# CC JAPAN INCOME & GROWTH TRUST PLC

## REPORT AND ACCOUNTS

## FOR THE YEAR ENDED 31 OCTOBER 2018

ASSET MANAGEMENT
CouplandCardiff

# CONTENTS

# INVESTMENT OBJECTIVE, FINANCIAL INFORMATION AND PERFORMANCE SUMMARY

## INVESTMENT OBJECTIVE

The investment objective of the Company is to provide shareholders with dividend income combined with capital growth, mainly through investment in equities listed or quoted in Japan.

## FINANCIAL INFORMATION

| | At 31 October 2018 | At 31 October 2017 |
|---|---:|---:|
| Net assets (millions) | £190.9 | £130.1 |
| Net asset value ("NAV") per Ordinary Share ("Share") | 148.6p | 146.0p |
| Share price[1] | 153.0p | 152.0p |
| Share price premium to NAV[2] | 3.0% | 4.1% |

1 Measured on a cum income basis.

2 This is an Alternative Performance Measure ('APM').

## PERFORMANCE SUMMARY

| | For the year to 31 October 2018 % change[1] | For the year to 31 October 2017 % change[1] |
|---|---:|---:|
| NAV total return per share[2] | +4.1% | +20.7% |
| Share price total return[2] | +2.8% | +27.2% |
| Topix index total return | -0.4% | +10.1% |

1 Total returns are stated in GBP sterling, including dividends reinvested.

2 These are APMs. Definitions of these and other APMs used in this Annual Report, together with how these measures have been calculated are disclosed on page 50 of this Annual Report.

Source: Bloomberg.

# CHAIRMAN'S STATEMENT

## Performance

I am pleased to present the results for the Company's third annual report. Over the financial year to 31 October 2018, and measured by total return, the Net Asset Value ("NAV") increased by 4.1%, while the share price rose by 2.8% over the year whereas the Tokyo Stock Price Index ("Topix"), measured in sterling terms, fell by 0.4%. The total return includes dividends paid during the financial year. Since listing on the London Stock Exchange in December 2015 and until the recent financial year end, the share price total return and the NAV total return were 57.3% and 57.2% respectively, comparing favourably with a Topix total return of 48.5% measured in sterling terms over that period.

Although the Topix was flat over the financial year, the performance conceals considerable turbulence in world stock markets. As at 18 January 2019, the Topix has, in fact, in yen total return terms, declined by nearly 17% from the high reached on 23 January 2018, including a 5% fall since our financial year end. Most of the decline relates to the deterioration of global liquidity with tightening of monetary and interest rate policy led by the US Federal Reserve followed by the European Central Bank. Other factors include President Trump's trade and containment policies towards China, geopolitical concerns, not least in the Pacific theatre, the impact of algorithmic stock trading and some evidence of slowing global economic growth.

## Growth of the Company and Share Issuance

The Board is committed to growing the size of the Company consistent with the aims of achieving scale, spreading costs over a larger shareholder base and capturing the growing income opportunity that our Investment Manager has so presciently identified in the Japanese corporate sector. The Company's share price has continued to trade at a premium to underlying NAV, reflecting investor demand which has, in turn, accommodated the share issuance programme, approved by shareholders at a General Meeting held in December 2017 and implemented by the publication of the Tri Partite Prospectus and Supplementary Prospectus in January 2018. The Initial Issue raised gross proceeds of £32.9 million with 19,986,048 shares issued at 164.5p per share on 29 January 2018. Subsequently, a further 19,297,571 shares were issued by a series of "tap" issues up to the Company's financial year end, raising further gross proceeds of approximately £30.4 million. As a consequence, the Company has expanded its asset base from £66.5 million at launch in 2015 to £190.9 million as at 31 October 2018. The Board believes that this endorses an investment strategy that has traction at a time when foreigners have been wholesale sellers of the Japanese stock market throughout 2018.

On 11 January 2019, notice of a General Meeting to be held on 4 February 2019 together with a Circular was sent to Shareholders seeking authority to issue an additional 16,932,556 shares non pre-emptively. Since this authority will, in turn, if granted, expire at this year's Annual General Meeting, the Board is seeking to renew the authority to allot securities non pre-emptively at that time. Please see Resolutions 12 and 13, to be tabled, as shown in the Notice of the Annual General Meeting.

The Company was promoted to the FTSE All-Share Index in June 2018.

## Income

There is a clear trend of Japanese company boards responding to the benefits of delivering rising income distributions to their shareholders by way of rising dividends, payout ratios and buy backs as part of a growing appreciation of the benefits of managing excess capital on balance sheets encouraged by Stewardship and Corporate Governance Codes. As a result, our revenue account continues to prosper and the Board is recommending a final dividend of 2.50p per share, which will be payable to shareholders on the register at the close of business on 1 February 2019, subject to shareholders' approval at the Annual General Meeting. Together with an interim payment of 1.25p per share, this represents an increase of 8.7% in the full year dividend to 3.75p per share compared to 3.45p per share paid last year.

## Gearing & Hedging

I would like to remind shareholders that structural gearing equivalent to 20% of shareholders' funds is an integral part of the investment process. This is enacted by establishing a CFD (Contract For Difference) position equivalent to one fifth of each individual holding. This has the benefit of providing the Company with significant additional income from the CFD holding of shares, to which the Company is entitled, as well the expected long term capital appreciation of the underlying holdings. This may lead to greater short term volatility. The Board could in exceptional circumstances reduce or eliminate the structural gearing. However, the policy is a key component of our investment strategy, which the Board continues to believe should enhance returns for investors over time.

It should also be noted that, as indicated in the investment policy, the Company does not intend to hedge its underlying currency exposure to investments denominated in yen, although the Investment Manager and the Board review the policy. Hedging the yen exposure may look attractive from time to time but it is expensive to execute and seldom works. The Board has no current intention of implementing currency hedging. Being unhedged gives the portfolio and its income stream a direct exposure to the yen/sterling exchange rate.

## Composition of the Board

The Board was pleased to announce the appointment of Kate Cornish-Bowden as a non-executive director in September 2018. Having worked in senior roles in the investment management industry for a number of years, she brings a strong knowledge of Japanese equities as well as more recent experience as a non-executive director. I am sure she will make a significant contribution to the Company.

## Market Developments

Improved corporate governance in Japan remains one of the most important successes of the Japanese Prime Minister's ongoing growth strategy and reform programme widely referred to as "*Abenomics*". The Corporate Governance Code was first implemented in March 2015 and subsequent revisions were announced in June 2018. These revisions incorporated greater disclosure requirements for cross-shareholdings, more transparent procedures for the appointment of a CEO and disclosing their responsibilities as well as further information disclosure on business strategy and Environmental, Social and Governance ("ESG") issues. The importance of this Code has been highlighted by the recent alleged misconduct at Nissan Motor regarding compliance with the Code's principles of determining compensation for its executives. The negative headlines associated with this story reinforce the need for further adherence to the principles promoted by the Code. Our Investment Manager continues to engage regularly with companies to ensure that the importance of higher standards of corporate governance and regard for shareholders are at the forefront of managerial decision making.

## Continuation Vote

The Investment Manager has achieved very solid investment returns over the initial three years of the Company's life. The Board remains confident of the outlook for the portfolio and constituent income growth and consequently has no hesitation in recommending that shareholders vote in favour of the resolution for the Company's continuation to be tabled, as stipulated by the Company's Articles of Association, at the forthcoming Annual General Meeting.

## Outlook

The immediate economic prospects for Japan are heavily dependent on the dynamics of the global economy. This has not changed in recent years. The greatest dependence is on the US economy both through its direct trading relationship and also the secondary impact on international trade. China, as Japan's largest trading partner also has an important influence on the business performance, supply chains and investor perception of Japan and many individual companies.

The domestic economy has benefited from not only global economic recovery but also, notably from *Abenomics*. Prime Minister Abe recently won an unprecedented third term as leader of the ruling Liberal Democratic Party which leaves him set to remain as Prime Minister until 2021 and thereby to become modern Japan's longest serving elected leader. This political stability is in stark contrast to Japan's own recent history and the current international stage. Notwithstanding tensions over the Korean peninsula, Russian meddling in the Kuril islands, China's expanding footprint in the South China Sea and throughout the Pacific, the domestic political backdrop should be considered positive for Japanese equities. As signs emerge of an end to deflation, the focus of debate has shifted to how and when the Bank of Japan removes its easy monetary policy. However, the main topic for the Government in 2019 may be the looming proposal to introduce a consumption tax hike in October 2019. The Prime Minister has been a strong advocate of an increase from 8% to 10% and time will tell whether other policy initiatives expected to soften its impact will be successful in averting the downturns that have followed previous adjustments to the consumption tax. For instance, the 2020 Olympics should provide some additional stimulus.

The Investment Manager determines portfolio composition through a rigorous analysis of the attributes of individual companies. The credentials of the investment strategy depend on the continued delivery of returns to shareholders growing over an extended period. The vicissitudes of economic cycles may come and go, but the improvement of shareholder returns has been very visible during the recent economic expansion in Japan. While there has been a sustained rise in dividends and share buybacks, perhaps the most pertinent change in attitudes in Japan has been a metamorphosis in Japanese corporate culture to focus on the stability of dividends available to shareholders.

**Harry Wells**

21 January 2019

# INVESTMENT MANAGER'S REPORT

## Performance Review

The portfolio has produced a positive return over the year to 31 October 2018 with the Net Asset Value ("NAV") per ordinary share rising from 146.0p per share to 148.6p per share. In addition, the Company paid total dividends of 3.55p per share during the year giving a total return of 4.1%.

Although the mandate is unconstrained by any index, this represents outperformance of the Topix Total Return Index over the reporting timeframe. Performance has been primarily derived from the strong returns of individual companies rather than any overriding factor although we believe that the favourable shareholder return characteristics of companies identified by the strategy have been an important consideration. Selected holdings in the mid and small cap segments of the market have again made positive contributions and it is worth reiterating the qualities of companies positioned in these segments of the market where it is frequently the case that management are shareholders themselves and hence share a more robust understanding of the responsibilities to minority shareholders such as ourselves.

The top contributors to performance are all good examples of opportunities identified outside the large cap. sector and also highlight the diverse range of opportunities that we are able to identify as the environment for shareholder return continues to improve. Katitas, which is the leading supplier of refurbished houses in Japan, was the largest single contributor. This company was relisted after a period in the hands of private equity and returned to the stock market as a considerably more focused and better run business with an attractive shareholder return policy. Hikari Tsushin, a service provider for domestic SMEs, Yamada Consulting, a business succession planning consultancy, Kakaku.com, which operates Japan's leading online restaurant service, and Shoei, the world's leading manufacturer of premium motorcycle helmets, all produced significant positive returns. After a period of weakness during 2017, it was pleasing to see the holdings in the real estate investment trusts ("REITs") make positive contributions again. Most notably, Invesco Office REIT, which has been at the forefront of shareholder engagement and was the first REIT in Japan to announce a share buy back. The performance of Noevir, one of the top contributors in the previous year, was somewhat disappointing and particularly so given the extremely favourable return to shareholders during the year with the company announcing a full dividend increase from ¥150 to ¥180 per share (+20% year-on-year).

We believe that our investment process allows us to identify the companies that offer the best shareholder return characteristics. In addition to the example of Noevir, Mitsubishi UFJ Holdings paid a substantially higher than anticipated dividend of ¥22 instead of ¥20. Shoei, Amada, Daiwa House and Hikari Tsushin have also increased their projected payment for the full year. Buybacks announced include NTT (¥150 billion or 1.57% of shares in issue), Daiwa House (¥10 billion or 0.4%), MUFG (¥100 billion, 1.52%), Toyota (¥250 billion or 1.44%) and Amada (¥10 billion or 2.73%). We are extremely pleased with these increased shareholder returns, having identified these opportunities through our analysis and company visit programme.

## Current Positioning

While equity markets may be volatile, the investment policy remains consistent. It seeks to identify companies with attractive shareholder return policies that complement the underlying business growth. The long average holding period tends to reflect the stability and progression of shareholder returns expected. However, there are two reasons for selling a position. The first is a fundamental change in the outlook for the company and by implication the projected returns to shareholders. The second is valuation. There are times when a share price exceeds the company's potential to deliver growth of the dividend, in particular, to an acceptable level in a reasonable time frame.

For instance, one sector where the outlook has changed is telecommunications and in particular for the mobile operators. Early in the year Chief Cabinet Secretary Suga made politically motivated criticisms of the mobile communications industry claiming that mobile phone pricing in Japan is too high. Although this has been a recurring theme of the current administration, it is not a fully regulated industry and the Government has no control over the prices of mobile services. However, leading operator NTT DoCoMo recently announced sweeping price cuts eerily similar to the levels suggested by the Chief Cabinet Secretary. Due to fears that the prospects for earnings growth and dividend growth in the near term are greatly diminished for all companies in the sector, we sold out of the positions in both NTT DoCoMo and KDDI.

The re-rating of small cap stocks in Japan from late 2017 has presented a challenge as valuations of many companies whose fundamentals remained strong became much less attractive after share price appreciation. Holdings such as Solasto (medical industry outsourcing), Katitas (housing refurbishment), Trust Tech and Technopro (both engineering outsourcing) have also been sold.

New positions have been established in Secom (security services), Park24 (parking services), SBI Holdings (financial services), Sho-Bond (highway repair), Avant (financial industry software) and Mitsubishi Corp (a leading trading company). We remain encouraged by the diversity of opportunities that exist as this enhances the stability of the income received by the Company.

## Outlook

Aggregate distributions from Japanese companies are set to achieve another all-time high in the fiscal year ending March 2019. Despite this very apparent improvement in recent years, the potential for further positive developments is evident from the steady rise in cash accumulated on corporate balance sheets and the high dividend cover in Japan. We are also encouraged by the flexible approach to share buybacks promoted by many corporate leaders as an important component in their efforts to boost capital efficiency. As a result we believe that these steady improvements are set to continue regardless of the near term economic trends and these positive trends will continue to be more broadly recognised by both domestic and international investors.

**Richard Aston**
**Coupland Cardiff Asset Management LLP**

21 January 2019

# INVESTMENT POLICY, RESULTS AND OTHER INFORMATION

## Investment policy

The Company intends to invest in equities listed or quoted in Japan. The Company may also invest in exchange traded funds in order to gain exposure to such equities. Investment in exchange traded funds shall be limited to not more than 20% of Gross Assets at the time of investment. The Company may also invest in listed Japanese real estate investment trusts (J-REITs).

The Company may enter into long only contracts for difference or equity swaps for gearing and efficient portfolio management purposes.

No single holding (including any derivative instrument) will represent more than 10% of Gross Assets at the time of investment and, when fully invested, the portfolio is expected to have between 30 to 40 holdings although there is no guarantee that this will be the case and it may contain a lesser or greater number of holdings at any time.

The Company will have the flexibility to invest up to 10 per cent. of its Gross Assets at the time of investment in unquoted or untraded companies.

The Company will not be constrained by any index benchmark in its asset allocation.

## Borrowing policy

The Company may use borrowings for settlement of transactions, to meet on-going expenses and may be geared through borrowings and/or by entering into long only contracts for difference or equity swaps that have the effect of gearing the Company's portfolio to seek to enhance performance. The aggregate of borrowings and long only contracts for difference and equity swap exposure will not exceed 25 per cent. of Net Asset Value at the time of drawdown of the relevant borrowings or entering into the relevant transaction, as appropriate, although the Company's normal policy will be to utilise and maintain gearing to a lower limit of 20% of Net Asset Value at the time of drawdown of the relevant borrowings or entering into the relevant transaction, as appropriate. It is expected that any borrowings entered into will principally be denominated in yen.

## Hedging policy

The Company does not currently intend to enter into any arrangements to hedge its underlying currency exposure to investment denominated in yen, although the Investment Manager and the Board may review this from time to time.

## Results and dividend

The Company's revenue return after tax for the financial year amounted to £5,117,000 (2017: £3,364,000). In July 2018, the Company paid an interim dividend of 1.25p (2017: 1.15p) per Ordinary Share. The Directors are proposing a final dividend for the year ended 31 October 2018 of 2.50p (2017: Second interim dividend of 2.30p) per Ordinary Share which, subject to shareholder approval, will be paid on 19 March 2019 to shareholders on the register at 1 February 2019. Therefore, the total dividend in respect of the financial year to 31 October 2018 will be 3.75p (2017: 3.45p) per Ordinary Share.

The Company made a capital loss after tax of £2,953,000 (2017: capital gain of £17,809,000). Therefore, the total return after tax for the year was £2,164,000 (2017: £21,173,000).

