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FIDELITY JAPAN TRUST PLC

Annual Report for the year ended 31 December 2022



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Objective and Overview

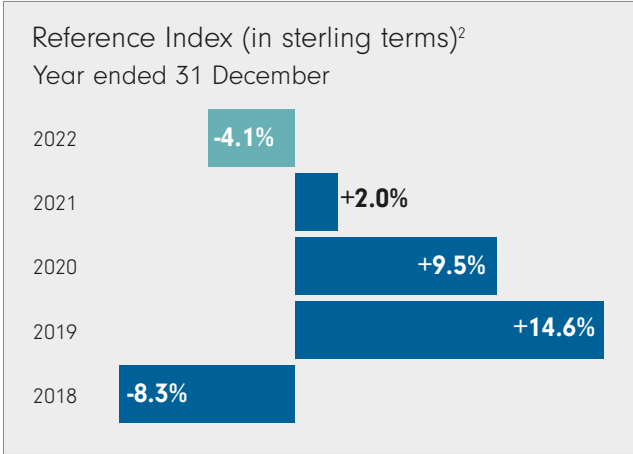
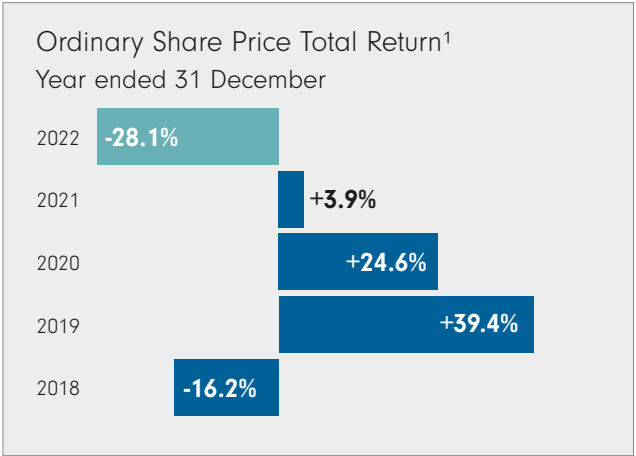
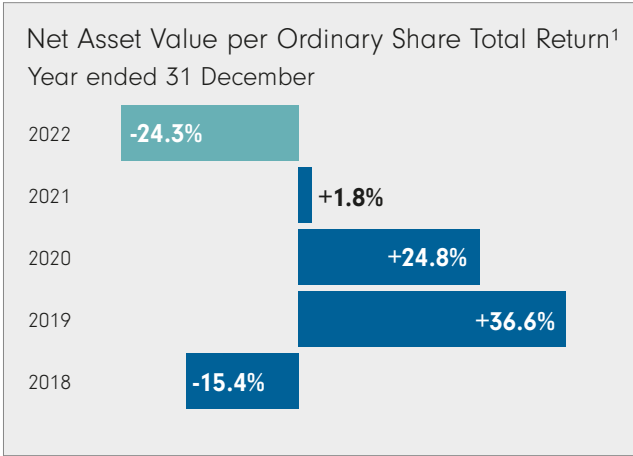
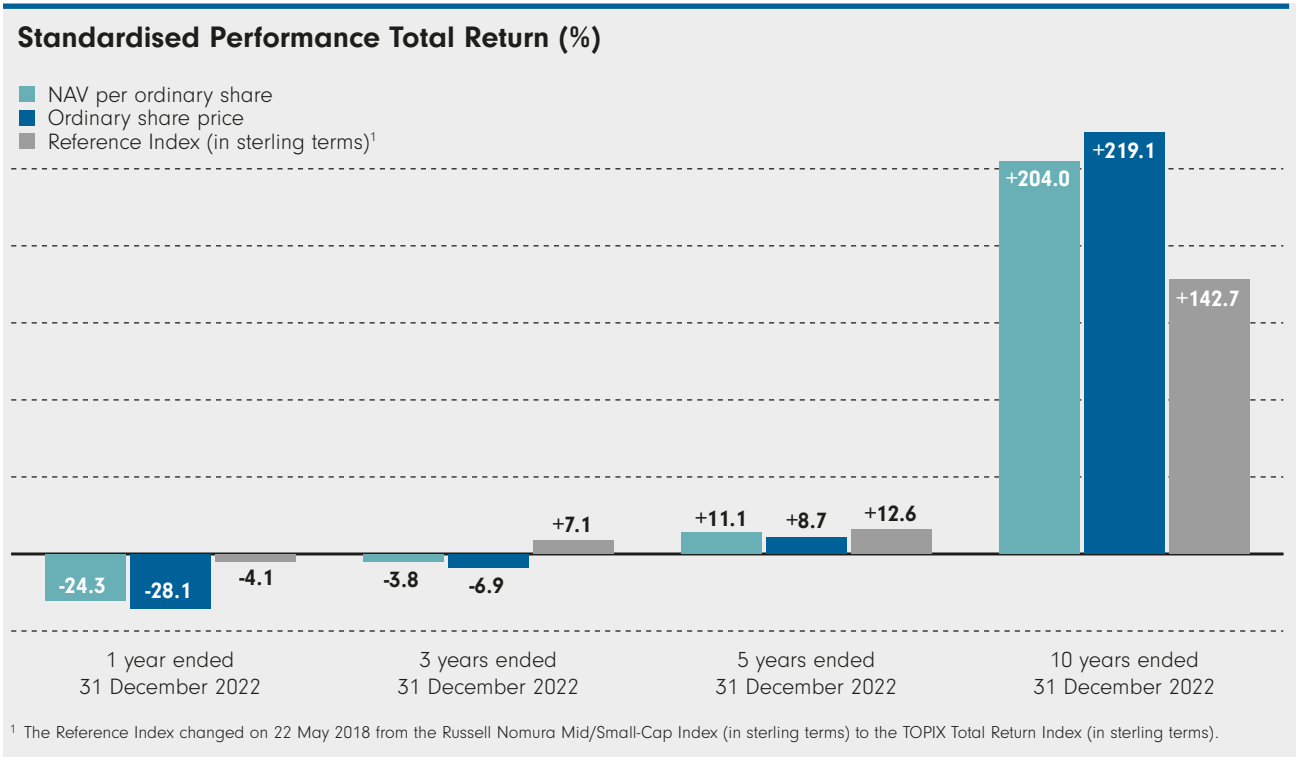
The Company aims to achieve long-term capital growth by investing predominantly in equities and related securities of Japanese companies.

Fidelity Japan Trust PLC uses its local presence to fully exploit the investment opportunities in Japan.

Around 90% of Japanese small and mid-sized companies get little or no analyst coverage. As under-researched companies are more likely to be undervalued, this presents an opportunity.

The Company looks to benefit from the more dynamic sectors of Japan's economy, focusing on fast growing but attractively valued stocks. With an acute understanding of this unique region and economy, combined with Fidelity's hands-on local research, Nicholas Price, the Portfolio Manager, and the team of analysts, identify stocks often not picked out by others.

At a Glance



1 Alternative Performance Measures. [See page 79.](#)

2 The Reference Index changed on 22 May 2018 from the Russell Nomura Mid/Small Index (in sterling terms) to the TOPIX Total Return Index (in sterling terms).

Sources: Fidelity and Datastream.

Past performance is not a guide to future returns.

Summary of Results

	2022	2021
Assets at 31 December		
Total portfolio exposure ¹	£285.5m	£380.4m
Shareholders' funds	£236.4m	£312.7m
Total portfolio exposure in excess of shareholders' funds (Gearing – see page 22) ²	20.8%	21.6%
Net Asset Value (NAV) per ordinary share ²	182.24p	240.73p
Share Price and Discount data at 31 December		
Ordinary share price at the year end	164.75p	229.00p
year high	232.50p	261.00p
year low	143.00p	203.50p
Discount at the year end ²	9.6%	4.9%
year high	13.2%	9.5%
year low	1.3%	1.8%
Results for the year to 31 December – see page 58		
Revenue return per ordinary share ²	1.46p	1.61p
Capital (loss)/return per ordinary share ²	(60.01p)	2.50p
Total (loss)/return per ordinary share ²	(58.55p)	4.11p
Ongoing charges for the year to 31 December ^{2, 3}	0.99%	0.90%
Variable management fee (credit)/charge	(0.03%)	0.20%
Ongoing charges including variable management fee for the year to 31 December	0.96%	1.10%

¹ The total exposure of the investment portfolio, including exposure to the investments underlying the long Contracts for Difference. [See page 22.](#)

² Alternative Performance Measures.

³ Ongoing Charges (excluding finance costs and taxation) as a percentage of the average net asset values for the reporting year (prepared in accordance with guidance issued by the Association of Investment Companies). A definition of Ongoing Charges is in the Glossary of Terms on [page 89.](#)

As at 31 December 2022

Shareholders' Funds

£236.4m

Market Capitalisation

£213.7m

Capital Structure

Ordinary Shares of 25 pence held outside Treasury

129,701,893

Summary of the key aspects of the Investment Policy

The Portfolio Manager will typically focus on those companies primarily listed on Japanese stock exchanges whose growth prospects are not fully recognised by the market ("growth at a reasonable price"). The Portfolio Manager is not restricted in terms of size or industry of the underlying entities in which he invests.

The Company can hold cash or invest in cash equivalents, including money market instruments, and is also able to use derivatives for efficient portfolio management, gearing and investment purposes.

The Portfolio Manager must work within the guidelines set out in the Investment Policy.

The Company operates a variable management fee arrangement details of which can be found on [page 36.](#)

Contents



Chairman's Statement

Read more on [pages 02 and 03](#)



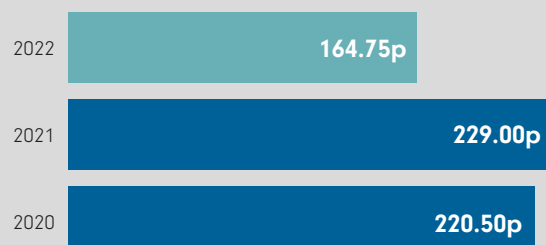
Portfolio Manager's Review

Read more on [pages 04 to 11](#)

Top 10 Holdings

Read more on [pages 17 and 18](#)

Ordinary Share Price as at 31 December



Ten Year Record

Read more on [page 24](#)

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Chairman's Statement



I am pleased to present the Annual Report of Fidelity Japan Trust PLC for the year ended 31 December 2022.

David Graham, Chairman

Performance Review

2022 was one of the most challenging years for financial markets in a long time and this was reflected in the returns of Fidelity Japan Trust PLC. While the TOPIX, the Japanese market index, fell by only 4.1% in sterling terms over the year to 31 December 2022, the market saw a savage rotation out of growth stocks, where the Company has remained heavily weighted, and into value stocks where the Company was under represented. This resulted in the Company's NAV per share falling by 24.3% over the year to 31 December 2022 and the share price of the Company falling by 28.1%. Last year's performance has also impacted the cumulative performance over three and five years but the ten year performance of the Company remains strong with both the share price and NAV significantly outperforming the Reference Index.

Discount Management, Share Repurchases and Treasury Shares

The Board has an active discount management policy, the primary purpose of which is to reduce discount volatility. The discount at which the Company's shares traded widened from 4.9% at the start of the year to 9.6% at the end of the reporting year, having peaked at 13.2%. The Board's policy is to aim to manage the discount so that it remains in single digits in normal market conditions.

As part of the discount management policy, 175,001 ordinary shares were repurchased for holding in Treasury over the year at a cost of £284,000. This represents 0.1% of the issued share capital. Since the year end and up to the date of this report, a further 345,200 ordinary shares have been repurchased at a cost of £600,600.

At the forthcoming Annual General Meeting, the Board is seeking to renew the annual authority to repurchase up to 14.99% of the Company's shares, to be either cancelled or held in Treasury, as it has done each year previously.

Ongoing Charges

The ongoing charge for the year, including the variable element, was 0.96% (2021: 1.10%). This comprises a fixed charge of 0.99% (2021: 0.90%), which rose principally as a result of a fall in the value of the Company's net assets, and a variable credit of 0.03% (2021: charge of 0.20%). This reduction in the variable management fee is due to the Company's underperformance in comparison to its Reference Index on a three-year rolling basis.

Gearing

The Company continues to gear the portfolio through the use of long Contracts for Difference (CFDs). Clearly, the level of gearing damaged performance in the falling market that we saw in 2022. However, the Board believes that gearing is a distinct advantage of the investment trust structure and will benefit the performance of the Company as the market recovers.

The Portfolio Manager has the discretion to be up to 25% geared. Total portfolio exposure at the end of the year was £285.5m, equating to gearing of 20.8% compared with 21.6% at the end of 2021. Further information can be found on pages 26 and 27 of the Strategic Report. As at 24 March 2023, gearing was 24.0%.

The Board continues to be of the view that using CFDs provides more flexibility at a much lower cost than traditional bank debt.

Unlisted Companies

Following shareholder approval at the AGM on 17 May 2022, the Company is permitted to invest up to 20% of the Company's assets in unlisted companies. Given the volatile market environment, the investment team have proceeded with caution and the level of unlisted investments was just 8.0% of net assets at the year end compared to 5.4% as at 31 December 2021.

Due Diligence Trip 2022

Following the Japanese Government relaxing restrictions on foreign visitors, the Board was able to conduct a Due Diligence trip to Japan in October 2022, our first visit since January 2019. We had a series of meetings with the investment team, all of the investment analysts and senior management of Fidelity in Tokyo as well as with external market commentators and some of the Company's key investee companies. As well as giving the Board a better informed perspective on Japan, the trip gave us reassurance about the depth of resources supporting Nicholas Price and the investment team. We are confident that the management of the Fidelity Japan Trust is in good hands.

Board Changes

The Board continues to review its composition and effectiveness as well as considering appropriate succession planning. In this context, I am pleased to welcome Myra Chan who joined the Board as a non-executive Director on 17 October 2022. Myra is a CFA and graduated from the International Christian University of Tokyo and has since had 25 years of investment experience.

All Directors are subject to annual re-election at the AGM on 24 May 2023, with the exception of Myra Chan who, being newly appointed, is subject to election at the AGM. Biographical details of the full Board are included on page 35 to assist shareholders when considering their voting at the AGM.

Annual General Meeting (AGM)

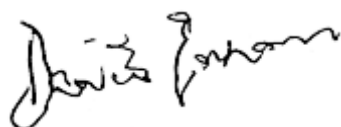
This year we will be holding a 'hybrid' general meeting in accordance with the Articles of Association, allowing attendance and voting in person as well as remotely in real time. Nicholas Price will be making a presentation, reviewing 2022 and outlining the opportunities in the market and prospects for this year. He and the Board will be very happy to answer any questions that shareholders may have from those in the room and those attending online. The presentation and formal business will all be filmed and simultaneously streamed online. Japanese refreshments will be served and I hope to see many of you there.

More details are set out on [page 80](#) and in the Notice of Meeting on [pages 81 to 84](#).

Outlook

Since the end of 2022, the gloomy prospects for the world economy have receded a little and markets have recovered from their low levels. As at 28 February 2023, the NAV of Fidelity Japan Trust has risen by 4.3% which compares to a rise of 1.4% in the Reference Index.

Overall, the valuation of companies in Japan are looking attractive both in historic terms as well as relative to other markets and the profitability of Japanese companies continues to improve. As a result, the Board remains positive about the prospects for the Company for 2023 and over the medium-term unless there is a significant deterioration in sentiment on account of global geopolitical issues or a sustained financial crisis triggered by the collapse of Silicon Valley Bank and subsequent contagion in the global banking sector. We are confident that Nicholas Price and the Fidelity investment team in Tokyo, with their disciplined, research-driven investment process, will return to delivering strong investment returns for shareholders.



David Graham

Chairman

28 March 2023

Portfolio Manager's Review



Nicholas Price was appointed as Portfolio Manager of Fidelity Japan Trust PLC on 1 September 2015. He joined Fidelity Investments Japan in 1993 as a research analyst. He became a portfolio manager in 1999 and has since been managing a number of Japanese equity portfolios on behalf of both Japanese and international clients.

Question

The year under review has been challenging for growth-oriented equity strategies. Why is that and what were the key drivers of the Japanese stock market?

Answer

The past year proved to be a difficult one for investors, with prices declining across regions and asset classes. While the Japanese market declined only modestly in yen terms, the reality is that under the surface, style trends were extreme. This is the result of aggressive action by the US Federal Reserve (Fed) to address inflation, supply chain disruptions due to COVID-19 and the war in Ukraine. Growth stocks underperformed their value counterparts by more than 20% in 2022, which is the most significant divergence since the collapse of the technology bubble in 2000. These trends created significant performance headwinds for the Company and other growth-oriented funds.

Against this backdrop, higher valuation stocks in sectors such as Electric Appliances, Services and Precision Instruments faced compression of price earnings multiples amid rising yields. Exporters in general were weak as concerns over a global recession and lockdowns in China outweighed the benefits of a weaker yen. Conversely, the Mining and Wholesale Trade sectors were among the strongest performers in 2022, reflecting tightness in commodities. Rate-sensitive Financials did well towards the end of the year, and railway and airline operators outperformed on Japan's post-COVID-19 reopening.

Although there are concerns over a further slowdown in the global economy, the sensitivity of growth stocks to monetary policy is declining, and the reopening of the domestic economy and the resumption of inbound demand should help to put a floor under mid/small-cap stocks. After value stocks dominated in 2022, the relative earnings prospects of growth companies are more attractive and there is much scope for upside within the mid/small-cap growth space.

Question

What was investment performance over the reporting period? What were the key contributors and detractors? What about longer-term numbers?

Answer

As noted in the Chairman's Statement, the Company's NAV per share declined by 24.3% in sterling terms and the share price fell by 28.1%. In comparison, the Reference Index decreased by 4.1%. The discount widened to 9.6% from 4.9% a year ago. The Company underperformed the weighted average return of the AIC Japan peer group over the year, but despite this, was largely in line with other mid/small-cap growth competitors.

While the five year performance is disappointing against the Reference Index, it compares favourably with other Japanese investment funds. Over the ten year period, we have strongly outperformed our Benchmark.

The new year brought with it an extreme style rotation that led to the outperformance of value names and sharp declines for growth stocks that are vulnerable to changes in interest rates. This generated formidable headwinds and mid/small-cap growth stocks, notably in the Software-as-a-Service (SaaS)/Internet space, corrected sharply in the first half of the year as the prospect of further monetary tightening in the US and Europe led to a sharp compression in valuation multiples. Key examples here are **Raksul** (Business-to-Business (B2B) e-Commerce (EC) printing and advertising), **Coconala** (Consumer-to-Consumer (C2C) freelancing platform) and **Sansan** (cloud-based contact management services). However, as these companies shift from investment to profit mode, we expect the market to reappraise them based on improvements to their bottom line.

At the same time, companies tied to secular growth trends such as Factory Automation (FA) and Electric Vehicles (EV) that did well last year were subject to profit taking. For example, FA components supplier **MISUMI Group** experienced a temporary slowdown in earnings due to supply chain disruptions and procurement difficulties. However, it remains a highly differentiated FA-related company with a strong digitalised business that is trading on attractive valuations. Similarly, EV motor core manufacturer **Mitsui High-tec**, the standout contributor to performance in 2021, faced selling pressure amid a slowdown in earnings at its secondary electronics business. Nevertheless, it commands a dominant position in the motor core market and our conviction in its mid-term growth prospects remains strong.

At a sector level, the Company's underweight stance in Banks and Insurance weighed on relative returns. The Bank of Japan's (BoJ) unexpected decision to revise its yield curve control policy drove gains in rate-sensitive financials. In this environment, not holding mega banks **Mitsubishi UFJ Financial Group** and **Sumitomo Mitsui Financial Group** hurt relative performance.

On a positive note, domestic reopening names and electronic equipment makers supported by a secular growth story were among the Company's strongest performers. **Kotobuki Spirits**, a confectionary company that manufactures and distributes premium sweets and cakes typically bought as souvenirs, was the standout contributor to performance over the year. **Kotobuki** continued to expand its sales channels, centred on stores in prime locations such as train stations and airports, and sales started to recover after the Japanese government ended the quasi state of emergency and subsequently reopened the country's borders to inbound tourists. The Company's holdings in game centre operator **Round One** and shoe store chain owner **ABC-Mart** also added value.

Tsuburaya Fields Holdings, a relatively new position that was initiated in July, outperformed. The maker of pachinko slot machines announced a significant upward revision to its full-year earnings forecasts, reflecting strong sales in China. Its content and digital business, centred on the Ultraman character, was expected to make a major contribution to its earnings as

it expands globally. Meanwhile, shares in medical equipment maker **Olympus** jumped to a record high. The company reported strong annual results and forecasted that profits would reach new highs in fiscal 2022 (12 months to March 2023), driven by the growth of its core endoscopic solutions business. Further progress in restructuring and the prospect of higher shareholder returns also supported its share price.

Question

How has the portfolio changed over the period and how would you describe current positioning?

Answer

The Information & Communication and Services sectors remain among the largest overweight positions in the Company, reflecting holdings in fast growing domestic B2B/B2C platformers and unique service providers. The extent of the active weights has reduced over the year, and this partly reflects the sharp correction in mid/small-cap growth stocks, especially in internet-related companies (**Raksul**, **JustSystems**, **Sansan**), in the first half of the year. More recently, profit taking in strong-performing reopening names (for example, game centre operator **Round One** and Tokyo Disneyland owner **Oriental Land**) has also been a factor.

As a result of bottom-up stock selection, there has been an increase in the active exposures to the Chemicals and Retail Trade sectors. **NOF** and **Kansai Paint** remain key active positions in the Chemicals sector, while **Osaka Soda** (a supplier of niche functional chemicals with strong pricing power that is expanding its medical-related business) is a new addition. In the Retail Trade sector, **Ryohin Keikaku** (operating as MUJI in the UK) remains a key active position, while reopening names (shoe store operator **ABC-Mart** and Uniqlo brand owner **Fast Retailing**) were added.

Meanwhile, there was no significant change in the key underweight sector positions (Transportation Equipment, Banks, Pharmaceutical and Land Transportation) in the portfolio.

While there have been opportunities to add oversold technology-related companies that are approaching the trough of their respective cycles, the portfolio is, on balance, bottom-up weighted towards companies that are likely to benefit from a strengthening yen, such as retailers, domestic growth names and re-opening beneficiaries with favourable mid-term fundamentals. Key active holdings in the portfolio include a mix of global industry leaders with high market share and pricing power, reopening names that are beneficiaries of economic and societal normalisation, and defensive growth companies with stable earnings and shareholder returns.

Portfolio Manager's Review continued

Below are the ten highest contributors and detractors to the NAV total return on a relative basis.

Ten Highest Contributors (on a relative basis)

Company and Sector	Portfolio Average Weight %	Index Average Weight %	Portfolio Average Relative Weight (%)	Contribution to Relative Return (%)
Kotobuki Spirits (Foods)	+2.9	0.0	+2.9	+1.0
Tsuburaya Fields Holdings (Wholesale Trade)	+0.4	0.0	+0.4	+0.8
Olympus (Precision Instruments)	+4.2	+0.5	+3.7	+0.7
Sony (Electric Appliances)	+0.2	+2.8	-2.6	+0.5
Nidec (Electric Appliances)	0.0	+0.9	-0.9	+0.5
Round One (Services)	+1.5	0.0	+1.5	+0.5
Kamakura Shinsho (Services)	+0.9	0.0	+0.9	+0.5
m-up (Information & Communication)	+1.2	0.0	+1.2	+0.4
ABC-Mart (Retail Trade)	+1.0	0.0	+1.0	+0.4
Koshidaka Holdings (Services)	+0.9	0.0	+0.9	+0.4

Ten Highest Detractors (on a relative basis)

Company and Sector	Portfolio Average Weight %	Index Average Weight %	Portfolio Average Relative Weight (%)	Contribution to Relative Return (%)
Raksul (Information & Communication)	+2.7	0.0	+2.7	-1.9
MISUMI Group (Wholesale Trade)	+4.3	+0.2	+4.1	-1.9
Coconala (Information & Communication)	+1.3	0.0	+1.3	-1.7
Mitsui High-tec (Electric Appliances)	+4.0	0.0	+4.0	-1.7
Sansan (Information & Communication)	+2.2	0.0	+2.2	-1.4
JustSystems (Information & Communication)	+2.6	0.0	+2.6	-1.3
UT Group (Services)	+1.7	0.0	+1.7	-1.1
Kansai Paint (Chemicals)	+2.8	+0.1	+2.7	-0.9
Plaid (Information & Communication)	+0.3	0.0	+0.3	-0.7
Mitsubishi UFJ Financial Group (Banks)	0.0	+1.7	-1.7	-0.6

Question

What has been the impact of the weak yen and generally volatile currency on your investment thinking over the year?

Answer

The weakening of the yen, while generally positive for export competitiveness, has exacerbated inflationary pressures by raising the cost of imported goods and materials for Japanese consumers and businesses. Furthermore, the export boost from the lower yen has been weaker than in previous cycles due to supply disruptions, surging input costs and a slowdown in global demand.

I generally do not take a strong view on the yen and currency forecasts do not play an active role in my bottom-up investment process. While individual holdings with a high ratio of overseas sales may at times benefit from a weaker yen, the portfolio overall has tended to be currency neutral to being slightly negative versus the Reference Index. This is because of a consistent focus on mid/small-caps, which typically generate the bulk of their revenues at home.

Question

Has the last year changed your perspective on the opportunities in unlisted stocks? Has our exposure to unlisted stocks changed over the year?

Answer

Global Initial Public Offering (IPO) volumes fell sharply in 2022, with average deal sizes shrinking due to a correction in valuations and unfavourable market conditions. In an environment characterised by rising inflation, higher interest rates and persistent geopolitical tensions, investors became more cautious and the appetite for new public companies waned. The same trends prevailed in Japan. There were 91 IPOs in 2022, down by almost 30% compared to 2021, but in line with the ten-year average. There were only three IPOs that raised more than ¥10 billion in 2022, down from 18 in the previous year.

Despite the muted market conditions that predominated in 2022, we retain a high level of conviction in unlisted investments as a differentiated source of excess returns in Japan. The government of Prime Minister Fumio Kishida recently outlined a five-year plan to promote innovation and nurture start-ups, with the aim of driving a tenfold increase in the number of unicorn companies and new business launches through tax incentives, funding and government procurement. Moreover, from our experience on the ground, we are seeing a lot more entrepreneurial activity in Japan compared with five to ten years ago.

While new listings (both in Japan and globally) are coming under pressure amid heightened geopolitical and inflationary risks, new growth companies are still coming through, which will create future opportunities in the pre-IPO market. Being on the ground in Japan, and seeing many different companies, means that we are well placed to help entrepreneurs in the latter stages of their pre-IPO journey.

While Japan has always been successful in automobiles and electronics, the information revolution is throwing up new opportunities in areas such as SaaS. We are also seeing new business opportunities emerge in response to major challenges facing the world, primarily climate change and decarbonisation. For example, one of our pre-IPO companies, fintech innovator **Moneytree**, announced a tie-up with Cogo of New Zealand to provide carbon emissions analysis for Japanese financial institutions. As Japan aims to reduce greenhouse gas emissions to net zero by 2050, there is accelerating demand for such carbon footprint management solutions.

At the end of the review period, seven unlisted names were held, representing 8.0% of net assets (2021: six names, representing 5.4%), including a new position in **Studyplus**. The company operates Japan's leading learning management platform for high school students and associated services for educational institutions. As always, we continue to evaluate new opportunities, while maintaining a disciplined approach towards valuation.

Details of the unlisted companies held in the portfolio can be found on [page 77](#).

Portfolio Manager's Review continued

Question

The Bank of Japan's surprise change to its yield curve control policy on 20 December 2022, triggered large swings in the currency, bond and equity markets. What impact has this had on the Company's portfolio, and should investors brace themselves for further adjustments to monetary policy?

Answer

The timing of the BoJ's decision was unexpected, with the immediate objective being to improve the functioning of the Japanese government bond market. While I have selectively added positions in regional banks that are highly levered to changes in domestic monetary policy, the portfolio overall remains underweight in Financials. Furthermore, the Company has exposure to growth stocks that benefit from a stronger yen and that acts as a natural hedge against a change in the BoJ policy.

A lot of tightening has already been priced in and further appreciation in financial stocks would require confirmation of strong and sustainable domestic wage hikes and domestic inflation, and a move by the BoJ towards exiting its negative interest rate policy at a time of relatively weak global economic conditions.

There may be political momentum building in the background, pressuring the BoJ to review its yield curve control policy, and the appointment of Kazuo Ueda as the new governor in the spring fuelled expectations for the normalisation of Japan's monetary policy. We will continue to monitor developments closely, especially the nuance of the BoJ's communications and any apparent change in the government's views on monetary policy.

Question

Sustainability remains a key area of focus for investors. Can you outline your approach as well as the opportunities and challenges in this area that are specific to Japan?

Answer

Sustainability is a core part of the Fidelity-wide investment process and assessing which companies can grow sustainably over the mid-term and enhance the efficiency of other corporates and their supply chains is a key part of my portfolio construction. By working closely with our Head of Engagement in Tokyo and maintaining an active dialogue with investee companies, we aim to continually improve the sustainability of their businesses, which will also enhance their performance.

