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This document comprises a prospectus relating to Fidelity Japanese Values PLC prepared in accordance with the Prospectus Rules made under section 84 of the Financial Services and Markets Act 2000 in order to make an offer of transferable securities to the public and to admit the transferable securities to trading on the London Stock Exchange. This document has been approved by and filed with the Financial Services Authority in accordance with the Prospectus Rules. This document and the information herein relates expressly to the Subscription Shares. If you sell or have sold or otherwise transferred all of your Ordinary Shares, please send this document, Form of Proxy and/or Voting Instruction Form at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom or by whom the sale or transfer was made, for delivery to the purchaser or transferee. The distribution of this document and/or the accompanying documents in jurisdictions other than the UK, including the United States, Australia, Canada, Japan, New Zealand or the Republic of South Africa, may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any of those restrictions. Any failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction. Application will be made to the Financial Services Authority for the Subscription Shares to be admitted to the Official List. Application will also be made to the London Stock Exchange for all such Subscription Shares to be admitted to trading on the London Stock Exchange's market for listed securities.

Collins Stewart Europe Limited, which is authorised and regulated by the Financial Services Authority, is acting for the Company in connection with the Bonus Issue and the contents of this document and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Collins Stewart Europe Limited or for advising any such person in connection with the Bonus Issue and the contents of this document. Collins Stewart Europe Limited is not responsible for the contents of this document. This does not exclude or limit any responsibility which Collins Stewart Europe Limited may have under the Financial Services and Markets Act 2000 or the regulatory regime established thereunder.

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# FIDELITY JAPANESE VALUES PLC

*(Incorporated in England and Wales with company number 2885584 and registered as an investment company under section 833 of the Companies Act 2006)*

## BONUS ISSUE OF UP TO 19,115,490 SUBSCRIPTION SHARES

AND

## NOTICE OF GENERAL MEETING TO CONSIDER PROPOSALS FOR THE BONUS ISSUE, ADOPTION OF NEW ARTICLES OF ASSOCIATION AND A CHANGE TO THE INVESTMENT POLICY

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**This document is to be read in conjunction with all documents which are incorporated by reference and should be read in its entirety before making any decision. In particular, your attention is drawn to the letter from the Chairman of the Company that is set out on page 17 of this document. Your attention is also drawn to the Risk Factors section set out in this document.**

**It is expected that Admission will become effective and that dealings in the Subscription Shares on the London Stock Exchange's main market for listed securities will commence on or around 12 November 2009.**

Notice of a General Meeting of the Company to be held at 25 Cannon Street, London EC4M 5TA on 10 November 2009 at 2.00 p.m. is set out at the end of this document. The Bonus Issue described in this document and the proposed change to the Investment Policy are conditional upon Shareholder approval of the Special Resolution and the Ordinary Resolution respectively at the General Meeting. Shareholders are requested to complete and return their Form(s) of Proxy and/or Voting Instruction Form(s).

To be valid, Forms of Proxy for use at the General Meeting must be completed and returned in accordance with the instructions printed thereon to the Company's Registrars, or delivered by hand during office hours only to the same address as soon as possible and in any event so as to arrive by not later than 2.00 p.m. on 8 November 2009.

Voting Instruction Forms are enclosed for use by individuals who hold some or all of their Ordinary Shares through one or both of the Savings Schemes. To be valid, Voting Instruction Forms must be completed and returned in accordance with the instructions printed thereon to the Company's Registrars, Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU as soon as possible and in any event so as to arrive by not later than 5.30 p.m. on 3 November 2009.

The Ordinary Shares are not, and the Subscription Shares will not be, registered under the Securities Act or under the relevant laws of any State of the United States or any state, province or territory of Australia, Canada, Japan, New Zealand or the Republic of South Africa. Subject to certain exceptions, the Subscription Shares issued under the Bonus Issue may not, directly or indirectly, be offered, sold, taken up, delivered or transferred in or into the United States, Australia, Canada, Japan, New Zealand or the Republic of South Africa or to, or for the account or benefit of, US Persons (as defined in Regulation S of the Securities Act). The Subscription Shares have not been approved or disapproved by the US Securities and Exchange Commission, any State securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed comment upon or endorsed the merits of the Bonus Issue or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States. The attention of Overseas Shareholders and other recipients of this document who are residents or citizens of any country outside the EEA is drawn to the section entitled "Overseas Shareholders" in Part I of this document.

Prospective investors should inform themselves as to (a) the possible tax consequences; (b) the legal requirements; and (c) any foreign exchange restrictions or exchange control requirements, which they might encounter under the laws of the countries of their citizenship, residence or domicile, and which might be relevant to the subscription for, holding or disposal of Subscription Shares or the exercise of the Subscription Share Rights.

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## SUMMARY

**This summary section should be read as an introduction to the Prospectus which comprises the whole of this document. Any decision to invest in the Company's securities should be based on a consideration of the Prospectus as a whole by the investor.**

**Where a claim relating to the information contained in a prospectus is brought before a court, a plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating the prospectus before the legal proceedings are initiated.**

**Civil liability attaches to those persons who are responsible for this summary, including any translation of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.**

### **Introduction**

The Company is proposing (a) a bonus issue of up to 19,115,490 Subscription Shares free of payment on the basis of one Subscription Share for every five Ordinary Shares held on the Record Date; (b) a change to its Investment Policy to permit the use of CFDs for gearing purposes; and (c) to update the Articles following final implementation of the 2006 Act.

### **The Company**

The Company is a UK investment trust, established on 7 January 1994.

### **Investment Objective**

The Company's objective is to generate long term capital growth for Shareholders by investing primarily in small and medium-sized Japanese companies listed or traded on Japanese stockmarkets.

### **The Bonus Issue**

The Company is proposing to issue Subscription Shares to Qualifying Shareholders on the basis of one Subscription Share for every five Existing Ordinary Shares held on the Record Date.

Each Subscription Share will confer the right (but not the obligation) to subscribe for one Ordinary Share upon exercise of the Subscription Share Rights and on payment of the Subscription Price as set out below.

Notice to exercise the Subscription Share Rights may be given on the last business day of each month commencing in February 2010 and finishing on the last business day in February 2013, after which the Subscription Share Rights will lapse.

The Subscription Price will be equal to a 1% premium to the published NAV per Ordinary Share as at 5.00 p.m. on 10 November 2009, rounded up to the nearest whole penny.

The Directors believe that the Bonus Issue will have the following advantages:

- (a) Subscription Shares represent an attractive way in which investors can participate in any future NAV growth of the Company through conversion into Ordinary Shares at a predetermined price;
- (b) Qualifying Shareholders will receive securities with a monetary value which may be traded in a similar fashion to their Existing Ordinary Shares or converted into Ordinary Shares;
- (c) on any exercise of the Subscription Share Rights, the capital base of the Company will increase, allowing operating costs to be spread across a larger number of Ordinary Shares and hence the total expense ratio should fall;

- (d) following the exercise of any Subscription Share Rights, the Company will have an increased number of Ordinary Shares in issue, which may improve the liquidity in the market for its Ordinary Shares; and
- (e) Qualifying Shareholders will receive securities which are qualifying investments for the purposes of a stocks and shares ISA and permitted investments for the purposes of a SIPP.

### **Bonus Issue Proceeds**

In due course, upon the Subscription Share Rights being exercised, the Directors intend to invest the net proceeds of such subscriptions in accordance with the Company's Investment Policy.

### **Reasons for Proposing Changes to the Investment Policy**

The proposal is being driven by the need for the Company to repay a loan from The Royal Bank of Scotland plc which will mature in November 2009. In previous years, the Company was able to utilise traditional forms of bank debt to finance replacement funding but, in current conditions in the lending markets, funding is more difficult and expensive to obtain.

The Board believes that it is in the best interests of Shareholders for the Company to continue to have the ability to employ gearing and believes that the use of CFDs in the manner proposed will provide an appropriate method to allow it to raise alternative finance. The costs of using CFDs in the manner proposed are currently lower than the costs involved in traditional borrowing.

The Board is also proposing an increase to 25% from 20% in the proportion of the total value of the Company's assets, that may be invested in cash or cash equivalent, but this limit will not include any cash paid as collateral for unrealised losses on outstanding CFDs. This increase will permit greater flexibility in cash management in light of the potential need to pay cash to cover downward movements in exposure through CFDs on a daily basis.

### **Changes to the Investment Policy**

The Board is proposing that the Investment Policy be amended to allow the Company to use CFDs to continue to provide an exposure to Japanese equities on a geared basis. Derivatives (including CFDs) may currently only be used for efficient portfolio management to protect the portfolio against market risk. In previous years, the Company was able to utilise traditional forms of bank debt to finance replacement funding but, in the current lending market conditions, bank debt, if available, is more difficult, restrictive and expensive to obtain.

The Board believes that it is in the best interests of Shareholders for the Company to continue to have the ability to employ gearing and believes that the proposed ability to use CFDs will provide an appropriate method of alternative finance. The costs of using CFDs are currently lower than those that would be involved in traditional borrowing and, depending on the level of gearing required, CFDs can provide greater flexibility. The Board will continue to monitor and review the Company's gearing level on an ongoing basis.

The aggregate exposure of the Company to Japanese equities, whether held directly or under CFDs, will not exceed 130% of total net assets at the time at which any CFD is entered into or a security acquired. The Board also intends that the exposure will not exceed 140% at any other time unless exceptional circumstances exist. It should be stressed that the majority of the Company's exposure to Japanese equities will be through direct investment, not CFDs. In addition, the limits on exposure to individual companies and groups set out above will be calculated on the basis that the Company has acquired the securities to which any CFD is providing exposure.

The investment of any borrowed money in Japanese equities will be subject to the exposure limits set out above and the total amount borrowed will not exceed 30% of shareholders' funds at the time of borrowing.

Generally, the maximum that the Company will hold in cash will be 25% of the total value of the Company's assets, but this limit will not include any cash or cash equivalent paid as collateral for unrealised losses on CFDs. In practice the cash position will normally be much lower.

The proposed New Investment Policy is set out in section (ii) of Part A of the Appendix to the Notice of the General Meeting on page 80 of this document.

### **The Manager**

The Company is managed by FIL Investments International, a private unlimited liability company incorporated in England and Wales on 13 September 1979 with registered number 1448245. The Manager is part of the FIL Limited Group, which as at 30 June 2009 had total assets under management exceeding £100 billion.

### **Investment Outlook**

Despite signs of steady improvement in the global economy, share prices in Japan have recently weakened, underperforming other world markets. This retrenchment is largely attributable to net selling by overseas investors, the weak performance of financials and a stronger Yen.

The Manager considers that, with international investors being net sellers of Japanese stocks in recent months, there is little prospect of an immediate recovery in domestic demand. Although Japanese corporate managers have become less pessimistic, capital expenditure plans and earnings forecasts remain sharply negative, employment and income conditions remain severe, and deflationary trends are becoming more entrenched.

In the meantime, Japan faces a period of rebalancing as the recently elected Democratic Party of Japan (“**DPJ**”) replaces various public works projects with its own measures to boost child care support and disposable household income. Shares in domestic demand-related small companies that are seen as potential beneficiaries of the DPJ’s child care and consumption based measures have held up well.

While prevailing foreign exchange rates pose downside risks to earnings, Japanese companies have become far more resilient to currency movements. Moreover, aggressive cost cutting measures have created a leaner, more competitive corporate landscape that will translate into higher operational leverage once top lines recover.

Over the near term, trends in global economic data and corporate earnings should continue to influence share prices. In order for Japanese stocks to catch up with those in other developed markets, however, a reversal in the factors behind the recent weakness will need to be seen.

### **Articles**

Amendments are being proposed to the Articles to allow for the Bonus Issue and to make changes following final implementation of the 2006 Act.

### **General Meeting**

The Bonus Issue and amendments to the Articles are conditional on, amongst other things, the passing of the Special Resolution. A General Meeting of the Company has been scheduled for 10 November 2009 at which an Ordinary Resolution will be also be proposed to approve the changes to the Investment Policy.

### **Risk Factors**

The principal risk factors affecting the Company and the Subscription Shares which are known to the Directors are:

(a) ***Investment Objective and Strategy***

There can be no guarantee that any appreciation in the value of the Company’s investments will occur or that the investment objective of the Company will be achieved. The value of an investment in the Company, and the income derived from it, if any, may go down as well as up and an investor may not get back the amount invested. The success of the Company will depend

on the performance of the Japanese stockmarkets and the Manager's ability to identify attractive investments and to realise them. No assurance can be given that the Company will be able to invest its capital on attractive terms or to generate returns for Shareholders or that the strategies will be successful under all or any market conditions.

The Company invests primarily in small and medium-sized Japanese companies listed or traded on Japanese stockmarkets. A fall in the value of Japanese equities would have an adverse impact on the value of the Company's Shares.

(b) ***Ordinary Shares***

The price of the Ordinary Shares will be determined by the interaction of supply and demand in the market as well as the NAV per Share. The market price of the Ordinary Shares is therefore likely to fluctuate and may represent either a discount or premium to the NAV per Ordinary Share.

The discount or premium is itself variable as conditions for supply and demand for the Company's Ordinary Shares change.

(c) ***Subscription Shares***

The value of a Subscription Share may go down as well as up. Movements in the price of Subscription Shares may not be in line with movements in the price of the Ordinary Shares.

Subscription Shares represent a geared investment, so a relatively small movement in the market price of the Ordinary Shares may result in a disproportionately large movement, unfavourable or favourable, in the market price of the Subscription Shares.

The Subscription Share Rights will lapse on the last business day of February 2013 and the Subscription Shares may have no value to holders after that date.

The Subscription Shares, in so far as they are given an entitlement to subscribe for Ordinary Shares, will be affected by the same risk factors as the Ordinary Shares.

(d) ***Borrowing and Gearing***

Prospective investors should be aware that, whilst the use of borrowings and the proposed use of CFDs within the limits prescribed by the Board should enhance the NAV per Share where the value of the Company's underlying assets is rising at a rate greater than the interest rate on the borrowings, it will have the opposite effect where the underlying asset value is falling or is rising at a rate lower than the interest rate on the borrowings.

In addition, if the proposed Investment Policy changes are approved and CFDs are used to obtain a geared exposure to Japanese equities, the Company will have a counterparty risk of a maximum of US\$1 million plus the aggregate unrealised profits on CFDs from the last three trading days.

(e) ***Dilution***

The allotment of the Subscription Shares will mean that the equivalent of 20% of the Company's issued ordinary share capital is under option immediately following the Bonus Issue. On each occasion the Subscription Shares Rights are exercised this will dilute the ordinary shareholding of any Ordinary Shareholders who do not exercise a corresponding proportion of the Subscription Share Rights attaching to their Subscription Shares or who have sold their Subscription Shares. However, if a Shareholder continues to hold the Subscription Shares issued to him pursuant to the Bonus Issue and exercises his Subscription Share Rights before their expiry, that Shareholder's percentage interest in the ordinary share capital of the Company will not ultimately be reduced below his percentage interest in the ordinary share capital of the Company immediately prior to the Bonus Issue. If, as is likely, the NAV per Ordinary Share at the time of exercise of the Subscription Share Rights exceeds the applicable Subscription Price, the issue of the Ordinary Shares upon such exercise will also have a dilutive effect on the NAV per Ordinary Share.

(f) ***Financial Statements***

The Company prepares its financial statements in accordance with the 2006 Act and UK GAAP and with the AIC Statement of Recommended Practice (SORP) for Investment Trust Companies and Venture Capital Trusts dated January 2009. UK GAAP, the SORP and the resulting accounting treatments are subject to change and this may affect the Company's calculation of NAV. Changes in the Company's accounting policies could also adversely affect Shareholders.

