
**SCHRODER
JAPAN
GROWTH
FUND plc**



**Report and Accounts
31 July 2007**



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 64) (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 member of the international advisory board, Datawind Inc. He was previously a Director of Baring Asset Management Limited (1976–1997). He is a Barrister at law.

Jan Kingzett† (Aged 51) was appointed as a Director of the Company on 3 October 2001. He is an employee of Schroders. He is also a non-executive Director of Schroder AsiaPacific Fund plc and Thos. Agnew & Sons Limited.

Peter Lyon*† (Aged 66) 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 55) was appointed as a Director of the Company on 20 April 2004. He is a non-executive director of Scottish Mortgage Investment Trust PLC, Martin Currie Pacific Trust plc and JPMorgan Claverhouse Investment Trust plc, as well as being Chairman of Dunedin Income Growth 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 Matherson & 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 67) was appointed as a Director of the Company on 19 December 2005. He 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 and Management Engagement Committees.

† Member of the Nomination Committee.

Mr Scott is Chairman of the Audit Committee.

Mr Lyon is Chairman of the Management Engagement and Nomination Committees.

Financial Highlights

	31 July 2007	31 July 2006	% Change
Total assets (£'000)*	156,292	172,587	-9.5
Borrowings (£'000)	(20,666)	(30,423)	-32.1
Shareholders' funds (£'000)	135,626	142,164	-4.6
Shares in issue ('000)	125,008	125,008	-
Net Asset Value	108.49p	113.72p	-4.6
Share price	99.25p	110.50p	-10.2
Share price discount	8.52%	2.83%	-
TSE First Section Total Return Index (in Sterling terms)**	8.30	8.56	-3.0
Yen rate to Sterling	241.95	213.66	+13.2
Total expense ratio (TER)***	1.00%	1.01%	-
Market capitalisation (£'000)	124,071	138,134	-10.2

* 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 would be 1.43% (2006: 1.44%)).

Sector Analysis

Analysis of the Portfolio Sector Distribution with the TSE First Section Index (%) as at 31 July 2007

	Valuation £'000	% of Portfolio	% of Index
Electrical Appliances	17,254	11.28	14.20
Transportation Equipment	15,266	9.98	9.60
Banks	15,248	9.96	11.70
Wholesale Trade	12,154	7.94	5.20
Chemicals	11,506	7.52	5.40
Real Estate	9,806	6.41	2.80
Retail Trade	9,179	6.00	3.10
Pharmaceutical	8,992	5.88	4.00
Land Transportation	8,228	5.38	3.00
Machinery	7,888	5.15	4.80
Insurance	7,688	5.02	2.50
Glass & Ceramics Products	5,184	3.39	1.30
Rubber Products	5,166	3.38	0.60
Information & Communication	4,711	3.08	4.60
Other Financing Business	2,927	1.91	1.50
Securities & Commodity	2,792	1.82	2.00
Services	2,529	1.65	1.20
Pulp & Paper	1,914	1.25	0.30
Non-Ferrous Metals	1,783	1.17	1.50
Construction	1,602	1.05	1.90
Iron & Steel	679	0.44	4.00
Foods	518	0.34	2.60
Electric Power & Gas	-	-	3.80
Other Products	-	-	2.40
Precision Instruments	-	-	1.40
Textiles & Apparels	-	-	1.10
Marine Transportation	-	-	1.00
Oil & Coal Products	-	-	0.90
Metal Products	-	-	0.60
Air Transportation	-	-	0.40
Mining	-	-	0.30
Warehousing & Harbour Transport	-	-	0.20
Fishery, Agriculture & Forestry	-	-	0.10
Total	153,014	100.00	100.00

Long Term Record to 31 July

	Total assets** £'000	Shareholders' funds £'000	Undiluted net asset value per share pence	Share price pence	Share price discount %	Price of warrants pence
2007	156,292	135,626	108.49p	99.25p	(8.52)	–
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

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

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

Long Term Record to 31 July

	Cost of running trust* £'000	Actual gearing ratio**	Potential gearing ratio***
2007	1,989	1.13	1.15
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

* Operating expenses, excluding share dealing and finance costs.

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

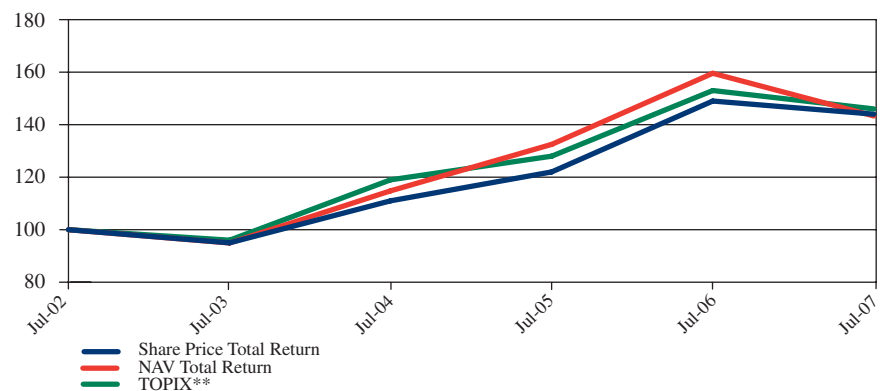
*** Total assets divided by shareholders' funds.

Total Returns* to 31 July

	NAV	Share Price	Benchmark Index
2007	146.26	143.32	144.55
2006	153.30	159.57	149.10
2005	128.81	132.49	122.43
2004	119.98	114.80	111.38
2003	96.20	94.95	95.08
2002	100.00	100.00	100.00

*Source: Schroder Investment Management Limited.

