling Liberal Democratic Party, positive economic news and steadily rising expectations for corporate earnings growth underpinned sentiment, which continued to attract strong foreign buying. With the market becoming increasingly speculative and momentum-driven toward the end of 2005, a correction at the start of 2006 appeared inevitable.

An investigation into the accounting practices of Livedoor, an internet service company, which famously attempted to take over a major broadcaster the year before, acted as the initial catalyst for a market pull-back. Further corporate investigations, global macro-economic concerns and disappointing projections for corporate earnings growth for the fiscal year ahead further weighed on sentiment.

Although the Company's gearing helped performance over the period, stock selection proved too defensive in many respects, and Bridgestone, a large holding in the Fund, underperformed as rubber prices rose sharply.

Outlook

The outlook for Japanese equities remains positive on balance, although the risk of weaker growth has increased. Concerns over earnings have been reduced after strong first quarter numbers and several upward earnings revisions. Valuations look reasonable and much of the speculative froth has been removed from the more heavily extended segments of the market.

Companies, by and large, continue to disappoint in terms of improving capital efficiency and raising shareholder returns. Dividend growth again lagged post-tax profit growth in the last financial year and, whilst there are some encouraging signs in terms of greater merger and acquisition activity, there are still numerous examples of unnecessary fund-raising or regressive or defensive management action. Clearly, improvements in this area will derive from individual company efforts rather than general shareholder or legislative pressure.

Investment Policy

We are overweight in the Transportation, Real Estate, Insurance and Pharmaceutical sectors, whilst underweight in Banks, Utilities, Consumer Staples and Steel. We have substantially reduced the underweight position in Banks, buying, in particular, regional banks where we see scope for above-average loan growth. Musashino Bank, for example, is based in a region

Investment Manager's Review continued

neighbouring Tokyo enjoying good economic growth and where the bank's main competitor remains in retrenchment.

We believe that a slower pace of earnings growth in the market will favour steadier growth companies with structurally higher returns on equity. Stocks like Nidec, which dominates the global market for hard disk drive motors, already achieve this, whilst others, such as Astellas Pharmaceutical, SMC and Sankyo could do so with more efficient management of their balance sheets.

With smaller companies having borne the brunt of this year's market correction, we are finding more attractive opportunities in the small and mid-cap area again. Shimamura, a well-managed apparel retailer, and car parts companies, Musashi Seimitsu and Hi-Lex, are examples of smaller companies which we like.

Schroder Investment Management Limited
27 September 2006

Investments in Order of Valuation

As at 31 July 2006

Company	Industrial Classification	Activity	Market Value of Holdings £'000	% of Portfolio
Toyota Motor	Transportation Equipment	Automobile manufacturer	8,509	5.08
Mitsui	Wholesale Trade	General trading company	7,474	4.46
Takeda Pharmaceutical	Pharmaceutical	Pharmaceutical products	7,471	4.46
East Japan Railway	Land Transportation	Railway company	7,047	4.21
Sumitomo Mitsui Financial Group	Banks	Banking & other financial service	6,510	3.89
Ricoh	Electrical Appliances	Copiers & printers manufacturer	6,055	3.62
Omron	Electrical Appliances	Control component manufacturer	5,266	3.15
Bridgestone	Rubber Products	Automobile tyre manufacturer	5,211	3.11
Nitto Denko	Chemicals	Industrial film producer	4,441	2.65
Nippon Telegraph & Telephone	Information & Communication	Telecommunication services	4,205	2.51
Astellas Pharma	Pharmaceutical	Pharmaceutical products	4,055	2.42
Tachihi Enterprise	Real Estate	Real estate investment	3,516	2.10
Nidec	Electrical Appliances	Precision motors manufacturer	3,482	2.08
Asahi Glass	Glass & Ceramics Products	Glass & related products	3,410	2.04
Musashino Bank	Banks	Banking service	3,295	1.97
Toho	Information & Communication	Film related businesses	3,027	1.81
Seven & I	Retail Trade	Retail store operator	3,016	1.80
Millea	Insurance	Non-life & life insurance	3,013	1.80
T&D Holdings	Insurance	Life insurance products & services	2,953	1.77
Sompo Japan Insurance	Insurance	Non-life & life insurance	2,827	1.69

Twenty Largest Investments **94,783** **56.62**

Nissan Motor	Transportation Equipment	Automobile manufacturer	2,661	1.59
Nippon Paper Group	Pulp & Paper	Paper manufacturer	2,567	1.53
Sakata Inx	Chemicals	Printing ink manufacturer	2,561	1.53
West Japan Railway	Land Transportation	Railway company	2,488	1.49
Nomura	Securities & Commodity	Stockbroker	2,295	1.37
Rohm	Electrical Appliances	LSIs manufacturer	2,282	1.36
Sankei Building	Real Estate	Real estate investment	2,234	1.33
SK Kaken	Chemicals	Paint manufacturer for construction	2,091	1.25
TDK	Electrical Appliances	Electric component manufacturer	2,084	1.25
Mitsubishi	Wholesale Trade	General trading company	2,062	1.23
Inabata	Wholesale Trade	Trading company with substantial pharmaceutical interests	2,057	1.23
Marui	Retail Trade	Department store operator	1,985	1.19
Tsubaki Nakashima	Machinery	Ball-bearing maker	1,974	1.18
Hi-Lex	Transportation Equipment	Automobile cables manufacturer	1,954	1.17
Chiba Bank	Banks	Banking service	1,943	1.16
Promise	Other Financing Business	Consumer financing	1,804	1.08
Sankyo (Gunma)	Machinery	Pachinko machine manufacturer	1,796	1.07
T & K Toka	Chemicals	Printing ink manufacturer	1,731	1.03

Investments in Order of Valuation continued

As at 31 July 2006

Company	Industrial Classification	Activity	Market Value of Holdings £'000	% of Portfolio
Ushio	Electrical Appliances	Industrial & commercial light sources manufacturer	1,717	1.03
Shimamura	Retail Trade	Clothing store	1,633	0.98
Aichi Toyota Motor	Retail Trade	Car distribution	1,625	0.97
Jupiter Telecommunications	Services	Cable network operator	1,560	0.93
Glory	Machinery	Money handling machinery maker	1,468	0.88
Tokyo Steel	Iron & Steel	Steel products manufacturer	1,436	0.86
Sanki Engineering	Construction	Installation service	1,359	0.81
TOC	Real Estate	Real estate investment	1,353	0.81
Tokyo Tomin Bank	Banks	Banking service	1,326	0.79
Kaneka	Chemicals	Chemical products manufacturer	1,295	0.77
Hitachi Transport	Land Transportation	Transportation & distribution services	1,244	0.74
Daikin Industries	Machinery	Air conditioning unit manufacturer	1,212	0.72
JAFCO	Other Financing Business	Venture capital investment	1,189	0.71
Yokogawa Electric	Electrical Appliances	Industrial instruments manufacturer	1,182	0.71
Airport Facilities	Real Estate	Airport facilities rental	1,140	0.68
Sumitomo Electric	Non-Ferrous Metals	Wire & cable manufacturer	1,079	0.64
SMC	Machinery	Pneumatic equipment manufacturer	1,030	0.62
Lawson	Retail Trade	Convenience store operator	1,006	0.60
Mabuchi Motor	Electrical Appliances	Micro-motors manufacturer	973	0.58
Mirai	Machinery	Construction & building maintenance	956	0.57
Nissay Dowa General Insurance	Insurance	Non-life & life insurance	942	0.56
Nippon Konpo Unyu	Land Transportation	Specialist transportation services	933	0.56
Arisawa Manufacturing	Chemicals	Electronic material maker	906	0.54
Prospect Residential Investment	Real Estate	Real estate investment trust	871	0.52
Musashi Seimitsu	Transportation Equipment	Automobile parts manufacturer	858	0.51
Heiwa	Machinery	Pachinko machine manufacturer	680	0.41
Mitsubishi Electric	Electrical Appliances	Electronic & factory automation equipment	632	0.38
Shinmei Electric	Electrical Appliances	Electronic component manufacturer	623	0.37
Chubu Nippon Broadcasting	Services	Commercial broadcaster	469	0.28
New City Residence Investment	Real Estate	Real estate investment trust	402	0.24
Torii Pharmaceutical	Pharmaceutical	Pharmaceutical products	373	0.22
Okamura	Other Products	Office & retail furniture manufacturer	354	0.21
Japan Airport Terminal	Real Estate	Airport services	231	0.14
Total Value of Investments			167,409	100.00

Report of the Directors

Your Directors submit their Report and the Accounts of the Company for the year ended 31 July 2006.

Business Review

Company's Business

The Company carries on business as an investment trust and is an investment company within the meaning of the Companies Act 1985. In order to obtain exemption from capital gains tax the Company has conducted itself with a view to being an approved investment trust for the purposes of Section 842 of the United Kingdom Income and Corporation Taxes Act 1988 (as amended). The last accounting period for which the Company has been treated as approved by the Inland Revenue as meeting the qualifying criteria for investment trust status is the year ended 31 July 2005 and the Company has subsequently conducted its affairs so as to enable it to continue to qualify for such approval. This approval is subject to there being no subsequent enquiry under Corporation Tax Self Assessment.