## Key performance indicators ("KPIs")

The Board measures the Company's success in attaining its investment objective by reference to the following KPIs:

### (i) Long term capital growth

The Board considers the Company's Net Asset Value (NAV) total return figures to be the best indicator of performance over time and this therefore is the main indicator of performance used by the Board. The NAV total return for the year to 31 October 2018 was 4.1% (2017: 20.7%) and the NAV total return from the Company's inception to 31 October 2018 was 57.2%.

The Chairman's Statement on pages 3 and 4 incorporates a review of the highlights during the year. The Investment Manager's Report on pages 5 and 6 gives details on investments made during the year and how performance has been achieved.

### (ii) Revenue return per share and dividends

The Company's revenue return per share based on the weighted average number of shares in issue during the year was 4.55p (2017: 4.06p). The Company's proposed total dividend payable in respect of the year ended 31 October 2018 is 3.75p (2017: 3.45p) per Ordinary Share.

### (iii) Discount/premium to NAV

The discount/premium relative to the NAV per share represented by the share price is closely monitored by the Board. The share price closed at a 3.0% premium to the NAV as at 31 October 2018. (2017: 4.1% premium).

### (iv) Control of the level of ongoing charges

The Board monitors the Company's operating costs carefully. Based on the Company's average net assets for the year ended 31 October 2018, the Company's ongoing charges figure calculated in accordance with the AIC methodology was 1.09% (2017: 1.15%). As the size of the Company grows, the Board expects to manage the ongoing charge ratio accordingly.

## Principal risks and uncertainties

Together with the issues discussed in the Chairman's Statement and the Investment Manager's Report, the Board considers that the principal risks and uncertainties faced by the Company fall into the following main categories:

### (i) Market risks

#### Economic conditions

Changes in economic conditions in Japan (for example, interest rates and rates of inflation, industry conditions, competition, political and diplomatic events and other factors) and in the countries in which the Company's investee companies operate could substantially and adversely affect the Company's prospects.

#### Sectoral diversification

The Company has no limits on the amount it may invest in any sector. This may lead to the Company having significant concentrated exposure to portfolio companies in certain business sectors from time to time.

Concentration of investments in any one sector may result in greater volatility in the value of the Company's investments and consequently its NAV and may materially and adversely affect the performance of the Company and returns to shareholders.

#### Unquoted companies

The Company may invest in unquoted companies from time to time. Such investments, by their nature, involve a higher degree of valuation and performance uncertainties and liquidity risks than investments in listed and quoted securities and they may be more difficult to realise.

The Company currently holds no unquoted companies.

*Management of risks*

The Company is invested in a diversified portfolio of investments.

The Company's investment policy states that no single holding (including any derivative instrument) will represent more than 10% of the Company's Gross Assets at the time of investment and, when fully invested, the portfolio is expected to have between 30 to 40 holdings although there is no guarantee that this will be the case and it may contain a lesser or greater number of holdings at any time.

A maximum of 10% of the Company's Gross Assets at the time of investment may be invested in unquoted or untraded companies at time of investment.

Whilst the Company does not have a benchmark, the Board measures performance for reference purposes against the Topix Index. The Board also monitors performance relative to the Company's peer group over a range of periods, taking into account the differing investment policies and objectives.

### (ii) Corporate governance and internal control risks (includes cyber security)

The Board has contractually delegated to external agencies the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the accounting and company secretarial requirements.

The main risk areas arising from the above contracts relate to allocation of the Company's assets by the Investment Manager, and the performance of administrative, registration and custodial services. These could lead to various consequences including the loss of the Company's assets, inadequate returns to shareholders and loss of investment trust status. Cyber security risks could lead to breaches of confidentiality, loss of data records and inability to make investment decisions.

*Management of risks*

Each of the above contracts was entered into after full and proper consideration of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company. All of the above services are subject to ongoing oversight of the Board and the performance of the principal service providers is reviewed on a regular basis. The Board monitors key personnel risks as part of its oversight of the Investment Manager. The Company's key service providers report periodically to the Board on their procedures to mitigate cyber security risks.

### (iii) Regulatory risks

Breaches of Section 1158 of the Corporation Tax Act could result in loss of investment trust status. Loss of investment trust status would lead to the Company being subject to tax on any gains on the disposal of its investments. Breaches of the FCA's rules applicable to listed entities could result in financial penalties or suspension of trading of the Company's shares on the London Stock Exchange. Breaches of the Companies Act 2006, The Financial Services and Markets Act, The Alternative Investment Fund Managers' Directive, Accounting Standards, The General Data Protection Regulation, The Listing Rules, Disclosure and Transparency Rules and Prospectus Rules could result in financial penalties or legal proceedings against the Company or its Directors. Failure of the Investment Manager to meet its regulatory obligations could have adverse consequences on the Company.

*Management of risks*

The Company has contracted out relevant services to appropriately qualified professionals. The Investment Manager reports on regulatory matters to the Board on a quarterly basis. The assessment of regulatory risks forms part of the Board's risk assessment programme.

### (iv) Financial risks

The Company's investment activities expose it to a variety of financial risks which include foreign currency risk and interest rate risk. The Company's portfolio income from dividends is received in Japanese yen but the Company's dividend payable to shareholders is payable in sterling.

*Management of risks*

The Company converts its dividends received into sterling upon receipt. Further details of financial risks and the management of those risks are disclosed in note 17 to the accounts.

## Viability statement

The continuation of the Company is subject to the approval of shareholders at the third Annual General Meeting of the Company to be held in 2019 and, if passed, every three years thereafter. At the present time, the Directors have no reason to believe that the continuation vote to be proposed at the forthcoming AGM will not be passed. The Directors have assessed the viability of the Company for the period to 31 October 2023 (the "Period") taking into account the long-term nature of the Company's investment strategy and the principal risks outlined above. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due in the Period.

In their assessment of the prospects of the Company, the Directors have considered each of the principal risks and uncertainties set out above and the liquidity and solvency of the Company. The Directors have considered the Company's income and expenditure projections and the fact that the Company's investments comprise readily realisable securities, which could, if necessary, be sold to meet the Company's funding requirements. Portfolio activity and market developments are discussed at quarterly Board meetings. The internal control framework of the Company is subject to a formal review on at least an annual basis.

The Directors do not expect there to be any material increase in the annual ongoing charges of the Company over the period. The Company's income from investments and cash realisable from the sale of its investments provide substantial cover to the Company's operating expenses, and any other costs likely to be faced by the Company over the period of their assessment.

The Chairman's Statement and Investment Manager's Report present the positive long-term investment case for Japanese equities which also underpins the Company's viability for the Period.

## Environmental matters

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

## Employees

The Company has no employees. As at 31 October 2018 the Company had five Directors, four of whom are male and one of whom is female. The Board's policy on diversity is contained in the Corporate Governance Report (see page 19).

## Social, community and human rights issues

Having no employees, the Company, as an investment company, has no direct impact on social, community, environmental or human rights matters.

## Modern slavery disclosure

Due to the nature of the Company's business, being a company that does not offer goods or services to consumers, the Board considers that it is not within the scope of modern slavery. The Board considers the Company's supply chains, dealing predominately with professional advisers and service providers in the financial service industry, to be low risk to this matter.

## Outlook

The outlook for the Company is discussed in the Chairman's Statement on page 4.

## Strategic Report

The Strategic Report set out on pages 2 to 12 of this Annual Report was approved by the Board of Directors on 21 January 2019.

For and on behalf of the Board

**Harry Wells**

Director

21 January 2019

# HOLDINGS IN PORTFOLIO

## AS AT 31 OCTOBER 2018

| Company | Sector | Market value £'000 | % of net assets |
|---|---|---|---|
| Nippon Telegraph | Information & Communications | 7,228 | 3.8 |
| Itochu | Wholesale | 6,953 | 3.6 |
| Sumitomo Mitsui | Banks | 6,779 | 3.6 |
| Japan Hotel REIT | Real Estate | 6,661 | 3.5 |
| Bridgestone Corp | Rubber Products | 6,640 | 3.5 |
| Mitsubishi Corp | Wholesale | 6,596 | 3.5 |
| Tokio Marine | Insurance | 6,466 | 3.4 |
| Toyota | Transport Equipment | 6,381 | 3.3 |
| R-Invesco Rg | Real Estate | 6,292 | 3.3 |
| NTT DoCoMo | Information & Communications | 5,528 | 2.9 |
| Kakaku.com | Services | 5,239 | 2.7 |
| Mitsubishi Financial | Banks | 5,212 | 2.7 |
| Secom | Services | 5,115 | 2.7 |
| Japan Tobacco | Foods | 5,067 | 2.6 |
| Tsubaki Nakashima | Machinery | 4,882 | 2.5 |
| Noevir | Chemicals | 4,817 | 2.5 |
| Tokyo Electron | Electrical Appliances | 4,769 | 2.5 |
| Hikari Tsushin | Information & Communications | 4,767 | 2.5 |
| Gakkyusha | Services | 4,761 | 2.5 |
| Kao | Chemicals | 4,738 | 2.5 |
| Daiwa House | Construction | 4,712 | 2.5 |
| Tokyo Century | Other Financing Business | 4,591 | 2.4 |
| Shoei | Securities & Commodities | 4,557 | 2.4 |
| SBI Holdings | Securities & Commodities | 4,507 | 2.4 |
| Komatsu | Machinery | 4,482 | 2.3 |
| Sho-Bond Holdings | Construction | 4,441 | 2.3 |
| Canon | Electrical Appliances | 4,369 | 2.3 |
| Resona | Banks | 4,115 | 2.1 |
| Yamada | Services | 3,968 | 2.1 |
| Amada | Machinery | 3,749 | 2.0 |
| Invincible | Real Estate | 3,745 | 2.0 |
| Park24 | Real Estate | 3,701 | 1.9 |
| Oracle | Information & Communications | 3,490 | 1.8 |
| Nomura | Services | 3,369 | 1.8 |

| Company | Sector | Market value £'000 | % of net assets |
|---|---|---|---|
| Pola Orbis | Chemicals | 3,005 | 1.6 |
| Nissan Motor | Transport Equipment | 2,629 | 1.4 |
| Mabuchi Motor | Electrical Appliances | 2,501 | 1.3 |
| GCA Corporation | Services | 2,497 | 1.3 |
| Avant | Information & Communications | 2,294 | 1.2 |
| Nippon Parking | Real Estate | 1,972 | 1.0 |
| Technopro Holdings | Services | 1,834 | 1.0 |
| **Total holdings** | | **189,419** | **99.2** |
| Other net assets | | 1,496 | 0.8 |
| **Net asset value** | | **190,915** | **100.0** |

# TOP TEN SECTORS
## AS AT 31 OCTOBER 2018

| Sector | % of net assets |
|---|---|
| Services | 14.1 |
| Information & Communications | 12.2 |
| Real Estate | 11.7 |
| Banks | 8.4 |
| Wholesale | 7.1 |
| Machinery | 6.8 |
| Chemicals | 6.6 |
| Electrical Appliances | 6.1 |
| Construction | 4.8 |
| Securities & Commodities | 4.8 |
| **Top ten** | **82.6** |
| Other sectors | 16.6 |
| Other net assets | 0.8 |
| **Total** | **100.0** |

# TOP TEN CONTRACTS FOR DIFFERENCE ("CFDs")
## AS AT 31 OCTOBER 2018

| Company | Sector | Gross exposure £'000 | Gross exposure as a % of net assets | Market value £'000 |
|---|---|---|---|---|
| Nippon Telegraph (Dec 2019) | Information & Communications | 1,446 | 0.8 | (163) |
| Itochu (Dec 2019) | Wholesale | 1,392 | 0.7 | 79 |
| Sumitomo Mitsui (Dec 2019) | Banks | 1,356 | 0.7 | (147) |
| Japan Tobacco (Dec 2019) | Real Estate | 1,334 | 0.7 | (188) |
| Bridgestone Corp (Dec 2019) | Rubber Products | 1,329 | 0.7 | (181) |
| Mitsubishi Corp (Dec 2019) | Wholesale | 1,321 | 0.7 | (76) |
| Tokio Marine (Dec 2019) | Insurance | 1,295 | 0.7 | 47 |
| Toyota (Dec 2019) | Transport Equipment | 1,277 | 0.7 | (137) |
| R-Invesco Rg (Dec 2019) | Real Estate | 1,258 | 0.7 | 142 |
| NTT DoCoMo (Dec 2019) | Information & Communications | 1,106 | 0.6 | 52 |
| **Top ten** | | **13,114** | **7.0** | **(572)** |
| Other | | 24,814 | 13.1 | (2,840) |
| **Total** | | **37,928** | **20.1** | **(3,412)** |

# DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 October 2018.

## Strategic report

The Directors' Report should be read in conjunction with the Strategic Report on pages 2 to 12.

## Corporate governance

The Corporate Governance Statement on pages 17 to 20 forms part of this report.

## Legal and taxation status

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The manner in which the Company conducts its affairs meets the requirements for approval as an investment trust under section 1158 of the Corporation Tax Act 2010. In the opinion of the Directors, the Company has met the conditions and requirements for approval as an investment trust for the year ended 31 October 2018 and intends to continue to do so.

## Management

Coupland Cardiff Asset Management LLP ("CCAM") has been appointed as the Company's Investment Manager and Alternative Investment Fund Manager (the "Investment Manager" or the "AIFM"). CCAM is authorised and regulated by the Financial Conduct Authority.

The Investment Manager was initially appointed under a contract subject to twelve months' notice with such notice not to expire prior to the third anniversary of first admission of the Ordinary Shares to trading on the London Stock Exchange. From 15 December 2018 the Investment Management Agreement has been subject to not less than six months' written notice.

The Investment Manager is entitled to remuneration each month at a rate equivalent to one twelfth of 0.75% per calendar month of the Net Asset Value of the Company.

In accordance with the Directors' policy on the allocation of expenses between income and capital 80% of the management fee payable is charged to capital and the remaining 20% to income.

The Board reviews this policy on a periodic basis and confirms this allocation remains consistent with their expectations of future returns from the portfolio.

## Management engagement

The Directors are satisfied that the Investment Manager has the suitable skills and experience to manage the Company's investments and believe that the continuing appointment of the Investment Manager is in the interests of shareholders as a whole. Since inception the Company has delivered positive total return performance and met its objectives set out in the prospectus in relation to the annual dividend, which is reflected in the premium/low discount at which the Company's Ordinary Shares have traded during and subsequent to the year end.

## Alternative Investment Fund Managers' Directive ("AIFMD")

In accordance with the AIFMD, the Company has appointed CCAM as its Alternative Investment Fund Manager ("AIFM"). The AIFM must ensure that an annual report containing certain information on the Company is made available to investors for each financial year. The investment funds sourcebook of the FCA (the "Sourcebook") details the requirements of the annual report. All the information required by those rules is included in this Annual Report or will be made available on the AIFM's website:
(**www.ccjapanincomeandgrowthtrust.com/report-accounts**).

The AIFM is required to make certain disclosures on its remuneration in respect of the AIFM's relevant reporting period which is the year ended 31 December 2017. These disclosures are available on the Company's website which is maintained by the AIFM (**www.couplandcardiff.com/aifm-remuneration-disclosure**) or are available on request from the AIFM.

## Leverage (under AIFMD)

The AIFM is required to set leverage limits as a percentage of net assets for the Company utilising methods prescribed under AIFMD. These methods are known as the gross method and the commitment method. Under both methods the AIFM has set current maximum limits of leverage for the Company of 200%. A leverage percentage of 100% equates to nil leverage. The Company's leverage under each of these methods at its year end is shown below:

| | Gross method | Commitment method |
|---|---|---|
| Maximum leverage limit | 200% | 200% |
| Actual leverage at 31 October 2018 | 123% | 121% |

## Dividends

The Company intends to pay dividends on a semi-annual basis, with dividends normally declared in January and June and paid in March and July/August in each year, and to grow the dividend over time. The dividends will not necessarily be of equal amounts.

In accordance with regulation 19 of the Investment Trust (Approved Company) (Tax) Regulations 2011, the Company will not (except to the extent permitted by those regulations) retain more than 15% of its income (as calculated for UK tax purposes) in respect of an accounting period.

In order to increase the distributable reserves available to facilitate the payment of future dividends, the amount standing to the credit of the share premium account of the Company immediately following completion of the first issue of Ordinary Shares on 15 December 2015 was cancelled and transferred to a special distributable reserve. The Company may, at the discretion of the Board, pay all or part of any future dividends out of this special distributable reserve, taking into account the Company's investment objective. Dividends will normally be funded through distributions from portfolio companies including dividends and other distributions, and taking account of share buybacks by portfolio companies.