(g) ***Other***

The Company must comply with section 842 of the Taxes Act. Were the Company to breach section 842, it might lose investment trust status and capital gains within the Company's portfolio might become subject to tax. Changes in taxation could adversely affect Shareholders.

## RISK FACTORS

Shareholders should carefully consider all the information in this document, including the risks described below. The Directors have identified these risks as the material risks relating to the Company, an investment in the Ordinary Shares and the Subscription Shares, and investing in Japanese equities of which the Directors are aware as at the date of this document. Additional risks and uncertainties not presently known to the Directors, or that the Board considers immaterial, may also adversely affect the Company's business, results of operations or financial condition. If any or a combination of the following risks materialise, the Company's business, financial condition, operational performance and the Ordinary Share price and Subscription Share price could be materially adversely affected. In that case, the trading price of the Ordinary Shares and Subscription Shares could decline and potential investors lose some or all of their investments in the Company.

For the avoidance of doubt, none of the risk factors detailed below seeks to qualify the working capital statement set out in paragraph 4 of Part III of this document.

### General Risks

An investment in the Company is only suitable for investors capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which may result from the investment. A prospective investor should consider with care whether an investment in the Company is suitable for him in the light of his personal circumstances and the financial resources available to him.

Investment in the Company should not be regarded as short term in nature. There can be no guarantee that any appreciation in the value of the Company's investments will occur or that the investment objectives of the Company will be achieved. Investors may not get back the full amount initially invested.

The prices of shares and the income derived from them can go down as well as up. Past performance is not necessarily a guide to the future.

Changes in economic conditions including, for example, interest rates, currency exchange rates, rates of inflation, industry conditions, competition, political and diplomatic events and trends, tax laws and other factors can substantially and adversely affect equity investments and the Company's prospects.

### Risks Relating to the Company and its Business

**An investment in the Company may not be suitable for all recipients of this document. Before making any investment decision, prospective investors are strongly advised to consult an independent adviser authorised under the FSMA who specialises in advising upon investments.**

The Company is an investment trust. Investment trusts aim to generate returns for shareholders by investing in other companies. As an investment trust may invest in a range of different companies and sectors, it may represent a method for investors to gain a diversified investment exposure. However, prospective investors should be aware of certain factors which apply to the Company and to investment trusts generally:

- (a) There can be no guarantee that any appreciation in the value of the Company's investments will occur or that the investment objective of the Company will be achieved. The value of an investment in the Company, and the income derived from it, if any, may go down as well as up and an investor may not get back the amount invested.
- (b) The Company invests predominantly in small and medium-sized Japanese equities. A fall in the value of Japanese equities would have an adverse impact on the value of the Company's Shares.
- (c) The price of the Ordinary Shares will be determined by the interaction of supply and demand in the market as well as the NAV per Share. The market price of the Ordinary Shares is therefore likely to fluctuate and may represent either a discount or premium to the NAV per Ordinary Share.

The rating of the Ordinary Shares is itself variable as conditions for supply and demand change. This means that the Ordinary Share price may go down as well as up and the Ordinary Share price can fall when the NAV per Ordinary Share rises, or vice versa.

- (d) The exercise of Subscription Share Rights at a time when the NAV per Share is greater than the prevailing Subscription Price would cause the NAV per Share to be diluted and the perceived risk of dilution may cause the market price of the Ordinary Shares to reflect a lesser sensitivity to increase in the NAV per Share than might otherwise be expected.
- (e) Market liquidity in the shares of investment trusts is frequently inferior to the market liquidity of shares issued by larger companies traded on the London Stock Exchange. It is possible that there may not be a liquid market in the Ordinary Shares and investors may have difficulty in selling such securities.

### **Subscription Shares**

- (a) Investment in the Subscription Shares may not be suitable as a short term investment. The value of a Subscription Share may go down as well as up.
- (b) Subscription Shares represent a geared investment, so a relatively small movement in the market price of the Ordinary Shares may result in a disproportionately large movement, unfavourable or favourable, in the market price of the Subscription Shares. The market price of the Subscription Shares may therefore be volatile.
- (c) The published market price of the Subscription Shares will typically be their mid-market price. Due to the potential difference between the mid-market price of the Subscription Shares and the price at which Subscription Shares can be sold, there is no guarantee that the realisable value of the Subscription Shares will reflect their published market price.
- (d) In the case of any Subscription Shares whose Subscription Share Rights have not been exercised on or before the final date for exercising such rights, such Subscription Shares will cease to have any value unless a trustee appointed by the Company determines that the net proceeds of sale of the Ordinary Shares that would arise on the exercise of such rights after deduction of all the costs and expenses of sale would exceed the costs of exercise of such rights. In such circumstances, the trustee would either exercise all the outstanding Subscription Share Rights and sell the Ordinary Shares issued on such exercise in the market, or, if it appears to the trustee that doing so is likely to raise greater net proceeds, it may accept any offer available to the Subscription Shareholders for the purchase of the outstanding Subscription Shares. The net proceeds of any such sale (after deducting the costs of exercising the Subscription Share Rights, if applicable, and any other costs and expenses incurred in relation to such sale) will be remitted to the Subscription Shareholders unless the amount to which a Subscription Shareholder is entitled is less than £5 in which case such sum shall be retained for the benefit of the Company.
- (e) Although Subscription Shares are tradable securities, market liquidity of Subscription Shares may be less than the market liquidity of Ordinary Shares. It is possible that there may not be a liquid market in the Subscription Shares and investors may have difficulty in selling such securities.
- (f) The Company has applied for the Subscription Shares to be admitted to trading on the London Stock Exchange. The London Stock Exchange has the right to suspend or limit trading in a company's securities. Any suspension or limitation on trading in the Subscription Shares may affect the ability of Shareholders to realise their investments.
- (g) The Subscription Shares, in so far as they give an entitlement to subscribe for Ordinary Shares, are affected by the same risk factors as the Ordinary Shares as set out in this section headed "Risk Factors".
- (h) The intrinsic value of a Subscription Share at any time will be the prevailing market price of an Ordinary Share less the price payable on the exercise of the Subscription Share Rights and, as such, it is expected to rise or fall depending on whether the market price of an Ordinary Share

rises or falls. The market price of a Subscription Share may be higher than the intrinsic value of a Subscription Share, reflecting the potential geared returns available from an investment in the Subscription Shares. However, the market price of the Subscription Shares will be determined by market forces and there is no guarantee that they will have a market value.

### **Investment Strategies**

The success of the Company will depend on the performance of the Japanese stockmarkets and the Manager's ability to identify attractive investments and to realise them in accordance with the Company's investment objectives. Any factor which would make it more difficult to buy or sell investments may have an adverse affect on the profitability of the Company. No assurance can be given that the Company will be able to invest its capital on attractive terms or to generate returns for Shareholders or that the strategies to be used will be successful under all or any market conditions.

The performance of the Company's investment programme depends to a great extent on the correct assessments of the future course of price movements of securities and other investments selected by the Manager. There can be no assurance that the Manager will accurately predict these price movements.

The Company's investment portfolio typically comprises between 100 and 160 holdings; as at 30 September 2009 the Company had 128 investments.

### **Discounts**

The price of shares in an investment trust is determined by the interaction of supply and demand for such shares in the market as well as the NAV per share. The share price can therefore fluctuate and may represent a discount or premium to the NAV per share. This discount or premium is itself variable as conditions for supply and demand for the shares change. This can mean that the share price can fall when the NAV per share rises, or vice versa.

The Board regularly reviews the level of discount.

### **Liquidity**

The Company is a closed-ended vehicle. Accordingly, Shareholders have no right to have their Ordinary Shares or Subscription Shares repurchased by the Company at any time. Shareholders wishing to realise their investments in the Company will therefore be required to dispose of their Ordinary Shares or Subscription Shares on the stockmarket.

Market liquidity in the shares of investment trusts is sometimes less than market liquidity in shares issued by larger companies traded on the London Stock Exchange. There can be no guarantee that a liquid market in the Ordinary Shares will be maintained or will exist for the Subscription Shares. Accordingly, Shareholders may be unable to realise their Ordinary Shares at the quoted market price (or at the prevailing NAV per Ordinary Share) or their Subscription Shares at the quoted market price or, in either case, at all.

### **Interest Rates**

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the Company's variable rate cash borrowings.

### **Calculation of NAV**

In calculating the Company's daily unaudited NAV, the Manager may rely on estimates of the values of companies or their securities in which the Company invests. Such estimates may be unaudited or may be subject to little verification or other due diligence and may not comply with UK GAAP or other valuation principles.

## **Dividends and Income**

The Company's principal investment objective is to achieve capital growth predominantly from investment in small and medium-sized Japanese companies listed or traded on Japanese stockmarkets. The Company may only pay dividends to the extent that it has distributable revenue profits available for that purpose. Under the Articles, the Company may not pay a dividend out of its capital reserves.

## **Dilution**

The allotment of the Subscription Shares will mean that the equivalent of 20% of the Company's issued ordinary share capital is under option immediately following the Bonus Issue. On each occasion the Subscription Share Rights are exercised this will dilute the ordinary shareholding of any Ordinary Shareholders who do not exercise a corresponding proportion of the Subscription Share Rights attaching to their Subscription Shares or who have sold their Subscription Shares. However, if a Shareholder continues to hold the Subscription Shares issued to him pursuant to the Bonus Issue and exercises his Subscription Share Rights before their expiry, that Shareholder's percentage interest in the ordinary share capital of the Company will not ultimately be reduced below his percentage interest in the ordinary share capital of the Company immediately prior to the Bonus Issue. If, as is likely, the NAV per Ordinary Share at the time of exercise of the Subscription Share Rights exceeds the applicable Subscription Price, the issue of the Ordinary Shares upon such exercise will also have a dilutive effect on the NAV per Ordinary Share. The extent of such dilution will depend on the number of Subscription Shares which are converted on each occasion and the difference between the applicable Subscription Price and the NAV per Ordinary Share prevailing at the time the new Ordinary Shares are issued pursuant to the exercise of the Subscription Share Rights.

## **Currency**

The Company's total return and balance sheet are affected by foreign exchange movements because the Company has assets and income which are denominated in Yen whilst the Company's base currency is Sterling. While it is the Company's policy not to hedge currency, the fact that borrowings and CFDs are or will be in Yen means that part of the investment portfolio funded by borrowing is naturally hedged against changes in the Yen: Sterling exchange rate. The Company's existing loan with The Royal Bank of Scotland plc will be repaid by the end of November 2009.

## **Rights of Subscription Shares on Liquidation**

In the event of the winding-up of the Company prior to the exercise of the Subscription Share Rights, Subscription Shareholders may receive a payment out of the assets which would otherwise be available for distribution amongst the Ordinary Shareholders.

## **Potential Conflicts of Interest**

The Manager may be involved in other financial, investment or professional activities that may on occasion give rise to conflicts of interest with the Company. In particular, the Manager currently provides and may continue to provide investment management, investment advice or other services in relation to a number of companies, funds or accounts that may have similar investment objectives and/or policies to that of the Company and may receive ad valorem and/or performance-related fees for so doing.

As a result, the Manager may have conflicts of interest in allocating investments among the Company and other clients and in effecting transactions between the Company and other clients. The Manager may give advice or take action with respect to such clients that differs from the advice given or actions taken with respect to the Company. In the event of a conflict arising, the Manager will take reasonable steps to ensure fair treatment for the Company in accordance with FSA's Conduct of Business Sourcebook and the Manager's Conflicts of Interest Disclosure Statement (a copy of which is available on request).

## **Borrowings**

Some investment trusts employ gearing in seeking to enhance returns to shareholders by borrowing funds for investment. Where an investment trust is geared, its NAV and price performance would be expected to represent an amplification of any upward and downward movement in the investment trust's portfolio as a result of price changes of the investments contained therein. The Board imposes borrowing limits in an attempt to ensure gearing levels are appropriate to market conditions.

Whilst the use of borrowings within the limits prescribed by the Board should enhance the NAV per Ordinary Share where the value of the Company's underlying assets is rising at a rate greater than the interest rate on the borrowings, it will have the opposite effect where the underlying asset value is falling or is rising at a rate lower than the interest rate on the borrowings. This may increase the volatility of the NAV per Ordinary Share.

The additional risk to the Company of using CFDs rather than traditional forms of finance is that the Company does not own the Japanese equities to which the CFDs give exposure and is at risk if the counterparty defaults, for example for insolvency reasons. The balance on all outstanding CFDs is calculated on a daily basis with collateral then adjusted so that collateral equal to the outstanding balance has been posted, although no collateral adjustment is made where the balance is less than US\$1 million. This results in a potential exposure which could be increased, due to settlement practices and timing differences, to a maximum of US\$1 million plus three days' unrealised trading profits.

## **Taxation**

Any change in the Company's tax status, including failure to satisfy the conditions of section 842 of the Taxes Act, or any change in taxation legislation, could affect the market value of the investments held by the Company, affect the Company's ability to provide returns to Shareholders, or alter the post-tax returns to Shareholders.

The levels of, and reliefs from, taxation may change. The tax reliefs referred to in this document are those currently available and their value depends on the individual circumstances of investors. **If you are in any doubt as to your tax position, you should consult an appropriate independent professional adviser.**

## **Legal and Regulatory**

The Company must also comply with the provisions of the 2006 Act and, as its Shares are admitted to the Official List, of the Listing Rules. A breach of the 2006 Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. A breach of the Listing Rules could result in the Company's shares being suspended from listing, which in turn would breach section 842 of the Taxes Act.

If Subscription Share Rights are exercised the number of Subscription Shares in issue will be reduced. This could lead to the outstanding Subscription Shares being concentrated in the hands of a small number of Subscription Shareholders over time. The continued listing on the Official List of each share class is dependent on at least 25% of the Shares in that class being held in public hands (as defined in the Listing Rules). This means that if more than 75% of the Shares in any class are held by, amongst others, the Directors, persons connected with the Directors, or persons interested in 5% or more of the relevant Shares, the listing of that class of Shares may be suspended or cancelled. The Listing Rules state that the UK Listing Authority may allow a reasonable period of time for the Company to restore the appropriate percentage if this rule is breached once the Shares are listed, unless this is precluded by the need to maintain the smooth operation of the market or to protect investors. If the listing were cancelled, the Company would lose its investment trust status.

The European Commission has published a draft Alternative Investment Fund Managers Directive designed to regulate private equity and hedge funds. However, as currently drafted the Directive would have significant consequences for the Company (and all similar investment companies) which might include a requirement for a major restructuring and/or materially increased compliance and regulatory costs. The Directive is subject to consultation and potential revision and redrafting, so the final text

remains uncertain and it is not expected to come into effect until the second half of 2010 at the earliest. The Board and the Company's advisers will continue to monitor the progress and likely implications of the Directive.

### **Exchange Controls and Withholding Tax**

The Company may, from time to time, purchase investments that will subject the Company to exchange controls or withholding taxes in various jurisdictions. In the event that exchange controls or withholding taxes are imposed with respect to any of the Company's investments, the effect will generally be to reduce the income received by the Company on such investments.

### **Economic Conditions**

Changes in economic conditions can substantially and adversely or favourably affect the Company's prospects and the value of the Company's portfolio.