The Company is not a close company for taxation purposes.

Investment Objective

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

Performance

An outline of performance, market background, investment activity and portfolio strategy during the year under review, as well as outlook, is provided in the Investment Manager's Review.

Investment Strategy

The Board has delegated management of the Company's portfolio to Schroder Investment Management Limited (the "Manager"). The Manager manages the portfolio with the aim of helping the Company achieve its investment objective. Details of the Manager's strategy, and other factors that have affected performance during the year, are set out in the Investment Manager's Review.

Measuring Success – Key Performance Indicators

The Board has adopted key performance indicators ("KPIs") which assist it in measuring the development and success of the Company's business. The KPIs focus on the following areas: the measurement of the success of the Company's investment objective of providing growth in excess of the benchmark Index; the management of the discount and; the rate of expenses incurred by shareholders in the running of the Company.

Investment Performance

In order to measure the Company's investment performance, quarterly reports, including commentary on its view of markets, the impact of stock selection decisions and other attribution analysis, portfolio activity and strategy and outlook for the portfolio and the markets are provided by the Manager and form the basis of discussions at every board meeting. On a regular basis, the Board also reviews the investment processes of the Manager and considers reports from its broker on the perception of shareholders and the market on the Manager's performance and the Company's strategy.

Report of the Directors continued

For the year ended 31 July 2006, the Company achieved a total return on net asset value of 19.0% compared to a total return of 21.8% for the benchmark. Details of the Company's sector distribution against the benchmark as at 31 July 2006 and long-term performance can be found on pages 3 and 4 of this Report.

Discount Management

The shares of the Company often trade at a discount to net asset value and the management of this discount is a key factor for the Board. The Board has therefore adopted a second KPI, which measures the success of the Board's strategy to limit volatility in the discount.

As the discount is a function of the balance between the supply and demand for the Company's shares, a principal objective for the Board is to ensure that, through Schroder's marketing team and the Company's stockbrokers, potential shareholders and their advisers continue to be kept informed of the Company's progress and the ways they can invest in it.

Share buy-backs are a more direct way of managing the discount. The discount of the Company's share price to its underlying net asset value and the discounts of peer group companies, are monitored on a daily basis. The Board considers the use of its share buy-back authority on a regular basis and has adopted guidelines which outline circumstances in which the Company is prepared to buy-back shares. These guidelines are reviewed and updated on a regular basis.

At 31 July 2006, the Company's share price stood at a discount of 2.8% to net asset value. During the year under review the share price traded at a range from a discount of 5% to a premium of 4%.

Control of Total Expenses

The Board has adopted a third KPI which assists it in keeping the total expense ratio ("TER") of the Company under review.

An analysis of all costs, including management fees, directors' fees and general expenses, is submitted to each Board meeting. The Management Engagement Committee, comprised entirely of independent directors, considers the terms of the management agreement with the Manager, including fees, on an annual basis. Services (including costs) provided by most other providers including bankers, auditors, insurance providers and printers are also reviewed annually.

The TER for the Company for the year to 31 July 2006 (calculated in accordance with AIC guidance as total annualised net operating expenses after tax divided by average net assets during the year) was 1.01%.

Principal Risks and Uncertainties

The Board has adopted a matrix of key risks which affect its business and a robust framework of internal control which is designed to monitor those risks and to provide a monitoring system to enable the Directors to mitigate these risks as far as possible. A full analysis of the Directors' system of internal control and its monitoring system, is set out in the Corporate Governance Statement. The principal risks are considered to be as follows:

Report of the Directors continued

Market Risk

The Company is exposed to the effect of market fluctuations due to the nature of its business. A significant fall in Japanese equity markets would have an adverse impact on the value of the Company's underlying investments. The Board considers the portfolio's risk profile at each Board meeting and discusses with the Manager appropriate strategies to mitigate any negative impact of substantial changes in markets.

Gearing

The Company utilises a credit facility, currently in the amount of ¥6.5 billion, which increases the funds available for investment through borrowing ("gearing"). Therefore, in falling markets, any reduction in the net asset value and, by implication, the share price is amplified by the gearing. The Directors keep the Company's gearing under constant review and impose strict restrictions on borrowings to mitigate this risk. The Company's gearing continues to operate within pre-agreed limits so that gearing does not represent more than 25% of shareholders' funds.

Discount

Investment vehicles and asset classes can become out of favour with investors or trusts may fail to meet their investment objectives. This may be reflected in a wide discount of the share price to underlying asset value. Directors periodically review whether the Company's investment remit remains appropriate and they continually monitor the success of the Company in meeting its stated objectives. Further details may be found under "Investment Performance" above.

Regulatory Risks

The regulatory environment in which the Company operates is increasingly complex and the Company faces a number of regulatory risks. A breach of section 842 of the Income and Corporation Taxes Act 1988 could result in the Company being subject to capital gains tax on the sale of portfolio investments. Breaches of other regulations such as the UK Listing Authority's Listing Rules could lead to a number of detrimental outcomes and damage the Company's reputation. Breaches of controls by service providers such as the Manager could also lead to reputational damage or loss.

Resources

The Company has no employees; its investments are managed by Schroders, which also acts as Company Secretary and provides accounting and administration services to the Company. The principal terms of the Investment Management Agreement are set out below.

Environmental Policy

As an investment trust, the Company has no direct social or environmental responsibilities; its policy is focussed on ensuring that its portfolio is properly managed and invested. The Company has however adopted an environmental policy, details of which are set out in the Corporate Governance Statement.

Changes to UK Accounting Standards

The accounts continue to be prepared in accordance with applicable United Kingdom law and Generally Accepted Accounting Principles (UK GAAP). The Accounting Standards Board (ASB) has implemented a convergence programme with International Financial Reporting Standards (IFRS) and as part of this project has issued several new Financial Reporting Standards (FRS). Of

Report of the Directors continued

these new accounting standards, FRS 26 (Financial Instruments: Measurements) and FRS 25 (Financial Instruments: Disclosure and Presentation) have led to certain changes in the company's accounting policies. Full details of the changes in accounting policies and presentation are given in note 1 of the accounts.

Net Deficit and Dividends

The net deficit for the year after expenses, interest and taxation was £295,000 (2005: £199,000), equivalent to a deficit of 0.24 pence per share (2005: deficit of 0.16 pence per share), and the Directors do not, therefore, recommend the payment of a dividend.

As the dividend yields from Japanese equities are relatively low, and given the Company's objective of capital growth, it is unlikely that any dividends will be paid by the Company.

Directors

The Directors of the Company during the year to 31 July 2006 and their beneficial and family interests in the Company's issued share capital are given below:

	At 31 July 2006	At 31 July 2005
	Ordinary	Ordinary
	Shares of 10p	Shares of 10p
J J K Taylor	5,000	5,000
K Egashira*	100,538	96,752
J A Kingzett	15,000	15,000
P G R Lyon	3,000	3,000
J P H S Scott	8,170	8,170
Y Takahashi*	Nil	N/A

*On 19 December 2005, Mr Yoshindo Takahashi was appointed, and Mr Egashira resigned, as Directors of the Company. Details are correct as at 19 December 2005.

There have been no changes in the above holdings between the end of the financial year and 6 October 2006.

In accordance with the Articles of Association, Mr Takahashi will seek election at the forthcoming Annual General Meeting, this being the first Annual General Meeting since his appointment during the year. Full biographical details for Mr Takahashi may be found on page 2 of this Report. Mr Scott is due to retire at the Annual General Meeting and, being eligible, offers himself for re-election. Mr Kingzett is also required to stand for re-election each year in accordance with the UK Listing Rules, as he is an employee of Schroder Investment Management Limited, which receives fees from the Company in accordance with the Management Agreement referred to below. He is not considered by the Board to be independent.

In accordance with the Company's policy on tenure outlined in the Corporate Governance section on page 19, Mr Lyon, who has served as a Director for more than 9 years, will retire and offers himself for re-election.

No Director has any material interest in any other contract which is significant to the Company's business.

The Board supports the election of Mr Takahashi and the re-elections of Mr Scott, Mr Kingzett and Mr Lyon who continue to contribute valuable input to the deliberations of the Board and who devote significant time to the business of the Company.

Report of the Directors continued

Policy for the Payment of Creditors

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant market in which it operates. All other expenses are paid on a timely basis in the ordinary course of business.

There were no outstanding trade creditors other than purchases for future settlement at 31 July 2006 (2005: £Nil).

Purchase of Shares for Cancellation

At the Annual General Meeting held in November 2005, an authority for the Directors to purchase up to 14.99% of the issued share capital of the Company for cancellation was renewed by the shareholders. The total number of shares in issue on 6 October 2006 was 125,008,200. Whilst the authority was not used during the year, the Directors wish to renew the authority to purchase shares for cancellation. A resolution authorising the Directors to purchase up to 14.99% of the share capital in issue on 6 October 2006 will be proposed at the forthcoming Annual General Meeting for which notice is given on pages 46 and 47.