The Company declared an interim dividend of 1.25p per Ordinary Share in June 2018, which was paid on 31 July 2018 and is proposing a final dividend in respect of the year ended 31 October 2018 of 2.50p per Ordinary Share, which, subject to shareholder approval at the Company's Annual General Meeting, will be paid on 19 March 2019.

### Share issuance programme

The authority to issue new shares pursuant to the placing programme, detailed in the Company's prospectus dated 13 November 2015, expired on 11 November 2016 and a new authority to issue up to 100 million shares pursuant to a new Share Issuance Programme was approved by shareholders at a general meeting on 19 December 2017. A new prospectus was issued by the Company on 9 January 2018 and a supplementary was issued on 19 January 2018.

The authority to issue new shares pursuant to the 2018 Share Issuance Programme, expired on 8 January 2019. The Company has sent a circular and Notice of General Meeting to shareholders to seek approval for authority to allot and to disapply pre-emption rights in respect of up to 16,932,566 Ordinary Shares. This authority will be in addition to the Company's existing authority in respect of 8,907,800 Ordinary Shares which is due to expire at the forthcoming Annual General Meeting. The authorities may be used to carry out a series of placings or tap issues, providing the Company with the ability to issue new Ordinary Shares over a period of time. The General Meeting of the Company will take place on 4 February 2019 and full details are provided in the circular to shareholders dated 10 January 2019.

### General authority to issue shares

In addition to the share issuance programme authority to issue shares, a general authority to issue up to 8,907,800 Ordinary Shares and to disapply pre-emption rights when issuing those shares was granted at the Company's last Annual General Meeting.

The Board recommends that the Company is granted a new authority to issue up to a maximum of 25,827,400 Ordinary Shares (representing approximately 19.99% of the shares in issue at the date of this document) and to disapply pre-emption rights when issuing those Ordinary Shares. Resolutions to this effect will be put to shareholders at the Annual General Meeting.

The maximum number of Ordinary Shares which can be admitted to trading on the London Stock Exchange without the publication of a prospectus is 20% of the Ordinary Share Capital on a rolling previous 12 month basis at the time of admission of the shares.

Any Ordinary Share issues will be issued at a premium to (cum income) Net Asset Value.

### Treasury shares

The Companies Act allows companies to hold shares acquired by way of market purchases to be held as treasury shares, rather than having to cancel them. This would give the Company the ability to re-issue Ordinary Shares quickly and cost effectively, thereby improving liquidity and providing the Company with additional flexibility in the management of its capital base. No Ordinary Shares will be sold from treasury at a price less than the (cum income) Net Asset Value ("NAV") per existing Ordinary Share at the time of their sale unless they are first offered pro rata to existing shareholders. No Ordinary Shares were bought back during the year ended 31 October 2018 and no shares are currently held in Treasury.

### Discount management

The Directors recognise the importance to investors of the Ordinary Shares not trading at a significant discount to their prevailing NAV. To the extent that the Ordinary Shares trade at a significant discount to their prevailing NAV, the Board will consider whether, in the light of the prevailing circumstances, the Company should purchase its own Ordinary Shares, whether pursuant to the general authority referred to below or pursuant to tender offers made on appropriate terms. There is, however, no guarantee or assurance that any discount control mechanisms proposed by the Board will reduce any discount.

The Directors currently have the authority to make market purchases of up to 13,366,307 Ordinary Shares. The maximum price (exclusive of expenses) which may be paid for an Ordinary Share must not be more than the higher of: (i) 5 per cent. above the average of the mid-market values of the Ordinary Shares for the five Business Days before the purchase is made; or (ii) the higher of the price of the last independent trade and the highest current independent bid for the Ordinary Shares. Ordinary Shares will be repurchased only at prices below the prevailing NAV per Ordinary Share, which should have the effect of increasing the NAV per Ordinary Share for remaining shareholders.

It is intended that a renewal of the authority to make market purchases will be sought from shareholders at each annual general meeting of the Company and such a resolution will be put forward at the forthcoming Annual General Meeting. Purchases of Ordinary Shares will be made within guidelines to be established from time to time by the Board. Any purchase of Ordinary Shares would be made only out of the available cash resources of the Company. Ordinary Shares purchased by the Company may be held in treasury or cancelled.

Purchases of Ordinary Shares may be made only in accordance with the Companies Act, the Listing Rules and the Disclosure Guidance and Transparency Rules.

## Life of the Company

The Company has no fixed life but, pursuant to the Articles, an ordinary resolution for the continuation of the Company will be proposed at the forthcoming Annual General Meeting of the Company and, if passed, every three years thereafter. Upon any such resolution not being passed, within 90 days, proposals will be put forward to the effect that the Company be wound up, liquidated, reconstructed or unitised.

The Board recommends that shareholders vote in favour of the continuation of the Company.

## Market information

The Company's share capital is admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange. The NAV per share is calculated in sterling for each business day that the London Stock Exchange is open for business. The daily NAV per share is published through a regulatory information service.

## Bank overdraft facility

The Company has a bank overdraft facility with The Northern Trust Company. Under the terms of the facility a maximum of £12 million, or the equivalent in Japanese yen, can be drawn down. As at the year end date, the equivalent of £2,245,000 (2017: £1,935,000) of the overdraft facility has been utilised on the Japanese yen bank account.

## Derivatives

The Company may utilise long only contracts for difference or equity swaps for gearing and efficient portfolio management purposes. Where the Company uses such instruments, it is likely to take a credit risk with regard to the parties with whom it trades and may also bear the risk of settlement default.

During the year, the Company held contracts for difference with Morgan Stanley & Co International plc and Macquarie Bank Limited and the net exposure at 31 October 2018 was £40,759,000 (2017: £20,981,000) and £531,000 (2017: £568,000), respectively.

## Financial instruments

The financial instruments of the Company generate liquidity risk, credit risk and market risk. An explanation of these risks and how they are managed and the policy and practice with regards to financial instruments are contained in note 17 of the financial statements.

## Depositary and custodian

Northern Trust Global Services Limited is the Company's depositary and custodian.

## Company Secretary

PraxisIFM Fund Services (UK) Limited is appointed as the company secretary of the Company.

## Administrator

PraxisIFM Fund Services (UK) Limited is appointed to provide administration services to the Company including calculation of its daily Net Asset Value.

## Capital structure and voting rights

At the financial year end, the Company's issued share capital comprised 128,451,781 Ordinary Shares of 1p nominal value. Each Ordinary Share held entitles the holder to one vote. All shares carry equal voting rights and there are no restrictions on those voting rights. Voting deadlines are stated in the Notice of Meeting and Form of Proxy and are in accordance with the Companies Act 2006.

There are no restrictions on the transfer of Ordinary Shares, nor are there any limitations or special rights associated with the Ordinary Shares.

## Significant shareholders

As at 31 October 2018, the Directors have been formally notified of the following shareholdings comprising 3% or more of the issued share capital of the Company:

| | Holding | % |
|---|---|---|
| Rathbone Investment Management Ltd | 13,745,914 | 10.70% |
| Charles Stanley Group PLC | 5,689,763 | 4.43% |
| J.M. Finn | 5,455,300 | 4.25% |
| Derbyshire County Council | 5,000,000 | 3.89% |
| Brooks Macdonald Asset Management Limited | 4,725,154 | 3.68% |
| Seneca IM Limited | 4,285,000 | 3.34% |

## Settlement of ordinary share transactions

Ordinary share transactions in the Company are settled by the CREST share settlement system.

## Anti-bribery and corruption

It is the Company's policy to conduct all of its business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. The Company's policy and the procedures that implement it are designed to support that commitment.

## Notice of general meetings

At least twenty-one days' notice shall be given to all the members and to the auditors. All other general meetings shall also be convened by not less than twenty-one days' notice to all those members and to the auditors unless the Company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than fourteen days has been passed, in which case a general meeting may be convened by not less than fourteen days' notice in writing. A special resolution will be proposed at the Annual General Meeting to reduce the period of notice for general meetings other than the Annual General Meeting to not less than fourteen days. Reduced notice will only be used under appropriate circumstances.

## Going concern

The Directors have adopted the going concern basis in preparing the accounts. The following is a summary of the Directors' assessment of the going concern status of the Company, which should be read in conjunction with the viability statement on page 9.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least twelve months from the date of this document. In reaching this conclusion, the Directors have considered the liquidity of the Company's portfolio of investments as well as its cash position, income and expense flows. The Company's net assets at 31 October 2018 were £190.9 million (2017: £130.1 million). As at 31 October 2018, the Company held £189.4 million (2017: £129.2 million) in quoted investments and had cash of £1.6 million (2017: £0.9 million overdraft). The total expenses (excluding finance costs and taxation) for the year ended 31 October 2018 were £1.9 million (2017: £1.2 million), which represented approximately 1.09% (2017: 1.15%) of average net assets during the year. At the date of approval of this document, based on the aggregate of investments and cash held, the Company has substantial operating expenses cover.

As required by its Articles of Association, the Company will put forward a vote for its continuation at the Annual General Meeting held on 12 March 2019.

Since inception the Company has delivered positive total return performance and met its objectives set out in the prospectus in relation to the annual dividend, which is reflected in the premium/low discount at which the Company's Ordinary Shares have traded during and subsequent to the year end.

The Directors recommend that shareholders vote in favour of the continuation of the Company and have no reason to believe that the continuation vote will not be passed. In the event that the continuation vote is not passed, the Directors would be required to put forward proposals that the Company be wound up, liquated, reconstructed or unitised.

## Directors' indemnities

Details on the Directors' indemnities in place are provided in the Directors' Remuneration Implementation Report.

## Auditor information

Each of the Directors at the date of the approval of this report confirms that:

(i) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(ii) the Director has taken all steps that he/she ought to have taken as Director to make him/herself aware of any relevant information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

In accordance with Section 489 of the Companies Act 2006, a resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put forward at the forthcoming Annual General Meeting.

By order of the Board

**Anthony Lee**
For and on behalf of
**PraxisIFM Fund Services (UK) Limited**
*Company Secretary*

21 January 2019

# CORPORATE GOVERNANCE

## Introduction

The Board of the Company has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company as an investment company. A copy of the AIC Code can be viewed on the AIC's website https://www.theaic.co.uk/aic-code-of-corporate-governance-0.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide more relevant information to shareholders than solely reporting against the UK Corporate Governance Code.

The Financial Reporting Council ("FRC"), the UK's independent regulator for corporate reporting and governance responsible for the UK Corporate Governance Code, has endorsed the AIC Code and the AIC Guide. The terms of the FRC's endorsement mean that AIC members who report against the AIC Code and the AIC Guide meet fully their obligations under the UK Corporate Governance Code and the related disclosure requirements contained in the Listing Rules.

During the financial year ended 31 October 2018, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to: the role of the chief executive; executive Directors' remuneration; and the need for an internal audit function. For the reasons set out in the AIC Guide, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company with no executive directors; the Company does not therefore comply with them.

## The Board

### Composition

At the date of this report, the Board consists of five non-executive Directors including the Chairman. All the Directors apart from Kate Cornish-Bowden have served during the entire period since their appointment on 13 November 2015. Kate Cornish-Bowden was appointed as a Director with effect from 3 September 2018.

The Board believes that during the year ended 31 October 2018 its composition was appropriate for an investment company of the Company's nature and size. All of the Directors are independent of the Investment Manager. All of the Directors are able to allocate sufficient time to the Company to discharge their responsibilities effectively.

The Directors have a broad range of relevant experience to meet the Company's requirements and their biographies are given below.

**Harry Wells** *(non-executive Chairman)*

Harry has over 40 years' experience of investment markets, primarily as an institutional stockbroker specialising in the Asia Pacific region, based in London and Hong Kong, latterly as a Managing Director of Salomon Smith Barney. He is also Chairman of the Martin Currie Asia Unconstrained Investment Trust PLC and The Establishment Investment Trust PLC. Harry holds an MA degree in Land Economy from Cambridge University and is a Fellow of the Chartered Institute for Securities and Investment and a Member of the Royal Institution of Chartered Surveyors.

**Kate Cornish-Bowden** *(non-executive Director)*

Kate worked for Morgan Stanley Investment Management for 12 years, where she was a Managing Director and head of Morgan Stanley Investment Management's Global Core Equity business. Prior to joining Morgan Stanley, Kate worked for M&G Investment Management where she spent two years as a research analyst. Kate is a non-executive Director of Schroder Oriental Income Fund Limited, a non-executive Director of Finsbury Growth & Income Trust plc and a non-executive Director and Chairman of the Audit Committee of Calculus VCT plc. Kate has passed her IIMR exams and is an Associate of the Institute (now CFA), holds a Masters in Business Administration (MBA), and has completed the Financial Times Non-Executive Director Diploma. She is also a Mentor for The Prince's Trust.

**John Scott** *(non-executive Director and Chairman of the Audit and Risk Committee)*

John has considerable experience of both Asian markets and of the investment trust sector. He is also Chairman of the specialist trusts, Impax Environmental Markets and Jupiter Emerging and Frontiers Income Trust, and Chairman of the Lloyd's Members' agent, Alpha Insurance Analysts.

His other Directorships include a Guernsey registered business, Bluefield Solar Income Fund Ltd. John started his career in Hong Kong with Jardine Matheson in 1974 and joined investment bank, Lazard Brothers in London in 1981, where he spent 20 years, including three years in Tokyo.

John is a Fellow of the Chartered Insurance Institute. He has a degree in Economics from Cambridge University and an MBA from INSEAD, France.

**Mark Smith** *(non-executive Director)*

Mark is an Investment Manager at Waverton Investment Management (formerly known as J O Hambro Investment Management) which he joined in 2002. He manages portfolios for both UK and international clients, is a Japanese equity specialist and a member of the Stock Selection Committee. Prior to joining Waverton, Mark spent a number of years in institutional fund management specialising in Japanese equities, firstly at Provident Mutual but mainly at Foreign & Colonial where he worked for five years, ultimately managing large Japanese equity funds. Mark graduated from Exeter University in 1994 with a degree in Spanish, has passed his IIMR exams and is an Associate of the Institute (now CFA).

**Peter Wolton** *(Senior Independent Director)*

Peter has wide experience of Japan and the investment trust sector. He was resident in Tokyo from 1994 to 1998 where he was responsible for Schroders' asset management activities and, from 1996, Schroders' Country Head. He is a former Director of Dunedin Income Growth Investment Trust plc, TR Property Investment Trust plc and Schroder Japan Growth Fund plc.

He commenced his career with Savills, qualifying as a Chartered Surveyor in 1980. From 1983 until 2001 he worked for Schroders, specialising in the management of UK equity portfolios for pension funds and charities until 1993 when he was transferred to Japan. From 1998 to 2001 he headed Schroders' global retail businesses and from 2002 to 2003 was Chief Investment Officer of the Investment Management Group of Baring Asset Management.

Peter has degrees in Land Economy from Cambridge University and Contextual Theology from Middlesex University.

The Board will comply with the Financial Reporting Council's new code of Corporate Governance which comes into force for financial years commencing from 1 January 2019.

In accordance with the Company's Articles of Association, at every Annual General Meeting, any Director who has been a Director at each of the two preceding Annual General Meetings and who was not appointed or re-elected by the Company in General Meeting at, or since, either such Annual General Meeting shall retire by rotation and be eligible for re-election. However, in line with best practice, all the Directors have agreed to retire and stand for re-election on a voluntary basis and Ms Cornish-Bowden, having been appointed as a Director by the Board, shall retire and stand for election by shareholders at the Annual General Meeting.

The Directors are subject to re-election by shareholders at a maximum interval of three years. Copies of the Directors' appointment letters are available on request from the Company Secretary. Upon joining the Board, any new Directors receive an induction and relevant training is available to Directors on an ongoing basis.

A procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

A policy of insurance against Directors' and officers' liabilities is maintained by the Company.

## Board committees

The Company has established an Audit and Risk Committee which is chaired by John Scott and consists of all the Directors. A report of the Audit and Risk Committee is included in this Annual Report.

The Company has established a Management Engagement Committee which is chaired by the Chairman of the Company, Harry Wells, and consists of all the Directors. The Management Engagement Committee meets at least once a year or more often if required. Its principal duties are to consider the terms of appointment of the Investment Manager and it annually reviews that appointment and the terms of the Management Agreement. The Management Engagement Committee also reviews the continued appointment and performance of the Company's other service providers.