Globally, the uncertainty brought by COVID-19 has shone a light on sustainability – and Japan is no exception. Although Japanese companies generally have lower sustainability scores than their European counterparts, we believe this is not due to any fundamental differences in strategy, but more to do with cultural reasons around disclosure practices and language. By working closely with our sustainable investing team on the ground in Japan, we can identify companies that are implementing real change and moving up the governance scale. As these companies improve disclosure, their Environmental, Social and Governance (ESG) ratings should catch up and the market should adjust valuations accordingly. This creates an opportunity for investors to benefit from the adjustment.

In terms of sustainability, Japan's position as a regional and global leader in tackling climate change remains underappreciated, with the number of Task Force on Climate-related Financial Disclosures (TCFD) signatories reaching far higher levels than in the US and the UK. While Japanese companies have tended to disclose less on social factors versus environmental and governance related ones, we are seeing a greater focus on the promotion of human capital and gender diversity.

Changes to the rules governing non-financial information in securities filings require companies to show how they are addressing factors such as human resource development, gender pay gaps and the ratio of women in managerial positions. Looking forward, we will see changes in how companies address these issues, and how they are evaluated as a result. Ultimately, sustainability factors have the potential to impact the short and long-term value of companies, and investing in those companies with high standards of sustainability can protect and enhance investment returns.

Question

What have been the key ESG trends in Japan and what developments are ahead? It would be particularly interesting to hear your thoughts about the evolution of corporate governance.

Answer

Despite the sometimes slow progress of reforms, we have noticed positive changes in the thought process of many of the companies managements when it comes to embracing the tenets of ESG investment. Japanese firms are adjusting to investors' rising expectations and preparing themselves for higher governance requirements.

Key developments that have taken effect over the past year or so include revisions to Japan's Corporate Governance Code (CGC) and the reform of the Tokyo Stock Exchange (TSE). The former was aimed at encouraging Japanese companies to accelerate their ESG initiatives, including the promotion of board independence, and the enhancement of diversity and sustainability measures. Meanwhile, the TSE restructuring that took place in April 2022 led to the creation of three new market segments (Prime, Standard and Growth), with most companies that previously listed on the TSE's First Section transitioning to the new Prime Market.

As specified in the CGC revision, companies listed on the Prime Market must have at least one-third independent directors, disclose a skills matrix for each board member, and establish independent nomination and compensation committees. The revised CGC also requires companies to set and disclose voluntary measurable goals for ensuring diversity in managerial positions by appointing women, non-Japanese people and mid-career hires. Finally, companies on the Prime Market are obliged to enhance the quality and quantity of climate change disclosures based on TCFD recommendations.

Advocating for faster progress towards gender equality, Fidelity applied a new voting policy in Japan and other Asian markets, requiring investee companies to have a minimum of 15% female directorship ratio. If a company fails to meet the threshold, we will vote against the election of board directors. Before our new voting policy was implemented in Japan's June Annual General Meeting season, 56 Japanese investee companies fell below the 15% threshold, but half of those companies have since made improvements by electing female directors for the first time.

While the broad direction of market reform in Japan is aimed at revitalising listed firms and encouraging sustainable growth, regulators so far have only set the entrance criteria for the Prime Market. We believe that more measures need to be introduced to foster sustainable capitalism. To this end, the TSE has publicly stated that "the market restructuring is only the beginning". We believe sustainability-related factors should become a key focus in future revisions.

Question

Could you provide an example of where active engagement has brought about real change?

Answer

In 2022, the investment team in Tokyo, led by our Head of Engagement, conducted 104 engagement meetings (in addition to our fundamental research meetings), covering 33 names held by the Company. Themes that formed part of these ESG engagements include board structure and executive remuneration, climate change and greenhouse gas emissions, and gender diversity and employee management.

Raksul is a good example of a company that we hold in the portfolio and with which we have consistently engaged for a number of years. **Raksul** is a leading B2B platformer that provides online printing and marketing/sales support services. It also operates a logistics service that matches customer orders with available truck capacity. We invested in **Raksul** as a pre-IPO security back in 2016 and have continued to hold the stock since its listing in 2018.

We engaged with **Raksul** at the start of the year on disclosure and sustainability ratings. This was in response to a direct request from the company for information on the latest ESG-related policy developments in Japan. Our engagement team shared our views on new disclosure requirements related to human capital, a topic that was high on the agenda of Prime Minister Fumio Kishida. We also encouraged the company to follow the TCFD structure of Governance, Risk Management, Strategy and Targets/KPIs.

The Company's management asked our engagement team how to improve their MSCI ESG rating. We shared best practices on business ethics such as the disclosure of code of conduct and other related policies on their corporate website. Encouragingly, **Raksul's** Chief Financial Officer explained that they were working on their first integrated report in order to convey to the market factors that cannot be explained quantitatively.

Later in the year, we engaged with **Raksul** on its board structure, employee management and ESG integration. Our engagement team encouraged the company to establish independent nomination and remuneration committees, and to disclose the training status of its employees. In terms of ESG integration, we encouraged the company to set out a materiality map (a method of identifying key sustainability issues from the perspective of the business and its external stakeholders) that clearly defines the company and what it does. **Raksul** subsequently launched its first sustainability management website, including the identification of materiality, the disclosure of carbon dioxide emissions for the past three years and information on employee training.

In September, the company's MSCI ESG rating was upgraded to A. This reflected improvements in business ethics practices (Governance) and workforce-related programmes (Labour Management). Over time, it is our belief that executives at

Portfolio Manager's Review continued

Japanese companies, such as **Rakus**, will treat the disclosure of sustainability issues as importantly as they do financial data. By encouraging companies to disclose sooner and better, and actively engaging with them, we can create additional alpha opportunities for the Company.

Question

What are your current thoughts on gearing? And how has your use of gearing changed over the period under review?

Answer

The level of gearing was little changed over the period and closed the year at 21% (2021: 22%). The leverage is deployed in stable growth companies rather than high beta names, and should we see a sustained rise in these stocks, then I would be inclined to reduce the level of gearing employed. However, I am happy with where market valuations currently stand, and the leverage is deployed in stable growth companies rather than high beta names. So, overall, I am comfortable with the Company's current gearing positioning.

Question

How has the war in Ukraine and the growing geopolitical tensions in Asia shaped your investment thinking over the year?

Answer

Russia's war in Ukraine and the growing tensions between the US and China have exacerbated volatility in financial markets, though these developments have not been a key driver of investment decisions. Russia accounted for just 1% of Japanese exports and 1.8% of total imports in 2021, so the direct impact has not been significant. However, surging commodity prices, especially oil, have driven up costs, creating an indirect impact on Japanese households and corporates. In terms of US-China relations, most countries have adopted a pragmatic approach and are likely to continue with this balancing act. In a shifting security environment, the intensifying rivalry between the US and China could potentially exacerbate Japan's geopolitical and economic vulnerabilities and will need to be carefully managed.

Question

How do you view the nascent reopening in China?

Answer

In late 2022, the Chinese government announced ten new COVID-19 measures that significantly eased restrictions. Despite some concerns about a surge in the number of new COVID-19 cases, the country's reopening paves the way for a recovery in 2023. Japanese retailers and consumer product companies that have a high earnings contribution from China stand to benefit from the country's economic reopening and an accompanying recovery in consumption. Against this backdrop, I see significant growth potential for investee companies, including **Ryohin Keikaku**, **Descente**, **Fast Retailing** and **Nitori Holdings**, that can capitalise on their competitive strengths and product appeal.

Question

What should investors be focusing on as we move through 2023?

Answer

Inflation surprises have driven market expectations for the pace of interest rate hikes by the US Fed. As economic activity weakens, however, bond yields are likely to be restrained by lower levels of growth. If the view that long-term rates have peaked gains traction, then this would help to put a floor under equity markets. It would also support a bottoming out in growth stocks, and I would expect some of the names that performed poorly in 2022 to come back quite strongly.

Against this backdrop, there is the potential for beaten-up technology stocks to start performing again, especially as earnings disappointments are coming out as we approach the trough of the cycle. I also see huge potential for Japanese companies in the retail and consumer products space that have a strong presence in China and can benefit from the country's reopening. In terms of key risks, headwinds from external demand are most prominent, with signs of weakness in the manufacturing sector already becoming more apparent.

Meanwhile, BoJ Governor Haruhiko Kuroda's term will end in the spring and speculation over the future direction of monetary policy in Japan is set to intensify as Kazuo Ueda takes over. Looking forward, it is not yet clear how or when the central bank will adjust its policy framework, with the emergence of financial stress in the US and Europe complicating the path towards normalisation.

Japan continues to offer a wealth of under-researched mid/small-cap growth companies. Active managers, like me, based in Tokyo, have the opportunity not only to invest in established global leaders, but also to unearth less well-known companies (including pre-IPO), where lower levels of analyst coverage can often create some great mispriced opportunities.

More recently, Silicon Valley Bank's failure and the subsequent spread of banking system unease from the US to Europe are generating high levels of uncertainty in financial markets. These developments have resulted in lower expectations for Fed rate hikes, lower economic growth expectations and lower long-term rates. Although Japanese stocks, centred on financials, have not been immune to a global sell off, we do not expect any major direct impact on Japanese companies.

In an uncertain environment, our in-depth research and on-the-ground knowledge is invaluable when looking at the micro level and speaking to company management teams to fully understand the prevailing dynamics. This enables us to develop a high level of conviction in the companies that we hold and, as noted above, we see the potential for last year's laggards to come back strongly and drive future performance.

Nicholas Price

Portfolio Manager
28 March 2023

ESG in the Investment Process

Fidelity has embedded Environmental, Social and Governance (ESG) factors in its investment decision-making for a number of years. Fidelity has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2012 and submits an annual report detailing how it incorporates ESG into its investment analysis. As a founding signatory to the Net Zero Asset Managers Initiative, Fidelity has committed to halving the carbon footprint of its investment portfolios by 2030, from a 2020 baseline, starting with equity and corporate bond holdings; and to reach net zero for holdings by 2050.

ESG integration at Fidelity is carried out at the fundamental research analyst level within its investment teams, primarily through the implementation of the Fidelity Proprietary Sustainability Rating. This rating was established in 2019 and is designed to generate a forward-looking and holistic assessment of a company's ESG risks and opportunities, based on sector specific key performance indicators across 127 individual and unique sub-sectors. A breakdown of the ratings of the companies in the portfolio using MSCI and Fidelity's own proprietary ratings is on [page 16](#). In addition, Fidelity's portfolio managers are also active in analysing the effects of ESG factors when making investment decisions. ESG analysis complements financial analysis to provide a complete view of every company that is researched and monitored.

Fidelity's approach to integrating ESG factors into its investment analysis includes the following activities:

- In-depth research
- Company engagement
- Active ownership
- Collaboration within the investment industry

In addition to Fidelity's Sustainability Ratings, Fidelity has developed a proprietary Climate Rating, which is an important part of its plans to reach net zero emissions across its portfolios. It utilises its fundamental research capabilities to identify climate related risks, net zero investments and targets for transition engagement within the Fidelity investment universe. It assesses which companies are in the best position to transition to net zero or have a positive trajectory towards transition. The Climate Rating is designed to complement the broader Sustainability Ratings which score companies across a range of environmental, social and governance criteria.

Although Fidelity's analysts have overall responsibility for analysing the environmental, social and governance performance of the companies in which it invests, it has a dedicated Sustainable Investing Team working closely with the investment teams and is responsible for consolidating Fidelity's approach to stewardship, engagement, including thematic engagement, ESG integration and the exercise of its votes at general meetings.

The Sustainable Investing Team has a key role in assisting the investment teams with ESG integration which includes:

- Implementing Fidelity's proxy voting guidelines.
- Engagement with investee companies on ESG issues, utilising Fidelity's corporate access research capabilities and investment scale to improve corporate behaviour, including at company meetings.
- Working closely with the investment team globally across all asset classes in integrating ESG into analysis and decision-making.
- Providing internal ESG reporting including analyst reports, portfolio manager reviews and industry analysis.
- Co-ordinating and responding to specific client queries on ESG topics.
- Publishing client reporting on ESG integration and proxy voting.
- Maintaining a thorough understanding of current ESG themes and trends around the world.
- Attending external seminars and conferences focusing on trending ESG issues and ESG integration.
- Providing ESG training to the investment team and across the business.

During 2021, Fidelity introduced its sustainable investing voting principles and guidelines. These seek to provide a clear overview of Fidelity's voting approach, promote improved corporate behaviours and reduce risk, include environmental and social factors, increase clarity of votes to issuers and clients and meet current market best practices and stewardship expectations. Examples of the policy include voting against companies not meeting key criteria on climate change and against management in developed markets with insufficient female representation at board level.

Fidelity's investment approach involves bottom-up research. As well as studying financial results, the portfolio managers and analysts carry out additional qualitative analysis of potential investments. They examine the business, customers and suppliers and may often visit the companies in person to develop a view of every company in which Fidelity invests and ESG factors are embedded in this research process.

Examples of ESG factors that Fidelity's investment teams may consider as part of its company and industry analysis include:

- Corporate governance (e.g. Board structure, executive remuneration)
- Shareholder rights (e.g. election of directors, capital amendments)
- Changes to regulation (e.g. greenhouse gas emissions restrictions, governance codes)
- Physical threats (e.g. extreme weather, climate change, water shortages)

- Brand and reputational issues (e.g. poor health and safety record, cyber security breaches)
- Supply chain management (e.g. increase in fatalities, lost time injury rates, labour relations)
- Work practices (e.g. observation of health, safety and human rights provisions and compliance with the provisions of the Modern Slavery Act)

Fidelity operates analyst training and development programmes which include modules on ESG themes, topics and strategies and attendance at external seminars on the trending ESG issues in the market globally as well as conferences to explore new ways of integrating ESG into the investment process across all asset classes.

Fidelity uses a number of external research sources around the world that provide ESG-themed reports and it subscribes to an external ESG research provider and rating agency to supplement its organic analysis. Fidelity receives reports that

include company specific and industry specific research as well as ad hoc thematic research looking at particular topics. The ESG ratings are industry specific and are calculated relative to industry peers and Fidelity uses these ratings in conjunction with its wider analysis. Fidelity's sources of ESG research are reviewed on a regular basis.

The ESG ratings and associated company reports are included on Fidelity's centralised research management system. This is an integrated desktop database, so that each analyst has a first-hand view of how each company under their coverage is rated according to ESG factors. In addition, ESG ratings are included in the analyst research notes which are published internally and form part of the investment decision. The external research vendor also provides controversy alerts which include information on companies within its coverage which have been identified to have been involved in a high-risk controversy that may have a material impact on the company's business or its reputation.

Fidelity International - Setting standards for its business

Sustainability built from the ground up

We apply the same KPIs to our own business that we use for the companies in which we invest. And we expect to improve upon our own ESG standards, just as we would expect from others.



ESG and Sustainable Investing at Fidelity International (Fidelity/FIL)

Fidelity's core beliefs set it apart

01



Fidelity's Sustainable Investing Approach

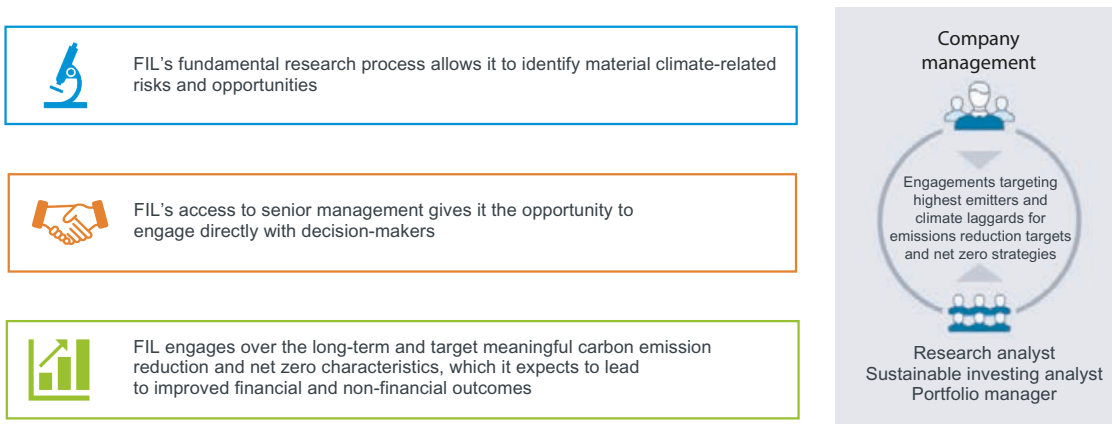
02



Engagement

Using FIL's corporate access, research capabilities and investment scale to improve corporate behaviour

03



Fidelity has developed an approach to sustainable investing that is built on integrated ESG analysis, engagement and collaboration. It believes that each of these elements complements the others.

04

Components of Fidelity's Net Zero Investment Strategy

Moving towards cleaner portfolios

Climate-focused investment process*

- Governance
- Targets and objectives
- Asset allocation
- Asset class alignment
- Stewardship



Source: Fidelity International. * Aligned with IIGCC



Client requirements

- Return objectives
- Risk appetite
- Organisation-specific restrictions
- Alignment with environmental values

Proprietary quantitative & qualitative analysis

- ESG ratings v2
- Net zero issuer assessments (Climate Rating)
- Engagement
- Voting policy
- Industry/government collaboration

05

Companies are rated across three core areas, each with underlying factors

Net zero ambitions	
Current emissions	Emissions targets
Emissions target credibility	Sector-specific criteria
Climate governance	
Climate lobbying	Accounts & audit
Capital allocation	
Transitioning business models	Climate solutions



06

Climate assessment scale

Integration of the assessment within Fidelity's broader climate change strategy

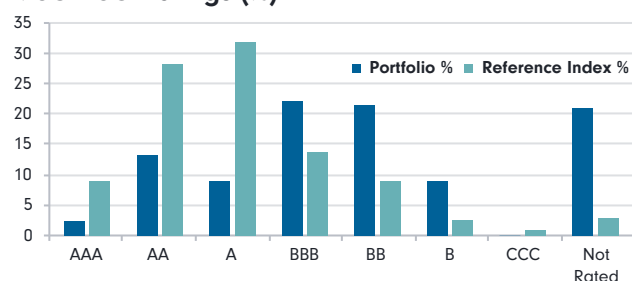
Achieving or enabling net zero	Aligning to a net zero path	High transition potential to net zero	Low transition potential to net zero	No evidence of transition potential to net zero
Issuers already have current emissions intensity performance at, or close to, net zero emissions or issuers are critical enablers to the transition to net zero through the products they provide	Issuers have committed to robust targets in line with a net zero emissions trajectory with an appropriate governance and investment plan to achieve that goal	Issuers have demonstrated a commitment towards achieving net zero and are proposing or implementing credible plans to achieve this goal	Issuers demonstrate some level of climate awareness but fall short of credible commitments to achieve carbon reduction objectives	Issuers show no indication or willingness to align emissions and business model to a global net zero world
Eligible to a Net Zero portfolio	Eligible to a Net Zero portfolio	Continued investment and engagement/voting	Continued investment and engagement/voting	No additional purchases and ultimately divestment

ESG Ratings and Carbon Footprint

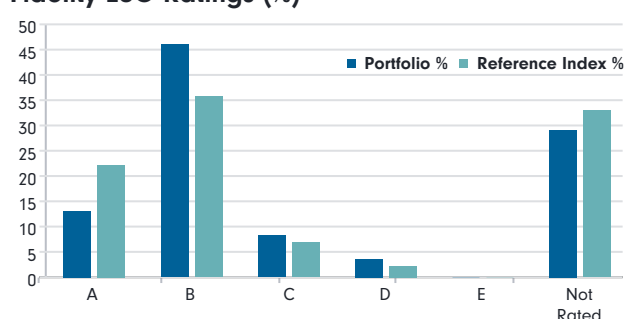
ESG and Carbon Emissions Assessment

The first two charts below show a breakdown of the underlying stocks in Fidelity Japan Trust PLC's portfolio using MSCI and Fidelity's own ESG ratings. It is encouraging that Fidelity's ESG ratings, which are more forward-looking in nature, show a greater proportion of the portfolio in higher rated stocks than when rated by MSCI, which is more backward-looking and disclosure driven. As can be seen from the left hand chart, the Company has a larger percentage of unrated companies. This is because MSCI covers the larger-cap companies whereas the Company has several small and mid-cap exposures that are given formal ESG coverage by Fidelity sooner than by MSCI. It is anticipated that as disclosures improve, the efforts of Japanese companies to address ESG concerns are likely to become more widely recognised, leading to higher ESG scores and more investor capital.

MSCI ESG Ratings (%)

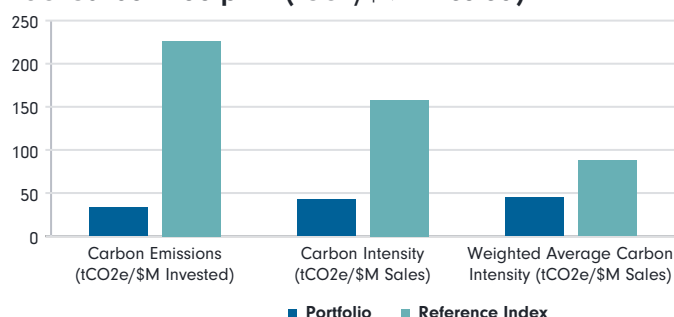


Fidelity ESG Ratings (%)



The chart below demonstrates that the Company's portfolio has a significantly lower carbon footprint than that of the Reference Index (TOPIX).

ESG Carbon Footprint (tCO₂/\$M invested)



Carbon Emissions: Provides a normalised snapshot of the carbon emissions of all of the investments in the Company's portfolio measured in tons CO₂e/\$M invested.

Carbon Intensity: The amount of carbon by weight emitted per unit of energy consumed.

Weighted Average Carbon Intensity: Measures the weighted average carbon emissions per unit of revenue of each investment in the Company's portfolio. This metric provides a snapshot of the Company's exposure to carbon intensive companies and includes scope 1 and scope 2 carbon emissions.

Carbon Data Source: Data provided by ISS ESG. All rights in the information provided by Institutional Shareholder Services Inc. and its affiliates (ISS) reside with ISS and/or its licensors. ISS makes no express or implied warranties of any kind and shall have no liability for any errors, omissions or interruptions in or in connection with any data provided by ISS.

Sources: MSCI ESG Research, ISS ESG and Fidelity International as at 31 December 2022. Portfolio = Fidelity Japan Trust PLC. Reference Index = TOPIX.

Top 10 Holdings

as at 31 December 2022

(based on Portfolio Exposure expressed as a percentage of Shareholders' Funds)

Industry: Chemicals



NOF

Portfolio Exposure

6.8%

NOF is a diversified chemicals manufacturer with a dominant position in several niche markets, resulting in stable growth and high profitability. Its core businesses include surfactants (key components for toiletries and cosmetics) and drug delivery system (DDS) products, which ensure a drug's active ingredient is delivered and absorbed safely in the correct part of the body. NOF has also positively developed and improved its disclosure on both its financial targets and sustainability.

Industry: Wholesale Trade



MISUMI Group

Portfolio Exposure

6.0%

MISUMI Group manufactures and distributes factory automation (FA) and metal die components. The company's distinctive business model (it provides customised products with short delivery times) and sophisticated production system, allied with its e-Commerce platform, are conducive to sustainable growth. Against a backdrop of accelerating automation demand globally and persistent supply constraints, the company can deliver earnings results that exceed market expectations.

Industry: Electric Appliances



Tokyo Electron

Portfolio Exposure

5.2%

Tokyo Electron is one of the world's leading semiconductor production equipment (SPE) makers, with competitive strengths in wafer fabrication equipment (WFE). It specialises in front-end processing equipment and commands a high market share in its key products, including etchers and coater-developers. Although wafer demand is expected to slow down as the semiconductor market enters a downcycle, the company can deliver strong earnings growth in the next up cycle from 2024.

Industry: Retail Trade



Ryohin Keikaku

Portfolio Exposure

4.6%

Ryohin Keikaku operates the MUJI brand of general merchandise stores, with eight of these based in the UK. Its share price has faced headwinds as sluggish sales trends coincided with the company incurring upfront costs aimed at driving future growth. This led to disappointment among some market participants. However, the MUJI brand remains strong and we expect its earnings to recover, supported by faster growth in Asia, centred on China.

Industry: Electric Appliances



Keyence

Portfolio Exposure

3.9%

Keyence is a leading supplier of sensors, measuring systems, laser markers, microscopes and machine vision systems worldwide. It is at the forefront of factory automation. The company strives to develop innovative and reliable products in order to meet the needs of customers in every manufacturing industry.

Top 10 Holdings continued

Industry: Metal Products



Rinnai

Portfolio Exposure

3.2%

Rinnai is a well-known manufacturer and distributor of gas appliances, including energy-efficient water heaters (over 40% market share) and cooking equipment. The company's profit margins in the domestic business continue to improve, driven by cost reductions, modularisation and enhancements to its design platform and a better product mix. While Rinnai's overseas business is experiencing a temporary slowdown, earnings are expected to recover, driven by the post-pandemic reopening of China.

Industry: Services



Nihon M&A Center

Portfolio Exposure

3.2%

Nihon M&A Center is the largest M&A advisory firm for small and medium-sized enterprises (SME) in Japan. It benefits from the aging population in Japan due to succession issues at SMEs. The average age of business owners is 70 years old, and many companies are expected to go out of business in the future as their children do not want to take on the family firm. The company is expected to deliver sustained earnings growth as the succession related M&A market remains significantly understaffed.

Industry: Electric Appliances



Mitsui High-tec

Portfolio Exposure

2.9%

Mitsui High-tec dominates nearly 70% of the global motor core market, an essential component of power-train motors in electric vehicles (EV) and hybrid vehicles. The company's strength lies in its ultra-precision machining and die technology, which is used to create high-quality motor cores and machine tools. Mitsui High-tec is a leading supplier to Japanese car makers and is expanding its motor core production capacity, a clear sign of confidence in its order backlog.

Industry: Leisure (unlisted)



Asoview

Portfolio Exposure

2.9%

Asoview is a leading leisure ticket platformer in Japan, operating e-Commerce (EC) for consumers and backend Software-as-a-Service (SaaS) for leisure facilities. The company generates a high level of growth in gross merchandise value, backed by its unique ability to generate low-cost EC customer acquisitions for its major leisure partners and its competitive fee structure and high retention rates.

Industry: Services



Oriental Land

Portfolio Exposure

2.7%

Oriental Land is an operator of theme parks, Tokyo Disney Land, Tokyo Disney Sea and other resort hotels. As a high-quality reopening play, it is expected to deliver strong revenues and profits as a result of higher visitor traffic as well as a rise in spending by its guests. Additionally, the new "Fantasy Springs" expansion within Tokyo Disney Sea planned in 2023, will boost the company's mid-term earnings growth.