### **Financial Statements**

The Company prepares its financial statements in accordance with the 2006 Act and UK GAAP and with the AIC Statement of Recommended Practice (SORP) for Investment Trust Companies and Venture Capital Trusts dated January 2009. UK GAAP, the SORP and the resulting accounting treatments are subject to change and this may affect the Company's calculation of NAV. Changes in the Company's accounting policies could also adversely affect Shareholders.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

2009

Latest time and date for receipt of Voting Instruction Forms from Savings Scheme Participants	5.30 p.m. on 3 November
Latest time and date for receipt of Forms of Proxy	2.00 p.m. on 8 November
General Meeting	2.00 p.m. on 10 November
Record Date for the Bonus Issue	5.00 p.m. on 10 November
Subscription Price of Subscription Shares calculated	Close of business on 10 November
Announcement of the Subscription Price	11 November
Admission of the Subscription Shares to the Official List and dealings in the Subscription Shares commence	8.00 a.m. on 12 November
Crediting of CREST stock accounts in respect of the Subscription Shares	12 November
Share certificates despatched in respect of the Subscription Shares	week commencing 16 November

### Notes:

- (1) The times and dates set out in the Expected Timetable of Principal Events above and mentioned throughout this document may be adjusted by the Company, in which event details of the new times and dates will be notified, as required, to the UK Listing Authority and the London Stock Exchange, and, where appropriate, to Shareholders.
- (2) All references to time in this document are references to London time.

## DEALING CODES

The dealing codes for the Subscription Shares will be as follows:

ISIN	GB00B4PF8J20
SEDOL	B4PF8J2
Ticker	FJVS

## IMPORTANT NOTICES

Shareholders should not treat the contents of this document as advice relating to legal, taxation, investment or any other matters. Shareholders should inform themselves as to: (a) the legal requirements within their own countries for the holding, transfer or other disposal of Subscription Shares and the exercise of the Subscription Share Rights; (b) any foreign exchange restrictions applicable to the holding, transfer or other disposal of Subscription Shares and the exercise of the Subscription Share Rights which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the holding, transfer or other disposal of Subscription Shares or the exercise of the Subscription Share Rights. Shareholders must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

Statements made in this document are based on the law and practice currently in force in England and Wales and are subject to changes therein.

### **Forward looking statements**

This Prospectus contains forward looking statements including, without limitation, statements containing the words “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will”, or “should” or, in each case, their negative or other variations or similar expressions. Such forward looking statements involve unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement of the Company, or industry results, to be materially different from future results, performance or achievements expressed or implied by such forward looking statements.

Given these uncertainties, Shareholders are cautioned not to place any undue reliance on such forward looking statements. These forward looking statements apply only as at the date of this Prospectus. Subject to its legal and regulatory obligations (including under the Listing Rules, the Prospectus Rules and the Disclosure and Transparency Rules), the Company expressly disclaims any obligations to update or revise any forward looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based unless required to do so by law or by any appropriate regulatory authority, including the FSMA, the Listing Rules, the Prospectus Rules and the Disclosure and Transparency Rules.

Nothing in the preceding two paragraphs should be taken as limiting the working capital statement in paragraph 4 of Part III of this document.

## DIRECTORS, MANAGER AND ADVISERS

Directors	William Thomson ( <i>Chairman</i> ) Nicholas Barber, CBE ( <i>Senior Independent Director</i> ) Simon Fraser Philip Kay David Miller, OBE  all of: Beech Gate, Millfield Lane Lower Kingswood Tadworth Surrey KT20 6RP
Registered Office	Beech Gate, Millfield Lane Lower Kingswood Tadworth Surrey KT20 6RP
Manager and Company Secretary	FIL Investments International Oakhill House 130 Tonbridge Road Hildenborough Kent TN11 9DZ Tel: 01732 361 144
Financial Adviser and Sponsor	Collins Stewart Europe Limited 88 Wood Street London EC2V 7QR
Legal Advisers to the Company	Slaughter and May One Bunhill Row London EC1Y 8YY
Auditor	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
Registrars	Capita Registrars Northern House Woodsome Park, Fenay Bridge Huddersfield West Yorkshire HD8 0GA
Custodian and Principal Banker	JPMorgan Chase Bank (London Branch) 125 London Wall London EC2Y 5AJ Tel: 01202 342000

**PART I**  
**CHAIRMAN'S LETTER**

**FIDELITY JAPANESE VALUES PLC**

*(Incorporated in England and Wales with company number 2885584 and registered as an investment company under section 833 of the Companies Act 2006)*

*Directors:*

William Thomson (*Chairman*)  
Nicholas Barber, CBE  
Simon Fraser  
Philip Kay  
David Miller, OBE

*Registered Office:*

Beech Gate, Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey KT20 6RP

15 October 2009

Dear Shareholder,

**Proposed Bonus Issue of up to 19,115,490 Subscription Shares,  
Adoption of New Articles of Association and Change to Investment Policy**

**Introduction**

The Company announced on 20 August 2009 that the Board was considering proposals for a bonus issue of Subscription Shares to existing Shareholders. After further consideration the Board has decided to proceed and I am now writing to give you details of the Bonus Issue, as well as to describe certain changes that the Board is proposing be made to the Company's Investment Policy and, following the final implementation of the 2006 Act, to the Articles.

Implementation of the Bonus Issue requires amendments to the Articles to provide for the rights of the Subscription Shares and to obtain authority to allot the Subscription Shares. The Bonus Issue is conditional on the passing of a Special Resolution to be proposed at the General Meeting of the Company to be held on 10 November 2009, as well as on the admission of the Subscription Shares to the Official List and to trading on the London Stock Exchange.

The Board is also proposing an amendment to the Company's Investment Policy to allow the Company to obtain a geared exposure to Japanese equities through the use of contracts for difference ("CFDs"). The proposal is being driven by the need for the Company to repay its loan from The Royal Bank of Scotland plc which matures in November 2009. To be implemented, the proposal requires Shareholder consent and accordingly a suitable Ordinary Resolution is also to be proposed at the General Meeting.

**The Bonus Issue**

The Company is proposing to issue Subscription Shares to Qualifying Shareholders on the basis of one Subscription Share for every five Existing Ordinary Shares held on the Record Date, subject to the passing of the Special Resolution set out in the Notice of General Meeting. The Subscription Shares will be issued by way of a bonus issue to Qualifying Shareholders and will be listed and tradable on the main market for listed securities of the London Stock Exchange. The ISIN of the Subscription Shares is GB00B4PF8J20 and the ticker is FJVS.

Each Subscription Share will confer the right (but not the obligation) to subscribe for one Ordinary Share upon exercise of the Subscription Share Rights and on payment of the Subscription Price, as set out below.

The Subscription Share Rights may be exercised on the last business day of each month commencing in February 2010 and finishing on the last business day in February 2013 after which the Subscription Share Rights will lapse. The Ordinary Shares arising on exercise will be allotted within ten Business Days of the relevant exercise date. To be exercised, a notice of exercise must be received by the Registrars no later than ten business days prior to the relevant exercise date.

Qualifying Shareholders' entitlements will be assessed against the register of members on the Record Date, which is expected to be 5.00 p.m. on 10 November 2009.

Subscription Shares will rank equally with each other and will not carry the right to receive any dividends from the Company or the right to attend and vote at general meetings of the Company.

The Subscription Price will be equal to the published NAV per Ordinary Share as at 5.00 p.m. on 10 November 2009, plus a 1% premium to such NAV per Ordinary Share, rounded up to the nearest whole penny.

The NAV for the purpose of calculating the Subscription Price will be the unaudited value of the Company's assets calculated in accordance with the Company's accounting policies (including revenue items for the current financial year) less all prior charges and other creditors at their fair value (including the costs of the Bonus Issue).

The New Articles provide that the Subscription Price is subject to adjustment upon the occurrence of certain corporate events by or affecting the Company before the last business day in February 2013. The relevant corporate events include consolidations or sub-divisions of share capital, pre-emptive offers of securities to Ordinary Shareholders, takeover offers and the liquidation of the Company. Such adjustments serve to protect either the intrinsic value or the time value of the Subscription Shares or both.

The percentage premium applying upon exercise and the resulting Subscription Price reflect the Board's confidence in the Company's medium to long term prospects and its hope that holders of Subscription Shares will be able to exercise their Subscription Share Rights and acquire Ordinary Shares on favourable terms in the future.

It is expected that an announcement setting out the Subscription Price will be made on 11 November 2009. Fractions of Subscription Shares will not be allotted or issued and entitlements will be rounded down to the nearest whole number of Subscription Shares.

### **Advantages of the Bonus Issue**

The Directors believe that the Bonus Issue of Subscription Shares will have the following advantages:

- (a) Subscription Shares should represent an attractive way for investors to participate in any future NAV growth of the Company through conversion into Ordinary Shares at a predetermined price;
- (b) Qualifying Shareholders will receive securities with a monetary value which may be traded in a similar fashion to their Existing Ordinary Shares or converted into Ordinary Shares;
- (c) on any exercise of the Subscription Share Rights, the capital base of the Company will increase, allowing operating costs to be spread across a larger number of Ordinary Shares, and this may cause the total expense ratio to fall;
- (d) following the exercise of any Subscription Share Rights, the Company will have an increased number of Ordinary Shares in issue, which may improve the liquidity in the market for its Ordinary Shares; and
- (e) Qualifying Shareholders will receive securities which are qualifying investments for the purposes of a stocks and shares ISA and permitted investments for the purposes of a SIPP.

## **Implementation of Bonus Issue**

Implementation of the Bonus Issue requires Shareholders to approve the Special Resolution to be proposed at the General Meeting. If passed, the Special Resolution will:

- (a) approve the adoption of New Articles containing the rights attaching to the Subscription Shares and incorporating certain changes to reflect the final implementation of the 2006 Act;
- (b) authorise the Directors to allot the Subscription Shares pursuant to the Bonus Issue;
- (c) authorise the capitalisation of sums standing to the credit of the Company's share premium account, capital redemption reserve, special reserve and any other applicable reserve (excluding the revenue reserve) in paying up the Subscription Shares to be issued pursuant to the Bonus Issue;
- (d) authorise the consolidation, sub-division or redemption of any share capital in connection with the exercise of the Subscription Share Rights so as to enable conversion of the Subscription Shares into Ordinary Shares in accordance with the Subscription Share Rights; and
- (e) authorise the repurchase by the Company of Subscription Shares representing up to 14.99% of the Company's issued Subscription Share capital following Admission (subject to certain conditions), as more fully described below.

## **Authority to Repurchase Subscription Shares**

In order to allow the Company to repurchase Subscription Shares, the Special Resolution will also grant the Company authority to buy back up to 14.99% of the issued Subscription Share capital following Admission.

Repurchases of Subscription Shares will be made at the discretion of the Board, and will only be made when market conditions are considered to be appropriate and in accordance with the Listing Rules. Purchases through the market will not be at prices that exceed the higher of (i) 5% above the average of the middle market quotations (as derived from the Official List) for the five consecutive dealing days ending on the dealing day immediately preceding the date on which the purchase is made and (ii) the higher of the price quoted for (a) the last independent trade of, or (b) the highest current independent bid for, any number of Subscription Shares on the trading venue where the purchase is carried out. Repurchases will only be made when they will result in an increase in the fully diluted NAV per Ordinary Share. Any Subscription Shares repurchased by the Company will be cancelled and will not be held in treasury for reissue or resale.

It is anticipated that authorisation for repurchases of Subscription Shares will be sought at the Company's AGMs in 2010 and beyond.

## **New Articles**

If the Special Resolution is approved, the New Articles will be adopted. The New Articles will set out the rights attaching to the Subscription Shares and incorporate certain changes to reflect recent legal developments, in particular certain provisions of the 2006 Act which came into force in 2008 and 2009. The New Articles will not otherwise vary from the existing Articles. A detailed explanation of the amendments is set out in Part B of the Appendix to the Notice of the General Meeting on page 82 of this document.

The New Articles will be on display at the registered office of the Company from the date of this document until the end of the General Meeting and at the General Meeting itself for the duration of the meeting and for at least 15 minutes prior to the meeting.

### **Continuation Vote**

Under the Articles, the Company is required to propose a continuation vote as an ordinary resolution at every third AGM. If a continuation vote is not passed the Directors are required to convene a general meeting within three months, at which proposals for the winding up or other reconstruction of the Company would be considered.

The last continuation vote took place in May 2007 and the next is due at the AGM to be held in 2010, when all or some of the Subscription Shares may still be outstanding. Subscription Shares do not carry the right to attend and vote at any general meeting of the Company, including any meeting convened to consider a continuation vote. If the continuation vote is not passed and the Company is wound up or restructured, the entitlements of Subscription Shareholders would be calculated in accordance with the rights attaching to the Subscription Shares.

Broadly, this means that Subscription Shareholders as a whole would receive a proportionate amount of each and every payment made under a winding up or reconstruction, where such proportion is not less than the market capitalisation of the Subscription Shares divided by the total assets available to ordinary shareholders calculated at the outset of a winding up or reconstruction. This amount would be divided between the holders of the outstanding Subscription Shares *pro rata* to their holdings at the outset of the winding up or reconstruction. The full rights attaching to the Subscription Shares are set out in Part IV of this Prospectus.

Although any formal recommendation as to the continuation vote will only be taken at the time of the approval of the annual results for 2009, the Bonus Issue proposal underlines the Board's confidence in the long term prospects of the Company.

### **Admission and Dealings**

The Subscription Shares will be in registered form and may be issued either in certificated or uncertificated form. No temporary documents of title will be issued. Pending despatch of definitive certificates, transfers of Subscription Shares in certificated form will be certified against the Register. All documents or remittances sent by or to Shareholders will be sent through the post at the risk of the Shareholder.

Applications will be made to the UK Listing Authority for the Subscription Shares to be admitted to the Official List and to the London Stock Exchange for such shares to be admitted to trading on its market for listed securities. It is expected that Admission will occur, and that dealings will commence, on 12 November 2009. On Admission, the Subscription Shares will confer rights to subscribe for new Ordinary Shares representing, in aggregate, up to 20% of the then issued ordinary share capital of the Company.

The Ordinary Shares resulting from the exercise of the Subscription Share Rights will rank *pari passu* with the Ordinary Shares then in issue (save for any dividends or other distributions declared, made or paid on the Ordinary Shares by reference to a record date prior to the allotment of the relevant Ordinary Shares).

### **Overseas Shareholders**

The issue of the Subscription Shares to persons who have a registered or mailing address in countries outside the EEA may be affected by the law or regulatory requirements of the relevant jurisdiction.

The Subscription Shares to be issued under the Bonus Issue are not being issued to Overseas Shareholders. The Board will allot any Subscription Shares due under the Bonus Issue to Overseas Shareholders to a market maker who will sell such Subscription Shares promptly at the best price obtainable. The proceeds of sale will be paid to the Overseas Shareholders entitled to them save that entitlements of less than £5 per Overseas Shareholder will be retained by the Company for its own account.

Notwithstanding any other provision of this document the Company reserves the right to permit any Shareholder to take up Subscription Shares under the Bonus Issue if the Company, in its sole and absolute discretion, is satisfied at any time prior to the General Meeting that the transaction in question is exempt from, or not subject to, the legislation or regulations giving rise to the restrictions in question.

Overseas Shareholders who believe that they are entitled to take up Subscription Shares under the Bonus Issue should contact the Company as soon as possible to discuss the matter.

Any Shareholder who is in any doubt as to his position should consult an appropriate independent professional adviser without delay.

### **Taxation**

The attention of Shareholders is drawn to the summary of United Kingdom tax matters set out in paragraph 12 of Part V of the Prospectus.

Shareholders should note that the Subscription Shares are qualifying investments for a stocks and shares ISA and will constitute permitted investments for the purposes of a SIPP. The exercise of Subscription Share Rights may affect the annual subscription limit available for further investment into an ISA in the relevant year. Shareholders who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional adviser.

### **Costs of the Bonus Issue**

The Company's expenses in connection with the Bonus Issue are estimated to amount to approximately £180,000 (inclusive of VAT). These expenses will be borne by the Company.