The Company has also established a Nomination Committee which is chaired by the Chairman of the Company, Harry Wells. The Nomination Committee is responsible for identifying and proposing candidates for the office of Director of the Company. The Nomination Committee also considers and reviews the fees payable to the non-executive Directors and make recommendations regarding such fees to the Board. During the year ended 31 October 2018, the Nomination Committee conducted a new director search and recommended the appointment of Kate Cornish-Bowden to the Board of Directors. The Board have an extensive contact network and as such interviews were held by the Directors, with no fees paid to third parties in respect of the new director search.

## Meeting attendance

The actual number of formal meetings of the Board and Committees during the year under review is given below, together with individual Director's attendance at those meetings. The first number in the table is the meetings attended by the individual Director and the second number is the number of meetings that Director was eligible to attend.

| | Quarterly Board | Audit and Risk Committee | Management Engagement Committee | Nomination Committee |
|---|---|---|---|---|
| Number of meetings held | 4 | 3 | 2 | 2 |
| Harry Wells | 4/4 | 3/3 | 2/2 | 2/2 |
| Mark Smith | 4/4 | 3/3 | 2/2 | 2/2 |
| John Scott | 4/4 | 3/3 | 2/2 | 2/2 |
| Peter Wolton | 4/4 | 3/3 | 2/2 | 2/2 |
| Kate Cornish-Bowden* | 1/1 | 1/1 | 1/1 | 1/1 |

* Ms Cornish-Bowden was appointed as a Director on 3 September 2018.

There were also a number of other Board and committee meetings to deal with administrative matters and approval of documentation.

## Board diversity

The Company's policy is that the Board should have a broad range of skills. Consideration is given to the recommendations of the AIC Code and other guidance on boardroom diversity.

## Performance appraisal

A formal annual performance appraisal process is performed on the Board, the committees, the individual Directors and the Company's main service providers.

A programme consisting of open and closed ended questions was used as the basis for the appraisal. The results were reviewed by the Chairman and discussed with the Board. A separate appraisal of the Chairman has been carried out by the other members of the Board and the results reported back by the Senior Independent Director to the Chairman. The results of the performance evaluation were positive and demonstrated that the Directors showed the necessary commitment and have the requisite experience for the fulfilment of their duties.

## Internal control

Prior to the Company's listing a detailed review was carried out on the financial position, prospects and procedures applicable to the Company.

The AIC Code requires the Board to review the effectiveness of the Company's system of internal controls. The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of the aspects covered by the guidance and has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as being matters of particular importance upon which it requires reports. The Board believes that the existing arrangements, set out below, represent an appropriate framework to meet the internal control requirements. By these procedures the Directors have kept under review the effectiveness of the internal control system throughout the year and up to the date of this report. The system in place accords with The FRC's 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

## Financial aspects of internal control

The Directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but it is fully informed of the internal control framework established by the Investment Manager, the Administrator and the Company's custodian to provide reasonable assurance on the effectiveness of internal financial controls.

The key procedures include review of management accounts and Net Asset Value and monitoring of performance at quarterly Board meetings, supervision by Directors of the valuation of securities, segregation of the administrative function from that of securities and cash custody and from investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures. In addition, procedures have been put in place for authorisation of all expense payments.

The Statement of Directors' Responsibilities in respect of the accounts is on page 25 and a Statement of Going Concern is on page 16. The Report of the Independent Auditor is on pages 26 to 30.

## Other aspects of internal control

The Board holds quarterly meetings, plus additional meetings as required. Between these meetings there is regular contact with the Investment Manager, the Company Secretary and the Administrator.

The Board has agreed policies with the Investment Manager on key operational issues. The Investment Manager reports in writing to the Board on operational and compliance issues. The Investment Manager reports directly to the Audit Committee concerning the internal controls applicable to the Investment Manager's dealing, investment and general office procedures.

The Directors review detailed management accounts from the Administrator, including holdings in the portfolio, transactions and other aspects of the financial position of the Company. The Depositary provides oversight reports for the quarterly Board meetings. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

This contact with the Investment Manager and the other key service providers enables the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved. The effectiveness of the Company's risk management and internal controls systems is monitored and a formal review, utilising a detailed risk assessment programme has been completed. This included consideration of the Administrator's, the Depositary and the Registrar's internal controls report. There are no significant findings to report from the review.

## Principal risks

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and how they are being managed is set out in the Strategic Report.

## Shareholder relations

The Company encourages all shareholders to attend the Annual General Meeting and seeks to provide a minimum of twenty working days' notice of that meeting. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue. The Investment Manager has a programme of meetings with shareholders and reports back to the Board on its findings. The Chairman and the Board welcome direct feedback from shareholders.

## Exercise of voting powers and stewardship code

The Company and the Investment Manager support the UK Stewardship Code issued by the Financial Reporting Council. The Investment Manager has published its proxy voting policy and statement of compliance with the principles of best practice of the Stewardship Code on its website.

## Social and environmental policy

The Company has no staff, premises, manufacturing or other operations. The Investment Manager incorporates ESG issues into its investment analysis and decision-making processes.

# DIRECTORS' REMUNERATION IMPLEMENTATION REPORT

This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An ordinary resolution for the approval of this report will be put forward at the forthcoming Annual General Meeting.

The Directors' Remuneration Implementation Report is put forward for approval by shareholders on an annual basis. The result of the shareholder resolution on the Implementation Report is non-binding on the Company, although it gives shareholders an opportunity to express their views, which will be taken into account by the Board and the Remuneration Committee. An ordinary resolution to approve this Directors' Remuneration Implementation Report will be put forward for approval at the Company's Annual General Meeting to be held on 12 March 2019.

The law requires the Company's auditor to audit certain of the disclosures provided. Where disclosures are audited they are indicated as such. The auditor's opinion is on page 26.

### Remuneration

The Company currently has five non-executive Directors.

As detailed in the Company's prospectus dated 13 November 2015, Directors' fees are payable at the rate of £24,000 per annum for each Director other than the Chairman, who is entitled to receive £36,000. The Chairman of the Audit Committee is also entitled to additional fees of £5,000 per annum and the Senior Independent Director is entitled to an additional fee of £1,000.

Following the year end, a review has been performed and the Nomination Committee has recommended, and the Board has approved, that, with effect from 1 November 2018, annual Directors' fees will be increased to £36,750 for the Chairman of the Company, £25,500 for the Senior Independent Director, £29,500 for the Chairman of the Audit and Risk Committee and £24,500 per annum for the other Directors.

The Board believes that these fees appropriately reflect prevailing market rates for an investment trust of the Company's size.

The Nomination Committee, which consists of all the Directors, reviews the fees payable to the Directors on an annual basis.

### Directors' service contracts

The Directors do not have service contracts with the Company. The Directors are not entitled to compensation on loss of office. The Directors have appointment letters which do not provide for any specific term. However, they are subject to re-election by shareholders at a maximum interval of three years. There are no restrictions on transfers of the Company's shares held by the Directors or any special rights attached to such shares.

### Directors' indemnities

Subject to the provisions of the Companies Act 2006, the Company may indemnify any person who is a Director, secretary or other officer (other than an auditor) of the Company, against (a) any liability whether in connection with any negligence, default, breach of duty or breach of trust by him in relation to the Company or any associated company or (b) any other liability incurred by or attaching to him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office; and purchase and maintain insurance for any person who is a Director, secretary, or other officer (other than an auditor) of the Company in relation to anything done or omitted to be done or alleged to have been done or omitted to be done as Director, secretary or officer.

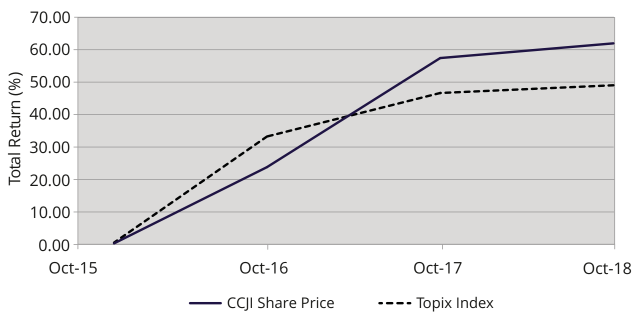
A policy of insurance against Directors' and officers' liabilities is maintained by the Company.

### Director search and selection fees

No Director search and selection fees were incurred during the year.

### Performance

The following chart shows the performance of the Company's share price by comparison to the Topix Index, on a total return basis. The Board deems the Topix Total Return Index to be the most appropriate comparator for this report.



# DIRECTORS' REMUNERATION IMPLEMENTATION REPORT
continued

## Directors' emoluments for the year ended 31 October 2018 (audited)

The Directors who served during the year ended 31 October 2018 received the following remuneration for qualifying services.

### Fees and taxable benefits

| | Fees 2018 £'000 | Taxable benefits 2018 £'000 | Fees 2017 £'000 | Taxable benefits 2017 £'000 |
|---|---|---|---|---|
| Harry Wells | 36.0 | – | 33.0 | – |
| Mark Smith | 24.0 | – | 22.0 | – |
| John Scott | 29.0 | – | 26.6 | – |
| Kate Cornish-Bowden* | 3.9 | – | – | – |
| Peter Wolton | 25.0 | – | 22.9 | – |
| | **117.9** | **–** | **104.5** | **–** |

* Ms Cornish-Bowden was appointed as a Director on 3 September 2018.

The Directors' agreed to waive 20% of the above fees while the Company's net assets were below £100m. Since 1 April 2017, the fees have been paid at the full rate detailed in the prospectus.

In addition to the above, the Company paid £2,481 (2017: £974) in expenses to the Directors. None of the above fees were paid to third parties.

A non-binding ordinary resolution to approve the Directors' Remuneration Implementation Report contained in the Annual Report for the period ended 31 October 2017 was put forward at the Annual General Meeting held on 13 March 2018. The resolution was passed with proxies representing 99.9% of the shares voted being in favour of the resolution.

The Directors' Remuneration Policy was last put forward at the Annual General Meeting held on 22 March 2017. The resolution was passed with proxies representing 100% of the shares voted being in favour of the resolution. The Directors' Remuneration Policy will next be put forward for approval at the Annual General Meeting to be held in March 2020.

## Relative importance of spend on pay

The following table sets out the total level of Directors' remuneration compared to management fees and other expenses incurred by the Company and the distributions to shareholders by way of dividends.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Directors' fees | 118 | 105 |
| Management fees and other expenses | 1,308 | 809 |
| Dividends paid and payable to shareholders | 4,766 | 3,031 |

The information in the table above is required by the regulations with the exception of management fees and other expenses which have been included to show the total operating expenses of the Company.

## Directors' holdings (Audited)

The interests of the Directors in the Ordinary Shares of the Company as at 31 October 2018 and at the date of this report were as follows. All holdings are beneficially owned.

| | Ordinary Shares as at 31 October 2018 | Ordinary Shares as at the date of this report |
|---|---|---|
| Harry Wells | 40,000 | 40,000 |
| Mark Smith | 10,000 | 10,000 |
| John Scott | 52,500 | 52,500 |
| Peter Wolton | 60,000 | 60,000 |
| Kate Cornish-Bowden | 20,000 | 20,000 |

## Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Report on Remuneration Policy and Remuneration Implementation summarises, as applicable, for the year to 31 October 2018:

(a) the major decisions on Directors' remuneration;

(b) any substantial changes relating to Directors' remuneration made during the year; and

(c) the context in which the changes occurred and decisions have been taken.

**Harry Wells**
*Chairman*
21 January 2019

# REPORT OF THE AUDIT AND RISK COMMITTEE

## Role of the Audit and Risk Committee

The AIC Code of Corporate Governance (the "Code") recommends that boards should establish audit committees consisting of at least three, or in the case of smaller companies, two independent non-executive directors. The Board is required to satisfy itself that at least one member of the audit and risk committee has recent and relevant financial experience. The main role and responsibilities of the audit and risk committee should be set out in written terms of reference covering certain matters described in the Code. The Company complies with the Code.

The Audit and Risk Committee meets formally at least twice a year for the purpose, amongst other things, of considering the appointment, independence and objectivity, and remuneration of the auditor and to review the annual accounts and half-yearly financial report. The Audit and Risk Committee also reviews the Company's internal financial controls and its internal control and risk management systems. Where non-audit services are provided by the auditor, full consideration of the financial and other implications on the independence of the auditor arising from any such engagement are considered before proceeding.

During the year ended 31 October 2018 the Directors renamed the Audit Committee the Audit and Risk Committee. The renaming is to better reflect the Audit Committee's role and responsibility in governance of risk management matters, which includes supporting the Board in fulfilling its oversight responsibilities and reviewing the adequacy and effectiveness of the Company's risk management and internal control procedures.

## Composition

All of the Directors of the Company are currently members of the Audit and Risk Committee and I have served as chairman of the Committee since inception.

The Audit and Risk Committee has formal written terms of reference and copies of these are available on the Company's website or on request from the Company Secretary. The Audit and Risk Committee as a whole has recent and relevant financial experience. The Audit and Risk Committee has considered the need for an internal audit function and considers that this is not appropriate given the nature and circumstances of the Company. The Audit and Risk Committee keeps the needs for an internal function under periodic review. The chairman of the Company is a member of the Audit and Risk Committee. The Board and the Audit and Risk Committee believe that this is appropriate as he has recent and relevant financial experience and he is independent.

## Meetings

There have been three Audit and Risk Committee meetings in the year ended 31 October 2018. Meeting attendance is shown on page 19 of this Annual Report.

## Financial statements and significant accounting matters

The Audit and Risk Committee considered the following significant accounting issues in relation to the Company's Financial Statements for the year ended 31 October 2018.

## Valuation and existence of investments

The Company holds the majority of its assets in quoted investments. The valuation and existence of these investments is the most material matter in the production of the financial statements. Investments are valued using independent pricing sources and the holding quantities at the year end were agreed to the Depositary's records. The Audit and Risk Committee reviewed the Administrator's procedures in place for ensuring accurate valuation and existence of investments. The Audit and Risk Committee also receives and reviews any significant pricing or custody reconciliation exceptions and reporting from the depositary.

## Recognition of income

Income may not be accrued in the correct period and/or incorrectly allocated to revenue or capital. The Audit and Risk Committee reviewed the Administrator's procedures for recognition of income and reviewed the treatment of any special dividends receivable in the year. The Audit and Risk Committee also reviewed the Administrator's forecast of revenue against actual revenue received.

## Calculation of management fees

Incorrect amounts may be paid to the Investment Manager and recognised in the accounts if the fees are not calculated correctly. The Audit and Risk Committee reviewed the Administrator's procedures in place for the calculation of management fees and a member of the Audit and Risk Committee approves management fee invoices prior to payment.

## Conclusion with respect to the Annual Report and financial statements

The Audit and Risk Committee has concluded that the Annual Report for the year ended 31 October 2018, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's business model, strategy and performance. The Audit and Risk Committee has reported its conclusions to the Board of Directors. The Audit and Risk Committee reached this conclusion through a process of review of the document and enquiries to the various parties involved in the production of the annual report.

### Audit tenure

Ernst & Young LLP was selected as the Company's auditor at the time of the Company's launch following a competitive process and review of the Auditor's credentials. The auditors have provided this service for 3 years, with Matthew Price as Audit Partner. The appointment of the external auditor is reviewed annually by the Audit and Risk Committee and the Board and is subject to approval by shareholders. In accordance with the FRC guidance, the audit will be put out to tender within ten years of the initial appointment of Ernst & Young LLP in December 2015.

### Effectiveness of external audit

The Audit and Risk Committee is responsible for reviewing the effectiveness of the external audit process. The Audit and Risk Committee received a presentation of the audit plan from the external auditor prior to the commencement of the audit and a presentation of the results of the audit following completion of the main audit testing. The Audit and Risk Committee performed a review of the external auditor following the presentation of the results of the audit. The review included a discussion of the audit process and the ability of the external auditor to fulfil its role. Following the above review, the Audit and Risk Committee has agreed that the re-appointment of the Auditors should be recommended to the Board and the shareholders of the Company.

### Provision of non-audit services

The Audit and Risk Committee has put in place a policy on the supply of any non-audit services provided by the external auditor. Such services are considered on a case-by-case basis and may only be provided to the Company if the provision of such services is at a reasonable and competitive cost and does not constitute a conflict of interest or potential conflict of interest which would prevent the auditor from remaining objective and independent.