Portfolio Listing

as at 31 December 2022

The Portfolio Exposures shown below and on [pages 20 to 22](#) measure exposure to market price movements as a result of owning shares and derivative instruments. The Fair Value is the actual value of the portfolio and is the value shown on the Balance Sheet. Where

a Contract for Difference (CFD) is held, the Fair Value reflects the profit or loss on the contract since it was opened and is based on how much the share price of the underlying share has moved. Where the Company only holds shares, the Fair Value and the Portfolio

Company	Sector	Fair Value £'000	2022	2021		
			Portfolio Exposure £'000	% ¹	Portfolio Exposure £'000	% ¹
Exposures – shares unless otherwise stated						
NOF (shares and long CFD)	Chemicals	6,136	16,166	6.8	23,972	7.7
MISUMI Group (shares and long CFDs)	Wholesale Trade	9,515	14,286	6.0	15,175	4.9
Tokyo Electron (shares and long CFD)	Electric Appliances	7,881	12,279	5.2	–	–
Ryohin Keikaku (shares and long CFD)	Retail Trade	579	10,775	4.6	13,435	4.3
Keyence (long CFD)	Electric Appliances	(122)	9,238	3.9	11,360	3.6
Rinnai	Metal Products	7,643	7,643	3.2	6,361	2.0
Nihon M&A Center (long CFD)	Services	142	7,475	3.2	3,437	1.1
Mitsui High-tec	Electric Appliances	6,939	6,939	2.9	13,100	4.2
Asoview	Unlisted	6,872	6,872	2.9	6,415	2.0
Oriental Land (long CFD)	Services	118	6,450	2.7	12,376	4.0
Ten largest exposures (2021: £138,954,000 representing portfolio exposure of 44.6%)		45,703	98,123	41.4		
Osaka Soda	Chemicals	6,128	6,128	2.6	–	–
Kotobuki Spirits	Foods	5,983	5,983	2.5	5,829	1.9
ABC-Mart	Retail Trade	5,802	5,802	2.5	–	–
Riken Keiki	Precision Instruments	5,492	5,492	2.3	4,661	1.5
Nojima	Retail Trade	5,307	5,307	2.2	4,520	1.4
Kansai Paint	Chemicals	5,202	5,202	2.2	8,663	2.8
Tsuburaya Fields Holdings	Wholesale Trade	5,191	5,191	2.2	–	–
Raksul	Information & Communication	5,187	5,187	2.2	13,892	4.4
Harmonic Drive Systems	Machinery	4,738	4,738	2.0	–	–
Descente	Textiles & Apparels	4,442	4,442	1.9	–	–
Ajinomoto	Foods	4,215	4,215	1.8	6,797	2.2
JustSystems	Information & Communication	4,200	4,200	1.8	7,700	2.5
DIP	Services	3,640	3,640	1.5	4,475	1.4
Giftee	Information & Communication	3,607	3,607	1.5	4,323	1.4
Sansan	Information & Communication	3,556	3,556	1.5	9,990	3.2
m-up	Information & Communication	3,416	3,416	1.5	2,336	0.7
PILOT	Other Products	3,287	3,287	1.4	–	–

Portfolio Listing continued

Company	Sector	Fair Value £'000	2022		2021	
			Portfolio Exposure £'000	% ¹	Portfolio Exposure £'000	% ¹
Fast Retailing	Retail Trade	3,282	3,282	1.4	-	-
Kamakura Shinsho	Services	3,279	3,279	1.4	2,007	0.6
Shimadzu	Precision Instruments	3,071	3,071	1.3	4,905	1.6
Yamaha	Other Products	2,943	2,943	1.2	7,420	2.4
Sunwels	Services	2,790	2,790	1.2	-	-
Plus Alpha Consulting	Information & Communication	2,765	2,765	1.2	-	-
Nabtesco	Machinery	2,761	2,761	1.2	-	-
Miura	Machinery	2,663	2,663	1.1	2,672	0.9
Eisai (long CFD)	Pharmaceutical	(90)	2,613	1.1	-	-
Moneytree	Unlisted	2,564	2,564	1.1	2,641	0.8
Yoriso	Unlisted	2,516	2,516	1.1	2,557	0.8
iYell	Unlisted	2,469	2,469	1.0	2,566	0.8
Nextone	Services	2,460	2,460	1.0	2,386	0.8
Central Automotive Products	Wholesale Trade	2,445	2,445	1.0	2,724	0.9
Studyplus	Unlisted	2,402	2,402	1.0	-	-
Yonex	Other Products	2,370	2,370	1.0	-	-
Rohto Pharmaceutical	Pharmaceutical	2,346	2,346	1.0	-	-
C. Uyemura	Chemicals	2,311	2,311	1.0	95	-
Coconala	Information & Communication	2,308	2,308	1.0	7,871	2.5
Shibaura Electronics	Electric Appliances	2,300	2,300	1.0	4,010	1.3
SEMITEC	Electric Appliances	2,220	2,220	0.9	3,739	1.2
Koshidaka Holdings	Services	2,202	2,202	0.9	1,770	0.6
Resona Holdings	Banks	2,040	2,040	0.9	-	-
Management Solutions	Services	1,900	1,900	0.8	1,626	0.5
Hirano Tecseed	Machinery	1,863	1,863	0.8	2,675	0.9
Morinaga Milk Industry	Foods	1,836	1,836	0.8	5,444	1.7
Spiber	Unlisted	1,823	1,823	0.8	2,436	0.8
Concordia Financial Group	Banks	1,795	1,795	0.8	-	-
Nihon Flush	Other Products	1,778	1,778	0.8	2,227	0.7
Proto	Information & Communication	1,648	1,648	0.7	1,504	0.5
RS Technologies	Metal Products	1,632	1,632	0.7	1,734	0.6
Socionext	Electric Appliances	1,621	1,621	0.7	-	-

Company	Sector	Fair Value £'000	2022		2021	
			Fair Value £'000	Portfolio Exposure % ¹	Fair Value £'000	Portfolio Exposure % ¹
SWCC Showa Holdings	Nonferrous Metals	1,607	1,607	0.7	1,348	0.4
Ushio	Electric Appliances	1,519	1,519	0.6	-	-
Yaskawa Electric	Electric Appliances	1,386	1,386	0.6	-	-
Daiichi Kosho	Wholesale Trade	1,373	1,373	0.6	1,252	0.4
Nitori Holdings	Retail Trade	1,328	1,328	0.6	22	-
Techno Smart	Machinery	1,306	1,306	0.6	1,490	0.5
Tokyo Base	Retail Trade	1,260	1,260	0.5	2,747	0.9
Digital Garage	Information & Communication	1,201	1,201	0.5	1,313	0.4
Simplex Holdings	Information & Communication	1,167	1,167	0.5	3,530	1.1
Information Services International-Dentsu	Information & Communication	1,166	1,166	0.5	1,405	0.4
Hennge	Information & Communication	1,084	1,084	0.5	-	-
Visional	Information & Communication	990	990	0.4	5,098	1.6
Kotobukiya	Other Products	966	966	0.4	-	-
Photosynth	Information & Communication	949	949	0.4	2,665	0.9
Taiyo Yuden	Electric Appliances	923	923	0.4	-	-
Kadokawa	Information & Communication	910	910	0.4	-	-
Suzuki Motor	Transportation Equipment	869	869	0.4	-	-
JMDC	Information & Communication	843	843	0.4	1,745	0.6
OBIC	Information & Communication	828	828	0.4	-	-
Circulation	Services	770	770	0.3	2,049	0.6
Rorze	Machinery	758	758	0.3	-	-
FreakOut Holdings	Services	693	693	0.3	-	-
Bushiroad	Other Products	681	681	0.3	-	-
Central Glass	Chemicals	667	667	0.3	-	-
Ultrafabrics Holdings	Chemicals	601	601	0.3	-	-
SHIFT	Information & Communication	586	586	0.2	1,086	0.3
AirTrip	Services	577	577	0.2	1,067	0.3
Mercari	Information & Communication	556	556	0.2	-	-
Sumitomo Metal Mining	Nonferrous Metals	528	528	0.2	-	-
ADEKA	Chemicals	527	527	0.2	-	-
Kosaido Holdings	Other Products	522	522	0.2	-	-
Toyo Gosei	Chemicals	499	499	0.2	-	-

Portfolio Listing continued

Company	Sector	Fair Value £'000	2022		2021	
			Portfolio Exposure £'000	% ¹	Portfolio Exposure £'000	% ¹
Yapli	Information & Communication	462	462	0.2	1,479	0.5
JTOWER	Information & Communication	432	432	0.2	1,387	0.4
TDK	Electric Appliances	429	429	0.2	2,578	0.8
Enjin	Services	340	340	0.1	-	-
Toyo Seikan Group Holdings	Metal Products	326	326	0.1	-	-
Creema	Information & Communication	320	320	0.1	843	0.3
Innophys	Unlisted	287	287	0.1	586	0.2
GL Sciences	Precision Instruments	280	280	0.1	397	0.1
Shin-Etsu Chemical	Chemicals	234	234	0.1	-	-
Nissan Chemical	Chemicals	134	134	0.1	-	-
Daikin Industries	Machinery	89	89	-	5,221	1.7
Shinko Electric Industries	Electric Appliances	26	26	-	-	-
Azbil	Electric Appliances	10	10	-	2,016	0.6
Recruit Holdings (long CFD)	Services	-	5	-	7,608	2.4
Total Portfolio (including long CFDs)		230,418	285,546	120.8		

Fair Value and Portfolio Exposure of Investments as at 31 December 2022

	Fair Value £'000	2022		2021	
		Portfolio Exposure £'000	% ¹	Portfolio Exposure £'000	% ¹
Investments (Note 9 – see pages 68 and 69)	230,680	230,680	97.6	307,738	98.4
Derivative instrument assets – long CFDs (Note 10 – see page 69)	838	24,704	10.4	43,165	13.8
Derivative instrument liabilities – long CFDs (Note 10 – see page 69)	(1,100)	30,162	12.8	29,456	9.4
Total Portfolio (including long CFDs)	230,418	285,546	120.8	380,359	121.6

Shareholders' Funds	236,372	312,653
Gearing²	20.8%	21.6%

¹ Portfolio Exposure is expressed as a percentage of Shareholders' Funds.

² Gearing is the amount by which the Portfolio Exposure exceeds Shareholders' Funds expressed as a percentage of Shareholders' Funds.

Distribution of the Portfolio

as at 31 December 2022

The table below details the Distribution of the Portfolio based on Portfolio Exposure which measures the exposure of the portfolio to market price movements as a result of owning shares and derivatives instruments.

Sector	2022 ¹ Total %	2022 ² Index %	2021 ¹ Total %
Electric Appliances	16.4	16.6	18.5
Information & Communication	16.3	9.0	25.5
Chemicals	13.8	6.1	10.5
Services	13.6	5.4	17.7
Retail Trade	11.8	4.8	6.8
Wholesale Trade	9.8	6.0	7.4
Unlisted	8.0	-	5.4
Machinery	6.0	5.0	5.7
Other Products	5.3	2.3	3.1
Foods	5.1	3.5	5.8
Metal Products	4.0	0.6	2.6
Precision Instruments	3.7	2.6	8.2
Pharmaceutical	2.1	5.8	0.1
Textiles & Apparels	1.9	0.5	-
Banks	1.7	6.5	-
Nonferrous Metals	0.9	0.7	0.4
Transportation Equipment	0.4	7.3	1.5
Glass & Ceramics Products	-	0.7	1.6
Construction	-	2.0	0.6
Securities & Commodity Futures	-	0.7	0.2
Land Transportation	-	3.1	-
Insurance	-	2.6	-
Real Estate	-	2.0	-
Electric Power & Gas	-	1.3	-
Other Financing Business	-	1.1	-
Iron & Steel	-	0.8	-
Rubber Products	-	0.7	-
Marine Transportation	-	0.6	-
Air Transportation	-	0.5	-
Oil & Coal Products	-	0.5	-
Mining	-	0.3	-
Pulp & Paper	-	0.2	-
Fishery, Agriculture & Forestry	-	0.1	-
Warehousing & Harbor Transportation Services	-	0.1	-
	120.8	100.0	121.6

1 Portfolio Exposure is expressed as a percentage of Shareholders' Funds.

2 TOPIX Total Return Index (in sterling terms), the Company's Reference Index.

Ten Year Record

For the year ended 31 December	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Assets										
Total portfolio exposure (£m) ¹	285.5	380.4	381.3	295.4	216.0	264.1	206.9	135.3	113.5	105.1
Shareholders' funds (£m)	236.4	312.7	308.8	252.5	187.5	222.5	166.4 ²	116.0	92.9	90.0 ³
NAV per ordinary share (p) ⁴	182.24	240.73	236.53	189.55	138.77	164.10	122.37	101.56	81.48	79.02
Share price and Discount data										
Ordinary share price (p)	164.75	229.00	220.50	177.00	127.00	151.50	101.50	86.75	72.00	72.00
Discount to NAV % ⁴	9.6	4.9	6.8	6.6	8.5	7.7	17.1	14.6	11.6	8.9
Revenue and Costs										
Revenue return/(loss) per ordinary share (p) ⁴	1.46	1.61	1.56	0.29	(0.07)	(0.22)	0.07	(0.14)	(0.45)	(0.30)
Ongoing charges (%) (cost of running the Company) ⁴	0.99	0.90	0.94	0.98	1.10	1.31	1.46	1.52	1.62	1.80
Gearing										
Gearing (%) ⁴	20.8	21.6	23.5	17.0	15.2	18.7	24.3	16.6	22.2	16.8
Performance Total Returns										
NAV per ordinary share (%) ⁴	-24.3	+1.8	+24.8	+36.6	-15.4	+34.1	+20.5	+24.6	+3.1	+31.8
Ordinary share price (%) ⁴	-28.1	+3.9	+24.6	+39.4	-16.2	+49.3	+17.0	+20.5	0.0	+39.5
Reference Index (in sterling terms) (%) ⁵	-4.1	+2.0	+9.5	+14.6	-8.3	+17.5	+22.0	+19.4	+5.1	+21.7

1 The total exposure of the investment portfolio, including exposure to the investments underlying the long CFDs.

2 The issue of ordinary shares from the exercise of subscription share rights, contributed £19.5 million to the increase in shareholders' funds.

3 The issue of ordinary shares from the exercise of subscription share rights, contributed £9.4 million to the increase in shareholders' funds.

4 Alternative Performance Measures.

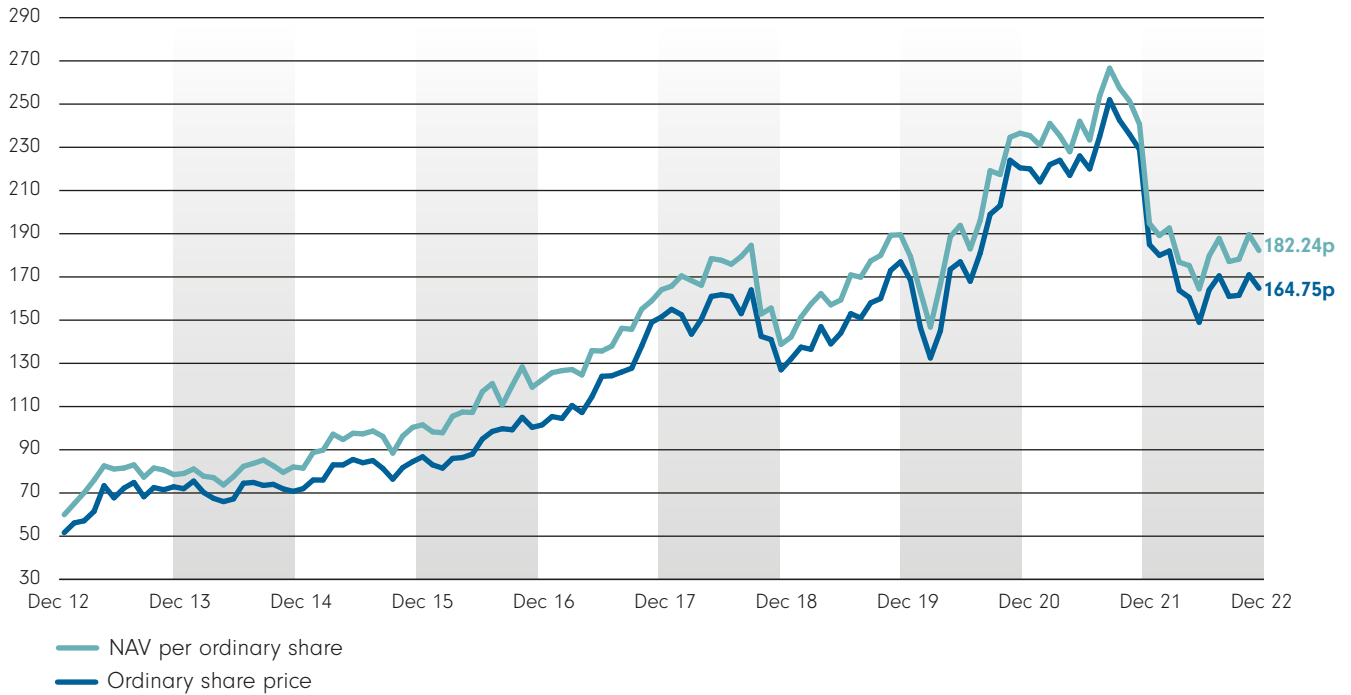
5 The Reference Index changed on 22 May 2018 from the Russell Nomura Mid/Small-Cap Index (in sterling terms) to the TOPIX Total Return Index (in sterling terms).

Sources: Fidelity and Datastream.

Past performance is not a guide to future returns.

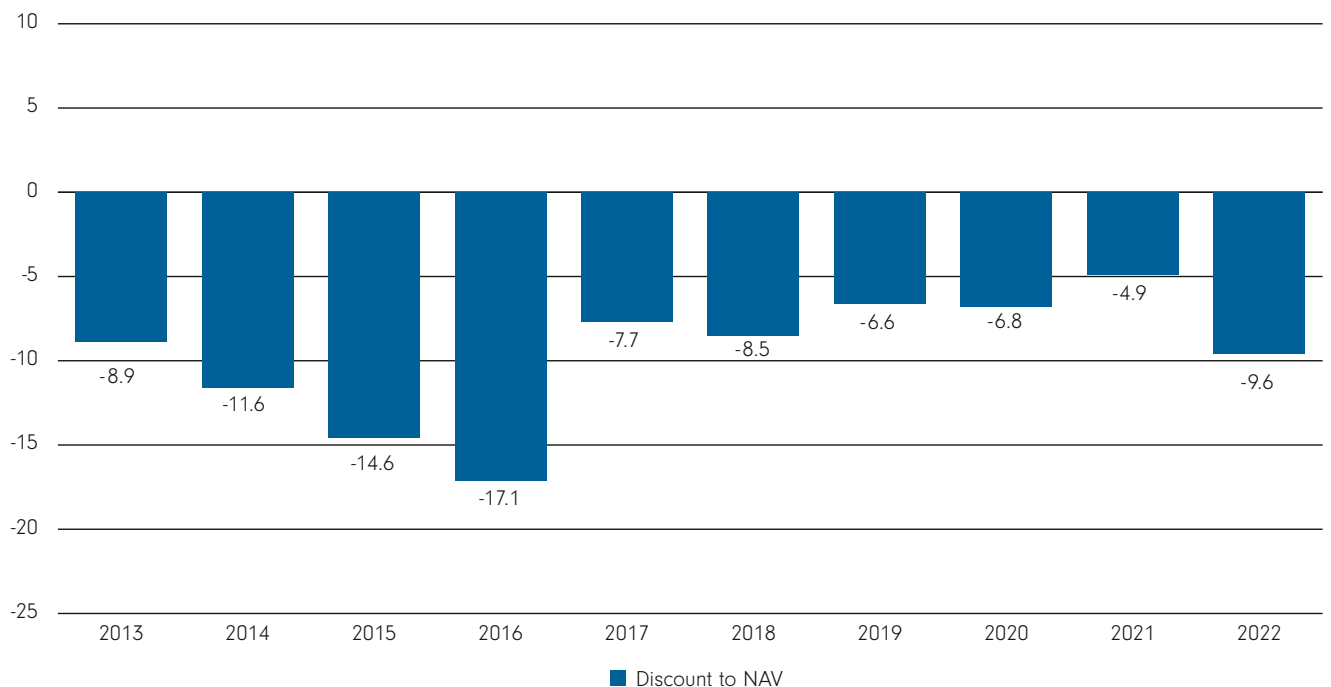
Summary of Performance Charts

NAV and ordinary share price for ten years to 31 December 2022



Sources: Fidelity and Datastream.

Share price discount to NAV for ten years to 31 December 2022 (%)



Sources: Fidelity and Datastream.

Strategic Report

The Directors have pleasure in presenting the Strategic Report of the Company. The Chairman's Statement and Portfolio Manager's Review on [pages 2 to 11](#) also form part of the Strategic Report.

Business And Status

The Company carries on business as an investment company and has been accepted as an approved investment trust by HM Revenue & Customs under Sections 1158 and 1159 of the Corporation Tax Act 2010, subject to the Company continuing to meet eligibility conditions. The Directors are of the opinion that the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval.

The Company is registered as an investment company under Section 833 of the Companies Act 2006 and its ordinary shares are listed and traded on the London Stock Exchange. It is not a close company and has no employees.

Objective

The Company's objective is to achieve long-term capital growth by investing predominantly in equities and related securities of Japanese companies.

Strategy

In order to achieve this objective, the Company operates as an investment company and has an actively managed portfolio of investments consisting of Japanese companies. As an investment company, it is able to gear the portfolio and the Board takes the view that long-term returns for shareholders can be enhanced by using gearing in a carefully considered and monitored way.

As part of the strategy, the Board has delegated the management of the portfolio and certain other services to the Manager (FIL Investment Services (UK) Limited). The Portfolio Manager aims to achieve a total return on the Company's assets over the longer-term in excess of the Reference Index, the TOPIX Total Return Index, as expressed in sterling terms. The stock selection approach adopted by the Portfolio Manager is considered to be well suited to achieving the Company's objective. The Board recognises that investing in equities is a long-term process and, given the cyclical nature of the markets, expects that the Company's returns to shareholders will vary from year-to-year.

The Company's objective, strategy and principal activity have remained unchanged throughout the year ended 31 December 2022.

Investment Management Philosophy, Style and Process

The Investment Manager follows a consistent "growth at a reasonable price" investment style and approach which involves identifying companies in all areas of the market whose growth prospects are not fully recognised by other investors. This investment process utilises Fidelity's research capability in Japan as well as the broader global research network. This approach is anchored in the belief that a rigorous, bottom-up, approach to active management can identify companies where the market is underestimating or mispricing their future growth potential.

Investment Policy

The Company will primarily invest in companies which are listed on Japanese stock exchanges. The portfolio is selected by the Investment Manager on the basis of its assessment of the fundamental value available in individual situations and with a typical focus on those companies whose growth prospects are not fully recognised by the market ("growth at a reasonable price"). Whilst the Company's overall exposure to individual companies and industry sectors is monitored, the portfolio is not restricted in terms of size or industry, although certain investment restrictions apply in order to attempt to diversify risk.

Investment Restrictions

In order to diversify the Company's portfolio, the Board has set the following investment guidelines for the Portfolio Manager. These guidelines and their impact are monitored on a daily basis and reported regularly to the Board:

- A maximum of 7.5% in the aggregate of all securities of any one company or other investment entity (10% for any group of companies) at the time of purchase. This is further limited to 12% of the Company's equity portfolio based on the latest market value.
- A maximum of 20% of its assets (at the time of acquisition) in securities which are not listed on any stock exchange or traded on the Jaspac market. The Company would not normally make any such investment except where the Manager expects that the securities would shortly become registered for trading on the OTC market or become listed on a Japanese stock market.
- A maximum of 30% of its assets (at the time of acquisition) in equity related and debt instruments other than shares. The Company may also invest in derivatives for efficient portfolio management to protect the portfolio against market risk. Any such investment would normally be at a low level as the Company invests primarily in shares.
- A maximum of 15% of the Company's total assets may be invested in the securities of other investment trust companies.
- The maximum that the Company can hold in cash, or invest in cash equivalents, including money market instruments, is limited to 25% of the total value of the Company's gross assets. This limit will not include any amounts required as collateral to cover unrealised losses on derivatives. In practice the cash position will normally be much lower.

Gearing

The Company's policy is to be geared in the expectation that long-term investment returns will exceed the cost of gearing. This gearing is obtained through the use of Contracts for Difference (CFDs) to obtain exposure to Japanese equities selected by the Portfolio Manager. The effect of gearing is to magnify the consequence of market movements on the portfolio. If the portfolio value rises, the NAV will be positively impacted. Conversely if it falls, the NAV will be adversely impacted.

The aggregate exposure of the Company to Japanese equities, whether held directly or through CFDs, will not exceed shareholders' funds by more than 30% at the time any CFD is

entered into or a security acquired. The Board also intends that the exposure will not exceed shareholders' funds by more than 40% at any other time unless exceptional circumstances exist.

The level of gearing is reviewed regularly by the Board and the Portfolio Manager. Currently, the Portfolio Manager has discretion to be up to 25% geared. At the year end the Company was 20.8% geared (2021: 21.6%).

Performance

The Company's performance for the year ended 31 December 2022, including a summary of the year's activities, and indications on trends and factors that may impact the future performance of the Company are included in the Chairman's Statement and the Portfolio Manager's Review on pages 2 to 11. The Portfolio Listing, Distribution of the Portfolio, Ten Year Record and Summary of Performance Charts are on [pages 19 to 25](#).

Results

The Company's results for the year ended 31 December 2022 are set out in the Income Statement on page 58. The revenue return was 1.46 pence and the capital loss was 60.01 pence, giving a total loss of 58.55 pence per ordinary share. As the Revenue Reserve is in deficit, the Directors do not recommend the payment of a dividend.

Key Performance Indicators

The Key Performance Indicators (KPIs) used to determine the performance of the Company and which are comparable to those reported by other investment companies are set out in the table below. The Board's intention is for the NAV and share price to outperform the Reference Index and that the discount should be maintained in single digits in normal market conditions.

	Year ended 31 December 2022 %	Year ended 31 December 2021 %
NAV per ordinary share total return ¹	-24.3	+1.8
Peer group NAV total return	-14.2	+6.8
Share price total return ¹	-28.1	+3.9
Peer group share price total return	-14.5	+0.4
Reference Index (in sterling terms) total return	-4.1	+2.0
Discount to NAV ¹	9.6	4.9
Ongoing charges ^{1,2}	0.99	0.90

¹ Alternative Performance Measures.

² The Board regularly considers the costs of running the Company to ensure they are reasonable and competitive.

Sources: Fidelity and Datastream.

As can be seen by the NAV and share price total returns in the table above, the Company's performance has suffered from the significant rotation out of growth stocks and into value stocks.

Further details are in the Chairman's Statement and Portfolio Manager's Review on [pages 2 to 11](#).

In addition to the KPIs set out in the table above, the Board regularly reviews the Company's performance against its peer group of investment companies. Long-term performance of the Company is shown in the Ten Year Record and the Summary of Performance Charts on [pages 24 and 25](#).

Principal Risks and Uncertainties and Risk Management

As required by provisions 28 and 29 of the 2018 UK Corporate Governance Code, the Board has a robust ongoing process for identifying, evaluating and managing the principal and emerging risks and uncertainties faced by the Company, including those that could threaten its business model, future performance, solvency or liquidity. The Board, with the assistance of the Alternative Investment Fund Manager (FIL Investment Services (UK) Limited/Manager), has developed a risk matrix which, as part of the risk management and internal controls process, identifies the key existing and emerging risks and uncertainties that the Company faces. The Board believes the key emerging risk to be the longer-term ramifications from the pandemic and climate change. Other emerging risks may continue to evolve from unforeseen geopolitical and economic events.

Climate change, which refers to a large-scale shift in the planet's weather patterns and temperatures, continues to be a key emerging issue and a principal risk confronting asset managers and their investors. The Board notes that the Manager has integrated ESG considerations, including climate change, into the Company's investment process. Further details are on [pages 12 to 16](#). The Board will continue to monitor how this may impact the Company as a risk on investment valuations and potentially shareholder returns.

The risks identified are placed on the Company's risk matrix and graded appropriately. This process, together with the policies and procedures for the mitigation of existing and emerging risks, is updated and reviewed regularly in the form of comprehensive reports considered by the Audit Committee. The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

The Manager also has responsibility for risk management for the Company. It works with the Board to identify and manage the principal risks and uncertainties and to ensure that the Board can continue to meet its UK corporate governance obligations.

Strategic Report continued

The Board considers the following as the principal risks and uncertainties faced by the Company.