### **Net Proceeds from Subscription Shares**

Although there can be no certainty as to whether any or all of the Subscription Share Rights will be exercised, if the Bonus Issue proceeds and all of the Subscription Share Rights are exercised, the net proceeds that could arise on such exercise would be approximately £11.374 million, based on a NAV of 58.91 pence on 13 October 2009, the latest practicable date prior to the publication of this document, and assuming 19,115,490 Subscription Shares are issued pursuant to the Bonus Issue. It should be noted, however, that the Subscription Price will be calculated as at the Record Date and therefore the above figures are illustrative only.

### **Proposed Use of CFDs for Gearing**

The Board is proposing that the Investment Policy be amended to allow the Company to use CFDs to maintain exposure to Japanese equities on a geared basis. Derivatives (including CFDs) may currently only be used for efficient portfolio management to protect the portfolio against market risk. In previous years, the Company was able to utilise traditional forms of bank debt to finance replacement funding but, in the current lending market conditions, bank debt, if available, is more difficult, restrictive and expensive to obtain.

The Board believes that it is in the best interests of Shareholders for the Company to continue to have the ability to employ gearing and believes that the proposed ability to use CFDs will provide an appropriate method of alternative finance. The costs of using CFDs are currently lower than those that would be involved in traditional borrowing and, depending on the level of gearing required, CFDs can provide greater flexibility. The Board will continue to monitor and review the Company's gearing level on an ongoing basis.

### **How CFDs will Operate**

The Company will enter into CFDs with a counterparty that will provide the Company with an exposure to Japanese equities selected by the Manager. The counterparty will purchase the relevant stocks (or exposure to them) in the market onto its own balance sheet and hold the stocks (or exposure) to cover its exposure to the Company for the period that the Company holds the relevant CFDs. The counterparty

is obliged to pay the Company to the extent the market price of the securities rises, as well as to pay a sum equal to any dividend income. The Company is obliged to pay the counterparty to the extent the market price falls. The Company does not actually purchase the underlying securities, but is exposed to any movement in the price.

The counterparty also charges the Company a daily funding charge, based on the initial market price of the securities that are the subject of the CFD. The effect is to give the Company an exposure to the securities on a geared basis, in effect as if the counterparty had lent the Company the money necessary for the Company to acquire the securities and the Company had acquired them.

The net balance payable between the counterparty (on all CFDs) and the Company is calculated on a daily basis and represents the unrealised profit or loss on the outstanding CFDs. The balance of either party to the other is then covered by a payment of collateral, again on a daily basis, but collateral will only be supplemented if the balance exceeds the collateral by US\$1 million or more.

### ***Worked Example***

The Company enters into a CFD providing exposure to 10,000 shares of stock at 100p per share. The initial exposure is  $10,000 \times 100p = \text{£}10,000$ . If the share price increases to 105p, the unrealised profit on the position is  $10,000 \times 5p = \text{£}500$  and the Company's ongoing exposure is  $10,000 \times 105p = \text{£}10,500$ . If the aggregate unrealised profit exceeds the equivalent of US\$1 million, assets in excess of US\$1 million will be credited to the Company's collateral account with its Custodian (so limiting the exposure to the counterparty). Unrealised losses are secured by the Company providing collateral to the counterparty on a similar basis.

### ***The Counterparty***

It is intended that UBS AG, the parent company of a global financial services group, will act as the counterparty for the Company.

### **Proposed Change to Investment Policy**

The Board is proposing to amend the Investment Policy to permit the use of CFDs to obtain exposure to Japanese equities selected by the Manager in order to provide gearing for the Company.

The Company's policy is to be geared, whether through the use of borrowing or CFDs, in the belief that long term investment returns will exceed the cost of gearing. The effect of gearing is to magnify the consequence of market movements on the portfolio and if the portfolio value rises the NAV will be positively impacted, but if it falls the NAV will be adversely impacted. The Board is responsible for the level of gearing in the Company and reviews the position on a regular basis.

The aggregate exposure of the Company to Japanese equities, whether held directly or under CFDs, will not exceed 130% of total net assets at the time at which any CFD is entered into or a security acquired. The Board also intends that the exposure will not exceed 140% at any other time unless exceptional circumstances exist. It should be stressed that the majority of the Company's exposure to Japanese equities will be through direct investment, not CFDs. In addition, the limits on exposure to individual companies and groups will be calculated on the basis that the Company has acquired the securities to which any CFD is providing exposure.

The investment of any borrowed money in Japanese equities will be subject to the exposure limits set out above and the total amount borrowed will not exceed 30% of shareholders' funds at the time of borrowing.

Generally, the maximum that the Company will hold in cash will be 25% of the total value of the Company's assets, but this limit will not include any cash or cash equivalent paid as collateral for unrealised losses on CFDs. In practice the cash position will normally be much lower.

The Investment Policy and proposed New Investment Policy are set out in Part A of the Appendix to the Notice of the General Meeting on pages 80 and 81 of this document.

### **Additional Risk of Using CFDs**

The additional risk to the Company of using CFDs rather than traditional forms of finance is that the Company does not own the Japanese equities to which the CFDs give exposure and is at risk if the counterparty defaults, for example for insolvency reasons. The balance on all outstanding CFDs is calculated on a daily basis with collateral then adjusted so that collateral equal to the outstanding balance has been posted, although no collateral adjustment is made where the balance is less than US\$1 million. This results in a potential exposure which could be increased, due to settlement practices and timing differences, to a maximum of US\$1 million plus three days' unrealised trading profits.

### **Costs Involved in Using CFDs**

A funding charge approximately equal to one week LIBOR for Yen deposits plus 0.35% will accrue daily on the initial cost of the Japanese equities to which the CFD gives exposure adjusted to reflect changes in the value of the equities and the daily payments by and to the counterparty. If cash is deposited with UBS as collateral to act as security for the unrealised losses on CFDs, the Company will receive interest at a rate of LIBOR for Yen deposits minus 0.2%.

Under current market conditions the costs involved in using CFDs as outlined would be less than the costs that would be incurred in traditional methods of borrowing.

To be implemented, the proposed changes to the Investment Policy require the approval of Shareholders and a suitable Ordinary Resolution is to be proposed to the General Meeting.

### **General Meeting**

A General Meeting of the Company has been convened for 2.00 p.m. on 10 November 2009 at 25 Cannon Street, London EC4M 5TA at which the Special Resolution and the Ordinary Resolution will be proposed.

All Shareholders are entitled to attend and vote at the General Meeting. In accordance with the Articles, all Shareholders present in person or by proxy shall upon a show of hands have one vote and upon a poll shall have one vote in respect of every Share held. In order to ensure that a quorum is present at the General Meeting, it is necessary for two Shareholders entitled to vote to be present, whether in person or by proxy (or, if a corporation, by a representative).

Individuals who hold their Ordinary Shares through either or both of the Savings Schemes are entitled to attend the General Meeting and may vote by completing Voting Instruction Forms addressed to the nominee companies in whose names the Shares are registered and held on their behalf.

The formal notice convening the General Meeting is set out on pages 77 to 89 of this document.

### **ISAs/SIPPs**

The Subscription Shares will be a qualifying investment for a stocks and shares ISA. The Subscription Shares acquired pursuant to the Bonus Issue are expected to be eligible for inclusion in SIPPs and SSASs, although this should be confirmed independently by Subscription Shareholders with their professional tax or financial advisers after taking into account the rules of their scheme.

**If you are in any doubt as to the action you should take, you should immediately consult an independent financial adviser authorised under FSMA.**

### **Action to be Taken**

**The only action that you are requested to take is to complete the accompanying Form of Proxy and/or, if you hold Ordinary Shares through either or both of the Savings Schemes, the accompanying Voting Instruction Form(s) for use at the General Meeting.**

Shareholders, other than Savings Scheme Participants, are asked to complete and return the Form of Proxy in accordance with the instructions printed thereon to the Company's Registrars, Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, or deliver them by hand during office hours to the same address so as to be received as soon as possible and by not later than 2.00 p.m. on 8 November 2009.

Savings Scheme Participants are requested to complete their Voting Instruction Form(s) and return them to the Company's Registrars, Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, in accordance with the instructions printed thereon, so as to be received as soon as possible and by not later than 5:30 p.m. on 3 November 2009. The votes of Savings Scheme Participants who do not return their Voting Instruction Forms will be applied in favour of both of the Resolutions.

**Shareholders and Savings Scheme Participants are requested to complete and return a Form of Proxy, or Voting Instruction Form, as appropriate, whether or not they wish to attend the General Meeting.**

#### **Voting Intention of the Manager**

The Manager has declared its intention that FIL Limited, the ultimate parent company of the Manager, will vote its holding of 6,854,100 Ordinary Shares (representing approximately 7.17% of the issued ordinary share capital of the Company) in favour of the Resolutions. For those Shares held through the Savings Schemes (as at 13 October 2009, 15,897,688 Ordinary Shares representing approximately 16.63% of the issued ordinary share capital of the Company), Fidelity will arrange to vote those Shares in favour of the Resolutions where voting directions are not received.

#### **Recommendation**

The Board, which has received financial advice from Collins Stewart, considers that the passing of the Special Resolution and of the Ordinary Resolution are in the best interests of the Company and its Shareholders as a whole. In providing its financial advice, Collins Stewart has taken into account the Board's commercial assessment of the effects of the Bonus Issue and the change in Investment Policy. **Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting.** Those Directors who hold Shares intend to vote in favour of the Resolutions in respect of their holdings of Ordinary Shares amounting to 85,144 Ordinary Shares in aggregate (representing approximately 0.09% of the issued ordinary share capital of the Company as at the date of this document).

Yours faithfully,

William Thomson  
(*Chairman*)

## PART II

### INFORMATION ON THE COMPANY

#### **Introduction**

The Company is a UK investment trust, which was established on 7 January 1994. The Company is a member of the Association of Investment Companies.

The Company's objective is to generate long term capital growth for Shareholders by investing primarily in small and medium-sized Japanese companies listed or traded on Japanese stockmarkets.

As at 13 October 2009 (being the latest practicable date prior to the publication of this document), the Company had net assets of £56.3 million and the unaudited NAV of the Company was 58.91 pence per share.

#### **Current Investment Policy**

The markets in which the Company may invest will comprise primarily the Tokyo Stock Exchange, the Jasdac and the regional stockmarkets of Fukuoka, Nagoya, Osaka and Sapporo. In order to diversify the Company's portfolio, the Board has set guidelines for the Manager to restrict investment to a maximum of 7.5% in the aggregate of all securities of any one company or other investment entity (10% for any group of companies) at the time of purchase, which is further limited to 12% of the Company's equity portfolio based on the latest market value.

The Company is permitted to invest up to 30% of its assets (at the time of acquisition) in equity-related and debt instruments. The Company may also invest in derivatives for efficient portfolio management to protect the portfolio against market risk. However, any such investment would normally be at a low level and the Company would primarily invest in shares.

The Company may invest up to 5% of its assets (at the time of acquisition) in securities which are not listed on any stock exchange or traded on the Jasdac market, but the Company would not normally make any such investment except where the Manager expects that the securities would shortly become registered for trading on the OTC market or become listed on a Japanese stockmarket.

A maximum of 15% of the Company's total assets may be invested in the securities of other investment trust companies.

The Company's policy is to be geared in the belief that long term investment returns will exceed the cost of borrowing. The effect is that if markets move up the NAV will be positively impacted and if markets move down the NAV will be adversely impacted. The Board is responsible for the level of gearing in the Company and reviews the position on a regular basis. In normal circumstances the Directors do not expect the total amount borrowed to exceed 30% of Shareholders' funds at the time of borrowing. Subsequently, and particularly during volatile market conditions, this limit may be exceeded where the Board does not believe it appropriate to bring the gearing levels down by selling the Company's investments to raise cash.

Generally, the maximum that the Company would hold in cash would be 20% of the total value of the Company's assets; however, in practice, this position would normally be much lower.

The spread of risk within the Company's portfolio is achieved by holding a wide range of stocks which are chosen on their individual merits, which can be easily sold to meet funding commitments if necessary, and not by sectoral allocation.

## Investment Portfolio

As at the close of business on 30 September 2009, the Company's portfolio was as follows:

<i> Holding</i>	<i> Fair Value</i> £	<i> Total Assets</i> %	<i> Sector</i>
Tsumura	1,629,270	2.9	Pharmaceuticals
Panasonic Electric Works	1,610,063	2.9	Electrical machinery
FP Corp	1,590,071	2.8	Chemicals
So-net M3	1,477,704	2.6	Services
Sumitomo Electric Industries	1,458,015	2.6	Nonferrous metals
Kakaku.com	1,451,962	2.6	Services
Zappallas	1,327,865	2.4	Information & communication
Nichiiko Pharmaceutical	1,324,246	2.3	Pharmaceuticals
Sekisui Chemical	1,222,136	2.2	Chemicals
EPS	1,221,670	2.2	Services
Sanden	1,091,940	1.9	Machinery
Softbank	1,081,004	1.9	Information & communication
Tokyo Electron	1,032,875	1.8	Electrical machinery
Toyo Suisan Kaisha	1,016,759	1.8	Foods
Saizeriya	992,313	1.8	Retail trade
Asahi Glass	976,862	1.7	Glass & ceramics
Tokai Rubber Industries	880,958	1.6	Rubber products
JSR	853,781	1.5	Chemicals
Kappa Create	836,376	1.5	Retail trade
Osaka Gas	811,651	1.4	Electric power & gas
Fast Retailing	805,509	1.4	Retail trade
Rakuten	794,292	1.4	Services
Kirin Holdings	784,800	1.4	Foods
Hitachi Transport System	771,522	1.4	Land transportation
Sawai Pharmaceutical	763,917	1.4	Pharmaceuticals
Nifco	754,070	1.3	Chemicals
TS Tech	750,382	1.3	Transport equipment
TDK	730,817	1.3	Electrical machinery
Sumitomo Metal Mining	725,736	1.3	Nonferrous metals
Chiba Bank	725,322	1.3	Banks
Takata	722,980	1.3	Transport equipment
Nissin Food Holdings	708,812	1.3	Foods
Sumitomo Rubber Industries	682,380	1.2	Rubber products
Aioi Insurance	676,415	1.2	Insurance
Mitsubishi UFJ Lease and Finance	666,184	1.2	Other financing business
Shizuoka Bank	658,547	1.2	Banks
Bank of Yokohama	650,264	1.2	Banks
Chiyoda	643,939	1.1	Retail trade
Kayaba Industry	639,996	1.1	Transport equipment
Daiwa House Industry	633,377	1.1	Construction
Toridoll	623,842	1.1	Retail trade
Ajinomoto	613,384	1.1	Foods
Chiyoda	588,442	1.0	Construction
Sekisui House	585,461	1.0	Construction
Kuraray	584,664	1.0	Chemicals
Idemitsu Kosan	567,055	1.0	Oil & coal products
Sumitomo	564,743	1.0	Wholesale trade
Chuo Mitsui Trust Holdings	562,730	1.0	Banks
Akebono Brake Industries	557,715	1.0	Transport equipment