The Directors believe that 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 purchase of ordinary shares. Purchases will only be made if the Directors consider that the purchase would be for the benefit of the Company and shareholders, taking into account relevant factors and circumstances at the time. This authority will lapse at the conclusion of the Company's Annual General Meeting in 2007 unless renewed earlier.

Issues of New Shares

At the Annual General Meeting of the Company in November 2005 the Directors were given the power to allot new ordinary shares for cash. Whilst these powers were not used during the year, the Directors wish to renew them at the forthcoming Annual General Meeting, for which notice is given on pages 46 and 47.

If new ordinary shares are to be allotted for cash, Section 89(1) of the Companies Act 1985 requires such new shares to be offered first to existing holders of ordinary shares. This entitlement is known as a "pre-emption right". In certain circumstances it is beneficial for the Directors to allot shares for cash otherwise than pro rata to existing shareholders and the Companies Act 1985 provides for shareholders to give such power to the Directors by waiving their pre-emption rights. Therefore, a special resolution will be proposed at the Annual General Meeting which, if passed, will give the Directors power to allot ordinary shares for cash on a non pre-emptive basis up to a maximum aggregate nominal amount of £625,041 (equivalent to 6,250,410 ordinary shares of 10p and 5% of the Company's existing issued ordinary share capital at 6 October 2006), as if Section 89(1) of the Companies Act 1985 did not apply.

The Directors intend to use this authority to issue new shares whenever they believe it is advantageous both to new investors and to the Company's existing shareholders to do so. The authority will only be used to issue shares at a premium to net asset value at the time of issue and will lapse at the conclusion of the Company's Annual General Meeting in 2007 unless renewed earlier.

Report of the Directors continued**Substantial Share Interests**

As at 6 October 2006 the Company had been notified that Barclays plc had an interest in 4,996,922 shares amounting to 3.99% of the issued share capital, Legal & General Group plc had an interest in 4,972,315 shares amounting to 3.97% of the issued share capital and that Close Wealth Management Limited had an interest in 4,005,016 shares amounting to 3.20% of the issued share capital.

The Company is not aware of any other interests in excess of 3% of the issued share capital.

Investment Manager

The Directors consider the continuing appointment of the Investment Manager on the terms of the existing investment management agreement to be in the best interests of the Company and shareholders as a whole. Schroders provides the Company with considerable investment management resource, thereby enabling the Company to achieve its investment objective.

Schroders provides investment management, accounting, secretarial and custodial services to the Company. The investment management agreement is terminable by either party on not less than one year's notice. At the date of this report no such notice by either party had been given. The Investment Manager is entitled to a management fee at an annual rate of 1.00% (plus VAT) payable quarterly in arrears and calculated by reference to the value of the Company's assets under management (net of current liabilities other than short term borrowings) at the end of the relevant quarter.

During the year ended 31 July 2006 Schroders was entitled to receive a fee of £55,000 per annum (plus VAT) for secretarial services provided to the Company.

The Investment Manager is authorised and regulated by the Financial Services Authority (FSA).

Independent Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as Auditors to the Company and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

The Audit Committee has adopted a pre-approval policy on the engagement of the Auditors to supply non-audit services. The Auditors charged £2,000 (plus VAT) for the supply of non-audit services during the year under review in relation to work performed at the time of the announcement of the interim results.

Annual General Meeting

The Annual General Meeting will be held on Wednesday, 8 November 2006 at 3.30 p.m. The Notice of Meeting is set out on pages 46 and 47.

Registered Office:
31 Gresham Street
London EC2V 7QA

By Order of the Board
Schroder Investment Management Limited
Company Secretary

Registered Number: 2930057
6 October 2006

Directors' Remuneration Report for the year ended 31 July 2006

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

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £125,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and the time committed to the Company's affairs. For the year under review, Directors received fees of £12,000 per annum with £20,000 per annum for the Chairman.

Additional fees are also paid for membership of each of the Audit, Management Engagement and Nomination Committees. The Committee fees are payable to members of each Committee for their contributions to the deliberations of such Committees. Members of the Audit Committee each receive an additional fee of £2,000 per annum and members of the Management Engagement and Nomination Committees each receive an additional £1,000 per annum.

No element of the Directors' remuneration is performance related.

No Director has a service contract with the Company.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to any of the Directors.

The Board believes that the principles in Code Provision B of the Combined Code relating to remuneration do not apply to the Company, except as outlined above, as the Company has no executive Directors.

All Directors have a letter of appointment with the Company under which they are entitled to one month's notice in the event of termination. The terms of appointment are available for inspection at the Company's Registered Office address during normal business hours and at the Annual General Meeting.

All Directors are appointed for an initial term covering the period from the date of their appointment until the first Annual General Meeting thereafter, at which they are required to stand for election in accordance with the Articles of Association. Thereafter, Directors retire by rotation at least every three years. The Chairman meets with each Director before such Director is proposed for re-election, and, subject to the evaluation of performance carried out each year, the Board agrees whether it is appropriate for such Directors to seek an additional term.

When recommending whether an individual Director should seek re-election, the Board will take into account the provisions of the Combined Code, including the appropriateness of refreshing the Board and its Committees.

Directors' Remuneration Report for the year ended 31 July 2006 continued

A graph showing the Company's Net Asset Value and Share Price total return compared with its benchmark Index – the TSE First Section Total Return Index – over the last 5 years is shown on page 4.

Remuneration for Qualifying Services

Director	For the year ended 31 July 2006 – fees for services to the Company £'000	For the year ended 31 July 2005 – fees for services to the Company £'000
J J K Taylor	24	19
K Egashira	6	14
J A Kingzett	13	11
P G R Lyon	16	14
J P H S Scott	16	14
Y Takahashi	10	Nil
Totals	85	72

The information in the above table has been audited (see the Independent Auditors' Report on pages 28 and 29).

The amounts paid by the Company to the Directors were for services as non-executive directors.

By order of the Board

Schroder Investment Management Limited
Company Secretary
6 October 2006

Corporate Governance

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 Combined Code (the “Code”).

Compliance with the Code

The UK Listing Authority requires all UK listed companies to disclose how they have complied with the provisions of the Code. This Corporate Governance Statement, together with the Statement of Directors’ Responsibilities set out on page 27, indicates how the Company has complied with the principles of good governance of the Code and its requirements on Internal Control.

Compliance Statement

The Board considers that the Company has, throughout the year under review, complied with the best practice provisions in Section 1 of the Code, save in respect of the appointment of a senior independent director, as disclosed below, where departure from the Code is considered appropriate given the Company’s position as an investment trust. The Board also considers that it substantially complies with the principles of the AIC Code of Governance.

Application of Code Principles

Role of the Chairman

The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role and setting its agenda.

Role of the Board

The Board determines and monitors the Company’s investment objectives and policy, and considers the future strategic direction of the Company. Matters specifically reserved for decision by the Board have been adopted. The Board is responsible for presenting a balanced and understandable assessment of the Company’s position and, where appropriate, future prospects in annual and interim reports and other forms of public reporting. It monitors and reviews the shareholder base of the Company, marketing and shareholder communication strategies, and evaluates the performance of all service providers, with input from its Committees where appropriate. A procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company, where appropriate. The Directors have access to the advice and services of the corporate Company Secretary through its appointed representative, who is responsible to the Board, *inter alia*, for ensuring that Board procedures are followed, and that applicable rules and regulations are complied with.

Composition and Independence

The Board currently consists of five non-executive Directors. Profiles of each of the Directors, including age and length of service, may be found on page 2. The Board considers each of the Chairman, Peter Lyon, John Scott and Yoshindo Takahashi to be independent of the Company’s Investment Manager. Jan Kingzett is not considered to be independent. He is an employee of Schroder Investment Management Limited, which receives fees from the Company in accordance with the Investment Management agreement. The independence of each Director is considered on a continuing basis.

Corporate Governance continued

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

The Board is satisfied that it is of sufficient size, with an appropriate balance of skills and experience, and that no individual or group of individuals is, or has been, in a position to dominate decision making.

Senior Independent Director

The Board has considered whether a senior independent director should be appointed. The Board comprises entirely non-executive Directors and the appointment of a senior independent director is not considered necessary. However, the Chairman of the Audit Committee leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns which cannot be resolved through discussion with the Chairman. As part of the evaluation process, the non-executive Directors meet without the Chairman being present.

Tenure

The Directors have adopted a policy on tenure that is considered appropriate for an investment trust.

The Board does not believe that length of service, by itself, leads to a closer relationship with the Investment Manager. Therefore, the independence of Directors will continue to be assessed on a case by case basis.

In order to allow shareholders the opportunity to endorse this policy, and in accordance with the provisions of the Combined Code, any Director who has served for more than 9 years will thereafter be subject to annual re-election at the Annual General Meeting.