Principal Risks	Mitigation
<p>Geopolitical Risk</p> <p>Geopolitical risk is the potential for political, socio-economic and cultural events, trends and developments to have an adverse effect on the Company's assets. The global economic impact from the war in Ukraine is significant and threatens consumer spending and industrial activity amid soaring energy costs and currency instability. The expected growth in global GDP for 2022 has already been revised downwards since Russia's invasion. Other geopolitical risks include, but are not limited to, growing US/China tensions and potential North Korean aggression.</p>	<p>The Board is provided with a detailed investment review which covers material economic, market and legislative changes at each Board meeting as well as receiving periodic updates from economic and political commentators in the region.</p> <p>Although it is unclear how long the Russia and Ukraine conflict will last, the direct impact for Japan is not significant. The direct impact of the situation in Ukraine on portfolio holdings is also relatively limited. However, the ramifications of a global downturn could have a significant impact on the Japanese economy.</p> <p>The Portfolio Manager's Review on page 10 provides further detail on the conflict and its impact on the Company's portfolio and on Japanese households and corporates.</p>
<p>Natural Disaster Risk</p> <p>Japan is extremely vulnerable to earthquakes and tsunamis. Depending on the magnitude of such events, positions in the portfolio may be affected. The Manager could also be impacted from an operational perspective if the epicentre is in or near Tokyo.</p>	<p>Whilst natural disasters cannot be averted, the Board is comfortable that the Manager has a robust business continuity plan in place.</p>
<p>Market, Economic and Currency Risks</p> <p>The Company's assets consist mainly of listed securities. Therefore, its principal risks include market related risks such as market downturn, interest rate movements, deflation/inflation and exchange rate movements. The Portfolio Manager's success or failure to protect and increase the Company's assets against this background is core to the Company's continued success.</p> <p>Most of the Company's assets and income are denominated in yen. However, the functional currency of the Company in which it reports its results is sterling. Consequently, it is subject to currency risk on exchange rate movements between the yen and sterling.</p>	<p>These risks are somewhat mitigated by the Company's investment trust structure which means no forced sales will need to take place to deal with any redemptions. Therefore, investments can be held over a longer time horizon.</p> <p>Risks to which the Company is exposed in the market risk category are included in Note 16 to the Financial Statements on pages 71 to 77 together with summaries of the policies for managing these risks.</p> <p>It is the Company's policy not to hedge against currency risks. Further details can be found in Note 16 to the Financial Statements on pages 71 to 77.</p>

Principal Risks	Mitigation
<p>Investment Performance and Gearing Risks</p> <p>The portfolio is actively managed and performance risk is inherent in the investment process. The achievement of the Company's investment performance objective relative to the market requires the taking of risk, such as strategy, asset allocation and stock selection, and may lead to NAV and share price underperformance compared to the Reference Index.</p> <p>The portfolio has unlisted investments which, by their very nature, involve a higher degree of valuation and performance uncertainties, liquidity risks and possible delays in listing until market conditions are favourable.</p> <p>The Company has the option to make use of loan facilities or to use CFDs to invest in equities. The principal risk is that the Portfolio Manager may fail to use gearing effectively. In a rising market the Company will benefit from gearing, whilst in a falling market the impact will be detrimental. Other risks are that the cost of gearing may be too high or that the term of the gearing is inappropriate in relation to market conditions.</p>	<p>The Portfolio Manager is responsible for actively monitoring the portfolio selected in accordance with the asset allocation parameters and seeks to ensure that individual stocks meet an acceptable risk/reward profile. The emphasis is on long-term investment performance as there is a risk for the Company of volatility of performance in the shorter-term.</p> <p>The Board closely monitors the valuations of the unlisted investments through the Manager's Fair Value Committee. In addition, there are limits and guidelines that the Board sets for the Portfolio Manager as to how much of the Company's net assets can be held in unlisted securities. As at 31 December 2022, the Company's unlisted investments represented 8.0% of net assets. The limit approved by shareholders is 20% of net assets.</p> <p>The Company gears through the use of long CFDs which are currently cheaper than bank loans and provide greater flexibility. The Board regularly considers the level of gearing and gearing risk and sets limits within which the Portfolio Manager must operate.</p>
<p>Discount Control and Demand Risks</p> <p>There is a risk that the Company's shares trade at a persistent and significant discount to the NAV.</p> <p>There is a risk that the demand for the Company's shares may fall due to poor performance, changes in investor sentiment and attitudes towards investment in Japan.</p>	<p>The market value of the Company's shares and its discount to NAV are factors which are not wholly within the Board's total control. However, the Board continues to adopt a formal discount control policy whereby it will actively seek to maintain the discount in single digits in normal market conditions. The Company's share price, NAV and discount volatility are monitored daily by the Manager and the Company's Broker and considered by the Board regularly. Some short-term influence over the discount may be exercised by the use of share repurchases at acceptable prices and within the parameters set by the Board.</p> <p>The demand for shares is influenced by the appeal of Japanese markets and through good performance and an active investor relations program. The Board reviews analysis of the shareholder register at each Board meeting which allows the Board to monitor the relevance of the Company's mandate to shareholders and remain abreast of market sentiment.</p>
<p>Key Person Risk</p> <p>The loss of the Portfolio Manager or other key individuals could lead to potential performance, operational or regulatory issues. There is a risk that the Manager has an inadequate succession plan for key individuals, particularly the Portfolio Manager with stock selection expertise in Japanese markets.</p>	<p>The Manager identifies key dependencies which are then addressed through succession plans. Fidelity has succession plans in place for portfolio managers and these are discussed regularly with the Board. The Board meets regularly with the Portfolio Manager and key members of the investment team.</p>

Strategic Report continued

Principal Risks	Mitigation
<p>Operational Resilience Risk</p> <p>There continues to be increased focus from financial services regulators around the world on the contingency plans of regulated financial firms. There are risks following Russia's invasion into Ukraine, specifically regarding the potential loss of power and/or broadband services. Variants of COVID continue to evolve and some risks remain.</p> <p>The Company relies on a number of third party service providers, principally the Manager, Registrar, Custodian and Depositary. It is dependent on the effective operation of the Manager's control systems and those of its service providers with regard to the security of the Company's assets, dealing procedures, accounting records and the compliance with regulatory and legal requirements. The Company's ability to operate could be severely impacted in the event of a significant failure by the service providers to perform their obligations or suffer a major operational failure.</p>	<p>The Manager reviews its business continuity plans and operational resilience strategies on an ongoing basis. Investment team key activities, including portfolio managers, analysts and trading/support functions, are performing well despite the operational challenges posed when working from home during the pandemic, and more recently, from the rail strikes. Risks of loss of power and broadband services following the war in Ukraine are increasingly stable as work transfer recovery options are established for business-critical activities.</p> <p>The Manager continues to take all reasonable steps to meet its regulatory obligations, assess its ability to continue operating and the steps it needs to take to support its clients, including the Board. There have not been any significant changes to Fidelity's control environment as a result of the pandemic and the rail strikes and the Manager has provided the Board with assurance that the Company has appropriate business continuity plans and the provision of services has continued to be supplied without interruption.</p> <p>Specific risks posed by the pandemic continue to ease with increasing levels of staff returning to routine office-based working, albeit under hybrid working arrangements which allow greater flexibility on remote working as part of the new operating model.</p> <p>The Company's other third party service providers, particularly the Registrar, Custodian and Depositary, are all subject to a risk-based programme of internal audits by the Manager and their own internal controls reports are received by the Board on an annual basis and any concerns are investigated. The third party service providers have also confirmed the implementation of appropriate measures to ensure no business disruption.</p> <p>Risks associated with these services are generally rated as low, but the financial consequences could be serious, including reputational damage to the Company.</p>

Principal Risks	Mitigation
Environmental, Social and Governance (ESG) Risks <p>There is a risk that the value of the assets of the Company are negatively impacted by ESG related risks, including the impact of climate change risk. ESG risks include investor expectations and how the Company is positioned from a marketing perspective.</p>	<p>The Board notes that the Manager has embedded ESG factors, including climate change, in its investment decision-making process. ESG integration is carried out at the fundamental research analyst level within its investment teams, primarily through Fidelity's Proprietary Sustainability Rating which is designed to generate forward-looking assessments of companies ESG risks and opportunities based on sector-specific key performance indicators across many individual and unique sub-sectors. The Portfolio Manager is also active in analysing the effects of ESG when making investment decisions. The Board continues to monitor developments in this area and reviews the positioning of the portfolio considering ESG factors.</p> <p>ESG ratings and carbon emissions of the companies within the Company's portfolio compared to the MSCI are provided on page 16.</p> <p>Further detail on ESG considerations in the investment process and sustainable investment is on pages 12 to 16.</p>
Cybercrime Risk <p>The operational risk from cybercrime is significant as cyber threats evolve rapidly. A cyber attack could result in the loss of confidential information or cause a significant disruption to the Company's operations. Cybercrime threats evolve rapidly and are increased due to the pandemic and from the Russia/Ukraine conflict. Such risks primarily relate to phishing, remote access threats, extortion and denial-of-services attacks.</p>	<p>The Manager's technology team has developed a number of initiatives and controls in order to provide enhanced mitigating protection to this ever increasing threat. The risk is frequently re-assessed by Fidelity International's (Fidelity) information security teams and has resulted in the implementation of new tools and processes, including improvements to existing ones. Fidelity has established a dedicated cybersecurity team which provides regular awareness updates and best practice guidance.</p> <p>The Manager has dedicated detect and respond resources specifically to monitor the cyber threats associated with the ongoing pandemic and cyber activity following Russia's invasion of Ukraine. There are several mitigating actions in place including, control strengthening, geo-blocking, and phishing mitigants, combined with enhanced resilience and recovery options.</p>

Other risks facing the Company include:

Tax and Regulatory Risks

There is a risk of the Company not complying with tax and regulatory requirements. A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status resulting in the Company being subject to tax on capital gains.

The Board monitors tax and regulatory changes at each Board meeting and through active engagement with regulators and trade bodies by the Manager.

Continuation Vote

A continuation vote takes place every three years. There is a risk that shareholders do not vote in favour of continuation of the Company during periods when performance of the Company's NAV and share price is poor. At the Company's AGM held on 17 May 2022, 99.94% of shareholders voted in favour of the continuation of the Company. The next continuation vote will take place at the AGM in 2025.

Strategic Report continued

Viability Statement

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 month period required by the "Going Concern" basis. The Company is an investment trust with the objective of achieving long-term capital growth. The Board considers that five years is an appropriate investment horizon to assess the viability of the Company, although the life of the Company is not intended to be limited to this or any other period.

In making an assessment on the viability of the Company, the Board has considered the following:

- The ongoing relevance of the investment objective in prevailing market conditions;
- The Company's level of gearing;
- The Company's NAV and share price performance;
- The principal and emerging risks and uncertainties facing the Company and their potential impact as set out on [pages 27 to 31](#);
- The future demand for the Company's shares;
- The Company's share price discount to NAV;
- The liquidity of the Company's portfolio;
- The level of income generated by the Company;
- Future income and expenditure forecasts; and
- The Company will offer its shareholders a continuation vote at the AGM in 2025.

The Company's performance for the five year reporting period to 31 December 2022 was a NAV total return of 11.1% and a share price total return of 8.7% compared to the Reference Index total return of 12.6%. The Board regularly reviews the investment policy and considers whether it remains appropriate. The Board has concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years based on the following considerations:

- The Investment Manager's compliance with the Company's investment objective and policy, its investment strategy and asset allocation;
- The portfolio mainly comprises readily realisable securities which can be sold to meet funding requirements if necessary;
- The Board's discount management policy; and
- The ongoing processes for monitoring operating costs and income which are considered to be reasonable in comparison to the Company's total assets.

In preparing the Financial Statements, the Directors have considered the impact of climate change, particularly in the context of the climate change risk identified within the ESG Risk on [page 31](#). The Board has also considered the impact of regulatory changes and how this may affect the Company.

In addition, the Directors' assessment of the Company's ability to operate in the foreseeable future is included in the Going Concern Statement which can be found in the Directors' Report on [page 36](#).

PROMOTING THE SUCCESS OF THE COMPANY

Under Section 172(1) of the Companies Act 2006, the Directors of a company must act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the likely consequences of any decision in the long-term; the need to foster relationships with the Company's suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the Company.

As an externally managed Investment Trust the Company has no employees or physical assets, and a number of the Company's functions are outsourced to third parties. The key outsourced function is the provision of investment management services by the Manager, but other professional service providers support the Company by providing administration, custodial, banking and audit services. The Board considers the Company's key stakeholders to be the existing and potential shareholders, the externally appointed Manager (FIL Investment Services (UK) Limited) and other third party professional service providers. The Board considers that the interest of these stakeholders is aligned with the Company's objective of delivering long-term capital growth to investors, in line with the Company's stated investment objective and strategy, while providing the highest standards of legal, regulatory and commercial conduct.

The Board, with the Portfolio Manager, sets the overall investment strategy and reviews this at an annual strategy day which is separate from the regular cycle of board meetings. In order to ensure good governance of the Company, the Board has set various limits on the investments in the portfolio, whether in the maximum size of individual holdings, the use of derivatives, the level of gearing and others. These limits and guidelines are regularly monitored and reviewed and are set out on [pages 26 and 27](#).

The Board places great importance on communication with shareholders. The Annual General Meeting provides the key forum for the Board and Portfolio Manager to present to the shareholders on the Company's performance and future plans and the Board encourages all shareholders to attend in person or virtually, and raise questions and concerns. The Chairman and other Board members are available to meet shareholders as appropriate, and shareholders may also communicate with Board members at any time by writing to them at the Company's registered office or via the Company Secretary at the address provided on page 86 or by email at investmenttrusts@fil.com.

The Portfolio Manager meets with major shareholders, potential investors, stock market analysts, journalists and other commentators during the year. These communication opportunities help inform the Board in considering how best to promote the success of the company over the long-term.

The Board seeks to engage with the Manager and other service providers and advisers in a constructive and collaborative way, promoting a culture of strong governance, while encouraging open and constructive debate, in order to ensure appropriate and regular challenge and evaluation. This aims to enhance service levels and strengthen relationships with service providers, with a view to ensuring shareholders' interests are best served, by maintaining the highest standards of commercial conduct while keeping cost levels competitive.

Whilst the Company's direct operations are limited, the Board recognises the importance of considering the impact of the Company's investment strategy on the wider community and environment. The Board believes that a proper consideration of Environmental, Social and Governance (ESG) issues aligns with the objective to deliver long-term capital growth, and the Board's review of the Manager includes an assessment of their ESG approach, which is set out in detail on [pages 12 to 16](#).

In addition to ensuring that the Company's investment objective was being pursued, key decisions and actions taken by the Directors during the reporting year, and up to the date of this report, have included:

- Authorising the repurchase of 175,001 ordinary shares into Treasury when market conditions permitted in order to keep the Company's discount in single digits;
- Consideration of alternative sources of gearing compared to using CFDs and deciding to continue using CFDs given their lower cost and liquidity;
- Meeting with the Company's key shareholders during the reporting year;
- Increasing the marketing budget of the Company to better promote the performance of the Portfolio Manager and raise the Company's profile in its sector (see Note 5 on [page 66](#));
- The decision to hold a hybrid AGM in 2022 (and also this year) in order to make the Annual General Meeting more accessible and improve the shareholder experience;
- The decision to appoint Myra Chan to the Board with effect from 17 October 2022;
- Meeting with the Portfolio Manager and the investment team during the Board's Due Diligence trip to Tokyo in October 2022; and
- Carrying out a Broker review in February 2023 to ensure that the Company continues to receive an optimal level of service.

Board Diversity

The Board carries out any candidate search against a set of objective criteria on the basis of merit, with due regard for the benefits of diversity on the Board, including gender and ethnicity. In terms of diversity, there were three male Directors and two female Directors on the Board as at 31 December 2022. Although the Company is not a FTSE 250 company, the Board meets the recommendations of the Parker Review Committee to have at least one director from an ethnic minority background by 2024 so as to improve the ethnic and cultural diversity of UK company boards. The Board also meets the FCA targets on diversity which were effective for accounting periods commencing 1 April 2022 that at least 40% of the Board members are women, one of the senior Board positions is held by a woman (that of Senior Independent Director) and at least one Director is from an ethnic minority background.

Environmental, Social And Governance (ESG) in the Investment Process

The Board has contracted with the Manager to provide the Company with investment management and administrative services. It believes that ESG considerations are an important input into the assessment of the value of its investments. The investment universe is undergoing significant structural change and is likely to be impacted by increasing regulation as a result of climate change and other social and governance factors. The Board is committed to reviewing how the Manager applies ESG factors in the investment process. The Fidelity group of companies (including the Manager and Investment Manager) sets out its commitment to responsible investing, and provides a copy of its detailed Responsible Investing at www.fidelity.co.uk/investing-fidelity-funds. Further information on Fidelity's ESG considerations in the investment process and in sustainable investing can be found on [pages 12 to 16](#) and is part of this Strategic Report.

Socially Responsible Investment

The Manager's primary objective is to produce superior financial returns for the Company's shareholders. It believes that high standards of Corporate Social Responsibility (CSR) make good business sense and have the potential to protect and enhance investment returns.

Corporate Engagement

The Board believes that the Company should, where appropriate, take an active interest in the affairs of the companies in which it invests and that it should exercise its voting rights at their general meetings. It delegates the responsibility for corporate engagement and shareholder voting to the Investment Manager which updates the Board on any issues and activities. These activities are reviewed regularly by the Manager's corporate governance team.

Streamlined Energy and Carbon Reporting (SECR)

As an investment company with all its activities outsourced to third parties, the Company's own direct environmental impact is minimal. The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. The Company is categorised as a low energy user (less than 40MWH) under the Streamlined Energy & Carbon Reporting regulations and therefore is not required to disclose any energy and carbon information in this Annual Report.

Strategic Report continued

Criminal Finances Act 2017

The Company is subject to the Criminal Finances Act 2017 and follows a zero tolerance policy to tax evasion and its facilitation. The Directors are fully committed to complying with all legislation and appropriate guidelines designed to prevent tax evasion and the facilitation of tax evasion in the jurisdictions in which the Company, its service providers, counterparties and business partners operate.

Bribery Act 2010

The Company is committed to carrying out business fairly, honestly and openly. The Board recognises the benefits this has for reputation and business confidence. The Board, the Manager, the Manager's employees and others acting on the Company's behalf, are expected to demonstrate high standards of behaviour when conducting business.

The Board acknowledges its responsibility for the implementation and oversight of the Company's procedures for preventing bribery, and the governance framework for training, communication, monitoring, reporting and escalation of compliance together with enforcing actions as appropriate. The Board has adopted a zero tolerance policy in this regard.

Future Developments

Some trends likely to affect the Company in the future are also common to many investment companies together with the impact of regulatory change and emerging risks. The factors likely to affect the Company's future development, performance and position are set out in the Chairman's Statement and the Portfolio Manager's Review on [pages 2 to 11](#).

By Order of the Board

FIL Investments International

Secretary

28 March 2023

Board of Directors



David Graham

Chairman

(since 18 May 2021)

Appointed 22 May 2018



David Graham is also a non-executive Director and Chairman of the Audit Committee of JPMorgan China Growth & Income plc and non-executive Director of Templeton Emerging Markets Investment Trust plc and the Mauritian boards of DSP India Investment Fund and DSP India Fund. He was born in Japan and is a Chartered Accountant who had a career in investment management, firstly as a Japanese and Asian Fund Manager with Lazards in London, Hong Kong and Tokyo and then with BlackRock (and predecessor companies, Merrill Lynch Investment Managers and Mercury Asset Management) building businesses and managing client relationships across Japan, Asia Pacific, Europe, Middle East and Africa.



David Barron

Chairman of the Audit Committee

(since 18 May 2021)

Appointed 20 October 2020



David Barron is also Chairman of Dunedin Income Growth Investment Trust PLC. He is also a non-executive Director Premier Miton Group PLC and BlackRock Sustainable American Income Trust plc. He is a Chartered Accountant. He is also a lay-member of the Council of Lancaster University. Previously he was Chief Executive Officer of Miton Group plc, Head of Investment Trusts at JP Morgan Asset Management, a non-executive Director of Artemis Alpha Trust plc, and a Director of the Association of Investment Companies.



Sarah MacAulay

Senior Independent Director

(since 10 October 2019)

Appointed 22 May 2018



Sarah MacAulay is also Chairman of Schroder Asian Total Return Investment Company plc and JP Morgan Multi-Asset Growth & Income plc. She is also a non-executive Director of abrdn China Investment Company Ltd. Previously she was a Director of Baring Asset Management (Asia) Limited in Hong Kong and Asian Investment Manager at Kleinwort Benson and Eagle Star in London. She has twenty years of Asian investment management experience based both in London and Hong Kong, managing institutional assets and unit trusts.



Dominic Ziegler

Director

Appointed 17 November 2014



Dominic Ziegler also currently holds the post of Asia Columnist and Senior Asia Writer at The Economist in Singapore. He has over 30 years' experience in top-flight journalism and commentary, with a special expertise in East Asian affairs, particularly Japan, having previously served as The Economist's Tokyo Bureau Chief.



Myra Chan

Director

Appointed 17 October 2022



Myra Chan is also a Sales Director and Member of the Sustainability Committee at Aubrey Capital Management Limited headquartered in Scotland, Edinburgh. She has over 25 years of investment experience primarily based in Hong Kong, having worked as an Institutional Broker at HSBC Securities, an Investment Counsellor / Private Banker at Citi Private Bank and Head of Structured Products Distribution at JPMorgan Securities Asia Limited. She was also non-executive Director of a long-short Asian equity fund managed by Tiburon Partners in London. She is a CFA and graduated from the International Christian University of Tokyo.

All Directors are non-executive Directors and all are independent.

Committee membership key

Audit Management Engagement Nomination Committee Chair

Directors' Report

The Directors have pleasure in presenting their report and the audited Financial Statements of the Company for the year ended 31 December 2022.

The Company was incorporated in England and Wales as a public limited company on 10 February 1994 under the registered number 2885584 and was launched as an investment trust on 15 March 1994.

Management Company

FIL Investment Services (UK) Limited (FIL) is the Company's appointed Alternative Investment Fund Manager (the AIFM/Manager). FIL, as the Manager, has delegated the portfolio management of assets and the role of the company secretary to FIL Investments International (the "Investment Manager").

The Alternative Investment Fund Management and Secretarial Services Agreement (the "Management Agreement") will continue unless and until terminated by either party giving to the other not less than six months' notice in writing. However, it may be terminated without compensation if the Company is liquidated pursuant to the procedures laid down in the Articles of Association of the Company. The Management Agreement may also be terminated forthwith as a result of a material breach of the Management Agreement or on the insolvency of the Manager or the Company. In addition, the Company may terminate the Management Agreement by sixty days' notice if the Manager ceases to be a subsidiary of FIL Limited.

FIL Limited has no beneficial interest in the shares of the Company (2021: same).

The Board reviews the Management Agreement at least annually and details are included in the Corporate Governance Statement on [page 41](#).

Management Fee

Since 1 July 2018, the Company has had a Variable Management Fee (VMF) arrangement which comprises a base fee based on net assets and a positive or negative variable element. The base fee is 0.70% of net assets per annum.

The variable fee of +/-0.20% is based on the Company's NAV per share performance relative to the TOPIX Total Return Index (in sterling terms) (the Company's Reference Index). The VMF element is calculated daily by referencing the performance of the Company's NAV to the performance of the Reference Index on a three year rolling basis. The variable element of the fee increases or decreases 0.033% for each percentage point of the three year NAV per ordinary share outperformance or underperformance over the Index to a maximum of +0.20% or a minimum of -0.20%. The maximum fee the Company will pay is 0.90% of net assets or in the case of underperformance, it can fall as low as 0.50%. The VMF is accrued daily and paid monthly.

The total management fee for the year ended 31 December 2022 was £1,598,000 (2021: £2,877,000) as detailed in Note 4 on page 65. This was made up of a base fee of £1,670,000 (2021: £2,238,000) and, due to the performance of the Company's NAV against the Reference Index calculated daily on a three year

rolling basis, a credit of £72,000 (2021: charge of £639,000).

The Board

All Directors, other than Myra Chan, served on the Board throughout the year ended 31 December 2022. Ms Chan served on the Board from the date of her appointment on 17 October 2022.

A brief description of all serving Directors as at 31 December 2022 is shown on page 35 and indicates their qualifications for Board membership.

Directors' and Officers' Liability Insurance

In addition to the benefits enjoyed under the Manager's global Directors' and Officers' liability insurance arrangements, the Company maintains additional insurance cover for its Directors under its own policy as permitted by the Companies Act 2006.

Going Concern Statement

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio and its expenditure and cash flow projections. The Directors, having considered the liquidity of the Company's portfolio of investments (being mainly securities which are readily realisable) and the projected income and expenditure, are satisfied that the Company is financially sound and has adequate resources to meet all of its liabilities and ongoing expenses and continue in operational existence for the foreseeable future. The Board has therefore concluded that the Company has adequate resources to continue to adopt the going concern basis for the period to 31 March 2024 which is at least twelve months from the date of approval of the Financial Statements. This conclusion also takes into account the Board's assessment of the ongoing risks from evolving variants of COVID, the war in Ukraine and significant market events, as set out in the Operational Resilience Risk in the Strategic Report on [page 30](#). The prospects of the Company over a period longer than 12 months can be found in the Viability Statement on [page 32](#).

The Financial Statements of the Company have been prepared on a going concern basis.

Auditor's Appointment

A resolution to reappoint Ernst & Young LLP as Auditor to the Company will be proposed at the AGM on 24 May 2023.

Disclosure of Information to the Company's Auditor

As required by Section 418 of the Companies Act 2006, each Director in office as at the date of this Annual Report confirms that:

- a) so far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- b) each Director has taken all the steps that ought to have been taken as a Director to make himself/herself aware of any audit information, and to establish that the Company's Auditor is aware of that information.

Corporate Governance

The Corporate Governance Statement forms part of this report and can be found on [pages 40 to 43](#).

Registrar, Custodian and Depositary Arrangements

The Company has appointed Link Group as its Registrar to manage the Company's share register; JPMorgan Chase Bank as its Custodian, which is primarily responsible for safeguarding the Company's assets; and J.P. Morgan Europe Limited as its Depositary, which is primarily responsible for oversight of the custody of investment funds and the protection of investors' interests. Fees paid to these service providers are disclosed in Note 5 on page 66.

Share capital

The Company's share capital comprises ordinary shares of 25 pence each which are fully listed on the London Stock Exchange. As at 31 December 2022, the share capital of the Company was 136,161,695 ordinary shares (2021: 136,161,695) of which 6,459,802 shares (2021: 6,284,801) are held in Treasury. Shares in Treasury do not have voting rights, therefore, the total number of ordinary shares with voting rights was 129,701,893 (2021: 129,876,894).

Premium/Discount Management: Enhancing Shareholder Value

The Board recognises the importance of the relationship between the Company's share price and the NAV per share and monitors this closely. It seeks authority from shareholders each year to issue shares at a premium or to repurchase shares at a discount to the NAV, either for cancellation or for holding in Treasury. The Board will exercise these authorities if deemed to be in the best interests of shareholders at the time. Further details of the Board's discount management policy can be found in the Chairman's Statement on [page 2](#).

Share Issues

No ordinary shares were issued in the year to 31 December 2022 (2021: nil) and none have been issued since the year end and as at the date of this report.

The authorities to issue shares and to disapply pre-emption rights expire at the AGM on 24 May 2023 and resolutions to renew these authorities will be put to shareholders at this AGM.

Share Repurchases

In the reporting year, 175,001 (2021: 678,032) ordinary shares were repurchased for holding in Treasury. This represented 0.1% of issued share capital. Since the year end and as at the date of this report, 345,200 ordinary shares have been repurchased into Treasury.

The authority to repurchase ordinary shares expires at the AGM on 24 May 2023 and a resolution to renew the authority to repurchase shares, either for cancellation or to buy into Treasury, will be put to shareholders at this AGM.

Substantial Share Interests

As at 31 December 2022 and 28 February 2023, notification had been received that the shareholders listed in the table below held more than 3% of the voting share capital of the Company.

Additional Information Required in the Directors' Report

Information on proposed dividends, financial instruments and the disclosure on Streamlined Energy and Carbon Reporting (SECR) is set out in the Strategic Report on [pages 26 to 34](#).

	28 February 2023 %	31 December 2022 %
Shareholders		
Lazard Asset Management	17.29	17.23
City of London Investment Management	12.51	11.53
Allspring Global Investments	8.48	8.32
Hargreaves Lansdown	7.27	7.32
Fidelity Platform Investors	7.14	7.21
Interactive Investor	5.04	5.12
Wesleyan Assurance	4.05	4.04
RBC Brewin Dolphin	3.39	3.50
Canaccord Genuity Wealth Management	3.14	3.30

Directors' Report continued

ANNUAL GENERAL MEETING – 24 MAY 2023

THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should seek advice from your stockbroker, bank manager, solicitor or other financial adviser authorised under the Financial Services and Markets Act 2000.

The AGM of the Company will be held at 12 noon on **Wednesday, 24 May 2023** at Fidelity's offices at 4 Cannon Street, London EC4M 5AB (nearest tube stations are St. Paul's or Mansion House) and virtually via the online Lumi AGM meeting platform. Full details of the meeting are given in the Notice of Meeting on **pages 81 to 84**. Light Japanese refreshments will be served after the meeting.

The Notice of Meeting and related papers are sent to shareholders at least 20 working days before the AGM.

For those shareholders who would prefer not to attend in person, we will live-stream the formal business and presentations of the meeting online.

Nicholas Price, the Portfolio Manager, will be making a presentation to shareholders highlighting the achievements and challenges of the past year and the prospects for the year to come. Nicholas and the Board will be very happy to answer any questions that shareholders may have. Copies of the Portfolio Manager's presentation can be requested by email at **investmenttrusts@fil.com** or in writing to the Company Secretary at FIL Investments International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Properly registered shareholders joining the AGM virtually will be able to vote on the proposed resolutions. Please see Note 9 to the Notes to the Notice of Meeting on **page 83** for details on how to vote virtually. Investors viewing the AGM online will be able to submit live written questions to the Board and the Portfolio Manager and these will be addressed on their behalf at an appropriate juncture during the meeting.

Further information and links to the Lumi platform may be found on the Company's website **www.fidelity.co.uk/japan**. On the day of the AGM, in order to join electronically and ask questions via the Lumi platform, shareholders will need to connect to the website **https://web.lumiagm.com**.

We urge shareholders to vote and make use of the proxy form provided. Please note that investors on platforms such as Fidelity Personal Investing, Hargreaves Lansdown, Interactive Investor or AJ Bell Youinvest will need to request attendance at the AGM in accordance with the policies of your chosen platform. They may request that you submit electronic votes in advance of the meeting. If you are unable to obtain a unique IVC and PIN from your nominee or platform, we will also welcome online participation as a guest. Once you have accessed **https://web.lumiagm.com** from your web browser on a tablet or computer, you will need to enter the **Lumi Meeting ID** which is **116-528-241**. You should then select the 'Guest Access' option

before entering your name and who you are representing, if applicable. This will allow you to view the meeting and ask questions but you will not be able to vote.

Fidelity Platform Investors – Voting at AGMs

If you hold your shares in the Company through the Fidelity Platform, then Fidelity passes on to you the right to vote on the proposed resolutions at the Company's AGM. Fidelity Platform Investors are advised to vote online via the Broadridge Service (a company that specialises in investor voting facilities) as explained in previous correspondence from Fidelity. Investors can sign up to this facility via their Fidelity Investor Account.

Paperless Proxy Voting

Link Group, the Registrar, introduced a paperless proxy voting process in 2018. However, for ease of voting this year, we will send a paper Proxy Form to all shareholders who hold shares on the main share register. This will assist shareholders to vote in advance of the meeting should they decide not to attend in person.

If you have sold, transferred or otherwise disposed of all your shares in the Company, you should pass this document, together with any accompanying documents, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

At the AGM on 24 May 2023, resolutions will be proposed relating to the items of business set out in the Notice of Meeting on **pages 81 and 82**, including the items of special business summarised below and on the next page.

Authority to Allot Shares

Resolution 11 is an ordinary resolution and provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £1,702,021. If passed, this resolution will enable the Directors to allot a maximum of 6,808,084 ordinary shares which represents approximately 5% of the issued ordinary share capital of the Company (including Treasury shares) as at 28 March 2023, and to impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter.