<i> Holding</i>	<i> Fair Value</i> £	<i> Total Assets</i> %	<i> Sector</i>
Daicel Chemical Industries	556,855	1.0	Chemicals
Horiba	549,027	1.0	Electrical machinery
Kyushu Electric Power	540,486	1.0	Electric power & gas
Asahi	539,424	1.0	Retail trade
Hitachi Chemical	521,752	0.9	Chemicals
Jupiter Telecommunications	517,058	0.9	Information & communication
Nippon Parkerizing	514,167	0.9	Oil & coal products
West Japan Railway	507,084	0.9	Land transportation
Shin-kobe Electric Machinery	490,532	0.9	Electrical machinery
Toppan Forms	485,866	0.9	Other products
Konica Minolta Holdings	480,270	0.9	Electrical machinery
Air Water	474,533	0.8	Chemicals
Ibiden	453,736	0.8	Electrical machinery
Itochu	453,349	0.8	Wholesale trade
Toyo Electric	450,230	0.8	Electrical machinery
Nippon Mining Holdings	447,331	0.8	Chemicals
Bit-Isle	445,518	0.8	Information & communication
Maruwa Ceramic	437,942	0.8	Glass & ceramics
Daiseiki	436,844	0.8	Services
Tachi-S	436,474	0.8	Transport equipment
JS Group	432,235	0.8	Metal products
Sanyo Denki	432,036	0.8	Electrical machinery
Denki Kagaku Kogyo	431,460	0.8	Chemicals
NHK Spring	427,079	0.8	Metal products
Inpex	424,686	0.7	Mining
NOK	423,223	0.7	Transport equipment
Daikin Industries	422,504	0.7	Machinery
NTT Urban Development	422,461	0.7	Real estate
Stanley Electric	422,156	0.7	Electrical machinery
Daikokutenbussan	420,102	0.7	Retail trade
Sumitomo Mitsui Financial Group	414,142	0.7	Banks
Fancl	406,239	0.7	Chemicals
Itoham Foods	402,462	0.7	Foods
Toshiba TEC	400,029	0.7	Electrical machinery
Kureha	395,827	0.7	Chemicals
Taiheiyo Cement	393,347	0.7	Glass & ceramics
Japan Vilene	388,712	0.7	Textiles & apparel
Sato	384,941	0.7	Machinery
Alfresa Holdings	384,895	0.7	Wholesale trade
Mitsui Chemicals	384,383	0.7	Chemicals
Oiles	383,629	0.7	Machinery
Koito Manufacturing	371,561	0.7	Electrical machinery
Keihin Seiki Manufacturing	367,961	0.7	Transport equipment
Orix	364,357	0.6	Other financing business
Hamamatsu Photonics	358,197	0.6	Electrical machinery
Nissin Electric	356,679	0.6	Electrical machinery
Nomura Holdings	356,203	0.6	Securities
Mitsumi Electric	354,167	0.6	Electrical machinery
Yamato Kogyo	350,332	0.6	Steel products
Seven Bank	341,947	0.6	Banks
Mitsui	334,906	0.6	Wholesale trade
Ulvac	331,467	0.6	Electrical machinery

<i> Holding</i>	<i> Fair Value  £</i>	<i> Total Assets  %</i>	<i> Sector</i>
Lintec	331,373	0.6	Other products
Daihen	330,018	0.6	Electrical machinery
Ohsho Food Service	327,760	0.6	Retail trade
Nishimatsu Construction	304,907	0.5	Construction
Glory	304,768	0.5	Machinery
Toyoda Boshoku	297,615	0.5	Transport equipment
Sony Financial Holdings	295,385	0.5	Insurance
Aisin Seiki	294,857	0.5	Transport equipment
Tokai Carbon	285,178	0.5	Glass & ceramics
Takaoka Electric Manufacturing	273,724	0.5	Electrical machinery
Mani	263,627	0.5	Precision instruments
Mitsubishi UFJ Financial Group	247,783	0.4	Banks
Daishinku	231,022	0.4	Electrical machinery
Weathernews	205,758	0.4	Information & communication
Inabata	202,990	0.4	Wholesale trade
Sho-bond Holdings	201,732	0.4	Construction
Yushin Precision Equipment	200,174	0.4	Machinery
Obic Business Consultants	178,459	0.3	Information & communication
Nagase	162,111	0.3	Wholesale trade
CKD	161,852	0.3	Machinery
Fuji Machine Manufacturing	159,484	0.3	Machinery
Arisawa Manufacturing	147,917	0.3	Chemicals
Hisaka Works	145,105	0.3	Machinery
Meidensha	130,553	0.2	Electrical machinery
Joyfull	110,437	0.2	Retail trade
JSP	75,585	0.1	Chemicals
T&K Toka	25,404	—	Chemicals
Total Holdings	71,543,199	126.9	
Unsecured fixed rate bank loan (Yen 1,680,000,000 @1.34%)	(11,729,933)	(20.8)	
Cash overdraft (Yen equivalent only)	(3,430,537)	(6.1)	
Total assets	<u>56,382,729</u>	<u>100.0</u>	

As far as the Board is aware, there has been no material change to the Company's investment portfolio from 30 September 2009 to 13 October 2009, the latest practicable date prior to the publication of this document.

All investments are in equities, except for cash which is held on deposit.

Unless otherwise indicated, the information as set out above is unaudited and has been extracted from internal management accounts maintained by the Company.

### Geographical Breakdown

	<i> % of total assets as at  30 September 2009</i>
Japan	106.1
Cash overdraft	<u>(6.1)</u>
Total assets	<u>100</u>

## Sector Breakdown

<i>Sector</i>	<i>% of total assets as at 30 September 2009</i>
Electrical Machinery	17.4
Chemicals	15.6
Services	9.6
Retail Trade	9.4
Transport Equipment	7.9
Information & Communication	6.7
Pharmaceuticals	6.6
Banks	6.4
Foods	6.3
Machinery	5.8
Construction	4.0
Nonferrous Metals	3.9
Wholesale Trade	3.8
Glass & Ceramics	3.7
Rubber Products	2.8
Electric Power & Gas	2.4
Land Transportation	2.3
Oil & Coal Products	1.9
Other Financing Business	1.8
Insurance	1.7
Metal Products	1.6
Other Products	1.5
Mining	0.7
Real Estate	0.7
Textiles & Apparel	0.7
Securities	0.6
Steel Products	0.6
Precision Instruments	0.5
	126.9
<i>Unsecured fixed rate bank loan</i>	(20.8)
<i>Cash overdraft</i>	(6.1)
<b>Total assets</b>	<b>100.0</b>

## Currency Breakdown

	<i>% of currency as at 30 September 2009</i>
Yen	100

## Investment Outlook

Despite signs of steady improvement in the global economy, share prices in Japan have recently weakened, underperforming other world markets. This retrenchment is largely attributable to net selling by overseas investors, the weak performance of financials and a stronger Yen.

The Manager considers that, with international investors being net sellers of Japanese stocks in recent months, there is little prospect of an immediate recovery in domestic demand. Although Japanese corporate managers have become less pessimistic, capital expenditure plans and earnings forecasts remain sharply negative, employment and income conditions remain severe, and deflationary trends are becoming more entrenched.

In the meantime, Japan faces a period of rebalancing as the recently elected DPJ replaces various public works projects with its own measures to boost child care support and disposable household income. Shares in domestic demand-related small companies that are seen as potential beneficiaries of the DPJ's child care and consumption based measures have held up well.

While prevailing foreign exchange rates pose downside risks to earnings, Japanese companies have become far more resilient to currency movements. Moreover, aggressive cost cutting measures have created a leaner, more competitive corporate landscape that will translate into higher operational leverage once top lines recover.

Over the near term, trends in global economic data and corporate earnings should continue to influence share prices. In order for Japanese stocks to catch up with those in other developed markets, however, a reversal in the factors behind the recent weakness will need to be seen.

## **Management of the Company**

### ***The Board***

The Directors are responsible for determining the Company's Investment Policy and have overall responsibility for the Company's activities.

The Board consists of five non-executive Directors, four of whom are considered to be independent of the Manager, including the Chairman. Mr Fraser is considered to be non-independent due to his recent employment relationship with the Manager.

The Directors of the Company are as follows:

***William Thomson (Chairman)*** Appointed as Director 1 May 1997, appointed as Chairman 31 December 2004. Chairman of the Audit Committee, Management Engagement Committee, and Nomination and Remuneration Committee. He is also Chairman of E G Thomson (Holdings) Limited. This business is primarily involved in the provision of shipping agency services in Asia. He is also non-executive Chairman of John Menzies plc and of British Assets Trust plc.

***Nicholas Barber, CBE (Senior Independent Director)*** Appointed as Director 4 December 2000, appointed as Senior Independent Director 10 March 2005. Member of the Audit Committee, Management Engagement Committee, and Nomination and Remuneration Committee. He is Chairman of Bolero International Limited. His executive career was with Ocean Group plc (later Exel PLC), with whom he spent a year in Japan; he was Group Chief Executive from 1986 to 1994.

***Simon Fraser*** Appointed as Director 11 May 2000. He spent 27 years at Fidelity but retired from his executive responsibilities at the end of 2008. He started his career at Fidelity in 1981 as an analyst and he has spent a number of years in Japan, most recently as Chief Investment Officer for the Asia/Pacific region. He returned to the UK in 1999 to take up the position of Chief Investment Officer for Fidelity International, a position he held until 2005. He remains a Senior Advisor to Fidelity. He was the Portfolio Manager for Fidelity Japanese Values PLC from its launch in 1994 until August 1997. He is also a director of Barclays PLC, Barclays Bank PLC, Fidelity European Values PLC, 12 Redcliffe Square Management Limited, International Partners SA, Triptych SA, H Lundén Holdings AB, H Lundén Kapitalförvaltning AB, Merchants Investment Trust PLC and Foreign & Colonial Investment Trust PLC.

***Philip Kay*** Appointed as Director 29 October 2004. Member of the Audit Committee, Management Engagement Committee, and Nomination and Remuneration Committee. He is a former Managing Director and Senior Advisor of Credit Suisse First Boston where he ran the global Japanese cash equity business. He is a director of a Japanese hedge fund, Akamatsu Fund, and was previously a director of Schroder Securities Limited and of Smith New Court PLC. He is also a director of The Society for the Promotion of Roman Studies.

**David Miller, OBE** Appointed as Director 29 October 2004. Member of the Audit Committee, Management Engagement Committee, and Nomination and Remuneration Committee. He is a director of FBG Investment Limited and of a number of other unquoted companies. He was with Robert Fleming Group from 1972 to 1991, was resident in Japan for nearly eight years and was head of the Fleming group's Tokyo office.

### **The Manager**

The Company is managed by FIL Investments International, a company incorporated in England and Wales on 13 September 1979 under the Companies Act 1985 as a private company with registered number 01448245. The Manager is part of the FIL Limited Group, which as at 30 June 2009 had total assets under management exceeding £100 billion.

Shinji Higaki has been managing the Company's portfolio since September 2007 and, more recently, has been managing a retail Japanese smaller companies fund. He joined Fidelity in 1999 as an equity research analyst prior to which he was employed as an auditor of Chuo Audit Corporation in Tokyo. Shinji received an MBA from the London Business School and a Bachelor of Arts from Keio University.

### **Performance**

Given the identification of the Company's objective and strategy, the Board has identified key performance indicators against which performance can be measured, as detailed below:

	<i>Year ended 30 September 2009</i>	<i>3 Years ended 30 September 2009</i>	<i>5 Years ended 30 September 2009</i>
NAV Total Return	+14.84%	-30.51%	-13.03%
Share Price Total Return	+17.14%	-35.13%	-15.64%
Russell Nomura Mid/Small Cap Index Total Return (in sterling terms)	+22.43%	-7.41%	+19.64%

### **Dividend Policy**

As an investment trust, the Company is required by section 842 of the Taxes Act to distribute sufficient net income so that it retains no more than 15% of its eligible investment income. However the Company's investments do not and are not expected to pay sufficient income to generate net income after taking account of the Company's running costs and accumulated revenue reserve deficit. The Company therefore does not expect that dividends will constitute a material element of the return it offers shareholders.

### **Administration and Company Secretarial Arrangements**

Under the Management Agreement, the Manager provides all services of a company secretarial, accounting and administrative nature (excluding registration services) to the Company (including the calculation of the NAV of the Ordinary Shares). The Manager receives an aggregate fee for all its services provided under the Management Agreement including the discretionary management of the Company's assets. Full details of the fees provided for by the Management Agreement are contained in **paragraph 11.1 of Part V** of this document.

### **Financial Statements**

The Company prepares its financial statements in accordance with the 2006 Act and UK GAAP and with the AIC Statement of Recommended Practice (SORP) for Investment Trust Companies and Venture Capital Trusts dated January 2009. UK GAAP, the SORP and the resulting accounting treatments are subject to change and this may affect the Company's calculation of NAV. Changes in the Company's accounting policies could also adversely affect Shareholders.

### **Reports to Shareholders and AGMs**

The Company's annual report and financial statements are prepared up to 31 December each year. The Company's AGMs are usually held in May of each year.

## PART III

### FINANCIAL INFORMATION RELATING TO THE COMPANY

#### 1. Statutory Accounts for the Three Financial Years Ended 31 December 2006, 2007 and 2008

Statutory accounts of the Company for the three financial years ended 31 December 2006, 2007 and 2008, in respect of which the Company's Auditors have given unqualified opinions that the accounts give a true and fair view of the state of affairs of the Company and of its total return and cash flows for each of the three financial years ended 31 December 2006, 2007 and 2008 and have been properly prepared in accordance with the Companies Act 1985 and UK GAAP, have been incorporated in this document by reference.

The auditor to the Company for the financial year ended 31 December 2006 was RSM Robson Rhodes LLP. The auditor to the Company for the financial years ended 31 December 2007 and 31 December 2008 was Grant Thornton UK LLP of 30 Finsbury Square, London EC2P 2YU. Grant Thornton UK LLP is a member of the Institute of Chartered Accountants in England and Wales.

#### 2. Published Annual Reports and Financial Statements for the Three Financial Years Ended 31 December 2006, 2007 and 2008 and the Unaudited Half-Yearly Reports for the Six Months Ended 30 June 2008 and 2009

##### 2.1 *Historical financial information*

The published annual reports and audited financial statements for the Company for the three financial years ended 31 December 2006, 2007 and 2008 and the half-yearly reports for the six months ended 30 June 2008 and 2009, which have been incorporated into this document by reference, included, on the pages specified in the table below, the following information:

<i>Nature of Information</i>	<i>Annual report and accounts for the year ended 31 December (audited)</i>			<i>Six months ended 30 June 2008</i>	<i>Six months ended 30 June 2009</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>Page No(s)</i>	<i>Page No(s)</i>	<i>Page No(s)</i>	<i>Page No(s)</i>	<i>Page No(s)</i>
Income statement	28	29	30	8-9	8-9
Reconciliation of movements in Shareholders' funds	29	30	31	10-11	10-11
Balance sheet	30	31	32	12	12
Cash flow statement	31	32	33	13	13
Accounting policies	32-33	33-34	34-35	14	14
Notes to the accounts	32-42	33-43	34-44	14-15	14-15
Independent auditors' report	27	27-28	28-29	N/A	N/A
Chairman's statement	3-4	3-4	3-4	3-5	3-5
Investment Manager's report	5-7	5-7	5-7	N/A	N/A
Directors' report	14-18	14-19	14-19	N/A	N/A

## 2.2 Selected financial information

The key audited figures that summarise the Company's financial condition in respect of the three financial years ended 31 December 2006, 2007 and 2008 and from the unaudited half-yearly reports for the six months ended 30 June 2008 and 2009, which have been extracted without material adjustment from the historical financial information referred to in paragraph 2.1 of this Part III, are set out in the following table:

	<i>As at or for the year ended 31 December (audited)</i>			<i>As at or for six months ended 30 June 2008 (unaudited)</i>	<i>As at or for six months ended 30 June 2009 (unaudited)</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>		
Net assets (£'000)	78,166	64,692	51,213	59,063	49,375
NAV per share (pence)	79.59	66.67	53.58	61.80	51.66
<i>Revenue</i>					
Total income (£'000)	1,027	991	1,288	623	511
Net (loss) (£'000)	(666)	(481)	(112)	(69)	(209)
(Loss) per share (pence)	(0.68)	(0.49)	(0.12)	(0.07)	(0.22)
Dividend per share (pence)	N/A	N/A	N/A	N/A	N/A
<i>Total</i>					
Total income (£'000)	1,027	991	1,288	623	511
Net (loss) (£'000)	(43,182)	(12,696)	(12,799)	(4,950)	(1,838)
(Loss) per share (pence)	(43.97)	(13.01)	(13.35)	(5.15)	(1.92)

## 2.3 Operating and financial review

The Company's published audited annual reports and financial statements for the three financial years ended 31 December 2006, 2007 and 2008 and the unaudited half-yearly reports for the six months ended 30 June 2008 and 2009 included, on the pages specified in the table below: descriptions of the Company financial condition (in both capital and revenue terms); details of the Company's investment activity and portfolio exposure; and changes in its financial condition for each of those years.