The Board does not believe that reaching the age of 70 should necessarily exclude a Director from continuing as a Director of the Company. The ages of all Directors are stated in the Annual Report and Accounts, and any Director who has reached the age of 70 will be subject to annual re-election at the Annual General Meeting.

Induction and Training

When a Director is appointed he or she receives a full, formal and tailored induction, which is administered by the Company Secretary. Directors are provided, on a regular basis, with key information on the Board's policies, regulatory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Other advisers to the Company also prepare reports for the Board from time to time. In addition, Directors may attend ad hoc seminars covering issues and developments relevant to the investment trust industry.

Performance Evaluation

The Board has adopted a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors. The latest evaluation was completed in March 2006. The evaluation is in two stages. First, the evaluation of individual Directors is led by the Chairman, and the evaluation of the Chairman's performance is led by the Chairman of the Audit Committee. Secondly, the Board evaluates its own performance and that of its Committees.

Corporate Governance continued

Evaluation is conducted utilising a questionnaire combined with one to one meetings. The Board has developed criteria for use at the evaluation, which focus on the individual contribution to the Board and its Committees made by each Director and the responsibilities, composition and agenda of the Committees and of the Board itself.

A review of Board composition and balance including succession planning for appointments to the Board, is included as part of the annual performance evaluation of the Board.

Meetings

The Board meets at least four times each year. Additional meetings are also arranged as required and regular contact between Directors, the Investment Manager and the Company Secretary is maintained throughout the year. Representatives of the Investment Manager and Company Secretary attend each meeting and other advisers also attend when requested to do so by the Board. Attendance at the four scheduled meetings held during the year under review was as set out below:

Director	Maximum attendance	Board meetings attended
Jonathan Taylor	4	4
Keisuke Egashira	2	1
Jan Kingzett	4	4
Peter Lyon	4	4
John Scott	4	4
Yoshindo Takahashi	2	2

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

Information Flows

The Chairman ensures that all Directors receive in a timely manner relevant management, regulatory and financial information and are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. The Board receives and considers reports regularly from the Investment Manager and other key advisers and ad hoc reports and information are supplied to the Board as required.

Committees

The Board has delegated certain responsibilities and functions to committees. Terms of reference, as well as details of membership and activities, for all Committees of the Board, are set out in the following pages. The Board keeps under review the composition of each of its Committees to ensure that undue reliance is not placed on particular individuals.

Directors' and Officers' Liability Insurance

During the year, the Company has maintained insurance cover for its Directors and Officers, under a Directors' and Officers' liability insurance policy, as permitted by Section 310 of the Companies Act 1985 (as amended).

Corporate Governance continued

Relations with Shareholders

The Board believes that the maintenance of good relations with both institutional and retail shareholders is important for the long-term prospects of the Company. It has, since its launch, sought engagement with investors. The Chairman, and other Directors where appropriate, discuss governance and strategy with major shareholders and the Chairman ensures communication of shareholders' views to the Board. The Board receives feedback on the views of shareholders from its corporate broker and the Investment Manager.

The Board believes that the Annual General Meeting provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Annual Report and Accounts is, when possible, sent to shareholders at least 20 business days before the Annual General Meeting. The Annual General Meeting is typically attended by the full Board of Directors and proceedings include a presentation by the Investment Manager. There is an opportunity for individual shareholders to question the chairmen of the Board, Audit and Management Engagement Committees at the Annual General Meeting. Details of proxy votes received in respect of each resolution are made available to shareholders at the meeting.

The Board believes that the Company's policy of reporting to shareholders as soon as possible after the Company's year-end and holding the earliest possible Annual General Meeting is valuable. The Notice of Meeting on pages 46 and 47 sets out the business of the meeting.

Environmental Policy

The Company's primary investment objective is to achieve optimal financial returns for shareholders, within established risk parameters and regulatory constraints. Providing that this objective is not compromised in the process the Board do, however, believe that it is also possible to develop a framework that, in the interests of our shareholders, allows a broader range of considerations, including environmental and social issues, to be taken into account when selecting and retaining investments. The investment process therefore contains a review of research into the environmental, social and ethical stance of companies. Where potential financial or reputational risks are identified, their materiality is assessed and given due consideration when selecting or retaining investments.

Exercise of Voting Powers

The Company has delegated responsibility for voting to Schroders which votes in accordance with its corporate governance policy.

Accountability and Audit

The Statement of Directors' Responsibilities in respect of the financial statements is on page 27 and a statement of going concern is set out below. The independent auditors' report can be found on pages 28 and 29.

Going Concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

Corporate Governance continued

For this reason, and in accordance with FRS 18, they continue to adopt the going concern basis in preparing the financial statements.

Internal Control

The Code requires the Board to at least annually conduct a review of the adequacy of the Company's systems of internal control and report to shareholders that it has done so. The Board has undertaken a full review of all the aspects of the Turnbull Guidance for Directors, as revised in October 2005 (the "Turnbull Guidance"), under which the Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has approved a detailed Risk Map identifying significant strategic, investment-related, operational and service provider-related risks and has adopted an enhanced monitoring system to ensure that risk management and all aspects of internal control are considered on a regular basis, and fully reviewed at least annually.

The Board believes that the key risks identified and the implementation of an on-going system to identify, evaluate and manage these risks are based upon and relevant to the Company's business as an investment trust. The on-going risk assessment, which has been in place throughout the financial year and up to the date of this report, includes consideration of the scope and quality of the systems of internal control, including any whistleblowing policies where appropriate, adopted by the Investment Manager and other major service providers, and ensures regular communication of the results of monitoring by third parties to the Board, 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.

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.

The Company does not have an internal audit function as it employs no staff and delegates to third parties most of its operations. The Board will continue to monitor its system of internal control and will continue to take steps to embed the system of internal control and risk management into the operations of the Company. In doing so, the Audit Committee will review at least annually whether a function equivalent to an internal audit is needed.

Board Committees

Audit Committee

The members of the Committee as at 31 July 2006 were:

Peter Lyon (Chairman)
 John Scott
 Yoshindo Takahashi
 Jonathan Taylor

The Board considers each member of the Committee to be independent. The Board also considers that members of the Committee have recent and relevant financial experience.

Terms of Reference

The Company established an Audit Committee in 1994. The role of the Audit Committee is to ensure that the Company maintains the highest standards of integrity in financial reporting and internal control. The responsibilities of the Committee include the following:

Financial Statements

- (a) to monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- (b) to review and, if appropriate, recommend to the Board, the Company's annual and interim reports;

Internal Control

- (c) to monitor and review annually whether an internal audit function is required;
- (d) to monitor the Company's accounting and financial internal control systems, and to monitor the internal control systems of the Investment Manager and Custodian and to make recommendations on any improvements to such systems;
- (e) to monitor the Company's procedures for ensuring compliance with regulatory and financial reporting requirements and its relationship with the relevant regulatory authorities;

External Audit and Relationship with the External Auditor

- (f) to discuss any matters arising from the audit and recommendations made by the auditors;
- (g) to make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (h) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- (i) to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

Board Committees continued

Report on the Committee's Activities

To discharge its duties, the Committee met on two occasions during the year ended 31 July 2006 and considered the following:

- the annual financial statements and interim financial statements
- the external auditors' year-end reports
- the effectiveness of the audit process
- the independence and objectivity of the external auditor
- internal controls operating within the management company
- an update from the Auditor on new accounting standards

Attendance

Both of the meetings held during the year ended 31 July 2006 were attended by all members of the Committee with one exception. Mr Egashira did not attend the meeting held in September 2005.

A copy of the full Terms of Reference of the Audit Committee is available on request from the Company Secretary.

Board Committees continued

Management Engagement Committee

The members of the Committee as at 31 July 2006 were:

Peter Lyon (Chairman)
John Scott
Yoshindo Takahashi
Jonathan Taylor

The Board considers each member of the Committee to be independent.

Terms of Reference

The Company established a Management Engagement Committee in 1994. The role of the Committee is to review the terms of the management contract with the Investment Manager. In addition, the Committee reviews Directors' fees and makes recommendations to the Board in this regard.

The responsibilities of the Committee include the following:

- (a) to review the performance of the Investment Manager and its continuing suitability to manage the Company's portfolio;
- (b) to review the terms of the management contract between the Company and the Investment Manager, and to ensure that the terms are competitive, fair and reasonable for the shareholders; and
- (c) to review and make recommendations on any proposed amendment or material breach of the management contract.

Report on the Committee's Activities

To discharge its duties, the Committee met on one occasion during the year ended 31 July 2006 and considered the following:

- the performance and suitability of the Investment Manager
- the terms and conditions of the management contract
- the fees paid to Directors

Attendance

This meeting was attended by all members of the Committee with the exception of Mr Egashira.

A copy of the full Terms of Reference of the Management Engagement Committee is available on request from the Company Secretary.