NAV/Share Price vs Benchmark (5 years)



** Rebased to the TSE First Section Total Return Index (TOPIX) Level at 100 (in sterling terms) at July 2002.

Chairman's Statement

Performance

The year to 31 July 2007 was a disappointing one for sterling-based investors in Japanese equities, primarily because of the weakness of the Yen relative to the Pound. Measured in sterling, the TSE First Section Total Return Index produced a total return of -3.0% over the year. Against this background, the Company's net asset value per share decreased by 4.6% over the same period (from 113.72p per share to 108.49p per share). The share price decreased by 10.2% as the discount widened from 2.8% to 8.5%, reflecting poorer market sentiment towards Japanese equities. Long-term performance remains ahead of the Index.

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

Gearing

During the year ended 31 July 2007 the Company maintained its total borrowing facility of Yen 6.5 billion. However, the amount drawn under the facility was reduced during the year and, at the end of the year, borrowings stood at Yen 5.0 billion. All of the borrowings were obtained via a revolving credit facility to provide 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 17.4%, and this had decreased to 13.0% at 31 July 2007.

Electronic Communications and Amendment to the Articles of Association

There have been a number of recent changes to company law and practice permitting the use of electronic communications as an alternative to traditional means of communication. We are therefore proposing to adopt revised Articles of Association which will allow the Company, where a shareholder agrees, to send certain information relating to the Company (e.g. notices, proxy forms and accounts) by electronic means or by placing this information on a website, but only if the shareholder has been sent notice that it is available in this way and not objected to the change.

Purchase of Shares for Cancellation

At the Company's last Annual General Meeting in November 2006, 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 2007, 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.

Audit Committee Chairman

Peter Lyon has retired as Chairman of the Audit Committee and John Scott has replaced him in that capacity. Mr Lyon will continue to act as Chairman of the Management Engagement and Nomination Committees and as a Director of the Company. The Board would like to take this opportunity to thank Mr Lyon for his help and advice as Chairman of the Audit Committee.

Chairman's Statement continued

Annual General Meeting

The Annual General Meeting will be held at 3.30 p.m. on Wednesday 7 November 2007 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.

Outlook

While the Japanese market has been volatile since the end of July in common with markets globally, your Board sees grounds for optimism about the longer term outlook for the portfolio. The companies in which your Company is invested continue to report strong sales and profits growth; our Manager believes their valuations are attractive; since the end of our financial year, the Yen has strengthened by approximately 5% relative to Sterling and your Board looks forward with confidence.

Jonathan Taylor

Chairman

24 September 2007

Investment Manager's Review

Market Background

The Japanese market rose 9.8% in local currency terms during the year ended 31 July 2007, despite a sluggish domestic economy and disappointing company earnings forecasts. The rise, however, was more than offset for sterling investors by the weakness of the Yen, with the index in sterling terms falling 3.0%.

The market was polarised for much of the year, with commodity-related sectors, such as Shipping, Steel and Wholesalers, rising sharply and domestic sectors, such as Retail, Banks and Other Finance, declining by over 30% in sterling. The strength of other Asian economies continued to support exporters into the region as well as commodity prices, which contrasted with generally weak domestic trends in consumption and intense competition hampering banks' margin recovery. Small cap continued to underperform large, as confidence and activity indices and bank lending data suggested a still tough environment.

Heightened investor expectations for improvements in capital management were, for the most part, frustrated. Starting with the failure of a leading paper company to acquire a competitor and the target's management opting instead to issue shares to friendly parties, the twelve-month period ended with rejection of all shareholder proposals to raise dividends and a record number of poison pill defence announcements. While dividends in aggregate have risen by double digit amounts, dividend payout ratios remain low by international standards, balance sheets remain under-leveraged and returns on equity are well below other major markets.

The Company's underperformance of the market by 1.6% stemmed largely from its low exposure to commodity sectors and holdings in Insurance and Autos. On the other hand, the Company benefited from its holdings in General Trading companies (Mitsui & Co and Mitsubishi Corporation) and small Real Estate stocks (Tachihi Enterprise and Sankei Building) and its cautious position toward Banks.

Outlook

Simply from the standpoint of relative performance, Japan could be expected to deliver a period of better returns. The economy continues to expand, driven by exports and corporate investment. Should wage growth accelerate and consumer spending increase, investor confidence would likely rebuild. Corporate profits should see another positive year and valuations are now back at more attractive levels. Cash flows and balance sheets are strong.

Whilst we see considerable value at the stock level, overall returns on equity are too low and need to rise substantially to justify a market re-rating. Poor capital management is a major issue and so far has largely ignored growing investor agitation. Any change in overall attitudes, such as a greater willingness to return surplus cash to shareholders, would be warmly greeted by the market.

Investment Policy

Over the course of the year, we have shifted the portfolio slightly toward more domestic companies, at the expense of car and electronics manufacturers. The portfolio's largest overweight position is in Real Estate, mainly through smaller stocks like Tachihi Enterprise, with substantial latent value in its land holdings. The portfolio is overweight Retail, particularly speciality retailers, such as United Arrows, which can demonstrate good growth in a sluggish environment. We have added to Banks and the portfolio is no longer significantly underweight. Some stocks in this sector appear undervalued, such as Fukuoka Financial.

On the other hand, we dislike the Electric Power sector, where hopes of dividend growth have proved unfounded. The portfolio is underweight many of the commodity related areas, such as Steel, though continues to hold large positions in General Trading companies, in particular Mitsui & Co, due to slightly better earnings visibility and lower valuations.