<i>Nature of Information</i>	<i>Annual report and financial statements for the year ended 31 December (audited)</i>			<i>Six months ended 30 June 2008</i>	<i>Six months ended 30 June 2009</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>Page No(s)</i>	<i>Page No(s)</i>	<i>Page No(s)</i>	<i>Page No(s)</i>	<i>Page No(s)</i>
Chairman's statement	3-4	3-4	3-4	3-5	3-5
Investment Manager's report	5-7	5-7	5-7	N/A	N/A
Portfolio analyses	7-8, 43-46	7-8, 44-47	7-8, 45-47	7	7
Performance, discount and financial record	2, 9-11	2, 9-11	2, 9-11	2-3	2-3

The causes of material change in the capital value of the Company's assets in these three financial years can be summarised as follows:

- (a) in the year to 31 December 2006, the Company made a net capital loss of £42,516,000.
- (b) in the year to 31 December 2007, the Company made a net capital loss of £12,215,000.
- (c) in the year to 31 December 2008, the Company made a net capital loss of £12,687,000.

The issue of the Subscription Shares itself has no impact on the Company's assets, earnings or liabilities. Where Subscription Shares are converted into Ordinary Shares, the total assets of the Company will increase by that number of Ordinary Shares multiplied by the relevant Subscription Price. It is not expected that there will be any material impact on the earnings and liabilities per Ordinary Share as the net proceeds resulting from any conversion are expected to be invested in accordance with the investment objective and policy of the Company.

## 2.4 *Availability of annual reports and financial statements for inspection*

Copies of the Company's audited annual reports and financial statements for the three financial years ended 31 December 2006, 2007 and 2008 and the unaudited half-yearly report for the six months ended 30 June 2008 and 2009 are available for inspection at the address set out in paragraph 19 of Part V of this document.

## 3. **Capitalisation and Indebtedness**

The following table, sourced from the Company's internal accounting records, shows the Company's unaudited indebtedness (distinguishing between guaranteed and unguaranteed, secured and unsecured indebtedness) as at 31 August 2009 and the Company's audited capitalisation as at 30 June 2009 (being the last date in respect of which the Company has published financial information).

	<i>31 August 2009</i> £'000
<i>Total Current Debt</i>	
Guaranteed Secured	nil
Unguaranteed/unsecured	11,097
<i>Total Non-Current Debt</i>	
Guaranteed Secured	nil
Unguaranteed/unsecured	nil
	<i>30 June 2009</i> £'000
<i>Shareholder equity</i>	
Share capital	23,894
Other reserve	58,911
Capital reserve	(23,249)
Capital redemption reserve	2,437

As at 13 October 2009 (being the latest practicable date prior to the publication of this document), there has been no material change in the capitalisation of the Company since 30 June 2009 (being the last date in respect of which the Company has published financial information).

The following table shows the Company's unaudited net indebtedness as at 31 August 2009.

	<i>31 August 2009</i> £'000
A. Cash	Nil
B. Cash Equivalent	Nil
C. Trading securities	Nil
D. Liquidity (A+B+C)	Nil
E. Current financial receivable	1,359
F. Current bank debt	(4,144)
G. Current portion of non-current debt	Nil
H. Trading securities payable	Nil
I. Other current financial debt	1,545
J. Current financial debt (F+G+H+I)	2,599
K. Net current financial indebtedness (J-E-D)	1,240
L. Non-current bank loans	Nil
M. Bonds issued	Nil
N. Other non-current loans	Nil
O. Non-current financial indebtedness (L+M+N)	Nil
P. Net financial indebtedness (K+O)	1,240

## 4. **Working Capital**

In the opinion of the Board, the Company has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of this document.

## **5. Liquidity**

The Company has three main sources of liquidity: (i) cash or cash equivalent securities; (ii) a portfolio of listed securities; and (iii) an overdraft facility. As at 13 October 2009, the Company had an overdraft of £3.4 million and the Company's portfolio of listed securities had a market value of £71.2 million.

The Company anticipates that it will be able to fulfil all of its commitments by recourse to these sources of liquidity. The Company's borrowings are not seasonal in nature. The Company's overdraft facility, which is for a maximum of the lower of Yen 750 million or 15% of NAV and is repayable on demand, permits borrowing for short term liquidity and other corporate purposes but drawings other than for short term liquidity purposes must be repaid on or before 31 January 2010.

## PART IV

### PARTICULARS OF THE SUBSCRIPTION SHARES

Conditional upon the passing of the Special Resolution at the General Meeting and Admission, the Subscription Shares are expected to be issued on 12 November 2009 and will carry the rights described below. The Articles will be replaced with the New Articles which will incorporate these rights.

#### 1. Subscription Share Rights

- (a) A registered holder for the time being of a Subscription Share (a “**Subscription Shareholder**”) shall have a right (the “**Subscription Share Right**”) exercisable on the last business day of each month commencing in February 2010 and finishing on the last business day in February 2013 (the “**Final Subscription Date**”, any date on which exercise occurs being described as a “**Subscription Date**”) to subscribe for all or any of the Ordinary Shares to which his Subscription Shares relate at the price per Ordinary Share to be determined by the Company as being equal to a 1% premium to the published NAV per Ordinary Share as at 5.00 p.m. on 10 November 2009, rounded up to the nearest whole penny (the “**Subscription Price**”).

The Subscription Price shall be payable in full in Sterling on subscription.

Each Subscription Share relates to one Ordinary Share, but the Subscription Price (and/or the number of Subscription Shares outstanding) will be subject to adjustment as provided in paragraph 2 below.

The NAV for the purpose of calculating the Subscription Price means the unaudited value of all the Company’s assets calculated in accordance with the Company’s accounting policies (including revenue items for the current financial year) less all prior charges and other creditors at their fair value (including the costs of the Bonus Issue).

It is expected that the Subscription Price will be announced via a Regulatory Information Service on or around 11 November 2009.

- (b) Subscription Shares will be issued in registered form and may be held in either certificated form (the “**Certificated Subscription Shares**”) or uncertificated form (the “**Uncertificated Subscription Shares**”). In the case of:
- (i) Certificated Subscription Shares, a Subscription Shareholder will be entitled to a share certificate in respect of his holding of Subscription Shares; and
  - (ii) Uncertificated Subscription Shares, a Subscription Shareholder’s title to such Subscription Shares will be recorded in the relevant register as being held in such form as will by virtue of the Uncertificated Securities Regulations enable the transfer of title to the Subscription Shares to be effected without a written instrument by means of a relevant electronic system (a “**Relevant Electronic System**”).
- (c) In order to exercise, in whole or in part, the Subscription Share Rights which are conferred by any Certificated Subscription Shares, the Subscription Shareholder must lodge the relevant Subscription Share certificate(s) (or such other document(s) as the Directors may, in their absolute discretion, accept) at the office of the Registrars during the period of 28 days ending at 5.00 p.m. on the relevant Subscription Date between the last business day of each month commencing in February 2010 and finishing on the last business day in February 2013, having completed the notice of exercise of Subscription Share Rights thereon (or by giving such other notice of exercise of Subscription Share Rights as the Directors may, in their absolute discretion, accept) (“**Subscription Notice**”), accompanied by a remittance for the aggregate Subscription Price for the Ordinary Shares in respect of which the Subscription Share Rights are being exercised. The Directors may accept as valid, Subscription Notices which are received after the relevant Subscription Date provided they are accompanied by the correct remittance, as described

above. Once lodged, a Subscription Notice shall be irrevocable save with the consent of the Directors. To be effective, compliance must also be made with any statutory and regulatory requirements for the time being applicable.

- (d) The Subscription Share Rights which are conferred by any Uncertificated Subscription Shares on the relevant Subscription Date shall be exercisable, in whole or in part, (and treated by the Company as exercised) on the relevant Subscription Date if, not later than 5.00 p.m. on the relevant Subscription Date between the last business day of each month commencing in February 2010 and finishing on the last business day in February 2013, (i) an Uncertificated Subscription Notice is received as referred to below and (ii) a remittance for the aggregate Subscription Price for the Ordinary Shares in respect of which the Subscription Share Rights are being exercised is received by the Company (or by such person as it may require for these purposes). For these purposes, an Uncertificated Subscription Notice shall mean a properly authenticated dematerialised instruction and/or other instruction or notification received by the Company (or by such person as it may require for these purposes) in such form and subject to such terms and conditions as may from time to time be prescribed by the Directors (subject always to the regulations and the facilities, rules and requirements of the Relevant Electronic System). The Directors may, in addition but subject to the regulations and facilities and requirements of the Relevant Electronic System, determine when any such properly authenticated dematerialised instruction and/or other instruction or notification and any such remittance is to be treated as received by the Company or by such person as it may require for these purposes. Without prejudice to the generality of the foregoing, the effect of the Uncertificated Subscription Notice may be such as to divest the holder of the Subscription Shares concerned of the power to transfer such Subscription Shares to another person. Once lodged, an Uncertificated Subscription Notice shall be irrevocable save with the consent of the Directors. To be effective, compliance must also be made with any statutory and regulatory requirements for the time being applicable.
- (e) Not later than 30 days before the Final Subscription Date, the Company shall give notice in writing to the holders of the outstanding Subscription Shares reminding them of their Subscription Share Rights and, in relation to any Uncertificated Subscription Shares, stating the form of Uncertificated Subscription Notice prescribed by the Directors.
- (f) Ordinary Shares issued pursuant to the exercise of Subscription Share Rights which are conferred by any Certificated Subscription Shares will be allotted within ten Business Days of the relevant Exercise Date, save in the case of the Final Subscription Date when the relevant Ordinary Shares will be allotted not later than ten Business Days after the Final Subscription Date. The Ordinary Shares arising on conversion shall be allotted with effect from the date of their allotment (and not the date upon which the notice of exercise is given or deemed given in accordance with paragraph 1(c) above). Certificates in respect of such Ordinary Shares, together, if applicable, with a new certificate for the balance of any Certificated Subscription Shares in respect of which the Subscription Share Rights have not been exercised, will be despatched (at the risk of the person(s) entitled thereto) not later than 28 days after the relevant allotment date to the person(s) in whose name(s) the Subscription Share is registered at the date of exercise (and, if more than one, to the first-named, which shall be sufficient despatch for all) or (subject as provided by law and to the payment of stamp duty reserve tax or any other tax as may be applicable) to such other person(s) (not being more than four in number) as may be named in the form of nomination available for the purpose from the Registrars (and, if more than one, to the first-named, which shall be sufficient despatch for all).
- (g) Ordinary Shares issued pursuant to the exercise of Subscription Share Rights which are conferred by any Uncertificated Subscription Shares will be allotted within ten Business Days of the relevant Exercise Date, save in the case of the Final Subscription Date when the relevant Ordinary Shares will be allotted not later than ten Business Days after the Final Subscription Date. The Ordinary Shares arising on conversion shall be allotted with effect from the date of their allotment (and not the date upon which the Uncertificated Subscription Notice is given in accordance with paragraph 1(d) above). The Company shall procure that the appropriate instructions are given to enable such Ordinary Shares to be credited in uncertificated form to the relevant account within

- the Relevant Electronic System of the person(s) in whose name(s) the Subscription Shares in respect of which Subscription Share Rights have been exercised were registered as at the date of such exercise or (subject as provided by law, to the payment of stamp duty reserve tax or any other tax as may be applicable, to such terms and conditions as the Directors may from time to time prescribe for this purpose, to the regulations, and the facilities, rules and requirements of the Relevant Electronic System) to such other person(s) (not being more than four in number) as may be named in the properly authenticated dematerialised instruction and/or other instruction or notification in such form.
- (h) For the avoidance of doubt, unless the Directors otherwise determine or unless the regulations or the facilities, rules or requirements of the Relevant Electronic System otherwise require, the Ordinary Shares issued on the exercise of any Subscription Share Rights shall be issued in certificated form where such Subscription Share Rights were conferred by Certificated Subscription Shares and in uncertificated form where such Subscription Share Rights were conferred by Uncertificated Subscription Shares.
- (i) Ordinary Shares allotted pursuant to the exercise of Subscription Share Rights will not rank for any dividends or other distributions declared, paid or made on the Ordinary Shares by reference to a record date prior to the relevant allotment date but, subject thereto, will rank in full for all dividends and other distributions declared, paid or made on the Ordinary Shares and otherwise will rank *pari passu* in all other respects with the Ordinary Shares in issue at the relevant allotment date.
- (j) For so long as the Company's Ordinary Shares are admitted to the Official List and to trading on the London Stock Exchange's market for listed securities, it is the intention of the Company to apply (i) to the UK Listing Authority for the Ordinary Shares allotted pursuant to any exercise of Subscription Share Rights to be admitted to the Official List and (ii) to the London Stock Exchange for such Shares to be admitted to trading on the London Stock Exchange's market for listed securities. The Ordinary Shares arising pursuant to any exercise of Subscription Share Rights will be allotted subject to admission to the Official List and to trading on the London Stock Exchange's market for listed securities. Official List for this purpose means the official list of the UK Listing Authority. UK Listing Authority for this purpose means the Financial Services Authority of the United Kingdom acting in its capacity as the competent authority for the purposes of Part V of the FSMA.
- (k) Each notice of exercise of Subscription Share Rights and each Uncertificated Subscription Notice will be deemed to contain a representation that at the time of submission to the Company, the holder of the Subscription Shares concerned is not a US Person (as defined in paragraph 1(l) below) or a person in Canada, Australia, Japan, New Zealand or the Republic of South Africa or, if he is such a person, his exercise of Subscription Share Rights is permitted by, and will not infringe, the securities laws of the relevant jurisdiction.
- (l) Without prejudice to the generality of the final sentences of paragraphs 1(c) and 1(d) above, the exercise of Subscription Share Rights by any Subscription Shareholder or beneficial owner of the Subscription Shares who is a US Person or a person in Canada, Australia, Japan, New Zealand or the Republic of South Africa or the right of such a Subscription Shareholder or beneficial owner to receive the Ordinary Shares falling to be issued to him following the exercise of his Subscription Share Rights, will be subject to such requirements, conditions, restrictions, limitations or prohibitions as the Company may at any time impose, in its sole discretion, for the purpose of complying with (or for avoiding any requirement which would otherwise arise to comply with) the securities laws of the United States (including, without limitation, the Securities Act, the United States Investment Company Act of 1940, as amended, and any rules or regulations promulgated under such Acts) and the laws of Canada, Australia, Japan, New Zealand and the Republic of South Africa. As used herein, US Person means any person or entity defined as such in Rule 902 (o) under the Securities Act and, without limiting the generality of the foregoing, US Person includes a natural person resident in the United States, a corporation, partnership or other entity created, organised or incorporated under the laws of the United States (including any State thereof) and an estate or trust, if any executor, administrator or trustee is a US Person, but

shall not include a branch or agency of a US Person located outside the United States if such agency or branch operates for valid business reasons and is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located, and United States means the United States of America (including the States thereof and the District of Columbia), its territories and possessions or other areas subject to its jurisdiction.