The Directors would not intend to use this power unless they considered that it was in the interests of shareholders to do so. Any shares issued would be at NAV per share or at a premium to NAV per share.

Authority to Disapply Pre-emption Rights

Resolution 12 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities or sale of Treasury shares for cash up to an aggregate nominal value of £1,702,021 (including Treasury shares) (approximately 5% of the issued share capital of the Company as at 28 March 2023 and equivalent to 6,808,084 ordinary shares).

Authority to Repurchase Shares

Resolution 13 is a special resolution which renews the Company's authority to purchase up to 14.99% (19,390,568) of the ordinary shares in issue (excluding Treasury Shares) on 28 March 2023, either for immediate cancellation or for retention as Treasury shares, at the determination of the Directors. Once shares are held in Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or by cancelling the shares. Purchases of ordinary shares will be made at the discretion of the Directors and within guidelines set from time-to-time by them in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing NAV per share.

Recommendation: The Board considers that each of the resolutions is likely to promote the success of the Company and is in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings.

By Order of the Board

FIL Investments International

Secretary

28 March 2023

Corporate Governance Statement

The Corporate Governance Statement forms part of the Directors' Report. The Company is committed to maintaining high standards of corporate governance. Accordingly, the Board has put in place a framework for corporate governance which it believes is appropriate for an investment company.

Corporate Governance Codes

The Board follows the principles and provisions of the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council (FRC) in July 2018 and the AIC Code of Corporate Governance (the "AIC Code") issued by the Association of Investment Companies (AIC) in February 2019. The AIC Code addresses the principles and provisions of the UK Code. The FRC has confirmed that investment companies which report against the AIC Code will meet their obligations under the UK Code and paragraph 9.8.6 of the Listing Rules. This Statement, together with the Statement of Directors' Responsibilities on [page 47](#), set out how the principles have been applied.

The AIC Code can be found on the AIC's website at www.theaic.co.uk and the UK Code on the FRC's website at www.frc.org.uk.

Statement of Compliance

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code for the year under review and up to the date of this report, except in relation to the UK Code provisions relating to the role of the chief executive, executive directors' remuneration, and the need for an internal audit function. The Board considers that these provisions are not relevant to the position of the Company, as it is an externally managed investment company and has no executive directors, employees or internal operations. All of its day to day management and administrative functions are delegated to the Manager.

THE BOARD

Board Composition

As at the date of this report, the Board, chaired by David Graham, consists of five non-executive Directors.

The Directors believe that, between them, they have good knowledge and wide experience of business in Japan, the Asian region and of investment trusts, and that the Board has an appropriate balance of skills, experience, independence and knowledge of the Company and length of service to discharge its duties and provide effective strategic leadership and proper governance of the Company.

Sarah MacAulay is the Senior Independent Director and fulfils the role of sounding board for the Chairman and intermediary for the other Directors as necessary, and to act as a channel of communication for shareholders in the event that contact through the Chairman is inappropriate.

Biographical details of all Directors are on [page 35](#).

Board Responsibilities

The Board has overall responsibility for the Company's affairs and for promoting the long-term success of the Company. All matters which are not delegated to the Company's Manager under the Management Agreement are reserved for the Board's decision. Matters reserved for the Board and considered at meetings include decisions on strategy, management, structure, capital, share issues, share repurchases, gearing, financial reporting, risk management, investment performance, share price discount, corporate governance, Board appointments, and the appointments of the Manager and the Company Secretary. The Board also considers shareholder issues including communication and investor relations.

All Directors are independent of the Manager and considered to be free from any relationship which could materially interfere with the exercise of their independent judgement. The Board follows a procedure of notification of other interests that may arise as part of considering any potential conflicts and is satisfied that none has arisen in the year under review.

All Directors are able to allocate sufficient time to the Company to discharge their responsibilities fully and effectively. The Directors are entitled to take independent professional advice, at the Company's expense, in the furtherance of their duties.

Board Meetings

The Board considers that it meets sufficiently regularly to discharge its duties effectively and the table on the next page gives the attendance record for the meetings held in the reporting year. The Portfolio Manager and key representatives of the Manager also attend these meetings. Regular Board meetings exclude ad hoc meetings for formal approvals.

Between these meetings there is regular contact with the Manager and other meetings are arranged as necessary. Additionally, Board Committees and sub-groups meet to pursue matters referred to them by the Board and the Chairman is in contact with the other Directors regularly without representatives of the Manager being present.

In addition to the formal Board and Committee meetings, the Board aims to undertake a due diligence trip to Japan each year. On such trips, the Board meets with members of the Fidelity investment team and management in Tokyo, market strategists and commentators as well as the management of existing and potential investee companies. The Board conducted a due diligence trip during the week commencing 24 October 2022.

Company Secretary

The Board has access to the advice and services of the Company Secretary. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Board and Committee meetings held in the reporting year

	Regular Board Meetings	Nomination Committee Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
David Graham	5/5	1/1	3/3	1/1
David Barron	5/5	1/1	3/3	1/1
Myra Chan*	1/1	1/1	1/1	n/a
Sarah MacAulay	5/5	1/1	3/3	1/1
Dominic Ziegler	5/5	1/1	3/3	1/1

* Appointed on 17 October 2022.

Changes to the Board

Changes to the Board take place in accordance with the Companies Act 2006, the Company's Articles of Association and the AIC Code. The Nomination Committee is responsible for identifying and discussing possible candidates. However, any proposal for a new Director is approved by the entire Board. External consultants who have no connection with the Company are used to identify potential candidates.

Director Training

Upon appointment, each Director is provided with all relevant information regarding the Company and receives an induction in the investment operations and administration functions of the Company, together with a summary of their duties and responsibilities to the Company. Directors also receive regular briefings from, amongst others, the AIC, the Company's Auditor and the Company Secretary, regarding any proposed developments or changes in law or regulations that could affect the Company and/or the Directors.

Election and Re-Election of Directors

All newly appointed Directors stand for election by the shareholders at the AGM following their appointment by the Board. All other Directors are subject to annual re-election by the shareholders. All current Directors will be standing for election and re-election at this year's AGM and are listed, together with their biographical details, on [page 35](#). The terms and letters of appointment of Directors are available for inspection at the registered office of the Company.

Board Evaluation

An annual evaluation of the Board, its Directors and its Committees is undertaken. The Chairman leads the assessment of the individual Directors' contributions to the Board and the Senior Independent Director is responsible for evaluating the performance of the Chairman. The results of these evaluations are discussed by the Board and the process is considered to be constructive in terms of identifying areas for improving the functioning and performance of the Board and its Committees and action is taken on the basis of the results. The Board considers tenure of individual Directors as one of the matters in the evaluation process. The Board last undertook an evaluation in November 2022 and determined that the Board functioned well, with the right balance of membership and skills.

Directors' Remuneration and Share Interests

Details of Directors' remuneration and share interests are disclosed in the Directors' Remuneration Report on [pages 45 and 46](#).

BOARD COMMITTEES

The Board has three Committees, as set out below and on the next page, through which it discharges certain of its corporate governance responsibilities. These are the Audit Committee, the Management Engagement Committee and the Nomination Committee. Terms of reference of each Committee are available on the Company's pages of the Manager's website at www.fidelity.co.uk/japan.

Audit Committee

The Audit Committee is chaired by David Barron and consists of all of the Directors. The Chairman of the Board is also a member of the Audit Committee as the Board believes that such responsibility should be shared by all of the Directors. Full details are disclosed in the Report of the Audit Committee on [pages 48 to 50](#).

Management and Engagement Committee

Composition

The Management Engagement Committee is chaired by David Graham and consists of all of the Directors.

Role and Responsibilities

The Committee is charged with reviewing and monitoring the performance of the Manager and for ensuring that the terms of the Company's Management Agreement remains competitive and reasonable for shareholders. It meets at least once a year and reports to the Board, making recommendations where appropriate.

Manager's Reappointment

Ahead of the AGM, the Committee has reviewed the performance of the Manager and the current fee structure and also that of its peers. The Committee noted the Company's performance record and the commitment, quality and continuity of the team responsible for the Company and concluded that it was in the interests of shareholders that the appointment of the Manager should continue. Details of the fee structure for the year ended 31 December 2022 are in the Directors' Report on [page 36](#).

Corporate Governance Statement continued

Nomination Committee

Composition

The Nomination Committee is chaired by David Graham and consists of all of the Directors.

Role and Responsibilities

The Committee meets at least once a year and reviews the composition, size and structure of the Board and makes recommendations to the Board as appropriate. The Committee is responsible for succession planning and it is charged with nominating new Directors for consideration by the Board, and, in turn, for approval by shareholders.

In respect of new Directors, the Committee carries out its candidate search from the widest possible pool of talent with due regard to the benefits of diversity, including a range of skills, knowledge, experience, perspectives and backgrounds, including gender. New Directors are appointed on the basis of merit. External consultants, with no connection with the Company, are used to identify potential candidates. This was the case for the recruitment of Myra Chan through the services of Nurole which has no connection with the Company.

The Committee also considers the election and re-election of Directors ahead of each AGM. For the forthcoming AGM, it has considered the performance and contribution of each Director and concluded that each Director seeking election and re-election has been effective and continues to demonstrate commitment to their roles. This has been endorsed by the Board, which recommends their appointment and reappointment by shareholders at the AGM on 24 May 2023.

ACCOUNTABILITY AND AUDIT

Financial Reporting

Set out on [page 47](#) is a statement by the Directors of their responsibilities in respect of the preparation of the Annual Report and Financial Statements. The Auditor has set out its reporting responsibilities within the Independent Auditor's Report to the Members on [pages 51 to 57](#).

The Board has a responsibility to present fair, balanced and understandable annual and half-yearly financial statements. All such financial statements are reviewed by the Audit Committee and approved by the Board prior to their issue to ensure that this responsibility is fulfilled.

Risk Management and Internal Controls

The Board is responsible for the Company's systems of risk management and of internal controls and for reviewing their effectiveness. The review takes place at least once a year. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives. It is responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the Company although these tasks have been delegated on a day-to-day basis to the Manager. The system extends to operational and compliance controls and risk management. Clear lines of

accountability have been established between the Board and the Manager. The Manager provides regular reports on controls and compliance issues to the Audit Committee and the Board, including service providers' own internal controls reports which are received by the Board on an annual basis. In carrying out its review, the Audit Committee has regard to the activities of the Manager, the Manager's compliance and risk functions and the work carried out by the Independent Auditor and also includes consideration of internal controls and similar reports issued by the other service providers.

The Board, assisted by the Manager, has undertaken a rigorous risk and controls assessment. The process also assists in identifying any new emerging risks and the action necessary to mitigate their potential impact. The Board confirms that there is an effective ongoing process in place to identify, evaluate and manage the Company's principal business and operational risks, and that it has been in place throughout the year ended 31 December 2022 and up to the date of this report. This process is in accordance with the FRC's "Risk Management, Internal Control and Related Financial Business Reporting" guidance.

The Board has reviewed the need for an internal audit function and has determined that the systems and procedures employed by the Manager, which are subject to inspection by the Manager's internal and external audit processes, provide sufficient assurance that a sound system of internal controls is maintained to safeguard shareholders' investments and the Company's assets. An internal audit function, specific to the Company, is therefore considered unnecessary. The Audit Committee meets the Manager's internal audit representative at least once a year. It receives a summary of the Manager's externally audited internal controls report on an annual basis.

Whistle-Blowing Procedure

Part of the Manager's role in ensuring the provision of a good service pursuant to the Management Agreement, includes the ability for employees of Fidelity to raise concerns through a workplace concerns escalation policy ("whistle-blowing procedure"). Fidelity has advised the Board that it is committed to providing the highest level of service to its customers and to applying the highest standards of quality, honesty, integrity and probity. The aim of the policy is to encourage employees and others working for Fidelity to assist the Company in tackling fraud, corruption and other malpractice within the organisation and in setting standards of ethical conduct. This policy has been endorsed accordingly by the Board.

Responsibility as Institutional Shareholder

The Board has adopted the Manager's Principles of Ownership in relation to investments. These Principles include the pursuit of an active investment policy through portfolio management decisions, voting on resolutions at general meetings and maintaining a continuing dialogue with the management of investee companies. Fidelity is a signatory to the UK Stewardship Code which sets out the responsibilities of institutional shareholders and agents. Further details of the Manager's Principles of Ownership and voting may be found at www.fidelity.co.uk.

Relations with Shareholders

Communication with shareholders is given a high priority by the Board and it liaises with the Manager and the Company's broker who are in regular contact with the Company's major institutional investors to canvass shareholder opinion and to communicate its views to shareholders. All Directors are made aware of shareholders' concerns and the Chairman, the Senior Independent Director and, where appropriate, other Board Directors, are available to meet with shareholders to discuss strategy and governance. In addition, the Portfolio Manager also meets with major shareholders and investors in the UK and Tokyo, although this has been impacted by COVID during 2022. The Board regularly monitors the shareholder profile of the Company and receives regular reports from the Manager on meetings attended with shareholders and any concerns raised in such meetings. The Board aims to provide the maximum opportunity for dialogue between the Company and its shareholders. If any shareholder wishes to contact a member of the Board directly, they should either email the Company Secretary at investmenttrusts@fil.com or write to the address provided on page 86. The Company Secretary will attend to any enquiries promptly and ensure that they are directed to the Chairman, the Senior Independent Director or the Board as a whole, as appropriate.

The Board encourages all shareholders to attend the Company's AGM on 24 May 2023 details of which can be found on [page 80](#).

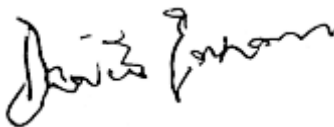
Voting Rights in the Company's Shares

Every person entitled to vote on a show of hands has one vote. On a poll, every shareholder who is present in person or by proxy or representative has one vote for every ordinary share held. At general meetings, all proxy votes are counted and, except where a poll is called, proxy voting is reported for each resolution after it has been dealt with on a show of hands. The proxy voting results are disclosed on the Company's pages of the Manager's website at www.fidelity.co.uk/japan.

Articles of Association

Any changes to the Company's Articles of Association must be made by special resolution.

On behalf of the Board



David Graham
 Chairman
 28 March 2023

Directors' Remuneration Report

Chairman's Statement

The Directors' Remuneration Report for the year ended 31 December 2022 has been prepared in accordance with the Large & Medium sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013 (the "Regulations"). As the Board is comprised entirely of non-executive Directors and has no chief executive and employees, many parts of the Regulations, in particular those relating to chief executive officer pay and employee pay, do not apply and are therefore, not disclosed in this report.

Ordinary resolutions to approve both the Directors' Remuneration Report and the Remuneration Policy will be put to shareholders at the AGM on 24 May 2023. The Company's Auditor is required to audit certain sections of this report and where such disclosures have been audited, the specific section has been indicated as such. The Auditor's opinion is included in its report on [pages 51 to 57](#).

Directors' Remuneration

The annual fee structure with effect from 1 January 2023 is as follows: Chairman: £40,000 (2022: £38,500); Chairman of the Audit Committee: £33,000 (2022: £31,500); and Directors: £29,000 (2022: £27,500). Increases in Directors' remuneration are made to ensure that fees remain competitive and sufficient to attract and retain the quality of Directors needed to manage the Company successfully.

The Board has a Remuneration Policy which is subject to a binding vote, in the form of an ordinary resolution at every third AGM. A binding vote means that if it is not successful, the Board will be obliged to revise the policy and seek further shareholder approval at a General Meeting specially convened for that purpose. The current policy, which was approved at the AGM on 19 May 2020, is set out below. It will be put to the shareholders for approval at the AGM on 24 May 2023. No changes are recommended.

Remuneration policy

The Company's Articles of Association limit the aggregate fees payable to each Director to £50,000 per annum. Subject to this overall limit, it is the Board's policy to determine the level of Directors' fees having regard to the time spent by them on the Company's affairs; the level of fees payable to non-executive directors in the industry generally; the requirement to attract and retain individuals with suitable knowledge and experience; and the role that individual Directors fulfil. Other than fees and reasonable travel expenses incurred in attending to the affairs of the Company, the Directors are not eligible for any performance related pay or benefits, pension related benefits, share options, long-term incentive schemes, or other taxable benefits. The Directors are not entitled to exit payments and are not provided with any compensation for loss of office.

The level of Directors' fees is determined by the whole Board. Directors do not vote on their own fees. The Board reviews the Company's Remuneration Policy and implementation on an annual basis. Reviews are based on information provided by the Company's Manager and research from third parties and it includes information on the fees of other similar investment trusts.

No Director has a service contract with the Company. New Directors are provided with a letter of appointment which, amongst other things, provides that their appointment is subject to the Companies Act 2006 and the Company's Articles of Association. Copies of the Directors' letters of appointment are available at each of the Company's AGMs and can be obtained from the Company's registered office.

In common with most investment trusts there is no Chief Executive Officer and there are no employees.

The Company's remuneration policy will apply to new Board members, who will be paid the equivalent amount of fees as current Board members.

Voting on the Remuneration Policy

The Remuneration Policy (the "Policy"), as set out above, was approved at the AGM on 19 May 2020 with 99.73% of votes cast in favour, 0.26% of votes cast against and 0.01% of votes withheld. The next vote will be put to shareholders at the AGM on 24 May 2023 and the votes cast will be disclosed on the Company's pages of the Manager's website at www.fidelity.co.uk/japan. The Policy has been followed throughout the year ended 31 December 2022 and up to the date of this report.

Voting on the Directors' Remuneration Report

At the AGM held on 17 May 2022, 99.66% of votes were cast in favour of the Directors' Remuneration Report for the year ended 31 December 2021, 0.26% of votes were cast against and 0.08% of votes were withheld.

The Directors' Remuneration Report for the year ended 31 December 2022 will be put to shareholders at the AGM on 24 May 2023, and the votes cast will be disclosed on the Company's pages of the Manager's website at www.fidelity.co.uk/japan.

Single Total Figure of Directors' Remuneration

The single total aggregate Directors' remuneration for the reporting year was £130,713 (2021: £128,900). No taxable expenses were claimed by any Director in attending to the affairs of the Company. Directors' fees are disclosed in the table on the next page.

	2023 Projected fees (£)	2022 Fees (Audited) (£)	2022 Taxable Expenses (Audited) (£)	2022 Total (Audited) (£)	2021 Fees (Audited) (£)	2021 Taxable Expenses (Audited) (£)	2021 Total (Audited) (£)
Remuneration of Directors							
David Graham ¹	40,000	38,500	–	38,500	34,400	–	34,400
David Barron	33,000	31,500	–	31,500	28,500	–	28,500
Myra Chan ²	29,000	5,713	–	5,713	n/a	n/a	n/a
Sarah MacAulay	29,000	27,500	–	27,500	26,000	–	26,000
Dominic Ziegler	29,000	27,500	–	27,500	26,000	–	26,000
David Robins ³	n/a	n/a	n/a	n/a	14,000	–	14,000
Total	160,000	130,713	–	130,713	128,900	–	128,900

¹ 2021 fees pro-rated to reflect becoming Chairman from 18 May 2021.

² Appointed on 17 October 2022.

³ Retired on 18 May 2021.

Five year change comparison in Directors' Remuneration

The table below sets out the change in Directors' fees over the last five years.

Director	2022	2017	Change (%)
Chairman	38,500	30,000	+28.3
Audit Committee Chairman	31,500	23,000	+40.0
Director	27,500	20,000	+37.5

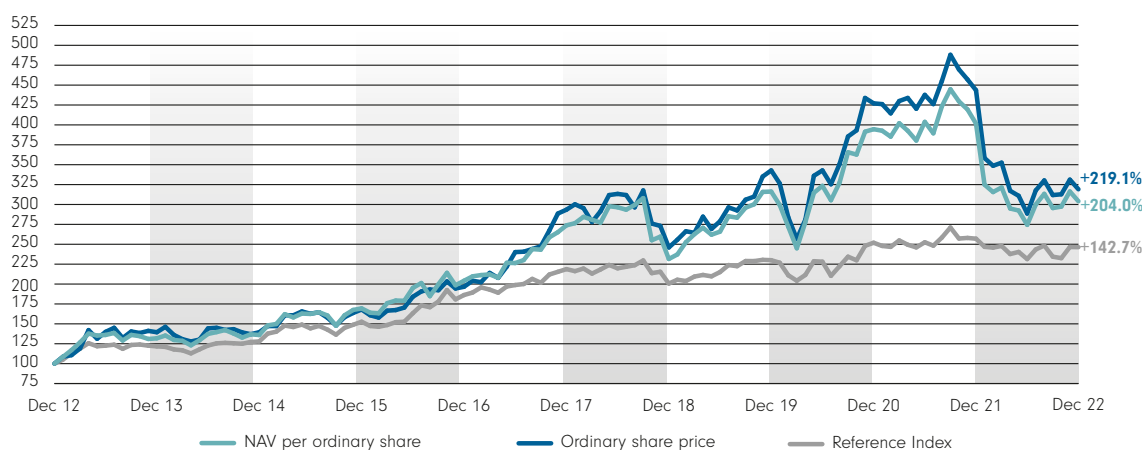
Expenditure on Directors' Remuneration and Distributions to Shareholders

As the Company has no employees and currently pays no dividends, the Directors do not consider that it is relevant to present a table comparing remuneration paid to employees with distributions to shareholders. The total fees paid to Directors is shown in the table above.

Performance

The Company's objective is to achieve long-term capital growth by investing predominantly in equities and related securities of Japanese companies. The graph below shows the performance of the Company's NAV, share price and the Reference Index (in sterling terms) over ten years to 31 December 2022.

Total return performance for the ten years to 31 December 2022



Directors' Remuneration Report continued

Directors' Interest in the Company's Shares

Although there is no requirement for the Directors to hold shares in the Company, shareholdings by Directors are encouraged. The interests of the Directors and their connected persons in the ordinary shares of the Company are shown below. All of the shareholdings are beneficial.

Directors' Shareholdings (Audited)

	31 December 2022	31 December 2021	Change during year
David Graham	78,489	78,489	-
David Barron	19,366	19,366	-
Myra Chan	-	n/a	-
Sarah MacAulay ¹	181,340	153,545	27,795
Dominic Ziegler	16,000	16,000	-

¹ Purchase of shares by self and connected persons.

All shareholdings remain unchanged as at the date of this report other than for Dominic Ziegler who purchased an additional 8,045 shares in February 2023.

On behalf of the Board

David Graham

Chairman

28 March 2023

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for the reporting period.

In preparing these Financial Statements, the Directors are required to:

- Select suitable accounting policies in accordance with Section 10 of FRS 102 and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- Present information, including accounting policies, in a fair and balanced manner that provides relevant, reliable, comparable and understandable information;
- State whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time, the financial position of the Company and to enable them to ensure that the Company and Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

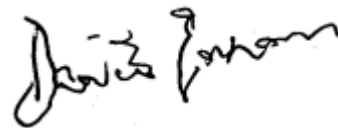
Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Corporate Governance Statement and a Directors' Remuneration Report which comply with that law and those regulations.

The Directors have delegated the responsibility for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website at www.fidelity.co.uk/japan to the Manager. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their own jurisdictions.

The Directors confirm that to the best of their knowledge:

- The Financial Statements, prepared in accordance with UK Generally Accepted Practice, including FRS 102, give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- The Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces; and
- The Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Statement of Directors' Responsibility was approved by the Board on 28 March 2023 and signed on its behalf by:



David Graham
Chairman

Report of the Audit Committee

I am pleased to present the formal report of the Audit Committee (the "Committee") to shareholders.

The primary responsibilities of the Committee are to ensure the integrity of the Company's financial reporting, the appropriateness of the risk management and internal controls processes and the effectiveness of the independent audit process and how this has been assessed for the year ended 31 December 2022.

Composition

The members of the Committee are myself as Chairman and all of the other Directors. David Graham is also a member of the Committee because the Board believes it is appropriate for all Directors to have such responsibility. All Committee members are independent non-executive Directors and collectively have sufficient recent and relevant financial experience to discharge their responsibilities fully.

The Committee's performance is evaluated annually as part of the overall Board evaluation process.

Role and Responsibilities of the Committee

The Committee's authority and duties are clearly defined in its terms of reference and are available on the Company's pages of the Manager's website at www.fidelity.co.uk/japan. These duties include:

- Establishing with the Auditor the nature and scope of the audit, reviewing the Auditor's quality control procedures and reporting, the effectiveness of the audit process and the Auditor's independence and objectivity with particular regard to the provision of non-audit services;
- Responsibility for making recommendations on the appointment, reappointment and removal of the Auditor;
- Reviewing the effectiveness of the Company's risk management and internal controls systems (including financial, operational and compliance controls), considering the scope of the work undertaken by the Manager's internal audit department, including review of the work performed by Internal Audit, and reviewing the Company's procedures for detecting fraud;
- Monitoring the integrity of the Company's half-yearly and annual financial statements to ensure that they are fair, balanced and understandable;
- Reviewing the existence and performance of controls operating in the Company, including the reviews of internal controls reporting provided in relation to its service providers; and
- Reviewing the relationship with and the performance of third party service providers (such as the Registrar, Custodian and Depositary).

Meetings and Business Considered by the Committee

Since the date of the last Annual Report (25 March 2022), the Committee has met three times and the Auditor attended two of these meetings.

The following matters were reviewed at each Committee meeting.

- The Company's risk management and internal controls framework;
- The Company's compliance with its investment policy limits;
- The methodology for reaching the fair value of unlisted investments;
- The Depositary's oversight reporting;
- The Company's revenue and expenses forecasts and its Balance Sheet; and
- The Committee's Terms of Reference.

In addition, the following matters were also considered at these meetings:

July 2022	<ul style="list-style-type: none"> • The Half-Yearly Report and Financial Statements and recommendation of its approval to the Board • The Going Concern Statement
November 2022	<ul style="list-style-type: none"> • The Auditor's engagement letter and audit plan for the Company's year ending 31 December 2022, including discussion of the audit fee increase (see page 50) • The Manager's internal audit reporting, including a review of the Internal Audit plan • Cybersecurity reporting and the controls in place to mitigate the risks of potential threats and attacks • The Manager's business continuity risks and the ability to carry on operating during the ongoing pandemic • Review of Fidelity's AAF Reports (assurance reports on internal controls) • Review of outsourced third party service providers' control reports • Consideration of principal and emerging risks, including the impact of climate change, the ongoing pandemic, the war in Ukraine and geopolitical tensions in Asia
March 2023	<ul style="list-style-type: none"> • The Auditor's findings from the audit of the Company • The Auditor's performance, independence and reappointment • Compliance with Corporate Governance and regulatory requirements • The Annual Report and Financial Statements and recommendation of its approval to the Board following a review and conclusion by the Committee that it is Fair, Balanced and Understandable • The Viability and Going Concern Statements, including the ongoing impact of the pandemic, the war in Ukraine and regulatory changes on the Company's performance, prospects and operations • Emerging risks, in particular the climate change risk and emerging geopolitical risks

Annual Report and Financial Statements

The Annual Report and Financial Statements are the responsibility of the Board and the Statement of Directors' Responsibilities can be found on [page 47](#). The Committee advises the Board on the form and content of the Annual Report and Financial Statements, any issues which may arise in relation to these and any specific areas which require judgement. The Committee members apply their expertise and knowledge in reviewing disclosures made in order to ensure that the Financial Statements are fair, balanced and understandable.

Significant issues considered by the Audit Committee

Summarised below and on the next page are the most significant issues considered by the Committee in respect of these Financial Statements and how these issues were addressed.

Recognition of investment income	Investment income is recognised in accordance with Accounting Policy Note 2 (e) on page 62. The Manager provided detailed revenue forecasts and the Committee reviewed and sought explanations for any significant variances to these forecasts. The Committee also considered the allocation of special dividends between revenue and capital and the reasons for the classification of these special dividends. The Committee reviewed the internal audit and the compliance monitoring reports received from the Manager, including an additional internal controls report ("AAF report") prepared by PricewaterhouseCoopers LLP on behalf of the Manager, to satisfy itself that adequate systems were in place for properly recording the Company's investment income. The Committee also reviewed the reports provided by the Auditor on its work on the recognition of investment income.
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Report of the Audit Committee continued

Valuation, existence and ownership of investments (including derivatives and other unlisted investments)

The valuation of investments (including derivatives) is in accordance with Accounting Policy Notes 2 (j) and 2 (k) on [pages 63 and 64](#). The Committee took comfort from the Depositary's regular oversight reports that investment related activities were conducted in accordance with the Company's investment policy. The Committee received reports from the Manager, the Depositary and an additional AAF report prepared on behalf of the Manager by PricewaterhouseCoopers LLP which concluded that controls around the valuation, existence and ownership of investments operate effectively. Unlisted investments are appraised by the Manager's Fair Value Committee (FVC) in accordance with UK GAAP and International Private Equity and Venture Capital Valuation Guidelines and reviewed by the Audit Committee. The Committee receives reporting information from the FVC and reviews and challenges the proposed valuation methodologies for all unlisted investments. The FVC's proposals include recommendations from Kroll (formerly known as Duff & Phelps), an external company that provides global financial information and services and detailed input from the Fidelity International analysts covering the unlisted companies. In addition, the Auditor reviewed the valuations of the unlisted investments in the Company's portfolio and reported its findings at the March 2023 Audit Committee meeting. The Committee reviewed the reports provided by the Auditor on its work on the valuation, existence and ownership of the Company's investments, including derivatives and unlisted investments.