Board Committees continued

Nomination Committee

The members of the Committee as at 31 July 2006 were:

Peter Lyon (Chairman)

Jan Kingzett

John Scott

Yoshindo Takahashi

Jonathan Taylor

The Board considers each member of the Committee, with the exception of Mr Kingzett, to be independent.

Terms of Reference

The Company established a Nomination Committee in 1999. The role of the Committee is to consider and make recommendations to the Board on its composition and balance of skills and experience, and on individual appointments, to lead the process and make recommendations to the Board.

The responsibilities of the Committee include the following:

- (a) to evaluate the balance of skills, knowledge and experience of the Board of Directors and to prepare a description of the role and capabilities required for a particular appointment. In the case of the appointment of a Chairman, to prepare a job specification;
- (b) to select potential candidates to fill vacancies on the Board of Directors for recommendation to the Board;
- (c) to interview, or arrange for suitable Directors to interview, candidates for Directors;
- (d) to review periodically the terms of appointment of the non-executive Directors; and
- (e) to consider whether a senior independent director should be appointed and, if appropriate, to identify and recommend to the Board suitable candidates for the role.

A formal procedure for the appointment of new Directors is contained in the Terms of Reference of the Committee.

Report on the Committee's Activities

To discharge its duties, the Committee met on one occasion during the year ended 31 July 2006 and considered the following:

- an evaluation of the balance of skills, knowledge and experience of the Board
- the selection of suitable candidates to fill a vacancy on the Board
- arranging for selected candidates to be interviewed

The Committee considered the appointment of a non-executive Director during the year under review. The Committee did not believe that it was necessary to approach an external search consultancy or use open advertising, as the calibre of candidates found from sources within the Company was sufficiently high.

Attendance

This meeting was attended by all members of the Committee with the exception of Mr Scott.

A copy of the full Terms of Reference of the Nomination Committee is available on request from the Company Secretary.

Statement of Directors' Responsibilities

The Directors are responsible for preparing accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period, and are in accordance with applicable laws and regulations.

The Directors are satisfied that the Company has adequate resources to continue in business and accordingly that the accounts should be drawn up on a going concern basis. Further, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of these financial statements and applicable United Kingdom accounting standards have been followed.

As far as the Directors are aware there is no relevant audit information of which the auditors are unaware and they have taken all steps they should have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error, other irregularities and non-compliance with laws and regulations.

The financial statements are published on the www.schroders.co.uk website, which is a website maintained by the Company's Investment Manager. The maintenance and integrity of the website maintained by Schroders is, in so far as it relates to the Company, the responsibility of Schroders. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Directors believe that they have complied with these responsibilities.

Independent Auditors' Report

Independent Auditors' Report To the members of Schroder Japan Growth Fund plc

We have audited the accounts of Schroder Japan Growth Fund plc for the year ended 31 July 2006 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. The directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Report of the Directors is consistent with the accounts. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. The other information comprises only the Chairman's Statement, Investment Manager's Review, Report of the Directors, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Independent Auditors' Report continued

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 July 2006 and of its net return and cash flows for the year then ended;
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the accounts.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
6 October 2006

Income Statement

	Notes	For the year ended 31 July 2006			For the year ended 31 July 2005 (restated – see note 21)		
		Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Gains on investments held at fair value	7	–	21,163	21,163	–	8,890	8,890
Realised exchange (losses)/gains on currency balances	16	–	(265)	(265)	–	41	41
Unrealised exchange gains/(losses) on the loan facility	16	–	2,118	2,118	–	(553)	(553)
Income	2	2,088	–	2,088	1,713	–	1,713
Investment management fee		(1,727)	–	(1,727)	(1,307)	–	(1,307)
Administrative expenses	3	(375)	–	(375)	(348)	–	(348)
Net (losses)/return before finance costs and taxation		(14)	23,016	23,002	58	8,378	8,436
Interest payable	4	(137)	–	(137)	(139)	–	(139)
Net (losses)/return on ordinary activities before taxation		(151)	23,016	22,865	(81)	8,378	8,297
Taxation on ordinary activities	5	(144)	–	(144)	(118)	–	(118)
Net (losses)/return on ordinary activities after taxation attributable to equity shareholders		(295)	23,016	22,721	(199)	8,378	8,179
Net (losses)/return per ordinary share	6	(0.24)p	18.41p	18.17p	(0.16)p	6.70p	6.54p

The total column of this statement is the profit and loss account of the Company. The revenue return and capital return columns are both provided in accordance with guidance issued by the Association of Investment Companies. The Company has no recognised gains or losses other than those disclosed in the Income Statement and the Reconciliation of Movements in Shareholders' Funds. Accordingly no Statement of Total Recognised Gains or Losses is presented.

All revenue and capital items in the above statement derive from continuing operations.

The notes on pages 34 to 43 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

	Share capital £'000	Share premium account £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Warrant reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 31 July 2004	12,500	3	97,205	1	9,639	(907)	(7,182)	111,259
Net profit from operating activities	–	–	–	–	–	8,378	(199)	8,179
Gain on expiry of warrants	–	–	–	–	(9,637)	9,637	–	–
Issue of shares on exercise of warrants	1	4	–	2	(2)	–	–	5
Balance at 31 July 2005	12,501	7	97,205	3	–	17,108	(7,381)	119,443
Balance at 31 July 2005	12,501	7	97,205	3	–	17,108	(7,381)	119,443
Net profit from operating activities	–	–	–	–	–	23,016	(295)	22,721
Balance at 31 July 2006	12,501	7	97,205	3	–	40,124	(7,676)	142,164

The notes on pages 34 to 43 form an integral part of these accounts.

Balance Sheet

At 31 July

	Notes	2006 £'000	2005 £'000
Fixed Assets			
Investments held at fair value through profit or loss	7	167,409	139,144
Current Assets			
Debtors	8	2,083	291
Short-term deposits	20	5,602	4,131
Cash at bank	20	94	117
		7,779	4,539
Creditors: amounts falling due within one year	9	33,024	24,240
Net Current Liabilities		(25,245)	(19,701)
Net assets attributable to shareholders		142,164	119,443
Capital and Reserves			
Called up share capital	11	12,501	12,501
Share premium account	12	7	7
Share purchase reserve	13	97,205	97,205
Warrant exercise reserve	15	3	3
Capital reserves	16	40,124	17,108
Revenue reserve	17	(7,676)	(7,381)
Total equity shareholders' funds		142,164	119,443
Net asset value per ordinary share	18	113.72p	95.55p

The Accounts were approved by the Board of Directors on 6 October 2006 and signed on behalf of the Board by:

J J K Taylor

P G R Lyon

Directors

The notes on pages 34 to 43 form an integral part of these accounts.

Cash Flow Statement

	Notes	For the year ended 31 July 2006 £'000	For the year ended 31 July 2005 £'000
Operating Activities			
Income from investments		2,049	1,705
Interest received		27	29
Administrative expenses		(360)	(349)
Investment management fee		(1,667)	(1,281)
Net cash inflow from operating activities	19	49	104
Returns on investments and servicing of finance			
Bank loan interest paid		(135)	(244)
Net cash outflow from returns on investments and servicing of finance		(135)	(244)
Taxation			
Overseas tax paid		(145)	(120)
Total tax paid		(145)	(120)
Financial Investment			
Purchase of investments		(57,055)	(14,967)
Sale of investments		49,261	12,906
Net cash outflow from financial investment		(7,794)	(2,061)
Net cash outflow before financing		(8,025)	(2,321)
Financing			
Bank loan draw down		9,738	2,514
Issue of shares on exercise of warrants		–	5
Net cash inflow from financing		9,738	2,519
Net cash inflow in the year		1,713	198

Reconciliation of Net Cash Inflow to Movement in Net Debt

	Notes	For the year ended 31 July 2006 £'000	For the year ended 31 July 2005 £'000
Increase in cash in the year		1,713	198
Movement in bank loan to finance investments		(9,738)	(2,514)
Change in net debt arising from cash flows		(8,025)	(2,316)
Realised exchange (losses)/gains on currency balances		(265)	41
Unrealised exchange gains/(losses) on the loan facility		2,118	(553)
Net debt brought forward at 1 August		(18,555)	(15,727)
Net debt carried forward at 31 July	20	(24,727)	(18,555)

The notes on pages 34 to 43 form an integral part of these accounts.

Notes to the Accounts

1 Accounting Policies

a Basis of accounting

These accounts have been prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with the Companies Act 1985 and Generally Accepted Accounting Principles (UK GAAP) and the Statement of Recommended Practice “Financial Statement of Investment Trust Companies” (“SORP”) issued in January 2003 and revised in December 2005. The Accounting Standards Board (“ASB”) has implemented a convergence programme with International Financial Reporting Standards and as part of this project has introduced a number of new and revised Accounting Standards which have been adopted in these accounts and for which details are given below.

Changes in presentation

The Statement of Total Return is now called the Income Statement. The Reconciliation of Movements in Shareholders’ Funds is now presented as a primary statement.