## **2. Adjustments of Subscription Share Rights**

The Subscription Price (and/or the number of Subscription Shares outstanding) shall from time to time be adjusted in accordance with the provisions of this paragraph 2:

- (a) If and whenever there shall be an alteration on a date (or by reference to a record date) on or before the Final Subscription Date in the nominal amount of the Ordinary Shares as a result of a consolidation or sub-division, the Subscription Price in force immediately prior to such alteration shall be adjusted by multiplying it by a fraction of which (x) the numerator shall be the nominal amount of one such Ordinary Share immediately after such alteration and (y) the denominator shall be the nominal amount of one such Ordinary Share immediately prior to such alteration, and such adjustment shall become effective on the date the alteration takes effect.
- (b) If and whenever the Company shall allot to holders of Ordinary Shares any Ordinary Shares credited as fully paid by way of capitalisation of reserves or profits (other than Ordinary Shares paid up out of distributable reserves and issued in lieu of a cash dividend) on a date (or by reference to a date) on or before the Final Subscription Date, the Subscription Price in force immediately prior to such allotment shall be adjusted by multiplying it by a fraction of which (x) the numerator shall be the aggregate nominal amount of the issued Ordinary Shares immediately before such allotment and (y) the denominator shall be the aggregate nominal amount of the issued and allotted Ordinary Shares immediately after such allotment and such adjustment shall become effective as at the date of allotment of such Ordinary Shares.
- (c) If on a date (or by reference to a record date) on or before the Final Subscription Date, the Company makes any offer or invitation (whether by way of rights issue, open offer or otherwise but not being an offer made in connection with scrip dividend arrangements) to the holders of the Ordinary Shares (subject to such exclusions as may be necessary to deal with legal, regulatory or practical problems in any jurisdiction) to subscribe for new Ordinary Shares or for securities convertible into or exchangeable for Ordinary Shares or conferring rights to subscribe for Ordinary Shares, or any offer or invitation (not being an offer to which paragraph 3(f) below applies) is made to such holders otherwise than by the Company, then the Company shall, so far as it is able, procure that at the same time the same offer or invitation is made to the then Subscription Shareholders as if their Subscription Share Rights had been exercised on the date immediately preceding the record date for such offer or invitation on the terms (subject to any adjustment made previously pursuant to paragraphs 2(a) to (f)) on which the same could have been exercised on that date, provided that, if the Directors so resolve in the case of any such offer or invitation made by the Company, the Company shall not be required to procure that the same offer or invitation is made to the then Subscription Shareholders but the Subscription Price shall be adjusted:
  - (i) in the case of an offer of new Ordinary Shares for subscription by way of a rights issue at a price less than the market price at the date of announcement of the terms of the offer, by multiplying the Subscription Price by a fraction of which the numerator is the number of Ordinary Shares in issue on the date of such announcement plus the number of Ordinary Shares which the aggregate amount payable for the total number of new Ordinary Shares comprised in such rights issue would purchase at such market price and the denominator is the number of Ordinary Shares in issue on the date of such announcement plus the aggregate number of Ordinary Shares offered for subscription; and
  - (ii) in any other case, in such manner as the independent financial advisers appointed by the Board shall report in writing to be fair and reasonable.

Any such adjustments shall become effective, in the case of (i) above, as at the date of allotment of the new Ordinary Shares which are the subject of the offer or invitation and, in the case of (ii) above, as at the date determined by the independent financial advisers appointed by the Board. For the purposes of this paragraph **market price** shall mean the average of the middle market quotations (as derived from the Official List) for one Ordinary Share for the five consecutive dealing days ending on the dealing day immediately preceding the day on which the market price is to be ascertained.

- (d) No adjustment will be made to the Subscription Price pursuant to paragraphs 2(a), (b) or (c) above (other than by reason of a consolidation of Ordinary Shares as referred to in paragraph 2(a) above) if it would result in an increase in the Subscription Price and, in any event, no adjustment will be made if such adjustment would (taken together with the amount of any adjustment carried forward under the provisions of this paragraph 2(d)) be less than 1% of the Subscription Price then in force and on any adjustment the adjusted Subscription Price will be rounded down to the nearest whole penny. Any adjustment not so made and any amount by which the Subscription Price is rounded down will be carried forward and taken into account in any subsequent adjustment.
- (e) Whenever the Subscription Price is adjusted as provided in accordance with paragraphs 2(a) to (d) above (other than by reason of and to reflect a consolidation of Ordinary Shares as referred to in paragraph 2(a) above), the Company shall issue, for no payment, additional Subscription Shares to each Subscription Shareholder at the same time as such adjustment takes effect and the nominal value of such shares shall be paid up in full in accordance with paragraph 8(i)(v). The number of additional Subscription Shares to which a holder of Subscription Shares will be entitled shall be the number of existing Subscription Shares held by him before such adjustment multiplied by the following fraction:

$$\frac{X - Y}{Y}$$

where:

X = the Subscription Price (for the next Subscription Date) immediately before the adjustment of the Subscription Price; and

Y = the Subscription Price (for the next Subscription Date) immediately after the adjustment of the Subscription Price.

Fractions of Subscription Shares will not be allotted to holders of Subscription Shares but all such fractions will be aggregated and, if practicable, sold in the market. The net proceeds will be paid to the Subscription Shareholders entitled thereto at the risk of such persons, save that amounts of less than £5 will be retained for the benefit of the Company. Subscription Share certificates relating to such additional Certificated Subscription Shares will be issued within 21 days of the said adjustment taking effect or the Company will procure that appropriate instructions are given to enable such additional Uncertificated Subscription Shares to be credited to the relevant account within the Relevant Electronic System of the person(s) in whose name(s) the Subscription Shares are registered as at the date of the adjustment.

- (f) Whenever the Subscription Price is adjusted in accordance with this paragraph by reason of a consolidation of Ordinary Shares as referred to in paragraph 2(a) above, the number of Ordinary Shares into which each holder of Subscription Shares is entitled to convert such Subscription Shares will be reduced accordingly.
- (g) The Company shall give notice to holders of Subscription Shares within 28 days of any adjustment made pursuant to paragraphs 2(a) to (f) above.
- (h) If a holder of Subscription Shares shall become entitled to exercise his Subscription Share Rights pursuant to paragraph 3(f) below, the Subscription Price payable on such exercise (but not otherwise) shall be reduced by an amount determined by the financial advisers in accordance with the following formula:

$$A = (B + C) - D$$

where:

A = the reduction in the Subscription Price;

B = the Subscription Price which would, but for the provisions of this paragraph 2(h), be applicable (having taken into account any adjustments previously made pursuant to paragraphs 2(a) to (f) above) on the date on which the Company shall become aware as provided in paragraph 3(f) below;

C = the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for one Subscription Share for the 10 consecutive dealing days ending on the dealing day immediately preceding the date of the announcement of the offer referred to in paragraph 3(f) below (or, where such offer is a revised offer, the original offer) or, if applicable and earlier, the date of the first announcement of the intention to make such offer or original offer or of the possibility of the same being made; and

D = the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for one Ordinary Share for the 10 consecutive dealing days ending on the dealing day immediately preceding the date of the announcement of the offer referred to in paragraph 3(f) below (or, where such offer is a revised offer, the original offer) or, if applicable and earlier, the date of the first announcement of the intention to make such offer or original offer or of the possibility of the same being made,

provided that:

- (i) the Subscription Price shall not be reduced so as to cause the Company to be obliged to issue Ordinary Shares at a discount to nominal value and, if the application of the above formula would, in the absence of this proviso (i), have reduced the Subscription Price to below the nominal value of an Ordinary Share, the number of Ordinary Shares for which a holder of a Subscription Share may subscribe pursuant to paragraph 3(f) below shall be adjusted in such manner as the Financial Advisers shall report to be appropriate to achieve the same economic result for the Subscription Shareholders as if the Subscription Price had been reduced without regard to this proviso (i); and
- (ii) no adjustment shall be made to the Subscription Price where the value of D exceeds the aggregate value of B and C in the above formula.

The notice required to be given by the Company under paragraph 3(f) below shall give details of any reduction in the Subscription Price pursuant to this paragraph 2(h).

- (i) Notwithstanding the provisions of paragraphs 2(a) to 2(h) above, in any circumstances where the Directors shall consider that an adjustment to the Subscription Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Subscription Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or with a different time from that provided under the said provisions, the Company may appoint the Financial Advisers to consider whether for any reason whatsoever the adjustment to be made (or the absence of adjustment) would or might not appropriately reflect the relative interests of the persons affected thereby and, if the Financial Advisers shall consider this to be the case, the adjustment shall be modified or nullified, or another adjustment made instead, or no adjustment made, in such manner including, without limitation, making an adjustment calculated on a different basis and /or to take effect from such other date and/or time as shall be reported by the Financial Advisers to be in their opinion appropriate.

### 3. Other Provisions

So long as any Subscription Share Rights remain capable of exercise:

- (a) the Company shall not (except with the sanction of a special resolution of the Subscription Shareholders):
  - (i) make, pay or declare any distribution of capital profits or capital reserves except by means of a capitalisation issue in the form of fully paid Ordinary Shares;
  - (ii) issue securities by way of capitalisation of profits or reserves except fully paid Ordinary Shares issued to the holders of its Ordinary Shares or the issue of further Subscription Shares to the Subscription Shareholders in accordance with the rights attaching to the Subscription Shares; or
  - (iii) on or by reference to a record date falling within the period of six weeks ending on the Final Subscription Date, make any such allotment as is referred to in paragraph 2 above or any such offer or invitation as is referred to in paragraph 2 above (except by extending to the Subscription Shareholders any such offer or invitation as may be made by a third party);
- (b) the Company shall not (except with the sanction of a special resolution of the Subscription Shareholders) in any way modify the rights attached to its Existing Ordinary Shares as a class, or create or issue any new class of equity share capital (as defined in section 548 of the 2006 Act) except for shares which carry, as compared with the rights attached to the Existing Ordinary Shares, rights which are not more advantageous as regards voting, dividend or return of capital (save as to the date from which such shares shall rank for dividends or distributions), provided that nothing herein shall restrict the right of the Company to increase, consolidate or sub-divide its share capital or to issue further Ordinary Shares which carry, as compared to the rights attached to the Existing Ordinary Shares, rights which are not more advantageous as regards voting, dividends or return of capital;
- (c) the Company shall not issue any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves nor make any such offer as is referred to in paragraph 2(c) if, in either case, the Company would on any subsequent exercise of the Subscription Share Rights be obliged to issue Ordinary Shares at a discount to nominal value;
- (d) the Company shall not (except with the sanction of a special resolution of the holders of the Subscription Shares or in connection with a purchase of shares made in accordance with paragraph 3(i) below or for a reduction not involving any payment to Shareholders) reduce any of its share capital or any uncalled or unpaid liability in respect of any of its share capital;
- (e) except in the circumstances where paragraph 2(c) applies, the Company shall not grant (or agree to grant) any option in respect of, or create any rights of subscription for, or conversion into, any Ordinary Shares, the nominal amount of which, together with the aggregate nominal amount of any Ordinary Shares over which options or rights of subscription or conversion (including those of the Subscription Shares) shall be subsisting at the date of such grant or creation, would exceed in the aggregate 20% of the nominal amount of the Ordinary Shares (excluding any treasury shares) then in issue, nor (except with the sanction of a special resolution of the Subscription Shareholders) will the Company grant (or offer or agree to grant) any such option in respect of, or create any such rights of subscription for, or issue any securities or loan capital carrying rights of conversion into, Ordinary Shares if the price at which any such option or right is exercisable is lower than the Subscription Price for the time being;
- (f) subject as provided in paragraph 3(g) below, if at any time an offer is made to all Shareholders (or all such holders other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company and the Company becomes aware on or before the Final Subscription Date that as a result of such offer the right to cast a majority of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such companies or persons as aforesaid, the Company shall give notice to the

Subscription Shareholders of such vesting or pending vesting within 14 days of its becoming so aware, and each such Subscription Shareholder shall be entitled, at any time within the period of 30 days immediately following the date of such notice, to exercise his Subscription Share Rights on the terms (having taken into account any adjustments pursuant to paragraphs 2(a) to (f) and 2(h) above) on which the same could have been exercised if they had been exercised on the date on which the Company shall become aware as aforesaid. The publication of a scheme of arrangement under sections 895 to 901 of the 2006 Act providing for the acquisition by any person of the whole or any part of the issued ordinary share capital of the Company shall be deemed to be the making of an offer for the purposes of this paragraph 3(f) and reference herein to such an offer shall be read and construed accordingly;

- (g) if under any offer as referred to in paragraph 3(f) above the consideration shall consist solely of the issue of ordinary shares of the offeror and the offeror shall make available an offer of securities to subscribe for ordinary shares in the offeror in exchange for the Subscription Shares, which offer the financial advisers to the Company (acting as experts and not as arbitrators) shall consider to be fair and reasonable (having regard to the terms of the offer and any other circumstances which may appear to such financial advisers to be relevant), then a Subscription Shareholder shall not have the right to exercise his Subscription Share Rights on the basis referred to in paragraph 3(f) above and, subject to the offer as referred to in paragraph 3(f) above becoming or being declared wholly unconditional and the offeror being in a position to acquire compulsorily the whole of the then issued ordinary share capital of the Company not already owned by it or its associates (as defined in section 988 of the 2006 Act), any Director shall be irrevocably authorised as attorney for the holders of Subscription Shares who have not accepted the offer of securities to subscribe for ordinary shares in the offeror in exchange for the relevant Subscription Shares and who have not exercised the Subscription Share Rights attaching to their Subscription Shares before such offer becomes or is declared unconditional and the offeror being in a position to acquire compulsorily the whole of the then issued ordinary share capital of the Company not already owned by it or its associates:
- (i) to execute a transfer of the Subscription Shares held by such holders in favour of the offeror in consideration of the issue of securities to subscribe for ordinary shares in the offeror as aforesaid, whereupon all the Subscription Share Rights shall lapse; and
- (ii) to do such acts and things as may be necessary or appropriate in connection therewith;
- (h) if an order is made or an effective resolution is passed for winding up the Company (except for the purpose of reconstruction, amalgamation or unitisation on terms sanctioned by a special resolution of the Subscription Shareholders), each Subscription Shareholder shall be entitled to receive out of the assets available in the liquidation, *pari passu* with the holders of the Ordinary Shares and *pro rata* to their holding of Subscription Shares as at the commencement of the liquidation, such proportion of the assets available for distribution and distributed in the liquidation as is equal to the greater of:
- (i)  $\frac{MP \times N}{SA}$

where:

MP = the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for one Subscription Share for the five consecutive dealing days ending on the dealing day immediately preceding the date of the presentation of the petition for such order or of the notice convening the meeting at which such resolution shall be passed (as the case may be) or, if applicable and earlier, the date of the first announcement of the presentation of such petition or the convening of a meeting (as the case may be) or that the same is proposed

N = the number of Subscription Shares in issue immediately prior to the commencement of the liquidation

SA = the surplus assets available in the liquidation

and

$$(ii) \frac{IV \times N}{SA}$$

where:

IV = the excess of the Diluted NAV per Ordinary Share over the Subscription Price immediately prior to the commencement of the liquidation

N = the number of Subscription Shares in issue immediately prior to the commencement of the liquidation

SA = the surplus assets available in the liquidation

For the avoidance of doubt, the entitlement of Subscription Shareholders pursuant to this paragraph 3(h) shall be payable out of the assets available in the liquidation without the Subscription Shareholders having to make any subscription or payment. Subject to the foregoing, all Subscription Share Rights shall lapse on liquidation of the Company.