Independence and Effectiveness of the Audit Process

Ernst & Young LLP acted as the Company's Auditor for the year ended 31 December 2022.

With regard to the independence of the Auditor, the Committee reviewed:

- The Auditor's arrangements for any conflicts of interest;
- The fact that no non-audit services were provided to the Company in the reporting year and up to the date of this report; and
- The statement by the Auditor that it remains independent within the meaning of the regulations and its professional standards.

With regard to the effectiveness of the audit process, the Committee reviewed:

- The fulfilment by the Auditor of the agreed audit plan, including the audit team and approach to significant risks;
- The audit findings report issued by the Auditor on the audit of the Annual Report and Financial Statements for the year ended 31 December 2022; and
- Feedback from the Manager on the audit of the Company.

The Committee concluded that the Auditor continues to remain independent and the audit process remains effective.

Auditor's Appointment and Audit Tenure

Ernst & Young LLP was appointed as the Company's Auditor on 24 May 2016 following a formal audit tender process in 2015. The Committee has reviewed the Auditor's independence and the effectiveness of the audit process prior to recommending its reappointment for a further year. The Auditor is required to rotate audit partners every five years and this is the first year that the new audit partner, Sarah Langston, has been in place. The Committee will continue to review the Auditor's appointment each year to ensure that the Company continues to receive an optimal level of service. There are no contractual obligations that restrict the Company's choice of auditor.

Audit Fees

Fees paid to the Auditor for the audit of the Company's Financial Statements are disclosed in Note 5 on [page 66](#).

The audit fee for the reporting year was £47,250 (2021: £28,500). Audit fees across the industry have increased substantially driven by cost pressures on audit firms from revised accounting standards which require audits to be more heavily resourced in order to maintain audit quality. There was also additional audit work as a result of the Company holding unlisted investments.

David Barron

Chairman of the Audit Committee
28 March 2023

Independent Auditor's Report to the Members of Fidelity Japan Trust PLC

Opinion

We have audited the Financial Statements of Fidelity Japan Trust PLC (the 'Company') for the year ended 31 December 2022 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet and the related Notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Financial Statements:

- Give a true and fair view of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Confirming our understanding of the Company's going concern assessment process by engaging with the Directors and the Company Secretary to determine if all key factors were considered in their assessment.

- Inspecting the Directors' assessment of going concern, including the revenue forecast, for the period to 31 March 2024, which is at least 12 months from the date of approval of the Financial Statements. In preparing the revenue forecast, the Company has concluded that it is able to continue to meet its ongoing costs as they fall due.
- Reviewing the factors and assumptions, including the impact of the current economic environment and other significant events that could give rise to market volatility, as applied to the revenue and expense forecast. Considering the appropriateness of the methods used to calculate the forecast and determining, through testing of the methodology and calculations, that the methods utilised were appropriate to be able to make an assessment of going concern for the Company.
- Consideration of the mitigating factors that are within the control of the Company, including a review of the Company's assessment of the liquidity of investments held and evaluating the Company's ability to sell investments in order to cover the working capital requirements should its revenue decline significantly.
- Reviewing the Company's going concern disclosures included in the Annual Report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period to 31 March 2024, which is at least 12 months from the date of approval of the Financial Statements.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Independent Auditor's Report to the Members of Fidelity Japan Trust PLC continued

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Risk of incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital items in the Income Statement • Risk of incorrect valuation and resultant impact on the unrealised gains/(losses) of the unlisted investments • Risk of incorrect valuation of the listed investments or ownership of the entire investment portfolio, including derivatives
Materiality	<ul style="list-style-type: none"> • Overall materiality of £2.36m which represents 1% of the Company's net asset value as at 31 December 2022

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the Financial Statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Company. The Company has determined that the impact of climate change could affect the Company's investments and their valuations and potentially shareholder returns. These are explained on page 27 in the principal and emerging risks section, which form part of the "Other information," rather than the audited Financial Statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the Financial Statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Our audit effort in considering climate change was focused on the adequacy of the Company's disclosures in the Financial Statements as set out in Note 2(a) and the conclusion that there was no further impact of climate change to be taken into account as the investments are valued based on market pricing. In line with FRS 102 investments are valued at fair value, which for the Company are quoted bid prices for investments in active markets at the balance sheet date. Investments which are unlisted are priced using market-based valuation approaches. All investments therefore reflect the market participants' view of climate change risk on the investments held by the Company.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Risk of incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital items in the Income Statement</p> <p><i>Refer to the Report of the Audit Committee (page 49); Accounting policies (page 62); and Note 3 of the Financial Statements (page 65).</i></p> <p>The Company has reported revenue of £3.21m (2021: £3.48m).</p> <p>During the year, the Company received special dividends amounting to £0.12m (2021: £0.14m), £0.07m (2021: £0.14) of which were classified as revenue and £0.05m (2021: nil) of which were classified as capital.</p> <p>There is a risk of incomplete or inaccurate recognition of revenue through the failure to recognise proper income entitlements or to apply an appropriate accounting treatment.</p> <p>In addition to the above, the Directors are required to exercise judgement in determining whether income received in the form of special dividends should be classified as 'revenue' or 'capital' in the Income Statement.</p>	<p>We performed the following procedures:</p> <p>We obtained an understanding of the processes and controls surrounding revenue recognition and classification of special dividends by performing walkthrough procedures to evaluate the design and implementation of controls;</p> <p>For all dividends received and accrued, we recalculated the income by multiplying the investment holdings at the ex-dividend date, traced from the accounting records, by the dividend rate as agreed to an independent data vendor. We also agreed all exchange rates to an external source and, for a sample of dividends received and dividends accrued, we agreed amounts to bank statements;</p> <p>For all accrued dividends, we assessed whether the dividend obligations arose prior to 31 December 2022 with reference to an external source;</p> <p>To test completeness of recorded income, we tested that all expected dividends for each of the investee companies had been recorded as income with reference to an external source; and</p> <p>For all investments held during the year, we reviewed the type of dividends paid with reference to an external data source to identify those which were special dividends. For special dividends above our testing threshold, we assessed the appropriateness of the Company's classification as either revenue or capital by reviewing the rationale for the underlying distribution.</p>	<p>The results of our procedures identified no material misstatements in relation to the risk of incomplete or inaccurate revenue recognition, including the classification of special dividends as revenue or capital items in the Income Statement.</p>

Independent Auditor's Report to the Members of Fidelity Japan Trust PLC continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Risk of incorrect valuation and resultant impact on the unrealised gains/(losses) of the unlisted investments</p> <p><i>Refer to the Report of the Audit Committee (page 50); Accounting policies (page 63); and Note 16 of the Financial Statements (page 77).</i></p> <p>At 31 December 2022 the Company held seven unlisted investments with a total value of £18.93m (2021: six unlisted investments with a total value of £17.20m).</p> <p>We considered that the degree of subjectivity, including the level of management judgement and the risk that the valuation does not reflect the most up to date information, results in a fraud risk over misstatement of the valuation of unlisted securities.</p> <p>The unlisted investments are approved by the Manager's Fair Value Committee and these are reviewed and challenged by the Directors. The Manager engages Kroll to perform a valuation which is then considered by the Manager's Fair Value Committee. The unlisted investment policy applies methodologies consistent with the International Private Equity and Venture Capital Valuation guidelines (IPEV).</p>	<p>We performed the following procedures:</p> <p>We obtained an understanding of the processes and controls surrounding investment pricing and legal title by performing walkthrough procedures to evaluate the design and implementation of controls;</p> <p>For a sample of unlisted investments held at the year end, our specialist valuation team reviewed and challenged the valuations. This included:</p> <ul style="list-style-type: none"> • Reviewing the latest valuation papers by Kroll, a third-party service provider; • Assessing whether the valuations have been performed in line with the IPEV guidelines; • Assessing the appropriateness of the data inputs and challenging the assumptions used to support the valuations; and • Assessing other facts and circumstances, such as market movement and comparative information, that could have an impact on the fair market value of the investments; <p>We obtained and assessed valuation papers, including the assumptions and judgements in determining the fair value of the unlisted investments held by the Company at the year end;</p> <p>Agreed the cost of the new unlisted investment to supporting share purchase agreements and traced the payments to bank statement;</p> <p>Agreed 100% of exchange rates to a relevant independent data vendor; and</p> <p>We recalculated the unrealised gains/losses on investments as at the year end using the book-cost reconciliation.</p>	<p>The results of our procedures identified no material misstatements in relation to the risk of incorrect valuation and resultant impact on the unrealised gains/(losses) of the unlisted investments.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Risk of incorrect valuation of the listed investments or ownership of the entire investment portfolio, including derivatives</p> <p><i>Refer to the Report of the Audit Committee (page 50); Accounting policies (pages 63 and 64); and Notes 9 and 10 of the Financial Statements (pages 68 and 69).</i></p> <p>At 31 December 2022, the Company held listed investments with a value of £211.75m (2021: £290.54m). The Company also has net derivative liabilities amounting to £0.26m (net derivative assets 2021: £0.29m).</p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect investment pricing, or a failure to maintain proper legal title to the investments held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders.</p> <p>The fair value of the listed investments and derivatives is determined using quoted market prices at close of business on the reporting date.</p>	<p>We performed the following procedures:</p> <p>We obtained an understanding of the processes and controls surrounding investment pricing and legal title by performing walkthrough procedures;</p> <p>For all listed investments in the portfolio, we compared the market prices and exchange rates applied to an independent pricing vendor. For all derivatives, we compared the market prices of the underlying instrument to an independent pricing vendor and agreed cost price to the Brokers' confirmations. We recalculated the investment and derivative valuations as at the year end;</p> <p>We inspected the stale pricing report to identify prices that had not changed and verified whether the quoted price is a valid fair value; and</p> <p>We compared the Company's investment holdings at 31 December 2022 to independent confirmations received directly from the Company's Custodian and Depositary. We agreed all year end open derivative positions to confirmations received independently from the Company's Brokers.</p>	<p>The results of our procedures identified no material misstatements in relation to the risk of incorrect valuation of the listed investments or ownership of the entire investment portfolio, including derivatives.</p>

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £2.36 million (2021: £3.13 million), which is 1% (2021: 1%) of the Company's net asset value. We believe that net asset value provides us with materiality aligned to the key measure of the Company's performance.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £1.77m (2021: £2.34m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for investment trusts, we have also applied a separate testing threshold for the revenue column of the Income Statement of £0.12m (2021: £0.16m), being equivalent to the reporting threshold (2021: 5% of the net return on ordinary activities before taxation).

Independent Auditor's Report to the Members of Fidelity Japan Trust PLC continued

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.12m (2021: £0.16m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report other than the Financial Statements and our Auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- The Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Corporate Governance Statement

We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on [page 36](#);
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on [page 32](#);
- Director's statement on whether it has a reasonable expectation that the Company will be able to continue in operation and meets its liabilities set out on [page 36](#);
- Directors' statement on fair, balanced and understandable set out on [page 47](#);
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on [page 27](#);
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on [page 42](#); and
- The section describing the work of the audit committee set out on [page 48](#).

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on [page 47](#), the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are United Kingdom Generally Accepted Accounting Practice, the Companies Act 2006, the Association of Investment Companies Code of Corporate Governance, the Association of Investment Companies Statement of Recommended Practice, the Listing Rules, the UK Corporate Governance Code, Section 1158 of the Corporation Tax Act 2010 and The Companies (Miscellaneous Reporting) Regulations 2018.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of Board minutes and the Company's documented policies and procedures.

- We assessed the susceptibility of the Company's Financial Statements to material misstatement, including how fraud might occur by considering the key risks impacting the Financial Statements. We identified a fraud risk with respect to the incomplete or inaccurate revenue recognition through incorrect classification of special dividends as revenue or capital items in the Income Statement and the incorrect valuation and resultant impact on the unrealised gains/(losses) of the unlisted investments. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the Financial Statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditor's report.

Other matters we are required to address

- Following the recommendation from the Audit Committee, we were appointed by the Company on 24 May 2016 to audit the Financial Statements for the year ending 31 December 2016 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 7 years, covering the years ending 31 December 2016 to 31 December 2022.

- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sarah Langston

Senior Statutory Auditor
For and on behalf of Ernst & Young LLP
Statutory Auditor
London
28 March 2023

Income Statement

for the year ended 31 December 2022

	Notes	Year ended 31 December 2022			Year ended 31 December 2021		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	9	–	(64,577)	(64,577)	–	847	847
(Losses)/gains on derivative instruments	10	–	(11,568)	(11,568)	–	5,521	5,521
Income	3	3,209	–	3,209	3,476	–	3,476
Investment management fees	4	(334)	(1,264)	(1,598)	(448)	(2,429)	(2,877)
Other expenses	5	(690)	(15)	(705)	(620)	(13)	(633)
Foreign exchange losses		–	(365)	(365)	–	(533)	(533)
Net return/(loss) on ordinary activities before finance costs and taxation		2,185	(77,789)	(75,604)	2,408	3,393	5,801
Finance costs	6	(27)	(106)	(133)	(35)	(138)	(173)
Net return/(loss) on ordinary activities before taxation		2,158	(77,895)	(75,737)	2,373	3,255	5,628
Taxation on return/(loss) on ordinary activities	7	(260)	–	(260)	(278)	–	(278)
Net return/(loss) on ordinary activities after taxation for the year		1,898	(77,895)	(75,997)	2,095	3,255	5,350
Return/(loss) per ordinary share	8	1.46p	(60.01p)	(58.55p)	1.61p	2.50p	4.11p

The Company does not have any other comprehensive income. Accordingly the net return/(loss) on ordinary activities after taxation for the year is also the total comprehensive income for the year and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement of the Company. The revenue and capital columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

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

Statement of Changes in Equity

for the year ended 31 December 2022

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total shareholders' funds £'000
Total shareholders' funds at 31 December 2021		34,041	20,722	2,767	46,942	218,406	(10,225)	312,653
Repurchase of ordinary shares	13	-	-	-	(284)	-	-	(284)
Net (loss)/return on ordinary activities after taxation for the year		-	-	-	-	(77,895)	1,898	(75,997)
Total shareholders' funds at 31 December 2022		34,041	20,722	2,767	46,658	140,511	(8,327)	236,372
Total shareholders' funds at 31 December 2020		34,041	20,722	2,767	48,445	215,151	(12,320)	308,806
Repurchase of ordinary shares	13	-	-	-	(1,503)	-	-	(1,503)
Net return on ordinary activities after taxation for the year		-	-	-	-	3,255	2,095	5,350
Total shareholders' funds at 31 December 2021		34,041	20,722	2,767	46,942	218,406	(10,225)	312,653

Balance Sheet

as at 31 December 2022

Company number 2885584

	Notes	2022 £'000	2021 £'000
Fixed assets			
Investments	9	230,680	307,738
Current assets			
Derivative instruments	10	838	1,006
Debtors	11	613	525
Cash collateral held with brokers	16	276	-
Cash at bank		5,556	4,741
		7,283	6,272
Current liabilities			
Derivative instruments	10	(1,100)	(717)
Bank overdraft		-	(11)
Other creditors	12	(491)	(629)
		(1,591)	(1,357)
Net current assets		5,692	4,915
Net assets		236,372	312,653
Capital and reserves			
Share capital	13	34,041	34,041
Share premium account	14	20,722	20,722
Capital redemption reserve	14	2,767	2,767
Other reserve	14	46,658	46,942
Capital reserve	14	140,511	218,406
Revenue reserve	14	(8,327)	(10,225)
Total shareholders' funds		236,372	312,653
Net asset value per ordinary share	15	182.24p	240.73p

The Financial Statements on [pages 58 to 78](#) were approved by the Board of Directors on 28 March 2023 and were signed on its behalf by:

David Graham
Chairman

The Notes on [pages 61 to 78](#) form an integral part of these Financial Statements.

Notes to the Financial Statements

1 Principal Activity

Fidelity Japan Trust PLC is an Investment Company incorporated in England and Wales with a premium listing on the London Stock Exchange. The Company's registration number is 2885584, and its registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP. The Company has been approved by HM Revenue & Customs as an Investment Trust under Section 1158 of the Corporation Tax Act 2010 and intends to conduct its affairs so as to continue to be approved.

2 Accounting Policies

The Company has prepared its Financial Statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", issued by the Financial Reporting Council (FRC). The Financial Statements have also been prepared in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts (SORP) issued by the Association of Investment Companies (AIC) in July 2022. The Company is exempt from presenting a Cash Flow Statement as a Statement of Changes in Equity is presented and substantially all of the Company's investments are highly liquid and are carried at market value.

a) Basis of accounting

The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative instruments. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence up to 31 March 2024 which is at least twelve months from the date of approval of these Financial Statements. In making their assessment the Directors have reviewed income and expense projections, reviewed the liquidity of the investment portfolio and considered the Company's ability to meet liabilities as they fall due. This conclusion also takes into account the Directors' assessment of the risks faced by the Company as detailed in the Going Concern Statement on [page 36](#).

In preparing these Financial Statements, the Directors have considered the impact of climate change risk as an emerging and principal risk as set out on [page 27](#), and have concluded that there was no further impact of climate change to be taken into account as the investments are valued based on market pricing. In line with FRS 102, investments are valued at fair value, which for the Company are quoted bid prices for investments in active markets at the balance sheet date. Investments which are unlisted are priced using market-based valuation approaches. All investments therefore reflect the market participants view of climate change risk on the investments held by the Company.

The Company's Going Concern Statement in the Directors' Report on page 36 takes account of all events and conditions up to 31 March 2024 which is at least twelve months from the date of approval of these Financial Statements.

b) Significant accounting estimates, assumptions and judgements

The preparation of the Financial Statements requires the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets and liabilities at the reporting date. While estimates are based on best judgement using information and financial data available, the actual outcome may differ from these estimates.

The key sources of estimation and uncertainty relate to the fair value of the unlisted investments.

Judgements

The Directors consider whether each fair value is appropriate following detailed review and challenge of the pricing methodology. The judgement applied in the selection of the methodology used (see Note 2 (j) below) for determining the fair value of each unlisted investment can have a significant impact upon the valuation.

Estimates

The key estimate in the Financial Statements is the determination of the fair value of the unlisted investments by the Manager's Fair Value Committee (FVC), with support from the external valuer, for detailed review and appropriate challenge by the Directors. This estimate is key as it significantly impacts the valuation of the unlisted investments at the Balance Sheet date. When no recent primary or secondary transaction in the company's shares have taken place, the fair valuation process involves estimation using subjective inputs that are unobservable (for which market data is unavailable). The estimates involved in the valuation process may include the following:

- (i) The selection of appropriate comparable companies. Comparable companies are chosen on the basis of their business characteristics and growth patterns;
- (ii) The selection of a revenue metric (either historical or forecast);
- (iii) The selection of an appropriate illiquidity discount factor to reflect the reduced liquidity of unlisted companies versus their listed peers;
- (iv) The estimation of the likelihood of a future exit of the position through an Initial Public Offering (IPO) or a company sale;
- (v) The selection of an appropriate industry benchmark index to assist with the valuation; and

Notes to the Financial Statements continued

2 Accounting Policies continued

- (vi) The calculation of valuation adjustments derived from milestone analysis (i.e. incorporating operational success against the plans/forecasts of the business into the valuation).

As the valuation outcomes may differ from the fair value estimates a price sensitivity analysis is provided in Other Price Risk Sensitivity in Note 16 below to illustrate the effect on the Financial Statements of an over or under estimation of fair value.

The risk of an over or under estimation of fair value is greater when methodologies are applied using more subjective inputs.

Assumptions

The determination of fair value by the FVC involves key assumptions dependent upon the valuation techniques used. The valuation process recognises that the price of a recent investment may be an appropriate starting point for estimating fair value. The Multiples approach involves subjective inputs and therefore presents a greater risk of over or under estimation, particularly in the absence of a recent transaction.

c) Segmental reporting

The Company is engaged in a single segment business and, therefore, no segmental reporting is provided.

d) Presentation of the Income Statement

In order to reflect better the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement. The net revenue return after taxation for the year is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.

e) Income

Income from equity investments is accounted for on the date on which the right to receive the payment is established, normally the ex-dividend date. Overseas dividends are accounted for gross of any tax deducted at source. Amounts are credited to the revenue column of the Income Statement. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised in the revenue column of the Income Statement. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital column of the Income Statement. Special dividends are treated as a revenue receipt or a capital receipt depending on the facts and circumstances of each particular case.

Derivative instrument income received from dividends on long Contracts for Difference (CFDs) is accounted for on the date on which the right to receive the payment is established, normally the ex-dividend date. The amount net of tax is credited to the revenue column of the Income Statement.

f) Investment management fees and other expenses

Investment management fees and other expenses are accounted for on an accruals basis and are charged as follows:

- The base investment management fee is allocated 20% to revenue and 80% to capital to reflect the Company's focus on capital growth to generate returns;
- The variable investment management fee is charged/credited to capital, as it is based on the performance of the net asset value per share relative to the Reference Index; and
- All other expenses are allocated in full to revenue with the exception of those directly attributable to share issues or other capital events.

g) Functional currency and foreign exchange

The functional and reporting currency of the Company is UK sterling, which is the currency of the primary economic environment in which the Company operates. Although the Company invests in yen denominated investments, it has been determined that the functional currency is UK sterling as the entity is listed on a sterling stock exchange in the UK, and its share capital is denominated and its expenses are paid in UK sterling. Transactions denominated in foreign currencies are reported in UK sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Foreign exchange gains and losses arising on translation are recognised in the Income Statement as a revenue or a capital item depending on the nature of the underlying item to which they relate.

h) Finance costs

Finance costs comprises interest on bank overdrafts and collateral and finance costs paid on long CFDs, which are accounted for on an accruals basis. Finance costs are allocated 20% to revenue and 80% to capital to reflect the Company's focus on capital growth to generate returns.

2 Accounting Policies continued

i) Taxation

The taxation charge represents the sum of current taxation and deferred taxation.

Current taxation is taxation suffered at source on overseas income less amounts recoverable under taxation treaties. Taxation is charged or credited to the revenue column of the Income Statement, except where it relates to items of a capital nature, in which case it is charged or credited to the capital column of the Income Statement. The Company is an approved Investment Trust under Section 1158 of the Corporation Tax Act 2010 and is not liable for UK taxation on capital gains.

Deferred taxation is the taxation expected to be payable or recoverable on timing differences between the treatment of certain items for accounting purposes and their treatment for the purposes of computing taxable profits. Deferred taxation is based on tax rates that have been enacted or substantively enacted when the taxation is expected to be payable or recoverable. Deferred tax assets are only recognised if it is considered more likely than not that there will be sufficient future taxable profits to utilise them.

j) Investments

The Company's business is investing in financial instruments with a view to profiting from their total return in the form of income and capital growth. This portfolio of investments is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided on that basis to the Company's Board of Directors. Investments are measured at fair value with changes in fair value recognised in profit or loss, in accordance with the provisions of both Section 11 and Section 12 of FRS 102. The fair value of investments is initially taken to be their cost and is subsequently measured as follows:

- Listed investments are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed: and
- Investments which are not quoted, or are not frequently traded, are stated at the best estimate of fair value. The Manager's Fair Value Committee (FVC), which is independent of the Portfolio Manager's team, and with support from the external valuer, provides recommended fair values to the Directors. These are based on the principles outlined in Note 2 (b) above. The unlisted investments are valued at fair value following a detailed review and appropriate challenge by the Directors of the pricing methodology used by the FVC.

The techniques applied by the FVC when valuing the unlisted investments are predominantly market-based approaches. The market-based approaches are set out below and are followed by an explanation of how they are applied to the Company's unlisted portfolio:

- Multiples;
- Industry Valuation Benchmarks; and
- Available Market Prices.

The nature of the unlisted investment will influence the valuation technique applied. The valuation approach recognises that the price of a recent investment, if resulting from an orderly transaction, generally represents fair value as at the transaction date and may be an appropriate starting point for estimating fair value at subsequent measurement dates. However, consideration is given to the facts and circumstances as at the subsequent measurement date, including changes in the market or performance of the investee company. Milestone analysis and future cash flows are used where appropriate to incorporate the operational progress of the investee company into the valuation. Consideration is also given to the input received from the Fidelity International analyst that covers the company and from an external valuer. Additionally, the background to the transaction must be considered. As a result, various multiples-based techniques are employed to assess the valuations particularly in those companies with established revenues. An absence of relevant industry peers may preclude the application of the Industry Valuation Benchmarks technique and an absence of observable prices may preclude the Available Market Prices approach.

The unlisted investments are valued according to a three month cycle of measurement dates. The fair value of the unlisted investments will be reviewed before the next scheduled three monthly measurement date on the following occasions:

- At the year end and half year end of the Company; and
- Where there is an indication of a change in fair value (commonly referred to as 'trigger' events).

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments, within (losses)/gains on investments in the capital column of the Income Statement and has disclosed these costs in Note 9 below.

Notes to the Financial Statements continued

2 Accounting Policies continued

k) Derivative instruments

When appropriate, permitted transactions in derivative instruments are used. Some of the Company's portfolio exposure to Japanese equities is achieved by investment in long CFDs. Long CFDs are classified as other financial instruments and are initially accounted and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value as follows:

- Long CFDs are the difference between the strike price and the value of the underlying shares in the contract.

l) Debtors

Debtors include securities sold for future settlement, accrued income, other debtors and prepayments incurred in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets. If not, they are presented as non-current assets. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

m) Cash collateral held with brokers

These are amounts held in segregated accounts on behalf of brokers as collateral against open derivative contracts. These are carried at amortised cost.

n) Other creditors

Other creditors include securities purchased for future settlement, investment management fees and other creditors and expenses accrued in the ordinary course of business. If payment is due within one year or less (or in the normal operating cycle of the business, if longer) they are classified as current liabilities. If not, they are presented as non-current liabilities. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

o) Other reserve

The full cost of ordinary shares repurchased and held in Treasury is charged to the other reserve.

p) Capital reserve

The following are accounted for in the capital reserve:

- Gains and losses on the disposal of investments and derivative instruments;
- Changes in the fair value of investments and derivative instruments held at the year end;
- Foreign exchange gains and losses of a capital nature;
- Dividends receivable which are capital in nature;
- 80% of base investment management fees and finance costs;
- Variable investment management fees; and
- Other expenses which are capital in nature.

Technical guidance issued by the Institute of Chartered Accountants in England and Wales in TECH 02/17BL, guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, states that changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as capital reserve in the Statement of Changes in Equity and the Balance Sheet. At the Balance Sheet date, the portfolio of the Company consisted of investments listed on a recognised stock exchange and derivative instruments contracted with counterparties having an adequate credit rating, and the portfolio was considered to be readily convertible to cash, with the exception of the level 3 investments which had unrealised investment holding losses of £1,635,000 (2021: losses of £1,110,000). See Note 16 on [pages 71 to 77](#) for further details on the level 3 investments.

3 Income

	Year ended 31.12.22 £'000	Year ended 31.12.21 £'000
Investment income		
Overseas dividends	2,625	2,793
Derivative income		
Dividends received on long CFDs	584	683
Total income	3,209	3,476

A special dividend of £47,000 has been recognised in capital during the reporting year (2021: nil).

4 Investment Management Fees

	Year ended 31 December 2022			Year ended 31 December 2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fees – base	334	1,336	1,670	448	1,790	2,238
Investment management fees – variable ¹	–	(72)	(72)	–	639	639
	334	1,264	1,598	448	2,429	2,877

¹ For the calculation of the variable management fee element, the Company's NAV return was compared to the Reference Index return on a daily basis. The period used to assess the performance was from 1 July 2018 until a three year history was established. From 1 July 2021 the performance period is on a rolling three year basis.

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investments International. Both companies are Fidelity group companies.

FIL charges base investment management fees at an annual rate of 0.70% of net assets. In addition, there is a +/- 0.20% variation fee based on performance relative to the Reference Index. Fees are payable monthly in arrears and are calculated on a daily basis.

The base investment management fee has been allocated 80% to capital reserve in accordance with the Company's accounting policies.

Further details of the terms of the Management Agreement are given in the Directors' Report on [page 36](#).

Notes to the Financial Statements continued

5 Other Expenses

	Year ended 31.12.22 £'000	Year ended 31.12.21 £'000
Allocated to revenue:		
AIC fees	20	15
Secretarial and administration fees payable to the Investment Manager	50	50
Custody fees	19	32
Depositary fees	23	29
Directors' expenses	29	25
Directors' fees ¹	131	129
Legal and professional fees	82	81
Marketing expenses	177	130
Printing and publication expenses	70	66
Registrars' fees	30	21
Other expenses	12	13
Fees payable to the Company's Independent Auditor for the audit of the Financial Statements	47	29
	690	620
Allocated to capital:		
Legal and professional fees – unlisted investments	15	13
Other expenses	705	633

¹ Details of the breakdown of Directors' fees are provided in the Directors' Remuneration Report on [page 45](#).

6 Finance Costs

	Year ended 31 December 2022			Year ended 31 December 2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest paid on long CFDs	24	94	118	31	124	155
Interest paid on collateral and deposits ¹	3	12	15	4	14	18
	27	106	133	35	138	173

¹ Due to negative interest rates during the current and prior year, the Company paid interest on its collateral and deposits.