With the continued correction in small cap relative to large, we are identifying more opportunities amongst smaller names. A recent acquisition was Union Tool, a maker of small drill bits for printed circuit board manufacture, and Okamura, a maker of office furniture. The gearing in the Company was reduced over the course of the year and stood at 13.0% at the end of July.

Schroder Investment Management Limited

24 September 2007

Investment Portfolio

As at 31 July 2007

Company	Industrial Classification	Activity	Market Value of Holdings £'000	% of Portfolio
Toyota Motor	Transportation Equipment	Automobile manufacturer	8,928	5.84
Mitsui	Wholesale Trade	General trading company	7,828	5.12
East Japan Railway	Land Transportation	Railway company	5,992	3.92
Takeda Pharmaceutical	Pharmaceutical	Pharmaceutical products	5,260	3.44
Bridgestone	Rubber Products	Automobile tyre manufacturer	5,166	3.38
Sumitomo Mitsui Financial	Banks	Banking & other financial services	5,062	3.31
Ricoh	Electrical Appliances	Copiers & printers manufacturer	4,616	3.02
Tachihi Enterprise	Real Estate	Real estate investment	4,334	2.83
Nidec	Electrical Appliances	Small & mid size motor manufacturer	4,023	2.63
Asahi Glass	Glass & Ceramics Products	Glass & related products	3,769	2.46
T&D Holdings	Insurance	Life insurance products & services	3,693	2.41
Astellas Pharma	Pharmaceutical	Pharmaceutical products	3,402	2.22
Mizuho Financial	Banks	Banking & other financial services	3,296	2.15
Nippon Telegraph & Telephone	Information & Communication	Telecommunication services	3,193	2.09
Seven & I	Retail Trade	Retail store operator	3,094	2.02
Sankei Building	Real Estate	Real estate investment	2,987	1.95
Nitto Denko	Chemicals	Industrial & electrical film producer	2,956	1.93
Nomura	Securities & Commodity	Stockbroker	2,792	1.82
Mitsubishi	Wholesale Trade	General trading company	2,743	1.79
SK Kaken	Chemicals	Paint manufacturer for construction	2,567	1.68

Twenty Largest Investments			85,701	56.01
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Omron	Electrical Appliances	Control component manufacturer	2,530	1.65
Sakata Inx	Chemicals	Printing ink manufacturer	2,465	1.61
Nissan Motor	Transportation Equipment	Automobile manufacturer	2,418	1.58
SMC	Machinery	Pneumatic equipment manufacturer	2,353	1.54
Union Tool	Machinery	Cutting tool manufacturer	2,348	1.53
Musashino Bank	Banks	Banking service	2,293	1.50
Sompo Japan Insurance	Insurance	Non-life and life insurance	2,095	1.37
Marui	Retail Trade	Department store operator	2,075	1.36
Chiba Bank	Banks	Banking service	2,019	1.32
Yokogawa Electric	Electrical Appliances	Industrial instruments manufacturer	1,934	1.26
Nippon Paper Group	Pulp & Paper	Paper manufacturer	1,914	1.25
Nissay Dowa General Insurance	Insurance	Non-life and life insurance	1,900	1.24
Hi Lex	Transportation Equipment	Automobile cables manufacturer	1,861	1.22
Dowa Mining	Non-Ferrous Metals	Non-ferrous metal processing	1,783	1.17
Rohm	Electrical Appliances	LSIs manufacturer	1,686	1.10
Credit Saison	Other Financing Business	Credit card issuer	1,659	1.08
Jupiter Telecommunications	Services	Cable network operator	1,620	1.06
Sanki Engineering	Construction	Installation service	1,602	1.05

Investment Portfolio continued

As at 31 July 2007

Company	Industrial Classification	Activity	Market Value of Holdings £'000	% of Portfolio
Inabata	Wholesale Trade	Trading company	1,583	1.03
T & K Toka	Chemicals	Printing ink manufacturer	1,532	1.00
KDDI	Information & Communication	Telecommunication services	1,518	0.99
Tokyo Tomin Bank	Banks	Banking service	1,509	0.99
Kaneka	Chemicals	Chemical products manufacturer	1,490	0.97
Ushio	Electrical Appliances	Industrial & commercial light sources manufacturer	1,448	0.95
Sankyo	Machinery	Pachinko machine manufacturer	1,436	0.94
Shimamura	Retail Trade	Clothing store	1,420	0.93
NGK Spark Plug	Glass & Ceramics Products	Spark plug manufacturer	1,415	0.93
Hitachi Transport System	Land Transportation	Transportation & distribution services	1,384	0.90
Aichi Toyota Motor	Retail Trade	Car distribution	1,358	0.89
JAFCO	Other Financing Business	Venture capital investment	1,268	0.83
United Arrows	Retail Trade	Clothing retailer	1,232	0.80
Mirai Industry	Machinery	Construction & building maintenance	1,189	0.77
Airport Facilities	Real Estate	Airport facilities rental	1,170	0.77
Calsonic Kansei	Transportation Equipment	Automobile parts manufacturer	1,106	0.72
Mabuchi Motor	Electrical Appliances	Micro-motors manufacturer	1,017	0.67
Musashi Seimitsu Industry	Transportation Equipment	Automobile parts manufacturer	953	0.62
Chubu Nippon Broadcasting	Services	Commercial broadcaster	909	0.59
Fukuoka Financial Group	Banks	Banking & other financial services	881	0.57
Prospect Residential Investment	Real Estate	Real estate investment trust	874	0.57
Nippon Konpo Unyu Soko	Land Transportation	Specialist transportation services	852	0.56
Tokyo Steel Manufacturing	Iron & Steel	Steel products manufacturer	679	0.44
Heiwa	Machinery	Pachinko machine manufacturer	562	0.37
Nippon Meat Packers	Foods	Meat supplier	518	0.34
JSR	Chemicals	Synthetic rubber manufacturer	496	0.33
New City Residence Investment	Real Estate	Real estate investment trust	441	0.29
Torii Pharmaceutical	Pharmaceutical	Pharmaceutical products	330	0.22
Mitsui Trust	Banks	Banking & other financial services	188	0.12
Total Value of Investments			153,014	100.00

At 31 July 2006, the twenty largest investments represented 56.62% of shareholders' funds.