Ernst & Young LLP provided non-audit services to the Company in connection with the prospectus issued on 9 January 2018 and supplementary prospectus issued on 19 January 2018 on the basis that these services are permissible under independence regulations and are non-recurring. These services were approved by the Audit and Risk Committee. The auditor received fees of £30,000 in respect of these non-audit services.

**John Scott**

*Audit and Risk Committee Chairman*

21 January 2019

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare accounts for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting Standard applicable to the UK and Republic of Ireland and applicable law. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of the year and of the net return for the year. In preparing these accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates, which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The accounts are published on the Company's website at www.ccjapanincomeandgrowthtrust.com which is maintained by the Company's Investment Manager. The work carried out by the auditors does not involve consideration of the maintenance and integrity of these websites and, accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since being initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' confirmation statement

The Directors each confirm to the best of their knowledge that:

(a) the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

(b) this Annual Report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

Having taken advice from the Audit and Risk Committee, the Directors consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

For and on behalf of the Board

**Harry Wells**
*Director*
21 January 2019

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CC JAPAN INCOME & GROWTH TRUST PLC

## Opinion

We have audited the financial statements of CC Japan Income & Growth Trust Plc for the year ended 31 October 2018 which comprise the Income Statement, the Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, 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 October 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## 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 below. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 8 and 9 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 25 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 16 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 9 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Overview of our audit approach

| | |
|---|---|
| Key audit matters | • Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or apply appropriate accounting treatment.<br>• Incorrect valuation and existence of the investment portfolio. |
| Materiality | • Overall materiality of £1.90m (2017: £1.30m) which represents 1% of Net Asset Value (NAV). |

## Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 |
|---|---|---|
| **Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income**<br><br>*Refer to the Audit Committee Report (page 23); the accounting policies (page 36) and the notes to the financial statements (note 4).*<br><br>If the Company is not entitled to receive the dividend income recognised in the financial statements or the income recognised does not relate to the current financial period, this could impact the perception of profits available to fund dividend distributions to shareholders.<br><br>The investment income receivable for the period to 31 October 2018 was £6.69m (2017: £4.36m) (as disclosed in Note 4 to the financial statements). | • Reviewed the process in place at the Manager, and at Praxis IFM Fund Services (UK) Limited (the "Administrator") in relation to the revenue recognition.<br>• Agreed a sample of dividends received from the underlying financial records to an independent pricing source and agreed to bank statements as supporting documentation.<br>• For this sample, we agreed the exchange rates used to convert the dividend income received in yen to sterling.<br>• Performed a review of any material special dividends received during the period and assessed the appropriateness of the accounting treatment adopted.<br>• To test for completeness, we checked a sample of dividends announced to an independent source to confirm that there were recorded in the correct accounting period.<br>• Performed tests of journal entries, focusing on investment revenue journals during the year and year-end manual journals. | • No issues were identified in our testing of dividend income.<br>• There were no material special dividends received during the year.<br>• We have no additional matters to report to the Audit Committee. |
| **Incorrect valuation of the investment portfolio, including incorrect application of exchange rate movements or failure to assess stock liquidity**<br><br>*Refer to the Audit Committee Report (page 23); the accounting policies (page 35) and the notes to the financial statements (note 3).*<br><br>The valuation of the portfolio at 31 October was £189,419,000 (2017: £129,211,000) consisting of listed equities and Contract for Differences ("CFDs").<br><br>The valuation of the assets held in the investment portfolio (including the CFDs) is the key driver of the Company's net asset value and investment return. Incorrect asset pricing or a failure to maintain proper legal title of assets by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders. | • Reviewed the process in place at the Manager and the Administrator in relation to recording of security pricing and units held.<br>• Agreed all of the listed investment (including CFDs) holding prices at the year end to a relevant independent source.<br>• Agreed all of the exchange rates used to convert the investment in yen to sterling using an independent source.<br>• Agreed the number of shares held for each security to confirmations of legal title received from the Custodian, Northern Trust Global Services Limited and Stockbrokers, Morgan Stanley & Co International plc and Macquarie Bank Limited. | • No differences in security pricing above our tolerance threshold were identified.<br>• No differences in agreeing the custody confirmation to the investment portfolio were identified.<br>• We have no additional matters to report to the Audit Committee. |

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CC JAPAN INCOME & GROWTH TRUST PLC continued

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of the 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, including controls 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.

## 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 £1.90m (2017: £1.30m), which is 1% (2017: 1%) of NAV. We derived our materiality calculation from a proportion of NAV as we consider that to be the most important financial metric on which shareholders judge the performance of the Company.

### 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% (2017: 50%) of our planning materiality, namely £1.40m (2017: £0.65m). In the prior year we set the performance materiality at a lower threshold level due to the change in the administrator during the prior period.

Given the importance of the distinction between revenue and capital for the Company, we also applied a separate performance materiality for the revenue column of the Income Statement of £289,000 (2017: £189,000).

### 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 £95,500 (2017: £65,000), 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 50 to 63, including the Strategic Report set out on pages 2 to 12 and the Governance section set out on pages 13 to 30, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 23 –** the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit Committee reporting set out on page 23 –** the section describing the work of the audit committee does not appropriately address matters communicated by us to the Audit Committee; or

- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 23 –** the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## 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' reports 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.

## Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities statement set out on page 25, 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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CC JAPAN INCOME & GROWTH TRUST PLC continued

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and section 1158 of the Corporation Tax Act 2010.

- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of 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 incomplete or inaccurate revenue recognition relating to the allocation of special dividends or inappropriate journal entries. 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 of the Audit Committee, we were appointed as Auditors by the Audit Committee and signed an engagement letter on 12 May 2016 which was subsequently revised on 5 November 2018. We were appointed by the Company at the launch on 15 December 2015 and have held offices since.

- 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.

- 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.

**Matthew Price (Senior statutory auditor)**

for and on behalf of Ernst & Young LLP,
Statutory Auditor, London
21 January 2019

Notes:

1. The maintenance and integrity of the CC Japan Income & Growth Trust Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# INCOME STATEMENT

## FOR THE YEAR ENDED 31 OCTOBER 2018

| | | Year ended 31 October 2018 | | | Year ended 31 October 2017 | | |
|---|---|---|---|---|---|---|---|
| | Note | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| (Losses)/gains on investments held at fair value | 3 | – | (1,769)* | (1,769) | – | 18,540 | 18,540 |
| Income | 4 | 6,693 | – | 6,693 | 4,361 | – | 4,361 |
| Investment management fee | 5 | (262) | (1,046) | (1,308) | (162) | (647) | (809) |
| Other expenses | 6 | (597) | – | (597) | (417) | – | (417) |
| **Return on ordinary activities before finance costs and taxation** | | **5,834** | **(2,815)** | **3,019** | **3,782** | **17,893** | **21,675** |
| Finance costs | 7 | (48) | (138) | (186) | (47) | (84) | (131) |
| **Return on ordinary activities before taxation** | | **5,786** | **(2,953)** | **2,833** | **3,735** | **17,809** | **21,544** |
| Taxation | 8 | (669) | – | (669) | (371) | – | (371) |
| **Return on ordinary activities after taxation** | | **5,117** | **(2,953)** | **2,164** | **3,364** | **17,809** | **21,173** |
| Return per Ordinary Share | 14 | 4.55p | (2.62)p | 1.93p | 4.06p | 21.47p | 25.53p |

* This figure includes currency gains of £28,000.

The total column of the Income Statement is the profit and loss account of the Company. All revenue and capital items in the above statement derive from continuing operations.

Both the supplementary revenue and capital columns are both prepared under guidance from the Association of Investment Companies. There is no other comprehensive income and therefore the return for the year is also the total comprehensive income for the year.

The notes on pages 35 to 49 form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

## AT 31 OCTOBER 2018

| | Note | 31 October 2018 £'000 | 31 October 2017 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments at fair value through profit or loss | 3 | 189,419 | 129,211 |
| **Current assets** | | | |
| Cash | | 1,633 | – |
| Cash collateral paid in respect of contracts for difference ("CFDs") | | 689 | 71 |
| Amounts due in respect of CFDs | 10 | 1,001 | 4,931 |
| Other debtors | 10 | 2,811 | 1,427 |
| | | **6,134** | **6,429** |
| **Creditors: amounts falling due within one year** | | | |
| Bank overdraft | | – | (863) |
| Amounts payable in respect of CFDs | 11 | (4,413) | (662) |
| Other creditors | 11 | (225) | (3,970) |
| | | **(4,638)** | **(5,495)** |
| **Net current assets** | | **1,496** | **934** |
| **Net assets** | | **190,915** | **130,145** |
| **Capital and reserves** | | | |
| Share capital | 12 | 1,285 | 892 |
| Share premium | | 89,911 | 28,111 |
| Special reserve | | 64,671 | 64,671 |
| Capital reserve: | | | |
| – Revaluation gains on investment held at year end | 3 | 15,157 | 23,187 |
| – Other capital reserve | | 15,775 | 10,698 |
| Revenue reserve | | 4,116 | 2,586 |
| **Total shareholders' funds** | | **190,915** | **130,145** |
| **NAV per share – Ordinary Shares (pence)** | 15 | **148.63p** | **145.95p** |

Approved by the Board of Directors and authorised for issue on 21 January 2019 and signed on its behalf by:

**Harry Wells**
Director

CC Japan Income & Growth Trust plc is incorporated in England and Wales with registered number 9845783.

The notes on pages 35 to 49 form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 OCTOBER 2018

| | Note | Share capital £'000 | Share premium £'000 | Special reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 November 2017** | | **892** | **28,111** | **64,671** | **33,885** | **2,586** | **130,145** |
| Return on ordinary activities after taxation | | – | – | – | (2,953) | 5,117 | 2,164 |
| Dividends paid | 9 | – | – | – | – | (3,587) | (3,587) |
| Issue of Ordinary Shares | 12 | 393 | 62,980 | – | – | – | 63,373 |
| Ordinary share issue costs | | – | (1,180) | – | – | – | (1,180) |
| **Balance at 31 October 2018** | | **1,285** | **89,911** | **64,671** | **30,932** | **4,116** | **190,915** |

### For the year ended 31 October 2017

| | Note | Share capital £'000 | Share premium £'000 | Special reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 November 2016** | | **792** | **14,761** | **64,671** | **16,076** | **1,785** | **98,085** |
| Return on ordinary activities after taxation | | – | – | – | 17,809 | 3,364 | 21,173 |
| Dividends paid | 9 | – | – | – | – | (2,563) | (2,563) |
| Issue of Ordinary Shares | 12 | 100 | 13,507 | – | – | – | 13,607 |
| Ordinary share issue costs | | – | (157) | – | – | – | (157) |
| **Balance at 31 October 2017** | | **892** | **28,111** | **64,671** | **33,885** | **2,586** | **130,145** |

The notes on pages 35 to 49 form part of these financial statements.

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 OCTOBER 2018

| | Year ended 31 October 2018 £'000 | Year ended 31 October 2017 £'000 |
|---|---|---|
| **Operating activities cash flows** | | |
| Return on ordinary activities before finance costs and taxation* | 3,019 | 21,675 |
| Adjustment for: | | |
| Gains on investments | (123) | (12,926) |
| CFD transactions | 7,060 | (4,150) |
| Increase in other debtors | (973) | (634) |
| Increase/(decrease) in other creditors | 69 | (8) |
| Tax withheld on overseas income | (669) | (371) |
| **Net cash flow from operating activities** | **8,383** | **3,586** |
| **Investing activities cash flow** | | |
| Purchases of investments | (91,089) | (49,350) |
| Proceeds from sales of investments | 26,784 | 33,282 |
| **Net cash flow used in non-derivative investing activities** | **(64,305)** | **(16,068)** |
| **Financing activities cash flows** | | |
| Issue of Ordinary Share capital | 63,373 | 13,607 |
| Payment of Ordinary Share issue costs | (1,180) | (178) |
| Equity dividends paid | (3,587) | (2,563) |
| Finance costs paid | (188) | (120) |
| **Net cash flow from financing activities** | **58,418** | **10,746** |
| **Increase/(decrease) in cash and cash equivalents** | **2,496** | **(1,736)** |
| Cash and cash equivalents at the beginning of the year | (863) | 873 |
| **Cash and cash equivalents at the end of the year** | **1,633** | **(863)** |

* Cash inflow from dividends was £5,719,000 (2017: £3,728,000).

The notes on pages 35 to 49 form part of these financial statements.

# NOTES TO THE ACCOUNTS

## 1. GENERAL INFORMATION

CC Japan Income & Growth Trust plc (the "Company") was incorporated in England and Wales on 28 October 2015 with registered number 9845783, as a closed-ended investment company. The Company commenced its operations on 15 December 2015. The Company intends to carry on business as an investment trust within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010.

The Company's investment objective is to provide shareholders with dividend income combined with capital growth, mainly through investment in equities listed or quoted in Japan.

The Company's shares were admitted to the Official List of the UK Listing Authority with a premium listing on 15 December 2015. On the same day, trading of the Ordinary Shares commenced on the London Stock Exchange.

The Company's registered office is Mermaid House, 2 Puddle Dock, London, EC4V 3DB.

## 2. ACCOUNTING POLICIES

The principal accounting policies followed by the Company are set out below:

### (a) Basis of accounting

The financial statements have been prepared in accordance with FRS 102 ("the Financial Reporting Standard applicable in the UK and Republic of Ireland" issued by the Financial Reporting Council) and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (issued in November 2014 and updated in February 2018). The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The financial statements have been prepared on a going concern basis.

The financial statements have been presented in GBP sterling (£), which is also the functional currency since the Company predominantly operates in the UK.

### (b) Investments

As the Company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as held at fair value through profit or loss in accordance with FRS 102 Section 11: "Basic Financial Instruments", and Section 12: "Other Financial Instruments". The Company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided on this basis to the Board of Directors.

Upon initial recognition investments are designated by the Company "at fair value through profit or loss". They are accounted for on the date they are traded and are included initially at fair value which is taken to be their cost. Subsequently investments are valued at fair value which is the bid market price for listed investments.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are included in the capital column of the income statement within "gains on investments held at fair value".

### (c) Derivatives

Derivatives which comprise of CFDs are held at fair value by reference to the underlying market value of the corresponding security. Gains or losses on these derivative transactions are recognised in the Income Statement. They are recognised as capital and are shown in the capital column of the Income Statement if they are of a capital nature, and are recognised as revenue and shown in the revenue column of the Income Statement if they are of a revenue nature. To the extent that any gains or losses are of a mixed revenue and capital nature, they are apportioned between revenue and capital accordingly.

### (d) Foreign currency

Transactions denominated in foreign currencies including dividends are translated into sterling at actual exchange rates as at the date of the transaction. Assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Foreign exchange movements on investments and derivatives are included in the Income Statement within gains on investments. Any other gain or loss is included as an exchange gain or loss to capital or revenue in the Income Statement as appropriate.

## 2. ACCOUNTING POLICIES continued

### (e) Income

Investment income has been accounted for on an ex-dividend basis or when the Company's right to the income is established. Special dividends are credited to capital or revenue in the Income Statement, according to the circumstances surrounding the payment of the dividend. Overseas dividends are included gross of withholding tax recoverable.

Interest receivable on deposits is accounted for on an accruals basis.

### (f) Dividend payable

Interim dividends are recognised when the Company pays the dividend. Final dividends are recognised in the period in which they are declared by the Directors and approved by the shareholders.

### (g) Expenses

All expenses are accounted for on an accruals basis and are charged as follows:

- the basic investment management fee is charged 20% to revenue and 80% to capital;
- CFD finance costs are charged 20% to revenue and 80% to capital;
- investment transactions costs are allocated to capital; and
- other expenses are charged wholly to revenue.

### (h) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that were applicable at the financial reporting date.

Where expenses are allocated between capital and revenue any tax relief in respect of the expenses is allocated between capital and revenue returns on the marginal basis using the Company's effective rate of corporation taxation for the accounting period.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the financial reporting date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the financial reporting date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the timing differences can be deducted. Deferred tax assets and liabilities are measured at the rates applicable to the legal jurisdictions in which they arise.

### (i) Other receivables and other payables

Other receivables and other payables do not carry any interest and are short term in nature and are accordingly stated at their nominal value.

### (j) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business being that of an Investment Trust as explained in note 1.

### (k) Estimates and assumptions

The preparation of financial statements requires the Directors to make estimates and assumptions that affect items reported in the Statement of financial position and Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, the Company's actual results may ultimately differ from those estimates, possibly significantly.

There have not been any instances requiring any significant estimates or judgements in the year.