Changes in accounting policy

FRS 26 (Financial Instruments: Measurements) – The Company has designated its assets and liabilities as being measured at “fair value through profit or loss”. The fair value of listed investments is deemed to be the bid value of those investments at the close of business on the relevant date. The convention of the Tokyo Stock Exchange, upon which the investments held by the Company are listed, is to quote a single price for the security being the last traded price. No separate bid or offer prices are given. Accordingly, under FRS 26, listed investments continued to be valued at the last traded price.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as “Gains or losses on investments held at fair value”. Transaction costs in relation to the purchase or sale of investments are taken into account in arriving at the gains and losses on investments held at fair value.

FRS 25 (Financial Instruments: Disclosure and Presentation) – Warrants issued by an Investment Trust Company (ITC) should be classified as equity and the net proceeds shown as a warrant reserve and included as part of equity holders’ funds. If warrants issued by an ITC lapse unexercised then the amount previously recognised in respect of the warrant should be recognised. Previously, such gains were recognised in the Income Statement whereas under FRS 25, they are reported directly in Shareholders’ Funds in the Reconciliation of Movements in Shareholders’ Funds.

The accounts for the year ended 31 July 2005 have been restated to reflect these changes and the impact on the prior year is shown in note 21. There was no impact from these changes on the accounts for the year ended 31 July 2006.

FRS 23 (The Effects of Changes in Foreign Exchange Rates) – The Company is a UK listed Company with a predominantly UK shareholder base. The results and the financial position of the Company are expressed in sterling, which is the functional and presentational currency of the Company. The Directors, having regard to the currency of the Company’s share capital and the predominant currency in which its shareholders operate, have determined the functional currency to be sterling.

Other than the matters noted above the same accounting policies used for the year ended 31 July 2005 have been applied in preparing the accounts for the year ended 31 July 2006.

b Income

Dividends receivable from equity shares are taken to the revenue return on an ex-dividend basis. Bank interest and other income receivable are accounted for on an accruals basis.

c Expenses and interest payable

All expenses, including the investment management fee and interest payable are accounted for on an accruals basis. Expenses are charged through the revenue return except those expenses incidental to the acquisition or disposals of investments which are charged to capital return.

d Foreign exchange

Transactions denominated in foreign currencies are calculated in sterling at the rate of exchange ruling as at the date of such transactions. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at balance sheet date, and the resulting gains or losses are taken to capital return.

Notes to the Accounts continued

1 Accounting Policies continued

e Taxation

Deferred tax is provided in accordance with FRS 19 on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are regarded as recoverable.

f Capital Reserve – Realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- other capital charges and credits charged or credited to this account in accordance with the above policies

Capital Reserve – Unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end
- unrealised exchange differences of a capital nature

2 Income

	For the year ended 31 July 2006 £'000	For the year ended 31 July 2005 £'000
Dividend income	2,065	1,682
Bank deposit interest	23	31
	2,088	1,713

3 Administrative Expenses

	For the year ended 31 July 2006 £'000	For the year ended 31 July 2005 £'000
General expenses	216	209
Directors' emoluments	85	72
Secretarial fee	55	55
Auditors' remuneration		
– audit	17	12
– non-audit	2	–
	375	348

Details of Directors' emoluments are disclosed in the Directors Remuneration Report on page 17.

4 Interest Payable

	For the year ended 31 July 2006 £'000	For the year ended 31 July 2005 £'000
Interest on loan facility		
On loans repayable within one year	137	139
	137	139

Notes to the Accounts continued

5 Taxation

The Company has no corporation tax liability in the year to 31 July 2006 (2005: £nil)

(a) *Analysis of the tax charged for the year*

	For the year ended 31 July 2006 £'000	For the year ended 31 July 2005 £'000
Overseas taxation	144	118
Total current taxation (note 5 (b))	144	118

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

No provision has been made for taxation on any realised gains on investments as the Company has conducted itself so as to achieve investment trust status under Section 842 of the Income and Corporation Taxes Act 1988.

Approved investment trust companies are exempt from tax on capital gains within the Company.

	For the year ended 31 July 2006			For the year ended 31 July 2005 (restated)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Loss)/return on ordinary activities before tax	(151)	23,016	22,865	(81)	8,378	8,297
(Loss)/return on ordinary activities before tax multiplied by the standard rate of UK corporation tax of 30% (2005: 30%)	(45)	6,905	6,860	(24)	2,513	2,489
Expenses not utilised in the year	45	–	45	24	–	24
Overseas taxation suffered	144	–	144	118	–	118
Capital returns on investments	–	(6,905)	(6,905)	–	(2,513)	(2,513)
Total current taxation (note 5 (a))	144	–	144	118	–	118

(c) *Provision for deferred taxation*

No provision for deferred taxation has been made in the current or prior year.

(d) *Factors that may affect future tax charges*

The Company has deferred tax assets in respect of unutilised management expenses of £2,120,000 (2005: £2,070,000) and eligible unrelieved foreign tax of £379,000 (2005: £236,000) which have not been recognised as it is not certain that the Company will have sufficient taxable profits in the future to utilise these expenses.

6 (Deficit)/Return Per Ordinary Share

	For the year ended 31 July 2006			For the year ended 31 July 2005 (restated)		
	Revenue	Capital	Total	Revenue	Capital	Total
(Deficit)/return per ordinary share (in pence)	(0.24)p	18.41p	18.17p	(0.16)p	6.70p	6.54p

The basic revenue deficit per ordinary share is based on the net deficit on ordinary activities after interest payable and taxation of £295,000 (2005: deficit of £199,000) and on a weighted average of 125,008,200 shares in issue in the year (2005: 125,006,449).

The basic capital return per ordinary share is based on net capital gains for the year of £23,016,000 (2005: capital gains of £8,378,000) and on a weighted average of 125,008,200 shares in issue in the year (2005: 125,006,449).

The basic total return per ordinary share is based on the net return on ordinary activities after interest payable and taxation of £22,721,000 (2005: £8,179,000) and on a weighted average of 125,008,200 shares in issue in the year (2005: 125,006,449).

Notes to the Accounts continued

7 Investments

	For the year ended 31 July 2006 £'000	For the year ended 31 July 2005 £'000
Opening book cost	132,313	126,135
Opening unrealised gain	6,831	1,400
Opening valuation	139,144	127,535
Purchases at cost	58,115	15,649
Sales proceeds	(51,013)	(12,930)
Realised gains for the year	10,737	1,587
Unrealised gains for the year	10,426	7,303
Closing valuation	167,409	139,144
Closing book cost	152,424	132,313
Closing unrealised gains	14,985	6,831
Closing valuation	167,409	139,144

The investments are valued on the basis set out in note 1a.

Realised gains based on historical cost	13,009	3,459
Less: amounts recognised as unrealised in previous years	(2,272)	(1,872)
Realised gains based on carrying value at previous balance sheet date	10,737	1,587
Net movement in unrealised gains	10,426	7,303
Gains on investments held at fair value	21,163	8,890

Transaction costs which include stamp duty and broker commissions have been included within the capital account. Purchase transaction costs for the year to 31 July 2006 amounted to £64,000 (2005: £17,000) and sales transaction costs amounted to £55,000 (2005: £15,000).

8 Debtors

	2006 £'000	2005 £'000
Amounts due within one year:		
Sales for future settlement	1,900	148
Dividends and interest receivable	79	66
Other debtors	88	60
Prepayment of expenses	16	17
	2,083	291

Notes to the Accounts continued**9 Creditors**

	2006 £'000	2005 £'000
Amounts falling due within one year:		
Loan facilities (see notes 20 and 23)	30,423	22,802
Purchases for future settlement	2,089	1,029
Other creditors and accrued charges	512	409
	33,024	24,240

The Company has a loan facility of Yen 6.5 billion with ING Bank N.V. This facility has a revolving 364 day term, is chargeable at a floating rate linked to the Yen LIBOR, and is unsecured.

10 Contingent Liabilities

The Company had no contingent liabilities at the balance sheet date (2005: £nil).

11 Share Capital

	2006 £'000	2005 £'000
Authorised:		
187,500,000 shares of 10p each	18,750	18,750
Allotted, Called Up and Fully Paid:		
Opening balance of 125,008,200 shares of 10p	12,501	12,500
Issue of share on exercise of warrants	–	1
Closing balance of shares of 10p	12,501	12,501

There were 125,008,200 shares in issue on 31 July 2006 (2005: 125,008,200).

12 Share Premium Account

	2006 £'000	2005 £'000
At the beginning of the year	7	3
Warrants exercised in the year	–	4
Share premium account at 31 July	7	7

13 Share Purchase Reserve

	2006 £'000	2005 £'000
Balance brought forward and carried forward	97,205	97,205

Notes to the Accounts continued

14 Warrant Reserve

	2006 £'000	2005 £'000
At the beginning of the year	–	9,639
Warrants exercised in the year	–	(2)
Warrants expired during the year	–	(9,637)
Warrant reserve at 31 July	–	–

FRS 25 (Financial Instruments: Disclosure and Presentation) requires the premium arising on the issue of shares, where there are warrants attached, to be apportioned between the shares and the warrants as part of shareholders' funds on the basis of the market value as on the first day of dealing. The warrant element is referred to as the "warrant reserve". 4,700 warrants were exercised and 24,991,800 warrants expired unexercised during the year ended 31 July 2005.