Report of the Directors

Your Directors submit their Report and the Accounts of the Company for the year ended 31 July 2007.

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 2006 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 Chairman's Statement and Investment Manager's Review.

Investment Strategy

The Board has delegated management of the Company's portfolio to Schroders (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 2007, the Company achieved a total return on net asset value of -4.6% compared to a total return of -3.0% for the benchmark. Details of the Portfolio's sector distribution compared against the benchmark as at 31 July 2007 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 Schroders' 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. The Board considers the use of its share buy-back authority on a regular basis.

At 31 July 2007, the Company's share price stood at a discount of 8.5% to net asset value. During the year under review the share price traded at a discount range from 11.0% to 2.5% .

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 2007 (calculated in accordance with AIC guidance as total annualised net operating expenses after tax divided by average net assets during the year) was 1.00% (2006 1.01%).

Report of the Directors continued

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:

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.

Currency Risk

The Company invests predominantly in underlying assets which are denominated in Japanese Yen and therefore has an exposure to changes in the exchange rate between Sterling and Yen which has the potential to have a significant effect on returns. While the Directors consider the Company's hedging policy on a regular basis, the Company did not engage in currency hedging to reduce the risk of currency fluctuations and the volatility of returns which might result from such currency exposure during the year ended 31 July 2007.

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.

Report of the Directors continued

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 focused 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.

Net Deficit and Dividends

The net deficit for the year after expenses, interest and taxation was £261,000 (2006: £295,000), equivalent to a deficit of 0.21 pence per share (2006: deficit of 0.24 pence per share), and the Directors do not, therefore, recommend the payment of a dividend.

As 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 2007 and their beneficial and family interests in the Company's issued share capital are given below:

	At 31 July 2007	At 1 August 2006
	Ordinary	Ordinary
	Shares of 10p	Shares of 10p
J J K Taylor	5,000	5,000
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	Nil

There have been no changes in the above holdings between the end of the financial year and 27 September 2007.

In accordance with the Articles of Association, Mr Taylor 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 re-elections of Mr Taylor, 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 2007 (2006: £Nil).

Purchase of Shares for Cancellation

At the Annual General Meeting held in November 2006, an authority for the Company to purchase up to 14.99% of its issued share capital for cancellation was renewed by the shareholders. The total number of shares in issue on 27 September 2007 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 27 September 2007 will be proposed at the forthcoming Annual General Meeting for which notice is given on pages 45 and 46.

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 2008 unless renewed earlier.

Issues of New Shares

At the Annual General Meeting of the Company in November 2006 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 45 and 46.

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 27 September 2007), 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 2008 unless renewed earlier.

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

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

	Number of Ordinary shares	Percentage of total voting rights
Legal & General Group Plc	4,510,204	3.60

Investment Manager

Following their annual review, 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.

We believe that the Investment Manager has a strong management team in the UK, which adopt a transparent investment strategy to assist the Company in meeting its investment objective. The Manager is supported by significant depth of knowledge and experience in Japan, with regional resources and local analysts. Our Manager has demonstrated that it operates with stringent controls across all aspects of its business. Investment management is further backed up with good quality administration.

Schroders provides investment management, accounting and secretarial 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 up to £150,000,000 and at an annual rate of 0.95% (plus VAT) on assets above that amount.

During the year ended 31 July 2007 Schroders was entitled to receive a fee of £75,000 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

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

Annual General Meeting

The Annual General Meeting will be held on Wednesday, 7 November 2007 at 3.30 p.m. The Notice of Meeting is set out on pages 45 and 46.

Registered Office:
31 Gresham Street
London EC2V 7QA

By Order of the Board
Schroder Investment Management Limited
Company Secretary

Registered Number: 2930057
27 September 2007

Directors' Remuneration Report for the year ended 31 July 2007

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. With effect from 1 August 2007, Directors' fees were increased to £14,000 per annum and the Chairman's fees were increased to £21,000 per annum.

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 2007 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 2007 – fees for services to the Company £'000	For the year ended 31 July 2006 – fees for services to the Company £'000
J J K Taylor	24	24
K Egashira*	–	6
J A Kingzett	13	13
P G R Lyon	16	16
J P H S Scott	16	16
Y Takahashi	16	10
Totals	85	85

* Mr Egashira retired as a Director of the Company on 12 December 2005.

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
27 September 2007

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 2003 (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 Schroders, 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.

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 2007. 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.

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.

Corporate Governance continued

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
Jan Kingzett	4	4
Peter Lyon	4	4
John Scott	4	4
Yoshindo Takahashi	4	4

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.

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.

Corporate Governance continued

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 45 and 46 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. Provided that this objective is not compromised in the process the Board does, 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.

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 conduct at least annually 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

Corporate Governance continued

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 a continuing system to identify, evaluate and manage these risks are based upon and relevant to the Company's business as an investment trust. The continuing 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. No significant control failings or weaknesses were identified during the course of the year and up to the date of this report, from our continuing risk assessment.