### (l) Cash and cash equivalents

Cash comprises cash and demand deposits. Cash equivalents, include bank overdrafts, and short term, highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risks of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

## 3. INVESTMENTS

### (a) Summary of valuation

| | As at 31 October 2018 £'000 | As at 31 October 2017 £'000 |
|---|---|---|
| Investments listed on a recognised overseas investment exchange | 189,419 | 129,211 |
| | **189,419** | **129,211** |

### (b) Movements

In the year ended 31 October 2018

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Book cost at the beginning of the year | 106,024 | 80,069 |
| Revaluation gains on investments held at beginning of the year | 23,187 | 16,569 |
| Valuation at beginning of the year | **129,211** | **96,638** |
| Purchases at cost | 87,277 | 53,061 |
| Sales: | | |
| – proceeds | (27,192) | (33,282) |
| – gains on investment holdings sold during the year | 8,153 | 6,176 |
| Movements in revaluation (losses)/gains on investments at end of the year | (8,030) | 6,618 |
| **Valuation at end of the year** | **189,419** | **129,211** |
| | | |
| Book cost at end of the year | 174,262 | 106,024 |
| Revaluation gains on investment held at end of the year | 15,157 | 23,187 |
| **Valuation at end of the year** | **189,419** | **129,211** |

Transaction costs on investment purchases for the year ended 31 October 2018 amounted to £62,000 (2017: £54,000) and on investment sales for the year amounted to £17,000 (2017: £36,000).

## 3. INVESTMENTS continued

### (c) Gains on investments

| | Year ended 31 October 2018 £'000 | Year ended 31 October 2017 £'000 |
|---|---|---|
| Gains on non derivative investment holdings sold during the year | 8,153 | 6,176 |
| Movements in revaluation (losses)/gains on non derivative investment holdings held at the year end | (8,030) | 6,618 |
| Other capital gains | 10 | 132 |
| **Total gains on non derivative investments held at fair value** | **133** | **12,926** |
| Realised gains on CFD assets and liabilities | 1,510 | 668 |
| Unrealised CFD gain in prior year | 4,269 | 970 |
| Movements on CFD assets | (7,681) | 3,976 |
| **Total (losses)/gains on investments held at fair value** | **(1,769)** | **18,540** |

## 4. INCOME

| | Year ended 31 October 2018 £'000 | Year ended 31 October 2017 £'000 |
|---|---|---|
| Income from investments: | | |
| Overseas dividends | 6,693 | 4,361 |
| | **6,693** | **4,361** |

Overseas dividend income is translated into sterling on receipt.

## 5. INVESTMENT MANAGEMENT FEE

| | Year ended 31 October 2018 £'000 | Year ended 31 October 2017 £'000 |
|---|---|---|
| **Basic fee:** | | |
| 20% charged to revenue | 262 | 162 |
| 80% charged to capital | 1,046 | 647 |
| | **1,308** | **809** |

The Company's Investment Manager is Coupland Cardiff Asset Management LLP. The Investment Manager is entitled to receive a management fee payable monthly in arrears and is at the rate of one-twelfth of 0.75% of Net Asset Value per calendar month. There is no performance fee payable to the Investment Manager.

## 6. OTHER EXPENSES

| | Year ended 31 October 2018* £'000 | Year ended 31 October 2017 £'000 |
|---|---|---|
| Secretarial services | 48 | 55 |
| Administration and other expenses | 371 | 223 |
| Auditor's remuneration – statutory | 30 | 34 |
| – non-audit | 30 | – |
| Directors' fees | 118 | 105 |
| | **597** | **417** |

* Excluding VAT where applicable (2017: Including VAT where applicable).

## 7. FINANCE COSTS

| | Year ended 31 October 2018 £'000 | Year ended 31 October 2017 £'000 |
|---|---|---|
| Interest paid | 13 | 25 |
| CFD finance cost and structuring fee – 20% charged to income | 34 | 20 |
| Structure fees – 20% charged to income | 1 | 2 |
| | **48** | **47** |
| CFD finance cost and structuring fee – 80% charged to capital | 134 | 77 |
| Structure fees – 80% charged to capital | 4 | 7 |
| | **138** | **84** |
| **Total finance costs** | **186** | **131** |

## 8. TAXATION

| | Year ended 31 October 2018 | | | Year ended 31 October 2017 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| **(a) Analysis of tax charge in the year:** | | | | | | |
| Overseas withholding tax | 669 | – | 669 | 371 | – | 371 |
| **Total tax charge for the year (see note 8 (b))** | **669** | **–** | **669** | **371** | **–** | **371** |

## 8. TAXATION continued

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

The Company's effective tax rate for the year is 19.00% (2017: 19.41%), with the standard rate of corporation tax in the UK for a large company currently at 19.00% (2017: 19.00%).

The differences are explained below:

| | Year ended 31 October 2018 | | | Year ended 31 October 2017 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| **Total return before taxation** | **5,786** | **(2,953)** | **2,833** | **3,735** | **17,809** | **21,544** |
| UK corporation tax at 19.00% (2017: 19.41%) | 1,099 | (561) | 538 | 725 | 3,457 | 4,182 |
| Effects of: | | | | | | |
| Overseas withholding tax suffered | 669 | – | 669 | 371 | – | 371 |
| Non-taxable overseas dividends | (1,272) | – | (1,272) | (734) | – | (734) |
| Capital gains not subject to tax | – | 336 | 336 | – | (3,599) | (3,599) |
| Finance costs | 10 | 26 | 36 | 9 | 16 | 25 |
| Movement in unutilised management expenses | 163 | 199 | 362 | – | 126 | 126 |
| **Total tax charge** | **669** | **–** | **669** | **371** | **–** | **371** |

The Company is not liable to tax on capital gains due to its status as an investment trust. The Company has an unrecognised deferred tax asset of £341,000 (2017: £177,000) based on the long term prospective corporation tax rate of 17%. This asset has accumulated because deductible expenses exceeded taxable income for the year ended 31 October 2018. No asset has been recognised in the accounts because, given the composition of the Company's portfolio, it is not likely that these expenses will be utilised in the foreseeable future.

## 9. DIVIDEND

### (i) Dividends paid during the financial year

| | Year ended 31 October 2018 | Period ended 31 October 2017 |
|---|---|---|
| Final dividend - year ended 31 October 2016 of 2.00p | – | 1,583 |
| Second interim – year ended 31 October 2017 of 2.30p | 2,051 | – |
| Interim – year ended 31 October 2018 of 1.25p (2017: 1.15p) | 1,536 | 980 |
| **Total** | **3,587** | **2,563** |

**(ii) The dividend relating to the year ended 31 October 2018, which is the basis on which the requirements of Section 1159 of the Corporation Tax Act 2010 are considered is detailed below:**

| | Year ended 31 October 2018 | | Year ended 31 October 2017 | |
|---|---|---|---|---|
| | Pence per Ordinary Share | £'000 | Pence per Ordinary Share | £'000 |
| Interim dividend – Paid | 1.25p | 1,536 | 1.15p | 980 |
| Second interim dividend | – | – | 2.30p | 2,051 |
| Final dividend – payable* | 2.50p | 3,230 | – | – |
| | **3.75p** | **4,766** | **3.45p** | **3,031** |

* Not included as a liability in the year end accounts.

The Directors have declared a final dividend for the financial year ended 31 October 2018 of 2.50p per Ordinary Share. The dividend will be paid on 19 March 2019 to shareholders on the register at the close of business on 1 February 2019.

## 10. DEBTORS

| | As at 31 October 2018 £'000 | As at 31 October 2017 £'000 |
|---|---|---|
| Amounts due in respect of CFDs | 1,001 | 4,931 |
| Accrued income | 2,392 | 1,415 |
| Sales for settlement | 408 | – |
| Prepayments | 11 | 12 |
| | **3,812** | **6,358** |

## 11. CREDITORS

| | As at 31 October 2018 £'000 | As at 31 October 2017 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Purchases for future settlement | – | 3,812 |
| Amounts payable in respect of CFDs | 4,413 | 662 |
| Accrued finance costs | 7 | 9 |
| Accrued expenses | 218 | 149 |
| | **4,638** | **4,632** |

# NOTES TO THE ACCOUNTS continued

## 12. SHARE CAPITAL

Share capital represents the nominal value of shares that have been issued. The share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

| | As at 31 October 2018 No. of shares | As at 31 October 2018 £'000 | As at 31 October 2017 No. of shares | As at 31 October 2017 £'000 |
|---|---|---|---|---|
| Allotted, issued & fully paid: | | | | |
| Ordinary Shares of 1p | | | | |
| Opening balance | 89,168,162 | 892 | 79,160,162 | 792 |
| Ordinary Shares of 1p issued | 39,283,619 | 393 | 10,008,000 | 100 |
| **Closing balance** | **128,451,781** | **1,285** | **89,168,162** | **892** |

During the year under review, 39,283,619 (2017: 10,008,000) Ordinary Shares of 1p each were issued. The issue prices ranged from 150.9p to 169.0p (2017: 125.7p to 149.3p) and the total amount raised was £63,373,000 (2017: £13,607,000).

Since the year end, the Company has issued a further 750,000 Ordinary Shares, with 129,201,781 Ordinary Shares in issue as at 21 January 2019.

## 13. FINANCIAL COMMITMENTS

As at 31 October 2018 there were no commitments in respect of unpaid calls and underwritings (2017: nil).

## 14. RETURN PER ORDINARY SHARE

Total return per Ordinary Share is based on the return on ordinary activities, including income, for the year after taxation of £2,164,000 (2017: £21,173,000).

Based on the weighted average number of Ordinary Shares in issue for the year to 31 October 2018 of 112,507,653 (2017: 82,937,053), the returns per share were as follows:

| | As at 31 October 2018 | | | As at 31 October 2017 | | |
|---|---|---|---|---|---|---|
| | Revenue | Capital | Total | Revenue | Capital | Total |
| Return per Ordinary Share | 4.55p | (2.62)p | **1.93p** | 4.06p | 21.47p | **25.53p** |

## 15. NET ASSET VALUE PER SHARE

Total shareholders' funds and the net asset value ("NAV") per share attributable to the Ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows:

| | As at 31 October 2018 | As at 31 October 2017 |
|---|---|---|
| Net Asset Value (£'000) | 190,915 | 130,415 |
| Ordinary Shares in issue | 128,451,781 | 89,168,162 |
| NAV per Ordinary Share | **148.63p** | **145.95p** |

## 16. RELATED PARTY TRANSACTIONS

### Transactions with the Investment Manager and the Alternative Investment Fund Investment Manager ("AIFM")

The Company provides additional information concerning its relationship with the Investment Manager and AIFM, Coupland Cardiff Asset Management LLP. The fees for the period are disclosed in note 5 and amounts outstanding at the year ended 31 October 2018 were £123,000 (2017: £79,000).

### Research purchasing agreement

MiFID II treats investment research provided by brokers and independent research providers as a form of "inducement" to investment managers and requires research to be paid for separately from execution costs. In the past, the costs of broker research were primarily borne by the Company as part of execution costs through dealing commissions paid to brokers. With effect from 3 January 2018, this practice has changed, as brokers subject to MiFID II are now required to price, and charge for, research separately from execution costs. Equally, the new rules require the Investment Manager, as an investment manager, to ensure that the research costs borne by the Company are paid for through a designated research payment account ("RPA") funded by direct research charges to the Investment Manager's clients, including the Company.

The research charge for the period from 1 January 2018 to 31 December 2018 was approximately £34,000 which was in line with the agreed budget. The estimated research charge for the period from 1 January 2019 to 31 December 2019, as budgeted by the Investment Manager, is approximately £30,000.

### Directors' fees and shareholdings

The Directors' fees and shareholdings are disclosed in the Directors' Remuneration Implementation Report on page 22 in this Annual Report.

## 17. FINANCIAL INSTRUMENTS AND CAPITAL CLOSURES

### Risk Management Policies and Procedures

As an investment trust the Company invests in equities and equity related derivatives for the long-term so as to secure its investment objective stated on page 2. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for dividends.

These risks, include market risk (comprising currency risk, interest rate risk, and other price risk), liquidity risk, and credit risk, and the Directors' approach to the management of them are set out below.

The objectives, policies and processes for managing the risks, and the methods used to measure the risks, are set out below.

### (a) Market Risk

*Economic conditions*

Changes in economic conditions in Japan (for example, interest rates and rates of inflation, industry conditions, competition, political and diplomatic events and other factors) and in the countries in which the Company's investee companies operate could substantially and adversely affect the Company's prospects.

*Sectoral diversification*

The Company has no limits on the amount it may invest in any sector. This may lead to the Company having significant concentrated exposure to portfolio companies in certain business sectors from time to time.

Concentration of investments in any one sector may result in greater volatility in the value of the Company's investments and consequently its NAV and may materially and adversely affect the performance of the Company and returns to shareholders.

*Unquoted companies*

The Company may invest in unquoted companies from time to time. Such investments, by their nature, involve a higher degree of valuation and performance uncertainties and liquidity risks than investments in listed and quoted securities and they may be more difficult to realise.

*Management of market risks*

The Company is invested in a diversified portfolio of investments. The Company's investment policy states that no single holding (including any derivative instrument) will represent more than 10% of the Company's Gross Assets at the time of investment and, when fully invested, the portfolio is expected to have between 30 to 40 holdings although there is no guarantee that this will be the case and it may contain a lesser or greater number of holdings at any time. A maximum of 10% of the Company's Gross Assets at the time of investment may be invested in unquoted or untraded companies at time of investment.

### 17. FINANCIAL INSTRUMENTS AND CAPITAL CLOSURES continued

The Investment Manager's approach will in most cases achieve diversification across a number of sectors as shown in the Holdings in Portfolio on page 10.

#### (b) Currency risks

The majority of the Company's assets will be denominated in a currency other than sterling and predominantly in yen. Changes in the exchange rate between sterling and yen may lead to a depreciation of the value of the Company's assets as expressed in sterling and may reduce the returns to the Company from its investments and, therefore, negatively impact the level of dividends paid to shareholders.

*Management of currency risks*

The Company does not currently intend to enter into any arrangements to hedge its underlying currency exposure to investment denominated in yen, although the Investment Manager and the Board will keep this approach under regular review.

*Foreign currency exposures*

An analysis of the Company's equity investments and CFD that are priced in a foreign currency is:

| | As at 31 October 2018 £'000 | As at 31 October 2017 £'000 |
|---|---|---|
| Equity Investments: yen | 189,419 | 129,211 |
| Receivables (due from brokers, dividends, and other income receivable) | 2,811 | 1,427 |
| CFD: yen (gross exposure) | 37,928 | 25,291 |
| Cash: yen | (3,934) | (4,234) |
| **Total** | **226,224** | **151,695** |

*Foreign currency sensitivity*

If the Japanese yen had appreciated or (depreciated) by 10% as at 31 October 2018 then the value of the portfolio as at that date would have increased or (decreased) as shown below.

| | Increase in Fair Value As at 31 October 2018 £'000 | Decrease in Fair Value As at 31 October 2018 £'000 | Increase in Fair Value As at 31 October 2017 £'000 | Decrease in Fair Value As at 31 October 2017 £'000 |
|---|---|---|---|---|
| Impact on capital return – increase/(decrease) | **22,622** | **(22,622)** | **15,170** | **(15,170)** |
| Return after taxation – increase/(decrease) | **22,622** | **(22,622)** | **15,170** | **(15,170)** |

#### (c) Leverage risks

*Derivative instruments*

The Company may utilise long only CFDs or equity swaps for gearing and efficient portfolio management purposes. Leverage may be generated through the use of CFDs or equity swaps. Such financial instruments inherently contain much greater leverage than a non-margined purchase of the underlying security or instrument. This is due to the fact that, generally, only a very small portion (and in some cases none) of the value of the underlying security or instrument is required to be paid in order to make such leveraged investments. As a result of any leverage employed by the Company, small changes in the value of the underlying assets may cause a relatively large change in the Net Asset Value of the Company. Many such financial instruments are subject to variation or other interim margin requirements, which may force premature liquidation of investment positions.

*Borrowing risks*

The Company may use borrowings to seek to enhance investment returns. While the use of borrowings can enhance the total return on the Ordinary Shares where the return on the Company's underlying assets is rising and exceeds the cost of borrowing, it will have the opposite effect where the return on the Company's underlying assets is rising at a lower rate than the cost of borrowing or falling, further reducing the total return on the Ordinary Shares. As a result, the use of borrowings by the Company may increase the volatility of the Net Asset Value per Ordinary Share.