Finance costs have been allocated 80% to capital reserve in accordance with the Company's accounting policies.

7 Taxation on Return/(loss) on Ordinary Activities

	Year ended 31.12.22 £'000	Year ended 31.12.21 £'000
a) Analysis of the taxation charge for the year		
Overseas taxation	260	278
Taxation charge for the year (see Note 7b)	260	278

b) Factors affecting the taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax for an investment trust company of 19.00% (2021: 19.00%). A reconciliation of the standard rate of UK corporation tax to the taxation charge for the year is shown below:

	Year ended 31.12.22 £'000	Year ended 31.12.21 £'000
Net (loss)/return on ordinary activities before taxation	(75,737)	5,628
Net (loss)/return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19.00% (2021: 19.00%)	(14,390)	1,069
Effects of:		
Capital losses/(gains) not taxable ¹	14,537	(1,109)
Income not taxable	(499)	(531)
Expenses not deductible	19	24
Excess management expenses not utilised	333	547
Overseas taxation	260	278
Taxation charge for the year (see Note 7a)	260	278

¹ The Company is exempt from UK taxation on capital gains as it meets the HM Revenue & Customs criteria for an investment company set out in Section 1159 of the Corporation Tax Act 2010.

c) Deferred taxation

A deferred taxation asset of £8,544,000 (2021: £8,106,000), in respect of excess expenses of £34,176,000 (2021: £32,422,000) has not been recognised as it is unlikely that there will be sufficient future profits to utilise these expenses.

In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. This rate has been substantively enacted at the balance sheet date and has therefore been applied to calculate the unrecognised deferred tax asset for the current year (2021: 25%).

Notes to the Financial Statements continued

8 Return/(loss) per Ordinary Share

	Year ended 31.12.22	Year ended 31.12.21
Revenue return per ordinary share	1.46p	1.61p
Capital (loss)/return per ordinary share	(60.01p)	2.50p
Total (loss)/return per ordinary share	(58.55p)	4.11p

The return/(loss) per ordinary share is based on the net return/(loss) on ordinary activities after taxation for the year divided by the weighted average number of ordinary shares held outside Treasury during the year, as shown below:

	£'000	£'000
Net revenue return on ordinary activities after taxation	1,898	2,095
Net capital (loss)/return on ordinary activities after taxation	(77,895)	3,255
Net total (loss)/return on ordinary activities after taxation	(75,997)	5,350
	Number	Number
Weighted average number of ordinary shares held outside Treasury	129,812,318	130,097,688

9 Investments

	2022 £'000	2021 £'000
Listed investments	211,747	290,537
Unlisted investments	18,933	17,201
Investments at fair value	230,680	307,738
Opening book cost	265,540	226,195
Opening investment holding gains	42,198	76,807
Opening fair value	307,738	303,002
Movements in the year		
Purchases at cost	153,886	234,121
Sales – proceeds	(166,367)	(230,232)
(Losses)/gains on investments	(64,577)	847
Closing fair value	230,680	307,738
Closing book cost	242,067	265,540
Closing investment holding (losses)/gains	(11,387)	42,198
Closing fair value	230,680	307,738

The Company received £166,367,000 (2021: £230,232,000) from investments sold in the year. The book cost of these investments when they were purchased was £177,359,000 (2021: £194,776,000). These investments have been revalued over time and until they were sold any unrealised gains/(losses) were included in the fair value of the investments.

9 Investments continued

Investment transaction costs

Transaction cost incurred in the acquisition and disposal of investments, which are included in the (losses)/gains on investments above, were as follows:

	Year ended 31.12.22 £'000	Year ended 31.12.21 £'000
Purchases transaction costs	61	85
Sales transaction costs	59	86
	120	171

The portfolio turnover for the year was 68.9% (2021: 74.6%). The portfolio turnover rate measures the Company's trading activity. It is calculated by taking the average of the total amount of securities purchased and the total amount of the securities sold in the reporting year divided by the average fair value of the investment portfolio of the Company.

10 Derivative Instruments

	Year ended 31.12.22 £'000	Year ended 31.12.21 £'000
(Losses)/gains on derivative instruments		
(Losses)/gains on long CFD positions closed	(11,017)	7,073
Movement in investment holding losses on long CFDs	(551)	(1,552)
	(11,568)	5,521

Derivative instruments recognised on the Balance Sheet

	2022		2021	
	Fair value £'000	Portfolio exposure £'000	Fair value £'000	Portfolio exposure £'000
Derivative instrument assets – long CFDs	838	24,704	1,006	43,165
Derivative instrument liabilities – long CFDs	(1,100)	30,162	(717)	29,456
	(262)	54,866	289	72,621

11 Debtors

	2022 £'000	2021 £'000
Securities sold for future settlement	300	238
Accrued income	193	199
Other debtors and prepayments	120	88
	613	525

12 Other Creditors

	2022 £'000	2021 £'000
Securities purchased for future settlement	164	201
Creditors and accruals	327	428
	491	629

Notes to the Financial Statements continued

13 Share Capital

	2022		2021	
	Number of shares	£'000	Number of shares	£'000
Issued, allotted and fully paid				
Ordinary shares of 25 pence each held outside Treasury				
Beginning of the year	129,876,894	32,469	130,554,926	32,639
Ordinary shares repurchased into Treasury	(175,001)	(44)	(678,032)	(170)
End of the year	129,701,893	32,425	129,876,894	32,469
Issued, allotted and fully paid				
Ordinary shares of 25 pence each held in Treasury*				
Beginning of the year	6,284,801	1,572	5,606,769	1,402
Ordinary shares repurchased into Treasury	175,001	44	678,032	170
End of the year	6,459,802	1,616	6,284,801	1,572
Total share capital		34,041		34,041

* Ordinary shares held in Treasury carry no rights to vote, to receive a dividend or to participate in a winding up of the Company.

The Company repurchased 175,001 ordinary shares (2021: 678,032 shares) and held them in Treasury. The £284,000 (2021: £1,503,000) cost of repurchase was charged to the other reserve.

14 Capital and Reserves

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total shareholders' funds £'000
At 1 January 2022	34,041	20,722	2,767	46,942	218,406	(10,225)	312,653
Losses on investments (see Note 9)	-	-	-	-	(64,577)	-	(64,577)
Losses on derivative instruments (see Note 10)	-	-	-	-	(11,568)	-	(11,568)
Foreign exchange losses	-	-	-	-	(365)	-	(365)
Investment management fees (see Note 4)	-	-	-	-	(1,264)	-	(1,264)
Other expenses (see Note 5)	-	-	-	-	(15)	-	(15)
Finance costs (see Note 6)	-	-	-	-	(106)	-	(106)
Revenue return on ordinary activities after taxation for the year	-	-	-	-	-	1,898	1,898
Repurchase of ordinary shares (see Note 13)	-	-	-	(284)	-	-	(284)
At 31 December 2022	34,041	20,722	2,767	46,658	140,511	(8,327)	236,372

14 Capital and Reserves continued

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total shareholders' funds £'000
At 1 January 2021	34,041	20,722	2,767	48,445	215,151	(12,320)	308,806
Gains on investments (see Note 9)	-	-	-	-	847	-	847
Gains on derivative instruments (see Note 10)	-	-	-	-	5,521	-	5,521
Foreign exchange losses	-	-	-	-	(533)	-	(533)
Investment management fees (see Note 4)	-	-	-	-	(2,429)	-	(2,429)
Other expenses (see Note 5)	-	-	-	-	(13)	-	(13)
Finance costs (see Note 6)	-	-	-	-	(138)	-	(138)
Revenue return on ordinary activities after taxation for the year	-	-	-	-	-	2,095	2,095
Repurchase of ordinary shares (see Note 13)	-	-	-	(1,503)	-	-	(1,503)
At 31 December 2021	34,041	20,722	2,767	46,942	218,406	(10,225)	312,653

The capital reserve balance at 31 December 2022 includes investment holding losses of £11,387,000 (2021: gains of £42,198,000) as detailed in Note 9 above. See Note 2 (p) above for further details. The capital reserve is distributable by way of dividend. The revenue reserve could be distributed by way of dividend if it were not in deficit.

15 Net Asset Value per Ordinary Share

This calculation of the net asset value per ordinary share is based on the following:

	2022	2021
Total shareholders' funds	£236,372,000	£312,653,000
Ordinary shares held outside of Treasury at year end	129,701,893	129,876,894
Net asset value per ordinary share	182.24p	240.73p

It is the Company's policy that shares held in Treasury will only be reissued at net asset value per ordinary share or at a premium to net asset value per ordinary share and, therefore, shares held in Treasury have no dilutive effect.

16 Financial Instruments Management of Risk

The Company's investment activities in pursuit of its objective involve certain inherent risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The Board, with the assistance of the Manager, has developed a risk matrix which, as part of the internal control process, identifies the risks that the Company faces. Principal risks identified are: geopolitical; natural disaster; market, economic and currency; investment performance and gearing; discount control and demand; key person; operational resilience; Environment, Social and Governance (ESG); and cybercrime. Other risks identified are tax and regulatory. Risks are identified and graded in this process, together with steps taken in mitigation, and are updated and reviewed on an ongoing basis. These risks and how they are identified, evaluated and managed are shown in the Strategic Report on pages 27 to 31.

This note refers to the identification, measurement and management of risks potentially affecting the value of financial instruments. The Company's financial instruments may comprise:

- Equity shares held in accordance with the Company's investment objective and policies;
- Derivative instruments which comprise CFDs; and

Notes to the Financial Statements continued

- Cash, liquid resources and short-term debtors and creditors that arise from its operations.

16 Financial Instruments continued

The risks identified arising from the Company's financial instruments are market price risk (which comprises interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instrument risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies are consistent with those followed last year.

MARKET PRICE RISK

Interest rate risk

The Company finances its operations through its share capital and reserves. In addition, the Company has a geared exposure to Japanese equities through the use of long CFDs. The level of gearing is reviewed by the Board and the Portfolio Manager. The Company is exposed to a financial risk arising as a result of any increases in yen interest rates associated with the funding of the long CFDs.

Interest rate risk exposure

The values of the Company's financial instruments that are exposed to movements in interest rates are shown below:

	2022 £'000	2021 £'000
Exposure to financial instruments that bear interest		
Long CFDs – Portfolio exposure less fair value	55,128	72,332
Bank overdraft	–	11
	55,128	72,343
Exposure to financial instruments that earn interest		
Cash collateral held with brokers	276	–
Cash at bank	5,556	4,741
	5,832	4,741
Net exposure to financial instruments that bear interest	49,296	67,602

Foreign currency risk

The Company's net return/(loss) on ordinary activities after taxation for the year and its net assets may be affected by foreign exchange movements because the Company has income and assets which are denominated in yen whereas the Company's functional currency is UK sterling. The Company may also be subject to short-term exposure from exchange rate movements, for example, between the date when an investment is purchased or sold and the date when settlement of the transaction occurs. The Company does not hedge the sterling value of investments or other net assets priced in yen by the use of derivative instruments.

Three principal areas have been identified where foreign currency risk may impact the Company:

- Movements in currency exchange rates affecting the value of investments and long CFDs;
- Movements in currency exchange rates affecting short-term timing differences; and
- Movements in currency exchange rates affecting income received.

16 Financial Instruments continued

Currency exposure of financial assets

The currency exposure profile of the Company's financial assets is shown below:

Currency	Investments held at fair value £'000	Long exposure to derivative instruments £'000	Debtors ¹ £'000	Cash at bank £'000	2022
					Total £'000
Japanese yen	230,680	54,866	769	5,556	291,871
UK sterling	-	-	120	-	120
	230,680	54,866	889	5,556	291,991

¹ Debtors include cash collateral held with brokers.

Currency	Investments held at fair value £'000	Long exposure to derivative instruments £'000	Debtors £'000	Cash at bank £'000	2021
					Total £'000
Japanese yen	307,738	72,621	437	4,741	385,537
UK sterling	-	-	88	-	88
	307,738	72,621	525	4,741	385,625

Currency exposure of financial liabilities

The currency profile of the Company's financial liabilities is shown below:

Currency	Other creditors £'000	Bank overdraft £'000	2022
			Total £'000
Japanese yen	165	-	165
UK sterling	326	-	326
	491	-	491

Currency	Other creditors £'000	Bank overdraft £'000	2021
			Total £'000
Japanese yen	203	-	203
UK sterling	426	11	437
	629	11	640

Notes to the Financial Statements continued

16 Financial Instruments continued

Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Portfolio Manager is responsible for actively monitoring the existing portfolio, selected in accordance with the overall asset allocation parameters described above, and seeks to ensure that individual stocks also meet an acceptable risk/reward profile.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's assets mainly comprise readily realisable securities and derivative instruments which can be sold easily to meet funding commitments if necessary. Short-term flexibility is achieved by the use of a bank overdraft, if required.

Liquidity risk exposure

At 31 December 2022, the undiscounted gross cash outflows of the financial liabilities were all repayable within one year and consisted of derivative instrument liabilities of £1,100,000 (2021: £717,000), bank overdraft of £nil (2021: £11,000) and other creditors of £491,000 (2021: £629,000).

Counterparty risk

The long CFDs in which the Company may invest are not traded on an exchange but instead are traded between counterparties based on contractual relationships, under the terms outlined in the International Swaps and Derivatives Association's (ISDA) market standard derivative legal documentation. These are known as Over the Counter (OTC) trades. As a result, the Company is subject to the risk that a counterparty may not perform its obligations under the related contract. In accordance with the risk management process which the Investment Manager employs, this risk is minimised by only entering into transactions with counterparties which are believed to have an adequate credit rating at the time the transaction is entered into, by ensuring that formal legal agreements covering the terms of the contract are entered into in advance, and through adopting a counterparty risk framework which measures, monitors and manages counterparty risk by the use of internal and external credit agency ratings and by evaluating derivative instrument credit risk exposure.

Cash collateral

For derivative transactions, collateral is used to reduce the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 December 2022, there were no amounts held by brokers in a segregated collateral account on behalf of the Company, to reduce the credit risk exposure of the Company's net unrealised profits on derivative positions (2021: UBS AG £370,000 in cash denominated in Japanese yen). At 31 December 2022, £276,000 (2021: £nil), shown as cash collateral held with brokers on the Balance Sheet, was held by the Company in a segregated collateral account on behalf of the brokers, to reduce the credit risk exposure of the Company's net unrealised losses on derivative positions. This collateral comprised of: J.P. Morgan Securities plc £276,000 (2021: £nil) in cash denominated in Japanese yen.

Credit risk

Financial instruments may be adversely affected if any of the institutions with which money is deposited suffer insolvency or other financial difficulties. All transactions are carried out with brokers that have been approved by the Manager and are settled on a delivery versus payment basis. Limits are set on the amount that may be due from any one broker and are kept under review by the Manager. Exposure to credit risk arises on unsettled security transactions and long CFD contracts and cash at bank.

Derivative instrument risk

The risks and risk management processes which result from the use of long CFDs are included within the risk categories disclosed above. Long CFDs are used by the Manager to gain unfunded long exposure to equity markets, sectors or single stocks. Unfunded exposure is exposure gained without an initial outflow of capital. The risk and performance contribution of long CFDs held in the Company's portfolio is overseen by the Manager's experienced, specialist derivative instruments team that uses portfolio risk assessment and construction tools to manage risk and investment performance.

16 Financial Instruments continued

RISK SENSITIVITY ANALYSIS

Interest rate risk sensitivity analysis

Based on the financial instruments held and interest rates at 31 December 2022, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have increased the Company's net loss on ordinary activities after taxation for the year and decreased the Company's net assets by £123,000 (2021: decreased the net return and the net assets by £169,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

Foreign currency risk sensitivity analysis

Based on the financial instruments held and currency exchange rates at 31 December 2022, a 10% strengthening of the sterling exchange rate against the yen, with all other variables held constant, would have increased the Company's net loss on ordinary activities after taxation for the year and decreased the Company's net assets by £26,518,000 (2021: decreased the net return and decreased the net assets by £35,030,000). A 10% weakening of the sterling exchange rate against the yen would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the Company's net assets by £32,411,000 (2021: increased the net return and increased the net assets by £42,814,000).

Other price risk – exposure to investments sensitivity analysis

Based on the listed investments held and share prices at 31 December 2022, an increase of 10% in share prices, with all other variables held constant, would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the Company's net assets by £21,175,000 (2021: increased the net return and increased the net assets by £29,054,000). A decrease of 10% in share prices would have had an equal and opposite effect.

Based on the unlisted investments held and share prices at 31 December 2022, an increase of 10% in share prices, with all other variables held constant, would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the Company's net assets by £1,893,000 (2021: increased the net return and increased the net assets by £1,720,000). A decrease of 10% in share prices would have had an equal and opposite effect.

Other price risk – net exposure to derivative instruments sensitivity analysis

Based on the long CFDs held and share prices at 31 December 2022, an increase of 10% in the share prices underlying the long CFDs, with all other variables held constant, would have decreased the Company's net loss on ordinary activities after taxation for the year and increased the Company's net assets by £5,487,000 (2021: increased the net return and increased the net assets by £7,262,000). A decrease of 10% in share prices would have had an equal and opposite effect.

Fair Value of Financial Assets and Liabilities

Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. As explained in Notes 2 (j) and (k) above, investments and derivative instruments are shown at fair value. In the case of cash at bank, book value approximates to fair value due to the short maturity of the instruments.

Notes to the Financial Statements continued

16 Financial Instruments continued

Fair Value Hierarchy

The Company is required to disclose the fair value hierarchy that classifies its financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to estimate the fair values.

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to inputs other than quoted prices included in level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. The valuation techniques used by the Company are explained in Notes 2 (j) and (k) above. The table below sets out the Company's fair value hierarchy:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2022 Total £'000
Financial assets at fair value through profit or loss				
Investments	211,747	–	18,933	230,680
Derivative instrument assets	–	838	–	838
	211,747	838	18,933	231,518
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	–	(1,100)	–	(1,100)

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2021 Total £'000
Financial assets at fair value through profit or loss				
Investments	290,537	–	17,201	307,738
Derivative instrument assets	–	1,006	–	1,006
	290,537	1,006	17,201	308,744

Financial liabilities at fair value through profit or loss

Derivative instrument liabilities	–	(717)	–	(717)
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16 Financial Instruments continued

The table below sets out the fair value of the level 3 financial instruments, all of which are unlisted investments:

Name	Business	Book cost £'000	2022 Level 3 £'000	2021 Level 3 £'000
Asoview	Online booking website for leisure facilities	6,602	6,872	6,415
Moneytree	Developer of personal asset management applications	3,016	2,564	2,641
Yoriso	Online funeral planning platform	2,627	2,516	2,557
iYell	Mortgage Fintech company	2,641	2,469	2,566
Studyplus	Online educational company	2,257	2,402	-
Spiber	Bio-tech company	2,512	1,823	2,436
Innophys	Developer of elderly care and welfare equipment	913	287	586
End of the year		20,568	18,933	17,201

The valuation of Studyplus at 31 December 2022 is based on the cost of the investment when it was purchased in June 2022 with consideration given to the company's financial reports, the macro-environment and benchmarking the position to a range of comparable market data.

The valuation of all the other unlisted investments at 31 December 2022 is based on the analysis of the company's financial reports, the macro-environment and benchmarking the position to a range of comparable market data.

Significant holdings

Details of significant holdings are noted below in accordance with the disclosure requirements of paragraph 82 of the AIC SORP. The Company is required to provide a list of all investments at the balance sheet date with a value greater than 5% of its portfolio and at least the ten largest investments, including the value of each investment, and for unlisted investments included in the list, additional detail is required as shown below. This disclosure, if available, includes turnover, pre-tax profits and net assets attributable to investors, as reported within the most recently audited financial statement of the investee companies.

	Latest Financial Statements	Income recognised from the holding in the year	Turnover £'000	Pre-tax profit/(loss) £'000	Net assets attributable to shareholders £'000
Asoview	n/a	nil	Information not publicly available		

	Year ended 31.12.22 Level 3 £'000	Year ended 31.12.21 Level 3 £'000
Movements in level 3 financial instruments during the year:		
Beginning of the year	17,201	5,497
Purchases at cost - Studyplus	2,257	15,703
Transferred out of level 3 - Coconala*	-	(2,943)
Movement in investment holding losses (including foreign exchange movement)	(525)	(1,056)
End of the year	18,933	17,201

* Financial instruments are transferred out of level 3 when they become listed.

Notes to the Financial Statements continued

17 Capital Resources and Gearing

The Company does not have any externally imposed capital requirements. The financial resources of the Company comprise its share capital and reserves, as disclosed in the Balance Sheet on [page 60](#), and its gearing which is achieved through the use of long CFDs. Financial resources are managed in accordance with the Company's investment policy and in pursuit of its objective, both of which are detailed in the Strategic Report on [page 26](#). The principal risks and their management are disclosed in the Strategic Report on [pages 27 to 31](#) and in Note 16 above.

18 Transactions with the Manager and Related Parties

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management and the role of company secretary to FIL Investments International, the Investment Manager. Both companies are Fidelity group companies.

Details of the current fee arrangements are given in the Directors' Report on [page 36](#) and in Note 4 above. During the year, fees for portfolio management services of £1,598,000 (2021: £2,877,000) and secretarial and administration fees of £50,000 (2021: £50,000) were payable to FIL. At the Balance Sheet date, net fees for portfolio management services of £102,000 (2021: £245,000) and secretarial and administration fees of £13,000 (2021: £25,000) were accrued and included in other creditors. FIL also provides the Company with marketing services. The total amount payable for these services during the year was £177,000 (2021: £130,000). At the Balance Sheet date, marketing services of £39,000 (2021: £4,000) were accrued and included in other creditors.

Disclosures of the Directors' interests in the ordinary shares of the Company and Directors' fees and taxable expenses relating to reasonable travel expenses paid to the Directors are given in the Directors' Remuneration Report on [pages 45 and 46](#). In addition to the fees and taxable expenses disclosed in the Directors' Remuneration Report, £13,000 (2021: £12,000) of Employers' National Insurance Contributions was also paid by the Company. As at 31 December 2022, Directors' fees of £10,000 (2021: £10,000) were accrued and payable.

Alternative Performance Measures

Discount/Premium

The discount/premium is considered to be an Alternative Performance Measure. It is the difference between the NAV of the Company and the ordinary share price and is expressed as a percentage of the NAV. Details of the Company's discount/premium are on the Summary of Results page and both are defined in the Glossary of Terms on [pages 88 and 89](#).

Gearing

Gearing is considered to be an Alternative Performance Measure. See the Fair Value and Portfolio Exposure of Investments table on [page 22](#) for details of the Company's gearing.

Net Asset Value (NAV) per Ordinary Share

The NAV per ordinary share is considered to be an Alternative Performance Measure. See the Balance Sheet on [page 60](#) and Note 15 on [page 71](#) for further details.

Ongoing charges

Ongoing charges are considered to be an Alternative Performance Measure. The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of investment management fees and other expenses expressed as a percentage of the average net asset values throughout the year.

	2022	2021
Investment management fees (£'000)	1,670	2,238
Other expenses (£'000)	705	633
Ongoing charges (£'000)	2,375	2,871
Variable management fee (£'000)	(72)	639
Average net assets (£'000)	238,468	319,755
Ongoing charges ratio	0.99%	0.90%
Ongoing charges ratio including variable management fee	0.96%	1.10%

Revenue, Capital and Total Return per Ordinary Share

Revenue, capital and total return per ordinary share are considered to be Alternative Performance Measures. See the Income Statement on [page 58](#) and Note 8 on [page 68](#) for further details.

Total Return Performance

Total return performance is considered to be an Alternative Performance Measure.

The tables below provide information relating to the NAVs and share prices of the Company and the total returns for the years ended 31 December 2022 and 31 December 2021.

	Net asset value per ordinary share	Ordinary share price
2022		
31 December 2021	240.73p	229.00p
31 December 2022	182.24p	164.75p
Total return for the year	-24.3%	-28.1%

	Net asset value per ordinary share	Ordinary share price
2021		
31 December 2020	236.53p	220.50p
31 December 2021	240.73p	229.00p
Total return for the year	+1.8%	+3.9%

Financial Calendar and Annual General Meeting

The key dates in the Company's calendar are:

31 December 2022	Financial Year End
March 2023	Announcement of the annual results for the year ended 31 December 2022
April 2023	Publication of the Annual Report
24 May 2023	Annual General Meeting
30 June 2023	Half-Year End
July/August 2023	Announcement of the Half-Yearly results for the six months to 30 June 2023
August 2023	Publication of the Half-Yearly Report

ANNUAL GENERAL MEETING (AGM) – WEDNESDAY, 24 MAY 2023 AT 12 NOON

The AGM of the Company will be held at **12 noon** on **Wednesday, 24 May 2023** at 4 Cannon Street, London EC4M 5AB (nearest tube stations are St. Paul's or Mansion House) and virtually via the online Lumi AGM meeting platform. Full details of the meeting are given in the Notice of Meeting on [pages 81 to 84](#).

For those shareholders who would prefer not to attend in person, we will live-stream the formal business and presentations of the meeting online.

Nicholas Price, the Portfolio Manager, will be making a presentation to shareholders highlighting the achievements and challenges of the year past and the prospects for the year to come. Nicholas and the Board will be very happy to answer any questions that shareholders may have. Copies of the Portfolio Manager's presentation can be requested by email at investmenttrusts@fil.com or in writing to the Company Secretary at FIL Investments International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Properly registered shareholders joining the AGM virtually will be able to vote on the proposed resolutions. Please see Note 9 to the Notes to the Notice of Meeting on [page 83](#) for details on how to vote virtually. Investors viewing the AGM online will be able to submit live written questions to the Board and the Portfolio Manager and these will be addressed on their behalf at an appropriate juncture during the meeting.

Further information and links to the Lumi platform may be found on the Company's website www.fidelity.co.uk/japan. On the day of the AGM, in order to join electronically and ask questions via the Lumi platform, shareholders will need to connect to the website <https://web.lumiagm.com>.

Please note that investors on platforms such as Fidelity Personal Investing, Hargreaves Lansdown, Interactive Investor or AJ Bell Youinvest will need to request attendance at the AGM in accordance with the policies of your chosen platform. They may request that you submit electronic votes in advance of the meeting. If you are unable to obtain a unique IVC and PIN from your nominee or platform, we will also welcome online participation as a guest. Once you have accessed <https://web.lumiagm.com> from your web browser on a tablet or computer, you will need to enter the **Lumi Meeting ID** which is **116-528-241**. You should then select the 'Guest Access' option before entering your name and who you are representing, if applicable. This will allow you to view the meeting and ask questions but you will not be able to vote.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity Japan Trust PLC will be held at 4 Cannon Street, London EC4M 5AB and virtually via the Lumi AGM meeting platform on Wednesday, 24 May 2023 at 12 noon for the following purposes:

1. To receive and adopt the Annual Report and Financial Statements for the year ended 31 December 2022.
2. To re-elect Mr David Graham as a Director.
3. To re-elect Mr David Barron as a Director.
4. To elect Ms Myra Chan as a Director.
5. To re-elect Ms Sarah MacAulay as a Director.
6. To re-elect Mr Dominic Ziegler as a Director.
7. To approve the Directors' Remuneration Report (excluding the section headed "The Remuneration Policy" set out on page 44) for the year ended 31 December 2022.
8. To approve the Remuneration Policy as stated in the Directors' Remuneration Report on page 44.
9. To reappoint Ernst & Young LLP as Auditor of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company.
10. To authorise the Directors to determine the Auditor's remuneration.

To consider and, if thought fit, to pass the following special business resolutions of which Resolution 11 will be proposed as an ordinary resolution and Resolutions 12 and 13 as special resolutions.

Authority to Allot Shares and Disapply Pre-Emption Rights

Resolutions 11 and 12 will, if approved, authorise the Directors to allot a limited number of ordinary shares (or to sell any ordinary shares which the Company elects to hold in Treasury) for cash without first offering such shares to existing ordinary shareholders pro-rata to their existing holdings. The limit set by the Board is 5% of the number of ordinary shares of the Company (including Treasury shares) in issue on 28 March 2023. The Directors will only issue new ordinary shares, or dispose of ordinary shares held in Treasury, under this authority to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so. Any ordinary shares held in Treasury would only be re-issued at Net Asset Value (NAV) per share or at a premium to NAV per share. This would ensure that the net effect of repurchasing and then re-issuing the ordinary shares would enhance NAV per share.

11. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any securities into shares in the Company ("relevant securities") up to an aggregate nominal amount of £1,702,021 (approximately 5% of the aggregate nominal amount of the issued share

capital of the Company (including Treasury shares) as at 28 March 2023) and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, such authority to expire at the conclusion of the next Annual General Meeting (AGM) of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired. All previous unexpired authorities are revoked, but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

12. THAT, subject to the passing of Resolution 11, as set out above, the Directors be and they are hereby authorised, pursuant to Sections 570-573 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority given by the said Resolution 11 and/or to sell ordinary shares held by the Company as Treasury shares for cash, as if Section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited:
 - a) to the allotment of equity securities or sale of Treasury shares up to an aggregate nominal amount of £1,702,021 (approximately 5% of the aggregate nominal amount of the issued share capital of the Company (including Treasury shares) as at 28 March 2023); and
 - b) by the condition that allotments of equity securities or sales of Treasury shares may only be made pursuant to this authority at a price of not less than the NAV per share,

and this power shall expire at the conclusion of the next AGM of the Company or the date 15 months after the passing of this Resolution, whichever is the earlier, save that this authority shall allow the Company to make offers or agreements before the expiry of this authority, and the Directors may allot equity securities in relation to such an offer or agreement as if the authority conferred by this Resolution had not expired.