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 2007 were:

Peter Lyon (Chairman)
 John Scott
 Yoshindo Takahashi
 Jonathan Taylor

With effect from 1 August 2007, John Scott was appointed as Chairman of the Audit Committee in place of Mr Lyon.

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 role of the 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 auditor;
- (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

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

Report on the Committee's Activities

To discharge its duties, the Committee met on two occasions during the year ended 31 July 2007 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 and the Custodian
- whether an internal audit function for the Company is required

Attendance

Both of the meetings held during the year ended 31 July 2007 were attended by all members of the Committee.

Board Committees continued

Management Engagement Committee

The members of the Committee as at 31 July 2007 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 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.

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

Report on the Committee's Activities

To discharge its duties, the Committee met on one occasion during the year ended 31 July 2007 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.

Board Committees continued

Nomination Committee

The members of the Committee as at 31 July 2007 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 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.

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

Report on the Committee's Activities

The Committee did not have occasion to meet during the year ended 31 July 2007.

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 United Kingdom law and United Kingdom Generally Accepted Accounting Principles (UK GAAP).

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 accounts and applicable accounting standards have been followed. These policies and standards, for which the Directors accept responsibility, have been discussed with the Auditors.

The Directors at the date of approval of this report confirm that:

- (a) so far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- (b) each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provision of S234 ZA of the Companies Act 1985.

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. 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 Directors believe that they have complied with these responsibilities.

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, 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 their jurisdiction.

Independent Auditors' Report

Independent Auditors' Report

To the shareholders of Schroder Japan Growth Fund plc

We have audited the accounts of Schroder Japan Growth Fund plc for the year ended 31 July 2007 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 shareholders 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 also report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts.

In addition we 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 Combined Code 2003 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, the Investment Manager's Review, the Report of the Directors, the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report. 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 2007 and of its net losses 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
27 September 2007

Income Statement

	Notes	For the year ended 31 July 2007			For the year ended 31 July 2006		
		Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000
(Losses)/gains on investments held at fair value	2	–	(9,138)	(9,138)	–	21,163	21,163
Other currency gains	3	–	2,861	2,861	–	1,853	1,853
Income	4	2,080	–	2,080	2,088	–	2,088
Investment management fee	5	(1,565)	–	(1,565)	(1,727)	–	(1,727)
Administrative expenses	6	(390)	–	(390)	(375)	–	(375)
Net return/(losses) before finance costs and taxation		125	(6,277)	(6,152)	(14)	23,016	23,002
Interest payable and similar charges	7	(244)	–	(244)	(137)	–	(137)
Net (losses)/return on ordinary activities before taxation		(119)	(6,277)	(6,396)	(151)	23,016	22,865
Taxation on ordinary activities	8	(142)	–	(142)	(144)	–	(144)
Net (losses)/return attributable to equity shareholders		(261)	(6,277)	(6,538)	(295)	23,016	22,721
Net (losses)/return per ordinary share	9	(0.21)p	(5.02)p	(5.23)p	(0.24)p	18.41p	18.17p

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 and Losses is presented.

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

Reconciliation of Movements in Shareholders' Funds

	Called up share capital £'000	Share premium account £'000	Share purchase reserve £'000	Warrant exercise reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31 July 2005	12,501	7	97,205	3	17,108	(7,381)	119,443
Net return/(losses) on ordinary activities	–	–	–	–	23,016	(295)	22,721
At 31 July 2006	12,501	7	97,205	3	40,124	(7,676)	142,164
At 31 July 2006	12,501	7	97,205	3	40,124	(7,676)	142,164
Net losses on ordinary activities	–	–	–	–	(6,277)	(261)	(6,538)
At 31 July 2007	12,501	7	97,205	3	33,847	(7,937)	135,626

The notes on pages 34 to 42 form an integral part of these accounts.

Balance Sheet

	Notes	At 31 July 2007 £'000	At 31 July 2006 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	153,014	167,409
		153,014	167,409
Current assets			
Debtors	11	2,810	2,083
Cash at bank and short-term deposits	22	3,015	5,696
		5,825	7,779
Current liabilities			
Creditors – amounts falling due within one year	12	(23,213)	(33,024)
Net current liabilities		(17,388)	(25,245)
Net assets		135,626	142,164
Capital and reserves			
Called up share capital	14	12,501	12,501
Share premium account	15	7	7
Share purchase reserve	16	97,205	97,205
Warrant exercise reserve	17	3	3
Capital reserves	18	33,847	40,124
Revenue reserve	19	(7,937)	(7,676)
Equity shareholders' funds		135,626	142,164
Net asset value per ordinary share	20	108.49p	113.72p

The Accounts were approved by the Board of Directors on 27 September 2007 and signed on behalf of the Board by:

J J K Taylor

Director

The notes on pages 34 to 42 form an integral part of these accounts.

Cash Flow Statement

	Notes	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
Operating activities			
Income received from investments		2,025	2,049
Interest received on deposits		50	27
Investment management fee paid		(1,585)	(1,667)
Administrative expenses paid		(361)	(360)
Net cash inflow from operating activities	21	129	49
Servicing of finance			
Bank overdraft interest paid		(1)	–
Bank loan interest paid		(238)	(135)
Net cash outflow from servicing of finance		(239)	(135)
Taxation			
Overseas tax paid		(142)	(145)
Total tax paid		(142)	(145)
Investment activities			
Acquisition of investments		(39,029)	(57,055)
Disposal of investments		43,496	49,261
Net cash inflow/(outflow) from investment activities		4,467	(7,794)
Net cash inflow/(outflow) before financing		4,215	(8,025)
Financing			
Bank loans (repaid)/drawn		(6,180)	9,738
Net cash (outflow)/inflow from financing		(6,180)	9,738
Net cash (outflow)/inflow		(1,965)	1,713

Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
Net cash (outflow)/inflow		(1,965)	1,713
Movement in borrowings		6,180	(9,738)
Movement in net debt resulting from cash flows		4,215	(8,025)
Net debt at previous year end		(24,727)	(18,555)
Realised exchange gains/(losses) on currency balances		1,504	(265)
Unrealised exchange gains on the loan facility		1,357	2,118
Net debt at 31 July	22	(17,651)	(24,727)

The notes on pages 34 to 42 form an integral part of these accounts.