Any reduction in the value of the Company's investments may lead to a correspondingly greater percentage reduction in its Net Asset Value (which is likely to adversely affect the price of an Ordinary Share). Any reduction in the number of Ordinary Shares in issue (for example, as a result of buy backs) will, in the absence of a corresponding reduction in borrowings, result in an increase in the Company's level of gearing.

To the extent that a fall in the value of the Company's investments causes gearing to rise to a level that is not consistent with the Company's gearing policy or borrowing limits, the Company may have to sell investments in order to reduce borrowings, which may give rise to a significant loss of value compared to the book value of the investments, as well as a reduction in income from investments.

*Management of leverage risks*

The aggregate of borrowings and long only CFD and equity swap exposure will not exceed 25% of Net Asset Value at the time of drawdown of the relevant borrowings or entering into the relevant transaction, as appropriate, although the Company's normal policy will be to utilise and maintain gearing to a lower limit of 20% of Net Asset Value at the time of drawdown of the relevant borrowings or entering into the relevant transaction, as appropriate. It is expected that any borrowings entered into will principally be denominated in yen. The CFD portfolio is managed in line with the equity portfolio.

The Company's level of gearing and leverage as at 31 October 2018 is disclosed in the Alternative Performance Measures section on pages 50 and 51 of this Annual Report.

### (d) Interest rate risks

The Company is exposed to interest rate risk specifically through its cash holdings and on positions within the CFD portfolio. Interest rate movements may affect the level of income receivable from any cash at bank and on deposits. The effect of interest rate changes on the earnings of the companies held within the portfolio may have a significant impact on the valuation of the Company's investments. Movements in interest rates will also have an impact on the valuation of the CFD derivative contracts, see below for further details.

*Management of interest rate risks*

The possible effects on Fair Value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. Derivative contracts are not used to hedge against the exposure to interest rate risk.

The Company is exposed to interest rate risk on cash holdings and CFD positions held within the portfolio.

Due to the low interest rate environment no sensitivity analysis is shown because the direct impact of a significant increase in interest rates would be immaterial due to the relatively small proportion of the Company's investment exposure achieved using CFDs.

*Interest rate exposure*

The exposure at 31 October 2018 of financial assets and liabilities to interest rate risk is shown by reference to floating interest rates – when the interest rate is due to be reset.

| | As at 31 October 2018 due within one year £'000 | As at 31 October 2017 due within one year £'000 |
|---|---|---|
| Exposure to floating interest rates: CFD derivative contract – notional long positions | 41,290 | 21,549 |
| Cash/(bank overdraft) | 1,633 | (863) |
| Collateral paid in respect of CFDs | 689 | 71 |

## 17. FINANCIAL INSTRUMENTS AND CAPITAL CLOSURES continued

### (e) Credit risks

*Cash and other assets held by the depositary*

Cash and other assets that are required to be held in custody will be held by the depositary or its sub-custodians. Cash and other assets may not be treated as segregated assets and will therefore not be segregated from any custodian's own assets in the event of the insolvency of a custodian. Cash held with any custodian will not be treated as client money subject to the rules of the Financial Conduct Authority ('FCA') and may be used by a custodian in the course of its own business. The Company will therefore be subject to the creditworthiness of its custodians. In the event of the insolvency of a custodian, the Company will rank as a general creditor in relation thereto and may not be able to recover such cash in full, or at all.

*Derivative instruments*

Where the Company utilises CFDs or equity swaps, it is taking a credit risk with regard to the parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions that generally are backed by clearing organisation guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default.

*Management of credit risks*

The Company has appointed Northern Trust Global Services Limited as its depositary. The credit rating of the parent company, Northern Trust Corporation was reviewed at the time of appointment and is reviewed on a regular basis by the Investment Manager and/or the Board.

The Investment Manager monitors the Company's exposure to its counterparties on a regular basis and the position is reviewed by the Directors at Board meetings.

Other risks to the Company are detailed in the Company's prospectus dated 9 January 2018.

The Company's cash is subject to counterparty credit risk as the Company's access to its cash could be delayed should the counterparties become insolvent or bankrupt.

The Company's holdings in CFD contracts present counterparty credit risks, with two counter party stockbrokers Morgan Stanley & Co International plc and Macquarie Bank Limited. The Company is exposed to counterparty credit risk from the parties with which it trades and will bear the risk of settlement default. Counterparty credit risk to the Company arises from transactions to purchase or sell instruments and through its investments in long CFDs. CFD contracts generally require variation margins and the counterparty credit risk is monitored by the Investment Manager.

Investment transactions are carried out with a number of brokers, whose credit-standing is reviewed periodically by the Investment Manager, and limits are set on the amount that may be due from any one broker.

In summary, the exposure to credit risk as at 31 October 2018 was as follows:

| | As at 31 October 2018 3 months or less £'000 | As at 31 October 2017 3 months or less £'000 |
|---|---|---|
| Cash at bank | 1,633 | – |
| Amounts due in respect of CFDs | 1,001 | 4,931 |
| Collateral paid in respect of CFDs | 689 | 71 |
| Other debtors | 2,811 | 1,427 |
| | **6,134** | **6,429** |

None of the above assets or liabilities were impaired or past due but not impaired.

### (f) Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

The Company is exposed to market price risk arising from its equity investments and its exposure to the positions within the CFD portfolio. The movements in the prices of these investments result in movements in the performance of the Company.

The Company's exposure to other changes in market prices at 31 October 2018 on its equity investments was £189,419,000 (2017: £129,211,000).

In addition, the Company's gross market exposure to these price changes through its CFD portfolio was £41,290,000 through long positions (2017: £21,549,000).

The Company uses CFDs, as part of its investment policy. These instruments can be highly volatile and potentially expose investors to a higher risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, a relatively small movement in the price of a contract may result in a profit or loss which is high in proportion to the value of the net exposures in the underlying CFD positions. In addition, daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses.

The Company limits the gross market exposure, and therefore the leverage, of this strategy to approximately 200% of the Company's net assets. The CFDs utilised have a linear performance to referenced stocks quoted on exchanges and therefore have the same volatility profile to the underlying stocks.

Market exposures to derivative contracts are disclosed below.

The gross value represents the aggregate of the long exposures without netting and so within this limit, market exposure may be significantly less. The net exposure refers to the market exposure the Company has to the underlying securities on long CFD positions.

Exposures are monitored daily by the Investment Manager. The Company's Board also reviews exposures regularly.

The gross underlying notional exposures within the CFD portfolio as at 31 October 2018 were:

| | As at 31 October 2018 | | As at 31 October 2017 | |
|---|---|---|---|---|
| | £'000 | % of net assets | £'000 | % of net assets |
| CFDs – gross exposure relating to long positions | **41,290** | **21.63%** | 21,549 | 16.56% |
| Net market exposure | **41,290** | **21.63%** | 21,549 | 16.56% |

The Board of Directors manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting reviews investment performance. The Board monitors the Investment Manager's compliance with the Company's objective.

*Concentration of exposure to other price risks*

A sector breakdown of the portfolio is contained in the Portfolio on pages 10 and 11.

## 17. FINANCIAL INSTRUMENTS AND CAPITAL CLOSURES continued

*Other price risk sensitivity*

The following table illustrates the sensitivity of the profit after taxation for the year to an increase or (decrease) of 10% in the fair values of the Company's equities and CFDs. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the notional exposure of the Company's equities investments and long CFDs.

| | As at 31 October 2018 | | As at 31 October 2017 | |
|---|---|---|---|---|
| | Increase in Fair Value £'000 | Decrease in Fair Value £'000 | Increase in Fair Value £'000 | Decrease in Fair Value £'000 |
| Impact on capital return – increase/(decrease) | **23,071** | **(23,071)** | **15,076** | **(15,076)** |
| Return after taxation – increase/(decrease) | **23,071** | **(23,071)** | **15,076** | **(15,076)** |

### (g) Liquidity Risk

The securities of small-to-medium-sized (by market capitalisation) companies may have a more limited secondary market than the securities of larger companies. Accordingly, it may be more difficult to effect sales of such securities at an advantageous time or without a substantial drop in price than securities of a company with a large market capitalisation and broad trading market. In addition, securities of small-to-medium-sized companies may have greater price volatility as they can be more vulnerable to adverse market factors such as unfavourable economic reports.

*Management of liquidity risks*

The Company's Investment Manager monitors the liquidity of the Company's portfolio on a regular basis.

*Liquidity risk exposure*

The undiscounted gross cash outflows of the financial liabilities as at 31 October 2018, based on the earliest date on which payment can be required, were as follows:

| | As at 31 October 2018 less than 3 months | As at 31 October 2017 less than 3 months |
|---|---|---|
| Bank overdraft | – | 863 |
| Amounts payable in respect of CFDs | 4,413 | 662 |
| Other payables | 225 | 3,970 |
| | **4,638** | **5,495** |

The Company is exposed to liquidity risks from the leverage employed through exposure to long only CFD positions. However, timely sale of trading positions can be impaired by many factors including decreased trading volume and increased price volatility. As a result, the Company could experience difficulties in disposing of assets to satisfy liquidity demands. Liquidity risk is minimised by holding sufficient liquid investments which can be readily realised to meet liquidity demands. The Company's liquidity risk is managed on a daily basis by the Investment Manager in accordance with established policies and procedures in place. Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equities and the CFDs have a similar liquidity and realisation profile as quoted equities.

### (h) Fair Value Measurements of Financial Assets and Financial Liabilities

The financial assets and liabilities are either carried in the balance sheet at their Fair Value, or the balance sheet amount is a reasonable approximation of Fair Value (due from brokers, dividends receivable, accrued income, due to brokers, accruals and cash and cash equivalents).

The valuation techniques for investments and derivatives used by the Company are explained in the accounting policies notes 2 (b and c) on page 35.

The table below sets out Fair Value measurements using Fair Value Hierarchy.

| As at 31 October 2018 | Level 1 £'000 | Level 2 £'000 | Total £'000 |
|---|---|---|---|
| Assets: | | | |
| Equity investments | 189,419 | – | 189,419 |
| CFDs – Fair Value gains | – | 1,001 | 1,001 |
| Liabilities: | | | |
| CFDs – Fair Value losses | – | (4,413) | (4,413) |
| **Total** | **189,419** | **(3,412)** | **186,007** |

| As at 31 October 2017 | Level 1 £'000 | Level 2 £'000 | Total £'000 |
|---|---|---|---|
| Assets: | | | |
| Equity investments | 129,211 | – | 129,211 |
| CFDs – Fair Value gains | – | 4,931 | 4,931 |
| Liabilities: | | | |
| CFDs – Fair Value losses | – | (662) | (662) |
| **Total** | **129,211** | **4,269** | **133,480** |

There were no transfers between levels during the year (2017: same).

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 as follows:

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

Level 2 – valued by reference to valuation techniques using observable inputs including quoted prices.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data. (there are no Level 3 investments as at 31 October 2018 (2017: nil).

### (i) Capital Management Policies and Procedures

The Company's capital management objectives are:

– to ensure that the Company will be able to continue as a going concern; and

– to provide dividend income combined with capital growth, mainly through investment in equities listed or quoted in Japan and by utilising the leverage effect of CFD.

The key performance indicators are contained in the strategic report on page 7.

The Company is subject to several externally imposed capital requirements:

– As a public company, the Company has to have a minimum share capital of £50,000.

– In order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by company law.

The Company's capital at 31 October 2018 comprises called up share capital and reserves totalling £190,915,000 (2017: £130,145,000).

The Board regularly monitors, and has complied with, the externally imposed capital requirements.

## 18. DISTRIBUTABLE RESERVES

Distributable reserves comprise: the revenue reserve; and capital reserve attributable to realised profits including the special reserve.

# ALTERNATIVE PERFORMANCE MEASURES ("APMS")

## Premium

The amount, expressed as a percentage, by which the share price is more than the NAV per Ordinary Share.

| | | Page | As at 31 October 2018 |
|---|---|---|---|
| NAV per Ordinary Share | a | 2 | 148.6 |
| Share price | b | 2 | 153.0 |
| **Premium** | **(b÷a)-1** | | **3.0%** |

## Total return

A measure of performance that includes both income and capital returns. This takes into account capital gains and reinvestment of dividends paid out by the Company into its Ordinary Shares on the ex-dividend date.

| Year end 31 October 2018 | | Page | Share price | NAV |
|---|---|---|---|---|
| Opening at 1 November 2017 (in pence) | a | n/a | 152.0 | 146.0 |
| Closing at 31 October 2018 (in pence) | b | n/a | 153.0 | 148.6 |
| Dividend adjustment factor | c | n/a | 1.0213 | 1.0228 |
| Adjusted closing (d = b x c) | d | n/a | 156.3 | 152.0 |
| **Total return** | **(d÷a)-1** | | **2.8%** | **4.1%** |

## Ongoing charges

A measure, expressed as a percentage of average NAV, of the regular, recurring annual costs of running an investment company.

| Year end 31 October 2018 | | Page | |
|---|---|---|---|
| Average NAV | a | n/a | 174,743,113 |
| Annualised expenses | b | n/a | 1,905,000 |
| Ongoing charges | **b÷a** | | **1.09%** |

## Gearing

A way to magnify income and capital return, but which can also magnify losses. The Company may be geared through the CFDs and if utilised, the overdraft facility with The Northern Trust Company.

| As at 31 October 2018 | | Page | £'000 |
|---|---|---|---|
| CFD Notional Market Value | a | n/a | 37,928 |
| Non-base cash borrowings | b | n/a | 3,526 |
| NAV | c | 32 | 190,915 |
| **Gearing** | **((a+b)÷c)** | | **21.7%** |

## Leverage

Under the Alternative Investment Fund Managers Directive ("AIFMD"), leverage is any method by which the exposure of an Alternative Investment Fund ("AIF") is increased through borrowing of cash or securities or leverage embedded in derivative positions.

Under AIFMD, leverage is broadly similar to gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements.

| As at 31 October 2018 | | Page | Gross (£'000) | Commitment (£'000) |
|---|---|---|---|---|
| Security Market value | a | n/a | 189,419 | 189,419 |
| CFD Notional market value | b | n/a | 37,928 | 37,928 |
| Cash and cash equivalents* | c | n/a | 7,925 | 2,732 |
| NAV | d | 32 | 190,915 | 190,915 |
| **Leverage** | **(a+b+c)/d** | **32** | **123%** | **121%** |

* Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

n/a = not applicable.

# THE SECURITIES FINANCING TRANSACTIONS REGULATION (UNAUDITED)

The Securities Financing Transactions Regulation (SFTR) came into effect on 12 January 2016. Article 13 requires information to be provided as to the use of securities financing transactions (SFTs) and total return swaps (TRS).

A Securities Financing Transaction (SFT) is defined as per Article 3 (11) of the SFTR as:

- a repurchase transaction;
- securities or commodities lending and securities or commodities borrowing;
- a buy-sell back transaction or sell-buy back transaction; or
- a margin lending transaction.

As at 31 October 2018 the Company held the following types of SFTs:

None (2017: None)

As at 31 October 2018 the Company held the following types of Total Return Swaps:

Contracts for Difference (2017: Same)

The amount of securities and commodities on loan as a proportion of total lendable assets (excluding cash and cash equivalents) was 0% as at 31 October 2018 (2017: 0%).

## GLOBAL DATA:

| Type of Asset | Absolute Amount £'000 | Proportion of AUM % |
|---|---|---|
| Security Lending | 0 | 0 |
| Repo | 0 | 0 |
| Total Return Swap | **37,928** | **16.5%** |

## CONCENTRATION DATA:

The largest collateral issuer across all SFTs and Total Return Swaps is as follows:

| | Collateral Issuers | Volume of the collateral securities and commodities £'000 |
|---|---|---|
| 1 | JPY Cash Collateral | 4,566 |

The top counterparties across all SFTs and Total Return Swaps is as follows:

| | Counterparty | Gross volume of outstanding trades £'000 |
|---|---|---|
| 1 | Morgan Stanley & Co Intl Plc | 40,759 |
| 2 | Macquarie Bank Limited | 531 |
| Total | | **41,290** |

## AGGREGATE TRANSACTION DATA:

| | Type of collateral | Quality | Currency | Maturity tenor (collateral) | Maturity tenor (SFTs/Total Return Swaps) | Country of counterparty establishment *(not collateral)* | Settlement and clearing |
|---|---|---|---|---|---|---|---|
| **Total Return Swap** | | | | | | | |
| Morgan Stanley & Co International Plc | Cash | High | JPY | <1 Day | >1yr | UK | Bilateral |
| Macquarie Bank Limited | Cash | High | JPY | <1 Day | >1yr | Australia | Bilateral |

## REUSE OF COLLATERAL:

The share of collateral that is reused is 0%, this is in comparison to the maximum of 0% as expressed in the prospectus.