15 Warrant Exercise Reserve

	2006 £'000	2005 £'000
Warrant exercise reserve at the beginning of the year	3	1
Transfer on conversion of warrants	–	2
Warrant reserve at 31 July	3	3

16 Capital Reserves

	Realised £'000	2006 Unrealised £'000	Total £'000
Balance brought forward	6,417	10,691	17,108
Transfer on disposal of investments	2,272	(2,272)	–
Movement in unrealised gains on investments	–	10,426	10,426
Realised gains on sales of investments	10,737	–	10,737
Realised losses on currency balances	(265)	–	(265)
Unrealised exchange gains on the loan facility	–	2,118	2,118
Balance carried forward	19,161	20,963	40,124

17 Revenue Reserve

	2006 £'000	2005 £'000
Balance brought forward	(7,381)	(7,182)
Transfer from revenue account	(295)	(199)
Balance carried forward	(7,676)	(7,381)

Notes to the Accounts continued

18 Net Asset Value per Ordinary Share

	2006	2005
Net asset value per ordinary share	113.72p	95.55p
Share price per ordinary share	110.50p	91.75p

The net asset value per share is based on the net assets attributable to ordinary shareholders of £142,164,000 (2005: £119,443,000) and on 125,008,200 ordinary shares in issue at 31 July 2006 (2005: 125,008,200).

19 Reconciliation of Net (Losses)/Return Before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

	For the year ended 31 July 2006 £'000	For the year ended 31 July 2005 £'000
Total return before finance costs and taxation	23,002	8,436
Gains on investments held at fair value	(21,163)	(8,890)
Exchange (gains)/losses	(1,853)	512
Movement in accrued income	(13)	20
Movement in debtors	(27)	8
Movement in creditors	103	18
Net cash inflow from operating activities	49	104

20 Analysis of Changes in Net Debt

	At 1 August 2005 £'000	Cash flows £'000	Exchange gains/(loss) £'000	At 31 July 2006 £'000	At 1 August 2004 £'000	Cash flows £'000	Exchange gains/(loss) £'000	At 31 July 2005 £'000
Cash at bank	117	(23)	–	94	210	(93)	–	117
Short-term deposits	4,131	1,736	(265)	5,602	3,799	291	41	4,131
Debt due within one year	(22,803)	(9,738)	2,118	(30,423)	(19,736)	(2,514)	(553)	(22,803)
Net debt	(18,555)	(8,025)	1,853	(24,727)	(15,727)	(2,316)	(512)	(18,555)

Notes to the Accounts continued

21 Restatement of Opening Balances

A reconciliation is given between the closing balances per the 31 July 2005 accounts and the restated balances following adoption of revisions to UK GAAP.

Income Statement

	Previously reported 31 July 2005			Adjustment			Restated 31 July 2005		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value	–	8,890	8,890	–	–	–	–	8,890	8,890
Realised exchange gains	–	41	41	–	–	–	–	41	41
Unrealised exchange losses	–	(553)	(553)	–	–	–	–	(553)	(553)
Investment income	1,682	–	1,682	–	–	–	1,682	–	1,682
Bank deposit interest	31	–	31	–	–	–	31	–	31
Investment management fee	(1,307)	–	(1,307)	–	–	–	(1,307)	–	(1,307)
Administrative expenses	(348)	–	(348)	–	–	–	(348)	–	(348)
Net return before finance costs and taxation	58	8,378	8,436	–	–	–	58	8,378	8,436
Realised gain on expiry of warrants	–	9,637	9,637	–	(9,637)	(9,637)	–	–	–*
Interest payable	(139)	–	(139)	–	–	–	(139)	–	(139)
Net (loss)/return before taxation	(81)	18,015	17,934	–	(9,637)	(9,637)	(81)	8,378	8,297
Tax on ordinary activities	(118)	–	(118)	–	–	–	(118)	–	(118)
Net (loss)/return attributable to equity shareholders	(199)	18,015	17,816	–	(9,637)	(9,637)	(199)	8,378	8,179
Net (loss)/return per ordinary share	(0.16)p	14.41p	14.25p	0.00p	(7.71)p	(7.71)p	(0.16)p	6.70p	6.54p

*Effects of reclassification of warrants as explained in Note 1a.

22 Transactions with the Manager

The Company has appointed Schroder Investment Management Limited (“SIM”), a wholly owned subsidiary of Schroders plc, to provide investment management, accounting, secretarial and administration services. Details of the management and secretarial fee arrangements for these services are given in the Directors’ Report on page 15. The total management fee (excluding VAT) payable under this agreement to SIM in respect of the year ended 31 July 2006 was £1,727,000 (2005: £1,307,000), of which £406,000 was outstanding at the year end (2005: £346,000). The total secretarial fee (excluding VAT) payable to SIM in respect of the year ended 31 July 2006 was £55,000 (2005: £55,000), of which £14,000 (2005: £14,000) was outstanding at the year end.

In addition to the above services, SIM also provided investment trust dealing services. The total cost to the Company of this service, payable to Lloyds TSB Registrars, for the year ended 31 July 2006 was £3,000 (2005: £4,000), of which £2,000 was outstanding at the year end (2005: £Nil).

23 Risk

The following disclosures are provided in accordance with Financial Reporting Standard 25 “Financial Instruments; disclosure and presentation”.

Financial instruments and risk profile

The Company’s investment objective is to achieve capital growth from an actively managed portfolio principally comprising securities listed on the Japanese stock markets, with the aim of achieving growth in excess of the TSE First Section Total Return Index over the longer term. In addition, the Company holds cash and short-term deposits and various items such as debtors and creditors that arise directly from its operations. The financial instruments held by the Company are generally liquid. The Company’s assets and liabilities are all stated at fair value.

Notes to the Accounts continued

23 Risk continued

The holding of securities, investing activities and associated financing undertaken pursuant to this objective involves certain inherent risks. Events may occur that would result in either a reduction in the Company's net assets or a reduction of revenue profits available for dividend.

The Company is exposed to currency risk directly since the majority of its assets and liabilities are denominated in foreign currency.

As an investment trust, the Company invests in securities for the long term. Accordingly it is, and has been throughout the year under review, the Company's policy that no short-term trading in investments or other financial instruments shall be undertaken.

The main risk arising from the Company's financial instruments is market price risk. The Board reviews and agrees policy for managing this risk, as summarised below. This policy has remained substantially unchanged since the launch of the Company.

Market price risk

The Company's exposure to market price risk comprises mainly movements in the value of its equity investments. A detailed breakdown of the investment portfolio is given on pages 8 to 9. Investments are valued in accordance with the Company's accounting policies stated in Note 1a.

The Company does not hedge against movements in the value of these investments. Uncertainty arises as a result of future changes in the market prices of the Company's equity investments and the effect changes in exchange rates may have on the sterling value of these investments.

Credit risk

The Company's transactions in securities expose it to potential counterparty risk, although this is minimised by entering into deals only with brokers pre-approved by a credit committee of Schroder Investment Management Limited. These arrangements were in place throughout the current year and the prior year.

Foreign currency risk

The Company is exposed to foreign currency risk through its investment in securities listed on overseas stock markets. It is the policy of the Company on occasion to enter into forward foreign exchange contracts, in addition to foreign currency loans, to hedge against foreign currency movements affecting the value of the investment portfolio. At 31 July 2006 and at 31 July 2005 the Company had no forward foreign exchange contracts in place.

Liquidity risk

The Company's assets mainly comprise readily realisable securities which may be sold to meet funding requirements as necessary. The maturity of the Company's term loans are set out below.

Interest rate risk profile of financial assets and financial liabilities

The Company will be affected by interest rate changes as it holds interest-bearing financial assets and liabilities. Interest rate changes will also have an impact on the valuation of equities, although this forms part of market price risk, which has already been considered separately above.

The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis.

Financial Assets

Investments designated as held at fair value through profit or loss consist of equity shares which neither pay interest nor have a stated maturity date.

The Company does not have any fixed rate financial assets.

The Company's floating rate financial assets (excluding short-term debtors) at 31 July was:

	2006	2005
	Floating rate	Floating rate
	financial	financial
	assets	assets
	£'000	£'000
Japanese Yen	4,248	3,308
Sterling	1,448	940

Floating rate financial assets generate interest based on daily rates set by a number of banks.

Notes to the Accounts continued

23 Risk continued

Financial Liabilities

It is the policy of the Company to borrow in the currency in which investments are denominated. The Company has therefore taken out a Yen borrowing facility as a partial hedge against its foreign currency exposure.

The Company currently has a loan facility of Yen 6.5 billion (2005: Yen 4.5 billion) with ING Bank N.V. This facility has a revolving 364 day term. The interest is chargeable at a floating rate linked to the Yen LIBOR and is unsecured.