Notes to the Accounts

1 Accounting policies

The principal accounting policies have been applied consistently throughout the year ended 31 July 2007 and are set out below.

a Basis of preparation

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable UK Accounting Standards and with the Statement of Recommended Practice (“SORP”) for “Financial Statements of Investment Trust Companies” issued in January 2003 and revised in December 2005 by the Association of Investment Companies (“AIC”).

b Income

Dividends receivable from equity shares are taken to the revenue return on an ex-dividend basis. Interest receivable from bank deposits and other income is recognised 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 disposal of investments which are charged to capital return.

d Investments

All investments are classified as held at fair value through profit or loss. They are initially recognised on the trade date and measured, then and subsequently, at fair value. Fair value is assumed to be the bid value of 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, listed investments are valued at last traded price.

Changes in fair value are included in the Income Statement as a capital item and are not distributable by way of a dividend.

e Foreign exchange

The Company is a UK listed company with a predominantly UK shareholder base. The results and financial position of the Company are expressed in sterling, which is the functional and presentational currency of the Company. 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 the balance sheet date, and the resulting gains or losses are taken to the capital return.

f Taxation

Deferred tax is provided in full, using the liability method, on all taxable and deductible temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured, without discounting, at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

Due to the Company’s status as an investment trust company, and the intention to continue to meet the conditions required by Section 842 of the Income and Corporation Taxes Act 1988 to obtain approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation of investments, or current tax on any capital gains on the disposal of investments.

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 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.

Notes to the Accounts continued

2 (Losses)/gains on investments held at fair value

	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
Net profit on disposal of investments	4,291	13,009
Less: Amounts recognised as unrealised in previous years	(4,019)	(2,272)
Net realised profit based on carrying value at previous balance sheet date	272	10,737
Unrealised (depreciation)/appreciation of investments arising during the year	(9,410)	10,426
	(9,138)	21,163

3 Other currency gains

	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
Realised exchange gains/(losses) on currency balances	1,504	(265)
Unrealised exchange gains on the loan facility	1,357	2,118
	2,861	1,853

4 Income

	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
Income from investments:		
Overseas dividends	2,025	2,065
	2,025	2,065
Interest on deposits	55	23
	2,080	2,088

5 Investment management fee

	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
Management fee	1,565	1,727
	1,565	1,727

6 Administrative expenses

	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
Allocated to revenue:		
General expenses	214	216
Directors' fees	85	85
Secretarial fee	75	55
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	16	17
Fees payable to the Company's auditor and its associates for other services:		
Other services	-	2
	390	375

Notes to the Accounts continued

7 Interest payable

	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
Bank overdraft interest payable	1	–
Bank loan interest payable	243	137
	244	137

8 Taxation

(a) Analysis of charge in the year

	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
Irrecoverable overseas tax	142	144
Total current taxation (note 8(b))	142	144

(b) Factors affecting 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 qualify for investment trust status under Section 842 of the Income and Corporation Taxes Act 1988.

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%).

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

The differences are explained below:

	For the year ended 31 July 2007			For the year ended 31 July 2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Loss)/return on ordinary activities before tax	(119)	(6,277)	(6,396)	(151)	23,016	22,865
(Loss)/return on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	(36)	(1,883)	(1,919)	(45)	6,905	6,860
Effects of:						
Capital returns on investments	–	1,883	1,883	–	(6,905)	(6,905)
Irrecoverable overseas tax	142	–	142	144	–	144
Expenses not utilised in the year	36	–	36	45	–	45
Current tax charge for the year (note 8(a))	142	–	142	144	–	144

(c) Provision for deferred tax

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

(d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £2,141,000 (2006: £2,120,000) in respect of unutilised management expenses and £527,000 (2006: £379,000) in respect of eligible unrelieved foreign tax.

It is unlikely that these amounts will be utilised in future accounting periods unless the investment policy of the Company or the tax treatment is changed.

Notes to the Accounts continued

9 (Losses)/return per ordinary share

	For the year ended 31 July 2007	For the year ended 31 July 2006
Revenue losses (£'000)	(261)	(295)
Capital (losses)/return (£'000)	(6,277)	23,016
Total (£'000)	(6,538)	22,721
Weighted average number of shares	125,008,200	125,008,200
Revenue losses	(0.21)p	(0.24)p
Capital (losses)/return	(5.02)p	18.41p
Total	(5.23)p	18.17p

10 Investments held at fair value through profit or loss

	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
Movements of investments held as fixed assets:		
Book cost brought forward	152,424	132,313
Acquisitions at cost	38,979	58,115
Proceeds of disposals	(44,236)	(51,013)
Net gains realised on disposals	4,291	13,009
Book cost at 31 July	151,458	152,424
Unrealised appreciation of investments	1,556	14,985
Valuation of investments at 31 July	153,014	167,409

All investments are listed on a recognised stock exchange.