The cash collateral reinvestment returns to the Company were nil.

## SAFEKEEPING – Collateral Received:

| Custodian | Collateral assets safe-kept |
|---|---|
| Northern Trust Global Services Limited | 0 |

## SAFEKEEPING – Collateral Granted:

The proportion of collateral held in segregated accounts, in pooled accounts or any other accounts is 100%.

## RETURN/COSTS:

| Type of Asset | Cost £'000 | Absolute Returns £'000 | % overall returns of Transaction Type |
|---|---|---|---|
| **Alternative Investment Fund:** | | | |
| Total Return Swaps | 186 | 4,039 | 100 |
| **Manager of the Alternative Investment Fund:** | 0 | 0 | 0 |
| Third parties: | 0 | 0 | 0 |

# GLOSSARY

| | |
|---|---|
| **Administrator** | The Company's administrator from time to time, the current such administrator being PraxisIFM Fund Services (UK) Limited. |
| **AIC** | Association of Investment Companies. |
| **Alternative Investment Fund or "AIF"** | An investment vehicle under AIFMD. Under AIFMD (see below) the Company is classified as an AIF. |
| **Alternative Investment Fund Managers Directive or "AIFMD"** | A European Union directive which came into force on 22 July 2013 and has been implemented in the UK. |
| **Annual General Meeting or "AGM"** | A meeting held once a year, which shareholders can attend, and where they can vote on resolutions to be put forward at the meeting and ask Directors questions about the company in which they are invested. |
| **Contract for difference or "CFD"** | A financial instrument, which provides exposure to an underlying equity with the provider financing the cost to the buyer with the buyer receiving the difference of any gain or paying for any loss. |
| **Custodian** | An entity that is appointed to safeguard a company's assets. |
| **Depositary** | Certain AIFs must appoint depositaries under the requirements of AIFMD. A depositary's duties include, inter alia, safekeeping of the Company's assets and cash monitoring. Under AIFMD the depositary is appointed under a strict liability regime. |
| **Dividend** | Income receivable from an investment in shares. |
| **Ex-dividend date** | The date from which you are not entitled to receive a dividend which has been declared and is due to be paid to shareholders. |
| **Financial Conduct Authority or "FCA"** | The independent body that regulates the financial services industry in the UK. |
| **Gross assets** | The Company's total assets adjusted for any leverage amount. |
| **Index** | A basket of stocks which is considered to replicate a particular stockmarket or sector. |
| **Investment company** | A company formed to invest in a diversified portfolio of assets. |
| **Investment Trust** | An investment company which is based in the UK and which meets certain tax conditions which enables it to be exempt from UK corporation tax on its capital gains. The Company is an investment trust. |
| **Liquidity** | The extent to which investments can be sold at short notice. |
| **Net assets** | An investment company's assets less its liabilities. |
| **Net Asset Value (NAV) per Ordinary Share** | Net assets divided by the number of Ordinary Shares in issue (excluding any shares held in treasury). |
| **Ordinary Shares** | The Company's Ordinary Shares in issue. |
| **Portfolio** | A collection of different investments constructed and held in order to deliver returns to shareholders and to spread risk. |

| | |
|---|---|
| **Share buyback** | A purchase of a company's own shares. Shares can either be bought back for cancellation or held in treasury. |
| **Share price** | The price of a share as determined by a relevant stockmarket. |
| **Treasury shares** | A company's own shares which are available to be sold by a company to raise funds. |
| **Volatility** | A measure of how much a share moves up and down in price over a period of time. |

# DIRECTORS, MANAGER AND ADVISERS

## DIRECTORS
Harry Wells (Chairman)
Kate Cornish-Bowden
John Scott
Mark Smith
Peter Wolton

## BROKER
Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

## DEPOSITARY AND CUSTODIAN
Northern Trust Global Services Limited
50 Bank Street
Canary Wharf
London E14 5NT

## REGISTRAR
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

## INVESTMENT MANAGER
Coupland Cardiff Asset Management LLP
31-32 St James's Street
London SW1A 1HD

## REGISTERED OFFICE*
Mermaid House
2 Puddle Dock
London EC4V 3DB

## COMPANY SECRETARY AND ADMINISTRATOR
PraxisIFM Fund Services (UK) Limited
Mermaid House
2 Puddle Dock
London EC4V 3DB

## AUDITORS
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

* Registered in England and Wales no. 9845783

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of CC Japan Income & Growth Trust plc will be held at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London, EC2M 7SH on 12 March 2019 at 12.00 noon for the following purposes:

To consider and if thought fit pass the following resolutions of which resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13 to 15 will be proposed as special resolutions.

## Ordinary resolutions

1. To receive the Company's Annual Report and Accounts for the year ended 31 October 2018, with the reports of the Directors and auditors thereon.

2. To approve the Directors' Remuneration Implementation Report included in the Annual Report for the year ended 31 October 2018.

3. To elect Kate Cornish-Bowden as a Director of the Company, having been appointed by the Board.

4. To re-elect Harry Wells as a Director of the Company.

5. To re-elect John Scott as a Director of the Company.

6. To re-elect Mark Smith as a Director of the Company.

7. To re-elect Peter Wolton as a Director of the Company.

8. That the Company continues in existence as an investment company.

9. To approve a final dividend in respect of the year ended 31 October 2018 of 2.50p per Ordinary Share.

10. To reappoint Ernst & Young LLP as auditors to the Company.

11. To authorise the Directors to fix the remuneration of the auditors until the conclusion of the next Annual General Meeting of the Company.

12. That the Directors be and are hereby generally and unconditionally authorised (in substitution for all subsisting authorities to the extent unused) to exercise all powers of the Company to allot relevant securities (as defined in section 551 of the Companies Act 2006) up to an aggregate nominal amount equal to £258,274 PROVIDED THAT the Directors may not allot relevant securities of an aggregate nominal amount more than 19.99% of the nominal value of the issued share capital (excluding Treasury Shares) at the date of the Annual General Meeting and that this authority shall expire (unless previously varied, revoked or renewed by the Company in general meeting) at the conclusion of the Annual General Meeting of the Company to be held in 2020 or, if earlier, on the expiry of 15 months from the passing of this resolution (the "section 551 period") but so that the Directors may, at any time prior to the expiry of the section 551 period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of the section 551 period and the Directors may allot relevant securities in the pursuance of such an offer or agreement as if the authority granted by this resolution had not expired.

## Special resolutions

13. That, subject to the passing of resolution 12, in substitution for any existing power under section 570 of the Companies Act 2006 but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and are hereby empowered, pursuant to section 570 of that Act, to allot and make offers or agreements to allot equity securities (as defined in section 560 of that Act) and/or sell equity securities held as Treasury shares pursuant to section 573 of that Act, in each case for cash pursuant to the authority and for the period of the authority conferred by resolution 12 up to an aggregate nominal amount of £258,274 as if section 561(1) of that Act did not apply to such allotment (subject to a maximum of 19.99% of the aggregate nominal value of the issued share capital at the date of this resolution).

14. 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(4) of the Act) of its Ordinary Shares of 1p each, provided that:

    (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 19,367,346 (representing 14.99% of the Company's issued Ordinary Share capital (excluding shares held in Treasury) at the date of the notice of this meeting);

    (b) the minimum price (exclusive of any expenses) which may be paid for an Ordinary Share is 1p;

    (c) the maximum price (excluding expenses) which may be paid for an Ordinary Share is not more than the higher of (i) 5% above the average of the middle market quotations for the Ordinary Shares for the five business days immediately before the day on which it purchases that share and (ii) the higher of the price of the last independent trade and the highest current independent bid for the Ordinary Shares;

    (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2020 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

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

15. That a general meeting of the Company other than an Annual General Meeting may be called on not less than 14 days' notice, provided that this authority shall expire at the conclusion of the Company's next Annual General Meeting after the date of the passing of this resolution.

Registered Office:

Mermaid House
Puddle Dock
London EC4V 3DB

By Order of the Board

Anthony Lee
For and on behalf of
PraxisIFM Fund Services (UK) Limited
*Company Secretary*

21 January 2019

# NOTES TO NOTICE OF ANNUAL GENERAL MEETING

### Website address

1. Information regarding the meeting, including the information required by section 311A of the Companies Act 2006, is available from **www.ccjapanincomeandgrowthtrust.com.**

### Entitlement to attend and vote

2. Only those holders of Ordinary Shares registered on the Company's register of members at close of business on 10 March 2019 or, if this meeting is adjourned, at close of business on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the meeting.

### Appointment of Proxies

3. Members entitled to attend, speak and vote at the meeting (in accordance with Note 2 above) are entitled to appoint one or more proxies to attend, speak and vote in their place. If you wish to appoint a proxy please use the Form of Proxy enclosed with this document or follow the instructions at note 7 below if you wish to appoint a proxy through the CREST electronic proxy appointment service. In the case of joint members, only one need sign the Form of Proxy. The vote of the senior joint member will be accepted to the exclusion of the votes of the other joint members. For this purpose, seniority will be determined by the order in which the names of the members appear in the register of members in respect of the joint shareholding. The completion and return of the Form of Proxy will not stop you attending and voting in person at the meeting should you wish to do so. A proxy need not be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. If you choose to appoint multiple proxies use a separate copy of this form (which you may photocopy) for each proxy, and indicate after the proxy's name the number of shares in relation to which they are authorised to act (which, in aggregate, should not exceed the number of Ordinary Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned in the same envelope.

4. You can appoint the Chairman of the Meeting, or any other person, as your proxy. If you wish to appoint someone other than the Chairman, cross out the words "the Chairman of the Meeting" on the Form of Proxy and insert the full name of your appointee.

5. You can instruct your proxy how to vote on each resolution by ticking the "For" and "Against" boxes as appropriate (or entering the number of shares which you are entitled to vote). If you wish to abstain from voting on any resolution please tick the box which is marked "Vote Withheld". It should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution. If you do not indicate on the Form of Proxy how your proxy should vote, he/she can exercise his/her discretion as to whether, and if how so how, he/she votes on each resolution, as he/she will do in respect of any other business (including amendments to resolutions) which may properly be conducted at the meeting.

   A company incorporated in England and Wales or Northern Ireland should execute the Form of Proxy under its common seal or otherwise in accordance with Section 44 of the Companies Act 2006 or by signature on its behalf by a duly authorised officer or attorney whose power of attorney or other authority should be enclosed with the Form of Proxy.

### Appointment of Proxy using Hard Copy Form

6. The Form of Proxy and any power of attorney (or a notarially certified copy or office copy thereof) under which it is executed must be received by Link Asset Services at 12.00 noon on 10 March 2019 in respect of the meeting. Any Forms of Proxy received before such time will be deemed to have been received at such time. In the case of an adjournment, the Form of Proxy must be received by Link Asset Services no later than 48 hours before the rescheduled meeting.

   On completing the Form of Proxy, sign it and return it to Link Asset Services at the address shown on the Form of Proxy in the envelope provided. As postage has been pre-paid no stamp is required.

### Appointment of Proxy through CREST

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting to be held on the above date and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. 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 Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to a proxy's appointee through CREST should be communicated to the appointee through other means.

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

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

All messages relating to the appointment of a proxy or an instruction to a previously appointed proxy, which are to be transmitted through CREST, must be lodged at 12.00 noon on 10 March 2019 in respect of the meeting. Any such messages received before such time will be deemed to have been received at such time. In the case of an adjournment, all messages must be lodged with Link Asset Services no later than 48 hours before the rescheduled meeting.

### Termination of proxy appointments

8. In order to revoke a proxy instruction you will need to inform the Company. Please send a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF.

   In the case of a member which is a company, the revocation notice must be executed under its common seal or otherwise in accordance with section 44 of the Companies Act 2006 or by signature on its behalf by an officer or attorney whose power of attorney or other authority should be included with the revocation notice.

   If you attempt to revoke your proxy appointment but the revocation is received after the time specified in note 2 opposite then, subject to the paragraph directly below, your proxy will remain valid.

   Completion of a Form of Proxy will not preclude a member from attending and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will be automatically terminated.

   If you submit more than one valid proxy appointment in respect of the same Ordinary Shares, the appointment received last before the latest time for receipt of proxies will take precedence.

### Nominated Persons

9. If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights:

   - You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (Relevant Member) to be appointed or to have someone else appointed as a proxy for the meeting.

   - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.

- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in the notes to the form of proxy.

### Questions at the Meeting

10. Under section 319A of the Companies Act 2006, the Company must answer any question you ask relating to the business being dealt with at the meeting unless:

- answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

### Issued Shares and total voting rights

11. The total number of shares in issue in the Company is 129,201,781 Ordinary Shares of 1p each. On a vote by a show of hands, every holder of Ordinary Shares who (being an individual) is present by a person, by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member, shall have one vote. On a poll every holder of Ordinary Shares who is present in person or by proxy shall have one vote for every Ordinary Share held by him.

### Communication

12. Except as provided above, members who have general queries about the meeting should use the following means of communication (no other methods of communication will be accepted):

- calling Link Asset Services' shareholder helpline (lines are open from 9.00 a.m. to 5.30 p.m. Monday to Friday, excluding public holidays):

  (i) From UK: 0871 664 0300 (calls cost 12p per minute plus network extras);

  (ii) From Overseas: +44 371 664 0300 (calls from outside the UK are charged at applicable international rates); or

- in writing to Link Asset Services. You may not use any electronic address provided either in this notice of meeting or in any related documents (including the Form of Proxy for this meeting) to communicate with the Company for any purposes other than those expressly stated.

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# CC JAPAN INCOME & GROWTH TRUST PLC
# FORM OF PROXY

I/We ..........................................................................................................................................................................

of ..............................................................................................................................................................................
(BLOCK CAPITALS PLEASE)

being (a) member(s) of CC Japan Income & Growth Trust plc appoint the Chairman of the meeting, or ..............................

(see note 1) ..............................................................................................................................................................

of ..............................................................................................................................................................................

as my/our proxy and, on a poll, to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Stephenson Harwood, 1 Finsbury Circus, London, EC2M 7SH on 12 March 2019 at 12.00 noon and any adjournment thereof.

*Please indicate with an 'X' in the spaces provided how you wish your votes to be cast on the resolutions specified.*

| | Resolution | For | Against | Withheld | Discretionary |
|---|---|---|---|---|---|
| 1. | To receive and adopt the Annual Report and Accounts for the year ended 31 October 2018. | | | | |
| 2. | To approve the Directors' remuneration implementation report. | | | | |
| 3. | To elect Kate Cornish-Bowden as a Director. | | | | |
| 4. | To re-elect Harry Wells as a Director. | | | | |
| 5. | To re-elect John Scott as a Director. | | | | |
| 6. | To re-elect Mark Smith as Director. | | | | |
| 7. | To re-elect Peter Wolton as a Director. | | | | |
| 8. | That the Company continues in existence as an investment company. | | | | |
| 9. | To approve a final dividend in respect of the year ended 31 October 2018 of 2.50p per Ordinary Share. | | | | |
| 10. | To re-appoint Ernst & Young LLP as auditors to the Company. | | | | |
| 11. | To authorise the Directors to fix the remuneration of the auditors. | | | | |
| 12. | To give authority to allot new shares. | | | | |
| 13. | To give authority to allot new shares free from pre-emption rights. | | | | |
| 14. | To give authority for the Company to purchase its own shares. | | | | |
| 15. | To authorise calling general meetings (other than Annual General Meetings) on 14 clear days' notice. | | | | |

*Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on any resolution as he may think fit.*

Signature ............................................................................... Dated this ................. day of ......................................... 2019

**NOTES**

1. If any other proxy is preferred, strike out the words "Chairman of the Meeting" and add the name and address of the proxy you wish to appoint and initial the alteration. The proxy need not be a member.
2. If the appointer is a corporation this form must be completed under its common seal or under the hand of some officer or attorney duly authorised in writing.
3. A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against a resolution.
4. The signature of any one of joint holders will be sufficient, but the names of all the joint holders should be stated.
5. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
6. To be valid, this form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power, must reach the registrars of the Company, Link Asset Services not less than forty-eight hours before the time appointed for holding the General Meeting or adjournment as the case may be.
7. The completion of this form will not preclude a member from attending the Meeting and voting in person.
8. Any alteration of this form must be initialled. Your completed and signed proxy form should be posted, in the enclosed reply paid envelope, to the Company's Registrars, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF, so as to arrive before 12.00 noon on 10 March 2019.