The Company's financial liabilities (excluding short-term creditors) at 31 July was:

	2006	2005
	Floating rate financial liabilities £'000	Floating rate financial liabilities £'000
Loans	30,423	22,802

Currency Exposure

A majority of the Company's financial assets and liabilities are denominated in Japanese Yen with the effect that the net assets and total return may be significantly affected by currency movements:

	Net monetary	Total		Net monetary	Total	
	Overseas	assets/ currency	Overseas	assets/ currency	currency	
	investments	(liabilities)	investments	(liabilities)	exposure	
	2006	2006	2005	2005	2005	
	£'000	£'000	£'000	£'000	£'000	
Japanese Yen	167,409	(26,276)	141,133	139,144	(20,314)	118,830

Company Summary and Shareholder Information

Company Status

The Company was established in July 1994 and is an independent investment trust whose shares are listed on the London Stock Exchange. The Company's assets have been managed by Schroders since inception.

Benchmark

Since inception, the Company has measured its performance against that of the TSE First Section Total Return Index in sterling terms.

Duration

It is not intended for the Company to have a limited life however the Directors consider that shareholders should have the opportunity to decide the future of the Company at appropriate intervals. Accordingly, the Articles of Association provide for Directors to put forward proposals for the continuation of the Company at the Annual General Meeting in 2009 and at five yearly intervals thereafter.

Share Price and Net Asset Value Information

The Company's shares are listed on the London Stock Exchange under the code SJG. The Company's ordinary share price is quoted daily in the Financial Times and The Times.

The Company releases its net asset value to the market weekly.

Share price information is also available on the Schroders website at:

<http://www.schroders.co.uk/its>

Association of Investment Companies

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

Shares in Issue

As at 6 October 2006, the Company had 125,008,200 Ordinary shares of 10p each in issue.

Analysis of Register of Shareholders

At 31 July 2006

% of issued shares held by:	Ordinary Shares
Private individuals	12.7
Banks and nominee companies*	81.6
Other institutions	5.7
	100.0
Total number of holders	4,832

*Some of the nominee company holdings include a large number of private individuals.

Investing in Schroder Japan Growth Fund plc

Schroder Investment Trust Dealing Service

The Schroder Investment Trust Dealing Service provides a convenient and cost effective means of investing in the ordinary shares of the Company. The Service offers investors:

- a regular investment option from a minimum of £50 per month
- a lump sum investment option from a minimum of £1,000
- daily dealing
- competitive charges
- the option to reinvest income.

Other investment trusts which are available through this service are Schroder AsiaPacific Fund plc, Schroder Income Growth Fund plc, Schroder Oriental Income Fund Limited, Schroder UK Growth Fund plc, Schroder Split Investment Fund plc, Schroder Split ZDP plc, Schroder UK Mid & Small Cap Fund plc, SVG Capital plc and International Biotechnology Trust plc.

Individual Savings Account – Schroder Maxi ISA Plan

The Schroder ISA offers investors:

- lump sum investments in the ordinary shares of the Company from a minimum of £1,000 to a maximum of £7,000 in the current tax year
- a regular investment option from a minimum of £50 per month
- competitive charges
- the option to reinvest income
- the option to include other trusts.

If you would like further information about the Schroder Investment Trust Dealing Service or the Schroder Maxi ISA, please contact the Secretary of the Company at 31 Gresham Street, London EC2V 7QA or call Schroder Investor Services on freephone 0800 718 777.

Capital Gains Tax Information

The acquisition costs of the shares for capital gains tax purposes based upon initial dealings are as follows:

- for the benefit of those shareholders who acquired their holdings in the original Offer for Subscription, with initial dealings on 11 July 1994:

Each ordinary share of 10p each	90.98p
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For the 2006/2007 tax year, the annual capital gains (after adjusting for indexation and taper relief of private individuals in excess of £8,800 (2005/2006: £8,500) are assessed for capital gains tax.

Capital gains on shares disposed of by individuals may be eligible for taper relief. The taper reduces the amount of a chargeable gain according to how long the asset has been held for periods after 5 April 1998.

Where shares were acquired before 6 April 1998, the capital gain will also be reduced by indexation allowance for the period up to April 1998, but not thereafter.

Notice of Meeting

NOTICE is hereby given that the Annual General Meeting of Schroder Japan Growth Fund plc will be held at 3.30 p.m. on Wednesday, 8 November 2006 at 31 Gresham Street, London EC2V 7QA, to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 8 will be proposed as Ordinary Resolutions and resolutions 9 and 10 will be proposed as Special Resolutions:

Ordinary Resolutions

1. To receive the Report of the Directors and the audited Accounts for the year ended 31 July 2006.
2. To approve the Directors' Remuneration Report for the year ended 31 July 2006.
3. To elect Mr Takahashi as a Director of the Company.
4. To re-elect Mr Scott as a Director of the Company.
5. To re-elect Mr Lyon as a Director of the Company.
6. To re-elect Mr Kingzett as a Director of the Company.
7. To re-appoint PriceWaterhouseCoopers LLP as Auditors of the Company and to authorise the Board to fix their remuneration.
8. That the Directors be and they are hereby generally and unconditionally authorised in substitution for all subsisting authorities in accordance with Section 80 of the Companies Act 1985 (the Act) to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £625,041 (representing 5% of the aggregate nominal amount of the share capital in issue on 6 October 2006) provided that this authority shall expire on the date of the next Annual General Meeting of the Company, but so that this authority shall allow the Company to make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry.

Special Resolutions

9. That, subject to the passing of resolution 8 set out above, the Directors be and they are hereby empowered, pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority given in accordance with Section 80 of the Act by the said resolution 8 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £625,041 (representing 5% of the aggregate nominal amount of the share capital in issue on 6 October 2006); and provided that this power shall expire on the date 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.
10. That the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the Act) of Ordinary Shares of 10p each in the capital of the Company ("Shares"), provided that:
 - (a) the maximum number of Shares hereby authorised to be purchased shall be 18,738,729;
 - (b) the minimum price which may be paid for a Share is 10p;
 - (c) the maximum price which may be paid for a Share is an amount equal to 105% of the average of the middle market quotations for a Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased;
 - (d) purchases may only be made pursuant to this authority if the Shares are (at the date of the proposed purchase) trading on the London Stock Exchange at a discount to the lower of the undiluted or diluted Net Asset Value;
 - (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and

Notice of Meeting continued

- (f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

Registered Office:
31 Gresham Street
London EC2V 7QA
Registered Number: 2930057
6 October 2006

By Order of the Board
Schroder Investment Management Limited
Company Secretary

Notes

1. A member of the Company entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend and on a poll to vote in his or her stead. A proxy need not be a member of the Company. Forms appointing proxies must be lodged with the Company's Registrar not less than 48 hours before the time appointed for the Meeting. The completion and return of a form of proxy will not preclude a holder entitled to attend and vote in person at the Meeting from doing so if he or she wishes.
2. In accordance with the requirements of the Companies Act 1985, 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 at 31 Gresham Street, London EC2V 7QA, during normal business hours and by any person attending the Meeting, during the continuance of the Meeting. None of the Directors has a contract of service with 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 5.00 p.m. on 6 November 2006 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 5.00 p.m. on 6 November 2006 shall be disregarded in determining the right of any person to attend and vote at the Meeting.
4. Profiles of each of the Directors offering themselves for election and re-election are on page 2 of this report.
5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID7RA01) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by a particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Advisers

Investment Manager

Schroder Investment Management Limited,
31 Gresham Street,
London EC2V 7QA

Solicitors

Slaughter and May,
One Bunhill Row,
London EC1Y 8YY

Secretary and Registered Office

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

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Beaufort House,
15 St Botolph Street,
London EC3A 7QR

Custodian

JPMorgan Chase Bank, N.A.,
1 Chaseside,
Bournemouth BH7 7DB

Independent Auditors

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32 London Bridge Street,
London SE1 9SY

Registrar

Lloyds TSB Registrars Scotland,
PO Box 28448,
Finance House,
Orchard Brae,
Edinburgh EH4 1WQ
Shareholder Helpline: 0870 601 5366
Website: www.shareview.co.uk

Bankers

Schroder & Co. Limited,
31 Gresham Street,
London EC2V 7QA

ING Bank N.V.,
60 London Wall,
London EC2M 5TQ

Schroders plc is a leading asset management group, the shares of which are listed on the London Stock Exchange.

Schroders has been involved in investment management since 1922, and today is one of the leading international investment management houses, providing investment services, research and marketing functions from offices located in countries throughout the world.

Worldwide, as at end June 2006, Group assets under management were valued at £122.3 billion.

We manage funds across all asset categories, including equities, fixed income, cash and property. Our clients include corporations, local and public authorities, pension funds, insurance companies, charities and individuals.

Share price, portfolio and other information on Schroder investment trusts is available on the internet at

<http://www.schroders.co.uk/its>

Schroder Investment Management Limited is authorised and regulated by the Financial Services Authority.



Schroders