The following transaction costs, including stamp duty and broker commissions, were incurred during the year:

	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
On acquisitions	40	64
On disposals	48	55
	88	119

11 Debtors

	At 31 July 2007 £'000	At 31 July 2006 £'000
Amounts receivable within one year:		
Disposals for future settlement	2,640	1,900
Accrued income	84	79
Prepaid expenses	16	16
Other debtors	70	88
	2,810	2,083

Notes to the Accounts continued**12 Creditors**

	At 31 July 2007 £'000	At 31 July 2006 £'000
Amounts falling due within one year:		
Bank loan	20,666	30,423
Acquisitions for future settlement	2,039	2,089
Accrued expenses	508	512
	23,213	33,024

The Company has a loan facility of Yen 6.5 billion (2006: Yen 6.5 billion) with ING Bank N.V. of which Yen 5 billion was drawn down at the end of the year. This facility has a revolving 364 day term, is chargeable at a floating rate linked to the Yen LIBOR, and is unsecured.

13 Contingent liabilities

The Company had no contingent liabilities at the balance sheet date (2006: £nil).

14 Called up share capital

	At 31 July 2007 £'000	At 31 July 2006 £'000
Authorised:		
187,500,000 (2006: 187,500,000) ordinary shares of 10p each	18,750	18,750
Allotted, called up and fully paid:		
125,008,200 ordinary shares of 10p each	12,501	12,501

15 Share premium account

	At 31 July 2007 £'000	At 31 July 2006 £'000
Balance brought forward and carried forward	7	7

16 Share purchase reserve

	At 31 July 2007 £'000	At 31 July 2006 £'000
Balance brought forward and carried forward	97,205	97,205

17 Warrant exercise reserve

	At 31 July 2007 £'000	At 31 July 2006 £'000
Balance brought forward and carried forward	3	3

Notes to the Accounts continued

18 Capital reserves

	2007		
	Realised £'000	Unrealised £'000	Total £'000
Balance brought forward at 31 July 2006	19,161	20,963	40,124
Net realised profit based on carrying values at the previous balance sheet date	272	–	272
Unrealised depreciation on investments arising during the year	–	(9,410)	(9,410)
Transfer on disposal of investments	4,019	(4,019)	–
Realised exchange gains on currency balances	1,504	–	1,504
Unrealised exchange gains on the loan facility	–	1,357	1,357
Balance carried forward at 31 July 2007	24,956	8,891	33,847

19 Revenue reserve

	At 31 July 2007 £'000	At 31 July 2006 £'000
Balance brought forward	(7,676)	(7,381)
Net revenue losses for the year	(261)	(295)
Balance carried forward	(7,937)	(7,676)

20 Net asset value per ordinary share

	31 July 2007	31 July 2006
Net asset value per ordinary share	108.49p	113.72p

The net asset value per ordinary share is based on net assets attributable to ordinary shareholders of £135,626,000 (2006: £142,164,000) and 125,008,200 (2006: 125,008,200) ordinary shares in issue at the year end.

21 Reconciliation of return before finance costs and taxation to net cash inflow from operating activities

	For the year ended 31 July 2007 £'000	For the year ended 31 July 2006 £'000
Net (losses)/return before finance costs and taxation	(6,152)	23,002
Losses/(gains) on investments held at fair value	9,138	(21,163)
Other currency gains	(2,861)	(1,853)
Increase in accrued income	(5)	(13)
Decrease/(increase) in prepayments and other debtors	18	(27)
(Decrease)/increase in accrued expenses (excl. interest)	(9)	103
Net cash inflow from operating activities	129	49

Notes to the Accounts continued

22 Analysis of changes in net debt

	At 31 July 2006 £'000	Cash flow in £'000	Movement in borrowings £'000	Exchange gain/(loss) £'000	At 31 July 2007 £'000
Cash at bank & short-term deposits	5,696	(1,965)	–	(716)	3,015
Net cash at 31 July	5,696	(1,965)	–	(716)	3,015
Bank loan	(30,423)	–	6,180	3,577	(20,666)
Net debt at 31 July	(24,727)	(1,965)	6,180	2,861	(17,651)

23 Related party transactions

The Company has appointed Schroders 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 Schroders in respect of the year ended 31 July 2007 was £1,565,000 (2006: £1,727,000), of which £387,000 (2006: £406,000) was outstanding at the year end. The total secretarial fee (excluding VAT) payable to Schroders in respect of the year ended 31 July 2007 was £75,000 (2006: £55,000), of which £19,000 (2006: £14,000) was outstanding at the year end.

Banking facilities were provided during the year by Schroder & Co Limited. At 31 July 2007, the balance held at Schroder & Co Limited was £85,000 (2006: £91,000) and the total interest receivable at the year end was £nil (2006: £nil).

In addition to the above services, Schroders 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 2007 was £6,000 (2006: £3,000), of which £3,000 (2006: £2,000) was outstanding at the year end.

24 Risk management

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 provides for 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 are stated at fair value.

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 potential 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.

(i) 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 and 9. Investments are valued in accordance with the Company's accounting policies as stated in Note 1. 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.

Notes to the Accounts continued

24 Risk management continued

In order to manage this risk the Directors meet regularly with the Manager to compare the performance of the portfolio against market indices and comparable investment trusts. The Company does not generally hedge against the effect of changes in the underlying prices of the investments as it is believed that the costs associated with such a process would result in an unacceptable reduction in the prospects for capital growth.

The Company had no derivative instruments at the year-end, but, in the event that it had, the value of derivative instruments held at the balance sheet date would be determined by reference to their market value at that date.

(ii) 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.

(iii) 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 to consider entering 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 2007 and at 31 July 2006 the Company had no forward foreign exchange contracts in place.

Both the amount and the currency split of the financial instruments are expected to fluctuate as cash flow payments and receipts are made on a regular basis in currencies other than sterling.