Authority to Repurchase Shares

Resolution 13 is a special resolution which, if approved, will renew the Company's authority to purchase up to 14.99% of the number of ordinary shares in issue (excluding Treasury shares) on 28 March 2023, either for immediate cancellation or for retention as Treasury shares, at the determination of the Board. Once shares are held in Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or cancelling the shares. Purchases of ordinary shares will be made at the discretion of the Directors and within guidelines set by them from time to time in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing NAV per share, thereby resulting in an increased NAV per share.

Notice of Meeting continued

13. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 25 pence each ("the shares") in the capital of the Company provided that:
- a) the maximum number of shares hereby authorised to be purchased shall be 19,390,568;
 - b) the minimum price which may be paid for a share is 25 pence;
 - c) the maximum price (excluding expenses) which may be paid for each share is the higher of:
 - i) 5% above the average of the middle market quotations for the shares as derived from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase; and
 - ii) the higher of the price of the last independent trade and the highest current independent purchase bid on the London Stock Exchange at the time the purchase is carried out;
 - d) the authority hereby conferred shall expire at the conclusion of the next AGM of the Company unless such authority is renewed prior to such time; and
 - e) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

By Order of the Board
FIL Investments International
 Secretary
 28 March 2023

Notes to the Notice of Meeting:

1. A member of the Company entitled to attend and vote at the Annual General Meeting may appoint a proxy or proxies to attend and to speak and vote instead of him. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company. To appoint a proxy via the share portal at **www.signalshares.com**, you will need to log in to your share portal account or register if you have not previously done so. To register you will need your Investor Code which can be found on your Form of Proxy.
2. A Form of Proxy is enclosed and must be returned to the Registrar at the address on the form to arrive not later than 12:00 on Monday, 22 May 2023. Completion and return of the form of proxy will not prevent a shareholder from subsequently attending the meeting and voting in person or virtually if they so wish.
3. To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarially or in some other way approved by the Directors), must be deposited with the Company's Registrar, PXS 1, Link Group, Central Square, 29 Wellington Street, Leeds LS1 4DL not less than 48 hours before the time for holding the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which it is to be used (in each case excluding non-business days).
4. In the case of joint holders, the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
5. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 12:00 on Monday, 22 May 2023. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and systems timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) of the Uncertified Securities Regulations 2001. In any case your proxy form must be received by the Company's Registrar no later than 12:00 on Monday, 22 May 2023.

6. Proxymity Voting – If you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to **www.proxymity.io**. Your proxy must be lodged by no later than 12:00 on Monday, 22 May 2023 in order to be considered valid. Before you can appoint a proxy via this process, you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.
7. Unless otherwise indicated on the Form of Proxy, CREST voting or any other electronic voting channel instruction, the proxy will vote as they think fit or, at their discretion, withhold from voting.
8. All members are entitled to attend and vote at the AGM and ask questions. The right to vote at the meeting will be determined by reference to the Register of Members as at close of business on Monday, 22 May 2023. Shareholders are urged to vote using the Form of Proxy provided or electronically where permitted by your nominee or platform.
9. The Company is pleased to be able to offer facilities for shareholders to attend, ask questions and vote at the AGM electronically in real time should they wish to do so. The details are set out below.

In order to join the AGM electronically and ask questions via the platform, shareholders will need to connect to the following site **https://web.lumiagm.com**. Lumi is available as a mobile web client, compatible with the latest browser versions of Chrome, Firefox, Edge and Safari and can be accessed using any web browser, on a PC or smartphone device

Once you have accessed **https://web.lumiagm.com** from your web browser on a tablet or computer, you will be asked to enter the **Lumi Meeting ID** which is **116-528-241**. You will then be prompted to enter your unique 11 digit Investor Code ("IVC") including any leading zeros and 'PIN'. Your PIN is the last 4 digits of your IVC. This will authenticate you as a shareholder.

Your IVC can be found on your share certificate or as detailed on your proxy form. Signal Shares users (**www.signalshares.com**) will find this under 'Manage your account' when logged in to the Signal Shares portal. You can also obtain this by contacting Link, our Registrar, by calling **+44 (0) 371 277 1020***

Access to the AGM will be available from **30 minutes before the meeting start time**, although the voting functionality will not be enabled until the Chairman of the meeting declares the poll open. During the AGM, you must ensure you are connected to the internet at all times in order to vote when the Chairman commences polling on the Resolutions. Therefore, it is your responsibility to ensure connectivity for the duration of the AGM via your wi-fi. A user guide to the Lumi platform is available on the Company's pages of the Manager's website at: **www.fidelity.co.uk/japan**.

If you wish to appoint a proxy other than the Chairman of the meeting and for them to attend the virtual meeting on your behalf, please submit your proxy appointment in the usual way before contacting Link Group on **+44 (0) 371 277 1020*** in order to obtain their IVC and PIN. It is suggested that you do this as soon as possible and at least 48 hours (excluding non-business days) before the meeting.

If your shares are held within a nominee/platform and you wish to attend the electronic meeting, you will need to contact your nominee as soon as possible. Your nominee will need to present a corporate letter of representation to Link Group, the Registrar, as soon as possible and at least 72 hours (excluding non-business days) before the meeting, in order that they can obtain for you your unique IVC and PIN to enable you to attend the electronic meeting.

If you are unable to obtain a unique IVC and PIN from your nominee or platform, we will also welcome online participation as a guest. Once you have accessed **https://web.lumiagm.com** from your web browser on a tablet or computer, you will need to enter the **Lumi Meeting ID** which is **116-528-241**. You should then select the 'Guest Access' option before entering your name and who you are representing, if applicable. This will allow you to view the meeting and ask questions but you will not be able to vote.

* Lines are open from 09:00 to 17:30 Monday to Friday, excluding public holidays in England and Wales. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate.

10. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him and the member by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in Note 1 above does not apply to Nominated Persons. The right described in that paragraph can only be exercised by members of the Company.
11. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes which are the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any member holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make separate notification to the Company and the Financial Conduct Authority.

Notice of Meeting continued

12. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that to be entitled to attend and vote at the AGM (and for the purpose of determining the number of votes they may cast), members must be entered on the Register of Members by close of business on Monday, 22 May 2023. If the meeting is adjourned then, to be so entitled, members must be entered on the Register of Members by close of business on the day two days before the time fixed for the adjourned meeting, or, if the Company gives notice of the adjourned meeting, at any other time specified in that notice.
13. As at 28 March 2023 (the latest practicable date prior to the publication of this document), the Company's issued share capital consisted of 136,161,695 ordinary shares carrying one vote each. The number of shares held by the Company in Treasury was 6,805,002. Therefore, the total number of shares with voting rights in the Company was 129,356,693.
14. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
15. Shareholders and any proxies or representatives they appoint understand that by attending the meeting they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.
16. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on its website a statement setting out any matter relating to the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that is to be laid before the AGM or any circumstance connected with an Auditor of the Company ceasing to hold office since the previous meeting at which the Annual Report and Financial Statements were laid. The Company may not require the Shareholders requesting any such website publication to pay its expenses in complying with such requests. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's Auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on its website.
17. No Director has a service contract with the Company.
18. A copy of this notice and other information required by Section 311A of the Companies Act 2006 is published on the Company's website at **www.fidelity.co.uk/japan**.

Registered office: Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Shareholder Information

Investing in Fidelity Japan Trust PLC

Fidelity Japan Trust PLC is a company listed on the London Stock Exchange and you can buy its shares through a platform, stockbroker, share shop or bank. Fidelity also offers a range of options, so that you can invest in the way that is best for you. Details of how to invest and the latest Key Information Document can be found on the Company's pages on the Manager's website at: www.fidelity.co.uk/japan

CONTACT INFORMATION

Shareholders and Fidelity Platform Investors should contact the appropriate administrator using the contact details given on this page. Links to the websites of major platforms can be found online at www.fidelityinvestmenttrusts.com

Shareholders on the main share register

Contact Link Group, Registrar to Fidelity Japan Trust PLC, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL.

Email: shareholderenquiries@linkgroup.co.uk

Telephone: **0371 664 0300** (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).

Details of individual shareholdings and other information can also be obtained online from the Registrar's Share Portal at www.signalshares.com. Shareholders are able to manage their shareholding online by registering for the Share Portal, a free and secure online access service. Facilities include:

Account Enquiry – Shareholders can access their personal shareholding, including share transaction history, dividend payment history and obtain an up-to-date shareholding valuation.

Amendment of Standing Data – Shareholders can change their registered postal address and add, change or delete dividend mandate instructions. Shareholders can also download forms such as change of address, stock transfer and dividend mandates as well as buy and sell shares in the Company.

Should you have any queries in respect of the Link Share Portal, contact the helpline on **0371 664 0391** (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).

Fidelity Platform Investors

Contact Fidelity, using the freephone numbers given below, or by writing to: UK Customer Service, Fidelity, PO Box 391, Tadworth KT20 9FU.

Website: www.fidelity.co.uk

Private investors: call free on **0800 41 41 10**, 9:00 – 18:00, Monday to Saturday.

Financial advisers: call free on **0800 41 41 81**, 8:00 – 18:00, Monday to Friday.

General enquiries

General enquiries should be made to the Secretary at the Company's registered office: FIL Investments International, Investment Trusts, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Telephone: **01737 834547**

Email: investmenttrusts@fil.com

Website: www.fidelityinvestmenttrusts.com

If you hold Fidelity Japan Trust PLC shares in an account provided by Fidelity International, you will receive a report every six months detailing all of your transactions and the value of your shares.

ShareGift

You may donate your shares to charity free of charge through ShareGift. Further details are available at www.sharegift.org.uk.

Shareholder Information continued

Managers and Advisors

Alternative Investment Fund Manager (AIFM/the Manager)

FIL Investment Services (UK) Limited
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey
KT20 6RP

Investment Manager, Secretary and Registered Office

FIL Investments International
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey
KT20 6RP
Email: investmenttrusts@fil.com

Banker and Custodian

JPMorgan Chase Bank
(London Branch)
125 London Wall
London
EC2Y 5AJ

Depository

J.P.Morgan Europe Limited
25 Bank Street
London
E14 5JP

Financial Adviser and Stockbroker

Stifel Nicolaus Europe Limited
150 Cheapside
London
EC2V 6ET

Independent Auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Lawyer

Simmons & Simmons LLP
1 Ropemaker Street
London
EC2Y 9SS

Registrar

Link Group
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

Company Information

The Company was launched on 15 March 1994 with one warrant attached to every five shares. The original subscription price was £1 for each ordinary share of 25 pence each. On 11 November 2009, the Company issued subscription shares on a 1 for 5 basis and these were all exercised by 28 February 2014. The Company made another subscription share issue on 26 August 2014 on a 1 for 5 basis and these were all exercised by 29 April 2016.

The Company is a member of the Association of Investment Companies (AIC) from whom general information on investment trusts can be obtained by telephoning **020 7282 5555** (email: enquiries@theaic.co.uk).

Price Information

The share price of the Company is published daily in the Financial Times under the heading "Investment Companies". It is also published in The Times and The Daily Telegraph. Price and performance information is also available at www.fidelity.co.uk/japan.

Investors can also obtain current price information by telephoning Fidelity on **0800 41 41 10** (freephone) or FT Cityline on **0905 817 1690** (voice activated service) (calls are charged at 60p per minute on a per second basis from a BT landline. Charges from other telephone networks may vary). The Reuters code for Fidelity Japan Trust PLC is FJV.L, the SEDOL is 0332855 and the ISIN is GB0003328555.

Net Asset Value (NAV) Information

The NAV of the Company is calculated on a daily basis and released to the London Stock Exchange on a daily basis.

Capital Gains Tax

All UK individuals under present legislation are permitted to have £12,300 of capital gains in the current tax year 2022/2023 (2021/2022: £12,300) before being liable for capital gains tax. Capital gains tax is charged at 10% and 20% dependent on the total amount of taxable income.

Data Protection

General Data Protection Regulation (GDPR)

What personal data is collected and how it is used

The Company is an investment trust which is a public limited company and has certain regulatory obligations such as the requirement to send documents to its shareholders, for example, the Annual Report and other documents that relate to meetings of the Company. The Company will therefore collect shareholders' personal data such as names, addresses and identification numbers or investor codes and will use this personal data to fulfil its statutory obligations.

Any personal data collected will be kept securely on computer systems and in some circumstances on paper. Personal information is kept secure in line with Fidelity's Information Security policies and standards. If you are unhappy with how we have used your personal data, you can complain by contacting the UK Data Protection Officer at Fidelity International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Sharing personal data

In order to assist the Company in meeting its statutory requirements, the Company delegates certain duties around the processing of this data to its third party service providers, such as the Company's Registrar and Printers. The Company has appointed Fidelity to undertake marketing activities for the Company and their privacy statement can be found on the Company website at <https://investment-trusts.fidelity.co.uk/security-privacy/>

The Company's agreements with the third party service providers have been updated to be compliant with GDPR requirements. The Company confirms to its shareholders that their data will not be shared with any third party for any other purpose, such as for marketing purposes. In some circumstances, it may be necessary to transfer shareholders' personal data across national borders to Fidelity Group entities operating in the European Economic Area (EEA). Where this does occur, the European standard of protections will be applied to the personal data that is processed. Where personal data is transferred within the Fidelity Group, but outside of the EEA, that data will subsequently receive the same degree of protection as it would in the EEA.

Retention period

Personal data will be kept for as long as is necessary for these purposes and no longer than legally permitted to do so.

Requesting access, making changes to personal data and other important information

Shareholders can access the information that the Company holds about them or ask for it to be corrected or deleted by contacting Fidelity's UK Data Protection Officer, Fidelity International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Glossary of Terms

AAF Report

A report prepared in accordance with the Audit and Assurance Faculty guidance issued by the Institute of Chartered Accountants in England and Wales.

AIC

The Association of Investment Companies (AIC). The Company is a member of the AIC.

AIF

Alternative Investment Fund (AIF). The Company is an AIF.

AIFM

Alternative Investment Fund Manager' (AIFM). The Board has appointed FIL Investment Services (UK) Limited to act as the Company's AIFM (the Manager).

AIFMD

The Alternative Investment Fund Managers Directive (AIFMD) is a European Union Directive and was implemented on 22 July 2014.

Alternative Performance Measures

The Company uses the following Alternative Performance Measures which are all defined in this Glossary of Terms:

- Discount/Premium;
- Gearing;
- Net Asset Value (NAV) per Ordinary Share;
- Ongoing Charges;
- Revenue, Capital and Total Returns; and
- Total Return Performance (Net Asset Value Total Return or Ordinary Share Price Total Return)

Capital Gains Tax (CGT)

The tax you may have to pay if you sell your shares at a profit.

Collateral

Asset provided as security for the unrealised gain or loss under a contract for difference.

Contract for Difference (CFD)

A Contract for Difference is a derivative. It is a contract between the Company and an investment bank at the end of which the parties exchange the difference between the opening price and the closing price of an underlying asset of the specified financial instrument. It does not involve the Company buying or selling the underlying asset, only agreeing to receive or pay the movement in its share price. A Contract for Difference allows the Company to gain access to the movement in the share price by depositing a small amount of cash known as collateral. The Company may reason that the asset price will rise, by buying ("long" position) or fall, by selling ("short" position). If the Company trades long, dividends are received and interest is paid. If the Company trades short, dividends are paid and interest is received. The Company only uses "long" Contracts for Difference.

Corporation Tax

The tax the Company may have to pay on its profits for a year. As an investment trust, the Company is exempt from corporation tax on its capital gains and does not pay tax on any UK dividends. It can also offset expenses against any taxable income and consequently it is tax efficient for the Company.

Custodian

An entity that holds (as intermediary) the Company's assets, arranges the settlement of transactions and administers income, proxy voting and corporate actions. The Company's Custodian is JPMorgan Chase Bank.

Depository

An entity that oversees the custody, cash arrangements and other AIFM responsibilities of the Company. The Company's Depository is J.P. Morgan Europe Limited.

Derivatives

Financial instruments (such as futures, options and Contracts for Difference) whose value is derived from the value of an underlying asset.

Discount

If the share price of the Company is lower than the net asset value per ordinary share, the Company is said to be trading at a discount. The discount is shown as a percentage of the net asset value per ordinary share.

Fair Value

The fair value is the best estimate of the realisable value of the investments, including derivatives, at a point in time and this is measured as:

- **Listed investments** – valued at bid prices, or last market prices, where available, otherwise at published price quotations;
- **Unlisted investments** – valued using an appropriate valuation technique in the absence of an active market; and
- **Contracts for Difference** – valued as the difference between the settlement price of the contract and the value of the underlying shares in the contract (unrealised gains or losses).

Fidelity International (Fidelity)

FIL Limited and its subsidiary group companies including FIL Investment Services (UK) Limited and FIL Investments International which act as AIFM, Secretary and Investment Manager.

Gearing

Gearing is the Total Portfolio Exposure in excess of Shareholders' Funds. If assets rise in value, gearing magnifies the return to ordinary shareholders. Correspondingly, if assets fall in value, gearing magnifies that fall. Contracts for Difference are used as a way of gaining exposure to the price movements of shares without buying the underlying shares directly.

Investment Manager

FIL Investments International is the Company's [Investment Manager](#) under delegation from FIL Investment Services (UK) Limited (the appointed [AIFM](#)).

Independent Valuer

Kroll (formerly Duff & Phelps) who provide an objective and independent assessment of value of unlisted and hard to price assets.

Manager

FIL Investment Services (UK) Limited is the appointed [Manager](#) under the Alternative Investment Fund Managers Directive ([AIFMD](#)) and has delegated the investment management of the Company to the [Investment Manager](#).

Net Asset Value (NAV)

[Net asset value](#) is sometimes also described as "shareholders' funds" and represents the total value of the Company's assets less the total value of its liabilities. For valuation purposes it is common to express the [net asset value](#) on a per ordinary share basis.

Net Asset Value per Ordinary Share

The [net asset value](#) divided by the number of ordinary shares in issue.

Ongoing Charges (excluding the variable management fee element)

Total operating expenses (excluding finance costs and taxation) incurred by the Company as a percentage of daily average [net asset values](#) for the reporting year.

Portfolio Exposure

The value of an underlying security or instrument to which the Company is exposed, whether through direct or indirect investment (including the economic value of the exposure in the underlying asset of [derivatives](#)).

Pre-Emption Rights

Section 561 of the Companies Act 2006 provides that a company offering a new issue of shares must first make an offer of these shares, on the same or more favourable terms, in proportion to the nominal value held by existing shareholders. At each Annual General Meeting, the Board seeks shareholder approval to disapply [pre-emption right](#) provisions, up to 5% of the issued share capital of the Company.

Premium

If the share price of the Company is higher than the [net asset value per ordinary share](#), the Company is said to be trading at a premium. The [premium](#) is shown as a percentage of the [net asset value per ordinary share](#).

Reference Index

TOPIX Total Return Index (in sterling terms). Prior to 22 May 2018 it was the Russell Nomura Mid/Small-Cap Index (in sterling terms). The [Reference Index](#) is the Company's Benchmark Index.

Registrar

An entity that manages the Company's shareholders register. The Company's [Registrar](#) is Link Group.

Reserves

- **Share premium account** represents the amount by which the proceeds from the issue of ordinary shares, on the exercise of rights attached to subscription shares, exceeded the nominal value of those ordinary shares. It is not distributable by way of dividend and cannot be used to fund share repurchases.
- **Capital redemption reserve** maintains the equity share capital of the Company and represents the nominal value of shares repurchased and cancelled. It is not distributable by way of dividend and cannot be used to fund share repurchases.
- **Other reserve** was created in 1999 when the share premium account at the time was cancelled. It is not distributable by way of dividend. It can be used to fund share repurchases.
- **Capital reserve** represents realised gains and losses on investments and derivatives sold, unrealised increases and decreases in the fair value of investments and derivatives held and other income and costs recognised in the capital column of the Income Statement. It can be used to fund repurchases and it is distributable by way of dividend.
- **Revenue reserve** represents retained revenue losses recognised in the revenue column of the Income Statement. It could be distributable by way of dividend if it were not in deficit.

Return

The [return](#) generated in the period from the investments:

- **Revenue Return** reflects the dividends and interest from investments and other income net of expenses, finance costs and taxation;
- **Capital Return** reflects the return on capital, excluding any revenue return; and
- **Total Return** reflects the aggregate of revenue and capital return in the period.

Share Repurchases

A popular way for investment trust companies to return cash to their shareholders is through offering to repurchase a proportion of shares currently held. The Company seeks the permission of shareholders to do so at its Annual General Meetings allowing it to repurchase a proportion of their total shares (up to 14.99%) in the market at prices below the prevailing [net asset value per ordinary share](#). This process is also used to enhance the [net asset value per ordinary share](#) and to reduce the [discount to net asset value per ordinary share](#).

Shareholders' Funds

[Shareholders' funds](#) are also described as "net asset value" and represent the total value of the Company's assets less the total value of its liabilities.

Total Portfolio Exposure

The total of fixed asset investments at [fair value](#) plus the [fair value](#) of the underlying securities within the [Contracts for Difference](#).

Glossary of Terms continued

Total Return Performance

The return on the ordinary share price or [net asset value per ordinary share](#) taking into account the rise and fall of ordinary share prices and the dividends paid to shareholders. Any dividends received by the shareholder are assumed to have been reinvested in additional ordinary shares (for share price total return) or the Company's assets (for [net asset value](#) total return).

Treasury Shares

Ordinary shares of the Company that have been repurchased by the Company and not cancelled but held in Treasury. These shares do not pay dividends, have no voting rights and are excluded from the [net asset value per ordinary share](#) calculation.

Alternative Investment Fund Manager's Disclosure

In compliance with the Alternative Investment Fund Manager's Directive (AIFMD), the Board has appointed FIL Investment Services (UK) Limited (FISL) as the Company's Alternative Investment Fund Manager (AIFM). FISL has delegated the portfolio management and company secretarial function to FIL Investments International. Details of the Management Agreement can be found in the Directors' Report on page 36.

The table below and on the next page discloses information required by the Alternative Investment Fund Manager's Regulations 2013.

Function	AIFM Role and Responsibility	AIFMD Disclosure
Investment management	<p>The AIFM provides portfolio management of assets and investment advice in relation to the assets of the Company. It has delegated this function to FIL Investments International.</p> <p>The Board remains responsible for setting the investment strategy, investment policy and investment guidelines and the AIFM operates within these guidelines.</p>	Details of the Company's investment objective, strategy and investment policy, including limits, are on pages 26 and 27.
Risk management	<p>The AIFM has a responsibility for risk management for the Company which is in addition to the Board's corporate governance responsibility for risk management.</p> <p>The Company has a Risk Management Process Document which demonstrates that risk management is separated functionally and hierarchically from operating units and demonstrates independent safeguards. The Manager maintains adequate risk management systems in order to identify, measure and monitor all risks at least annually under the AIFMD. The Manager is responsible for the implementation of various risk activities such as risk systems, risk profile, risk limits and testing.</p> <p>The Board, as part of UK corporate governance, remains responsible for the identification of significant risks and for the ongoing review of the Company's risk management and internal control processes.</p>	<p>The AIFM has an ongoing process for identifying, evaluating and managing the principal risks faced by the Company and this is regularly reviewed by the Board. The Board remains responsible for the Company's system of risk management and internal control, and for reviewing its effectiveness. Further details can be found in the Strategic Report on pages 27 to 31 and in Note 16 to the Financial Statements on pages 71 to 77.</p>
Valuation of illiquid assets	The AIFMD requires the disclosure of the percentage of the Alternative Investment Fund's assets which are subject to special arrangements arising from their illiquid nature and any new arrangements for managing the liquidity of the Company.	As at the date of this report, none of the Company's assets were subject to special arrangements arising from their illiquid nature.

Alternative Investment Fund Manager's Disclosure continued

Function	AIFM Role and Responsibility	AIFMD Disclosure
Leverage	<p>The Company uses leverage to increase its exposure primarily to Japanese stock markets and currently holds derivatives to achieve this. The AIFM has set maximum levels of leverage that are reasonable. It has implemented systems to calculate and monitor compliance against these limits and has ensured that the limits have been complied with at all times.</p> <p>There are two methods of calculating leverage – the Gross Method which does not reduce exposure for hedging; and the Commitment Method which does reduce exposure for hedging.</p>	<p>The maximum leverage limits are 1.80 for the Gross Method of calculating leverage and 1.50 for the Commitment Method.</p> <p>At 31 December 2022, leverage for the Gross Method was 1.24 and for the Commitment Method was 1.23.</p>
Liquidity management	The AIFM, in consultation with the Board, maintains a liquidity management policy which is considered at least annually.	No new arrangements for managing the liquidity of the Company have been made. Further details can be found in Note 16 on page 74.
Remuneration of the AIFM	The AIFM operates under the terms of Fidelity International's Global Remuneration Policy. This ensures that the AIFM complies with the requirements of the FCA's Remuneration Code (SYSC19A); the AIFM Remuneration Code (SYSC19B) and the BIPRU Remuneration Code (SYSC19C).	Details of Fidelity International's Global Remuneration Policy can be found at www.fidelityinternational.com/global/remuneration/default.page

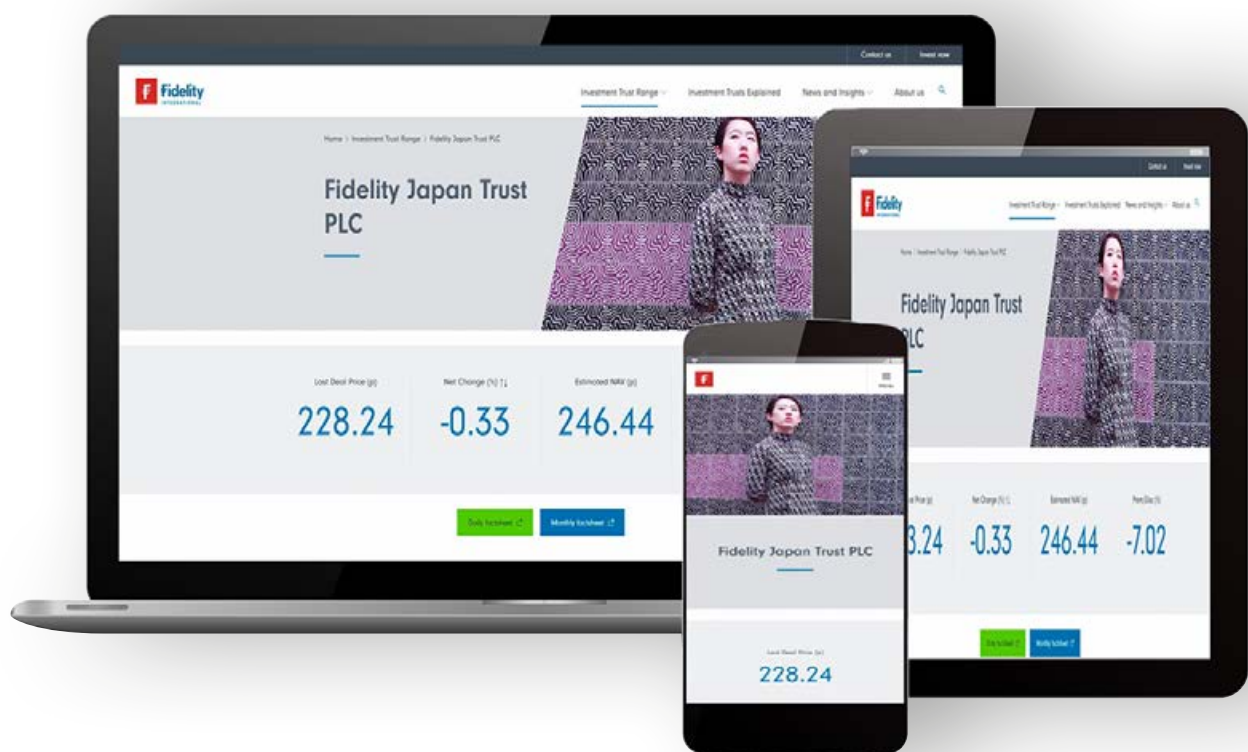
EU Securities Financing Transactions Regulation (SFTR)

The following disclosure relates to the long Contracts for Difference (CFDs) held by the Company which may be considered Total Return Swaps under the SFTR, which came into force on 12 January 2016.

As at 31 December 2022, all CFDs were contracted bilaterally with open maturities:

Broker	Fair Value £000	Percentage of Net Assets	Collateral held by the broker £000	Collateral held by the Company £000
J.P. Morgan Securities plc (UK)	(491)	(0.21%)	–	276
UBS AG (UK)	229	0.10%	–	–

The total return for the year ended 31 December 2022 from CFDs was a loss of £11,102,000.



To find out more about Fidelity Japan Trust, visit our new website www.fidelity.co.uk/Japan where you can read articles and watch videos on the Company.



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