(iv) Liquidity risk

The Company's assets mainly comprise readily realisable securities which may be sold to meet funding requirements as necessary.

(v) Interest rate risk

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 in the valuation of equities, although this forms part of market price risk, which has already been considered separately above.

The Company has a loan facility of Yen 6.5 billion (2006: Yen 6.5 billion) with ING Bank N.V. This facility has a revolving 364 day term. The interest is chargeable at a floating rate linked to Yen LIBOR and is unsecured.

The carrying amount, by the earlier of contractual re-pricing or maturity date, of the Company's financial instruments was as follows:

	At 31 July 2007		At 31 July 2006	
	In 1 year or less £'000	More than 1 year £'000	In 1 year or less £'000	More than 1 year £'000
Cash flow interest rate risk				
Loans and receivables				
Cash at bank and short-term deposits	3,015	–	5,696	–
Financial liabilities				
Loan facility	(20,666)	–	(30,423)	–
	(17,651)	–	(24,727)	–

Notes to the Accounts continued

24 Risk management continued

	At 31 July 2007		At 31 July 2006	
	In 1 year or less £'000	More than 1 year £'000	In 1 year or less £'000	More than 1 year £'000
Financial assets at fair value through profit or loss				
Fixed asset investments at fair value	–	153,014	–	167,409
Loans and receivables				
Short-term trade receivables	2,640	–	1,900	–
Financial liabilities				
Short-term trade payables	(2,039)	–	(2,089)	–
	601	153,014	(189)	167,409

As shown by the list of investments in the portfolio at 31 July 2007 on pages 8 and 9, the investments are equity based and are not therefore subject to interest rate risk.

(vi) Financial assets

The Company's financial assets comprise equity investments, short-term trade receivables and cash balances. The currency cash flow profile of those financial assets was as follows:

31 July 2007	Japanese Yen	Sterling	Total
	£'000	£'000	£'000
Fixed asset investments at fair value through profit or loss	153,014	–	153,014
Loans and receivables	4,201	1,454	5,655
	157,215	1,454	158,669
31 July 2006	Japanese Yen	Sterling	Total
	£'000	£'000	£'000
Fixed asset investments at fair value through profit or loss	167,409	–	167,409
Loans and receivables	6,148	1,448	7,596
	173,557	1,448	175,005

(vii) Financial liabilities

The Company's financial liabilities comprise bank loans, overdraft balances and short-term trade payables. Details of the Company's bank facility are disclosed in note 12.

The currency cash flow profile of those financial liabilities was:

31 July 2007	Japanese Yen	Sterling	Total
	£'000	£'000	£'000
Loan facility	20,666	–	20,666
Short-term trade payables	2,039	–	2,039
	22,705	–	22,705
31 July 2006	Japanese Yen	Sterling	Total
	£'000	£'000	£'000
Loan facility	30,423	–	30,423
Short-term trade payables	2,089	–	2,089
	32,512	–	32,512

(viii) Fair value

The Company's assets and liabilities are stated at their fair values at the year-end. The fair value of shares and securities is based on last traded market prices.

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 daily.

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

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

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 27 September 2007, the Company had 125,008,200 ordinary shares of 10p each in issue.

Analysis of Register of Shareholders

At 31 July 2007

% of issued shares held by:	Ordinary Shares
Private individuals	10.9
Banks and nominee companies*	83.3
Other institutions	5.8
	100.0
Total number of holders	4,390

*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 2007/2008 tax year, the annual capital gains (after adjusting for indexation and taper relief of private individuals in excess of £9,200 (2006/2007: £8,800) 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, 7 November 2007 at 31 Gresham Street, London EC2V 7QA, to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 7 will be proposed as Ordinary Resolutions and resolutions 8 to 10 will be proposed as Special Resolutions:

1. To receive the Report of the Directors and the audited Accounts for the year ended 31 July 2007.
2. To approve the Directors' Remuneration Report for the year ended 31 July 2007.
3. To re-elect Mr Taylor as a Director of the Company.
4. To re-elect Mr Lyon as a Director of the Company.
5. To re-elect Mr Kingzett as a Director of the Company.
6. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company and to authorise the Board to determine their remuneration.
7. To consider and, if thought fit, to pass the following resolution as an ordinary resolution: "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 27 September 2007) 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."
8. To consider and, if thought fit, to pass the following resolution as a special resolution: "That, subject to the passing of resolution 7 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 7 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 27 September 2007); 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."
9. To consider and, if thought fit, to pass the following resolution as a special resolution: "That the Company be and is hereby generally and unconditionally authorised in accordance with Section 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 (i) 105% of the average of the middle market quotations for a share of the class being purchased taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased and (ii) the higher of the price of the last independent trade in the shares of that class and the highest then current independent bid for the shares of that class on the London Stock Exchange;
 - (d) purchases may only be made pursuant to this authority if the Shares are (at the date of the proposed purchase) trading on the London Stock Exchange at a discount to the Net Asset Value;
 - (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
 - (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

Notice of Meeting continued

partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.”

10. To consider and, if thought fit, to pass the following resolution as a special resolution:
 “That the document presented to the meeting and signed by the Chairman for the purposes of identification be and is hereby adopted as the Articles of Association of the Company in substitution for the existing Articles.”

Registered Office:
 31 Gresham Street
 London EC2V 7QA
 Registered Number: 2930057
 27 September 2007

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 6.00 p.m. on 5 November 2007 shall be entitled to attend and vote at the meeting in respect of the number of Shares registered in their name at that time. Changes to the Register of Members after 6.00 p.m. on 5 November 2007 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 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

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Secretary and Registered Office

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