Notwithstanding the foregoing provisions of this paragraph 3(h), where the Directors, in their reasonable opinion, shall consider that the economic result produced by the application of such provisions would or might not fairly and appropriately reflect the relative interests of the persons affected thereby, the Directors may appoint the Financial Advisers to consider and report on what (if any) adjustments should be made to such provisions so as to produce an economic result which, in the opinion of the Financial Advisers, fairly and appropriately reflects the relative interests of the persons affected thereby, and in the event of any such report by the Financial Advisers the provisions of this paragraph 3(h) shall be deemed to be varied and take effect accordingly.

- (i) Notwithstanding paragraphs 3(a) to (h) above, the Company may, without the sanction of special resolution of the Subscription Shareholders:
  - (i) issue new Ordinary Shares at a premium to NAV;
  - (ii) purchase any of its own equity share capital (whether by tender, by private treaty or through the market);
  - (iii) hold its Ordinary Shares in treasury (for the purposes of The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003) and sell any such Ordinary Shares held in treasury; and
  - (iv) effect a reduction in its share premium account or capital redemption reserve in accordance with the provisions of the 2006 Act.

#### 4. Issue of C Shares

- (a) Notwithstanding the provisions of paragraph 3 above, a Qualifying C Share Issue (as defined in (b) below) shall not constitute an alteration or abrogation of the rights attached to the Subscription Shares (and shall not require the sanction of a special resolution of the Subscription Shareholders), even though it may involve modification of the rights attached to the Existing Ordinary Shares of the Company or the creation or issue of a new class of equity share capital, if the Directors are of the opinion (having regard to all the circumstances) that such issue should not have any material dilutive effect on the NAV per Ordinary Share.
- (b) For this purpose, a “**Qualifying C Share Issue**” means an issue by the Company of shares which will, within one year of the date of issue thereof, be converted into Ordinary Shares ranking *pari passu* in all respects with the Ordinary Shares then in issue (other than, if the case requires, as regards dividends or other distributions declared, paid or made in respect of the financial year in which the conversion takes place) and may include the issue in connection therewith of subscription shares or warrants (whether on the same terms and conditions as the Subscription

Shares or otherwise) and any matters reasonably incidental to the process by which such shares are converted into Ordinary Shares, including but not limited to the creation, issue, sub-division, consolidation, redesignation, purchase, redemption or cancellation of any share capital of the Company, including share capital with preferred or deferred rights.

## **5. Modification of Rights**

All or any of the rights for the time being attached to the Subscription Shares and any of these terms and conditions may from time to time (whether or not the Company is being wound up) be altered or abrogated with the sanction of a special resolution of the Subscription Shareholders.

## **6. Purchase**

Subject to the provisions of the 2006 Act the Company (or any of its subsidiaries) shall have the right to purchase Subscription Shares in the market, by tender or by private treaty but:

- (a) such purchases will be limited to a maximum price per Subscription Share which (other than in the case of purchases by tender) will not exceed the higher of (i) 5% above the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for a Subscription Share for the five consecutive dealing days ending on the dealing day immediately preceding the date on which the purchase is made and (ii) the value of a Subscription Share calculated on the basis of the higher of the price quoted for (a) the last independent trade of, or (b) the highest current independent bid for, any number of Subscription Shares on the trading venue where the purchase is carried out; and
- (b) if such purchases are by tender, such tender will be available to all Subscription Shareholders alike.

All Subscription Shares so purchased shall forthwith be cancelled and shall not be available for reissue or resale.

## **7. Transfer**

Each Subscription Share will be in registered form and will be transferable:

- (a) in the case of Certificated Subscription Shares, by an instrument of transfer in any usual or common form, or in any other form which may be approved by the Directors; and
- (b) in the case of Uncertificated Subscription Shares, by giving the appropriate instructions for transfer by means of the Relevant Electronic System.

No transfer of a fraction of a Subscription Share may be effected.

## **8. General**

- (a) The Company will, concurrently with the issue of the same to the holders of the Ordinary Shares, send to each Subscription Shareholder (or, in the case of joint holders, to the first named) a copy of each published annual report and financial statements of the Company (or such abbreviated or summary financial statement sent to holders of Ordinary Shares in lieu thereof), together with all documents required by law to be annexed thereto, and a copy of every other statement, notice or circular issued by the Company to holders of Ordinary Shares.
- (b) For the purposes of the rights attaching to Subscription Shares, a special resolution of the Subscription Shareholders means a resolution proposed at a meeting of the Subscription Shareholders duly convened and passed by a majority consisting of not less than 75% of the votes cast, whether on a show of hands or on a poll.
- (c) Any determination or adjustment made pursuant to the rights attaching to Subscription Shares by the Financial Advisers shall be made by them as experts and not as arbitrators and any such determination or adjustment made by them shall be final and binding on the Company and each of the Subscription Shareholders.

- (d) Any references in the rights attaching to Subscription Shares to a statutory provision shall include that provision as from time to time modified or re-enacted.
- (e) Subject and without prejudice to paragraph 3(h) above, Subscription Shares carry no right to any dividend or other distribution by the Company and (save to the extent that the Directors elect in connection with an exercise of Subscription Share Rights as provided in paragraph 8(i) below) no right to be redeemed (although the Company may elect to purchase Subscription Shares pursuant to paragraph 6). Subscription Shareholders are not entitled to attend or vote at meetings of Ordinary Shareholders and have no right to share in any surplus in the event of liquidation beyond the right to be repaid the sum of one penny, being the nominal value of each Subscription Share (in respect of which Subscription Share Rights have not been exercised) held (which right ranks immediately after the right of the Ordinary Shareholders to be repaid the nominal value of twenty five pence for each Ordinary Share), but subject and without prejudice to paragraph 3(h) above.
- (f) If, immediately after any Subscription Date (other than the Final Subscription Date) and after taking account of any Subscription Share Rights exercised on that date, Subscription Share Rights shall have been exercised or cancelled in respect of 75% or more of the Subscription Shares originally issued (subject to the adjustment of the number of Subscription Shares in accordance with paragraph 2 above (excluding any Ordinary Shares to which Subscription Share Rights attached to Subscription Shares purchased by the Company or any of its subsidiaries relate but including any further Subscription Shares issued in accordance with the Articles)), the Company shall be entitled at any time within the next following 14 days to serve notice in writing on the holders of the Subscription Shares then outstanding of its intention to appoint a trustee for the purposes set out in this paragraph 8(f) (the “**Early Subscription Trustee**”) upon the expiry of 21 days from the date of such notice (the “**Notice Period**”) and for this purpose the Notice Period shall expire at 3.00 p.m. on the twenty-first day from the date of such notice. Such notice shall set out the Final Subscription Date and will include all necessary details and instructions to enable the exercise of the Subscription Share Rights. Forthwith after the expiry of the Notice Period, the Company shall appoint the Early Subscription Trustee who, provided that in such trustee’s opinion the net proceeds of sale after deduction of all costs and expenses incurred by, and any fee payable to, such trustee will exceed the costs of exercising the Subscription Share Rights, shall within the period of 14 days following the expiry of the Notice Period either:
  - (i) exercise all the Subscription Share Rights which shall not have been exercised on the terms on which the same could have been exercised immediately prior to the expiry of the Notice Period and had been exercised (having taken into account any adjustments previously made pursuant to paragraph 2 above) and sell in the market the Ordinary Shares resulting from such exercise; or
  - (ii) (if it appears to the Early Subscription Trustee that doing so is likely to realise greater net proceeds for Subscription Shareholders) accept any offer available to Subscription Shareholders for the purchase of the outstanding Subscription Shares.

The Early Subscription Trustee shall distribute *pro rata* the net proceeds of any such sale or acceptance of any such offer less, in either case, such costs of exercising the Subscription Share Rights and such other fees, costs and expenses to the persons entitled thereto at the risk of such persons as soon as practicable after such sale and in any event within 28 days after the expiry of the Notice Period, provided that entitlements of under £5 shall be retained for the benefit of the Company. Following the expiry of the Notice Period, if the Early Subscription Trustee shall not exercise the Subscription Share Rights then outstanding within the period of 14 days following such expiry as set out in this paragraph 8(f) (and such trustee’s decision in respect thereof shall be final and binding on all holders of outstanding Subscription Shares), all Subscription Share Rights shall lapse on the expiry of such period of 14 days.

- (g) Within seven days following the Final Subscription Date the Company shall appoint a trustee (the “**Final Subscription Trustee**”) who, provided that in such trustee’s opinion the net proceeds of sale after deduction of all costs and expenses incurred by, and any fee payable to, such trustee will exceed the costs of exercising the Subscription Share Rights, shall within the period of 14 days following the Final Subscription Date, either:
- (i) exercise all the Subscription Share Rights which shall not have been exercised on the terms on which the same could have been exercised on the Final Subscription Date (having taken into account any adjustments previously made pursuant to paragraph 2 above) and sell in the market the Ordinary Shares resulting from such exercise; or
  - (ii) (if it appears to the Final Subscription Trustee that doing so is likely to realise greater net proceeds for Subscription Shareholders) accept any offer available to Subscription Shareholders for the purchase of the outstanding Subscription Shares.

The Final Subscription Trustee shall distribute *pro rata* the net proceeds of any such sale or acceptance of any such offer less, in either case, such costs of exercising the Subscription Share Rights and such other fees, costs and expenses to the persons entitled thereto at the risk of such persons within 56 days of the Final Subscription Date, provided that entitlements of under £5 shall be retained for the benefit of the Company. If the Final Subscription Trustee shall not exercise the Subscription Share Rights within the period of 14 days following the Final Subscription Date as set out in this paragraph 8(g) (and such trustee’s decision in respect thereof shall be final and binding on all holders of outstanding Subscription Shares), all Subscription Share Rights shall lapse.

- (h) The Early Subscription Trustee or the Final Subscription Trustee (as appropriate) shall have no liability of any nature whatsoever where such trustee has acted honestly and reasonably and shall have no responsibility for the safe custody of, or to earn any interest on, any unpaid or unclaimed money.
- (i) The exercise of the Subscription Share Rights shall be effected in accordance with this paragraph 8(i) or in such manner as may be authorised by law. For the purposes of this paragraph 8(i) the Relevant Shares shall mean those Subscription Shares in respect of which Subscription Share Rights are exercised.
  - (i) To enable such subscription to be effected, the Directors may determine to redeem at par the Relevant Shares on any Subscription Date out of profits of the Company which would otherwise be available for distribution. In the event that the Directors determine to redeem the same at par out of such profits, a Relevant Share shall confer upon the holder thereof the right to subscribe for, and such holder shall be deemed to have appointed the Secretary of the Company (or any other person appointed for the purpose by the Directors) to subscribe as agent on such holder’s behalf for, one Ordinary Share at such price as shall represent the aggregate of:
    - (a) the Subscription Price; and
    - (b) the amount of the redemption moneys to which the holder is entitled;and in any such case, the Subscription Notice given by such holder shall be deemed irrevocably to authorise and instruct such agent to apply the redemption moneys payable to such holder in subscribing for such Ordinary Shares at such price.
  - (ii) To enable such subscription to be effected, the Directors may determine to redeem at par the Relevant Shares on any Subscription Date out of the proceeds of a fresh issue of Ordinary Shares. In the event that the Directors determine to redeem the same at par out of such proceeds, a Relevant Share shall confer upon the holder thereof the right to subscribe for, and such holder shall be deemed to have authorised the Secretary of the Company (or any other person appointed for the purpose by the Directors) to subscribe as agent on such holder’s behalf for, one Ordinary Share at such price as shall represent the aggregate of:
    - (a) the Subscription Price; and
    - (b) the amount of the redemption moneys to which the holder is entitled;

and in any such case, the Subscription Notice given by such holder shall be deemed irrevocably to authorise and instruct such agent to apply the redemption moneys payable to such holder in subscribing for such Ordinary Shares at such price.

- (iii) To enable such subscription to be effected, the Directors may determine to effect such subscription by means of a consolidation and sub-division of the Relevant Shares. In such case the requisite consolidation and sub-division shall be effected pursuant to the authority given by the resolution adopting the New Articles by consolidating into one share all the Relevant Shares held by any holder or joint holders and in respect of which a Subscription Notice shall have been given in respect of the relevant Subscription Date (treating holdings of the same holders or joint holders in certificated form and uncertificated form as separate holdings, unless the Directors otherwise determine) and, if the Directors so determine, any shares allotted to such holder or joint holder pursuant to paragraph 8(i)(v) and converting (and, if necessary, sub-dividing) such consolidated share into Ordinary Shares of 25 pence each (or such other nominal amount as may be appropriate as a result of any consolidation or sub-division of Ordinary Shares) of which one share for every complete 25 pence (or such other nominal amount as may be appropriate as a result of any consolidation or sub-division of Ordinary Shares) of the nominal amount of the consolidated share shall be Ordinary Shares (fractional entitlements to an Ordinary Share being disregarded) and the balance (if any) of such consolidated share shall be deferred shares which shall carry the limited rights set out in the Articles but in particular will be capable of being redeemed by the Company without further authorisation.
- (iv) In relation to any Relevant Shares that are to be redeemed in accordance with paragraph 8(i)(i) or 8(i)(ii) and that are, on the Subscription Date concerned, in uncertificated form, the Directors shall be entitled in their absolute discretion to determine the procedures for the redemption of such Relevant Shares (subject always to the regulations and the facilities, rules and requirements of the Relevant Electronic System). Without prejudice to the generality of the foregoing, the procedures for the redemption of any such Relevant Shares may involve or include the sending by the Company or by any person on its behalf of an issuer instruction to the operator of the Relevant Electronic System requesting or requiring the deletion of any computer based entries in the relevant system concerned that relate to the holding of the Relevant Shares concerned, and/or the Company may, if the Directors so determine (by notice in writing to the holder concerned), require the holder of the Relevant Shares concerned to change the form of the Relevant Shares from uncertificated form to certificated form prior to the Subscription Date concerned (and in each case the Directors shall determine the procedure for such redemption).
- (v) To enable any subscription to be effected in accordance with paragraph 8(i)(i) or 8(i)(ii) above or the issue of any additional Subscription Shares pursuant to paragraph 2(e) above, the resolution adopting the New Articles will authorise the Directors to capitalise any part of the amount then standing to the credit of any of the Company's reserve accounts (whether or not the same would lawfully be distributable by way of cash dividend) or to the credit of the share premium account, capital redemption reserve, special reserve, revenue reserve or otherwise available for the purpose and the same shall be applied in paying up in full at par shares to be allotted and issued, credited as fully paid, to and amongst the holders of the Subscription Shares exercising their Subscription Share Rights in accordance with their respective entitlements or otherwise to the holders of Subscription Shares in accordance with paragraph 2(e). The restrictions and limitations in the New Articles relating to capitalisation issues generally shall not apply to any capitalisation or creation or issue of shares pursuant to paragraph 8(i) or paragraph 2(e) which shall instead be effected pursuant to the authority given by the resolution adopting the New Articles.
- (vi) For the avoidance of doubt the Subscription Share Rights attached to a Subscription Share shall be capable of being exercised on one occasion only and with effect from the exercise of the Subscription Share Right attached to such Subscription Share the Directors shall be entitled to redesignate such Subscription Share as a deferred share which shall carry the limited rights set out in the Articles but in particular will be capable of being redeemed or transferred by the Company without further authorisation.

**PART V**  
**GENERAL INFORMATION**

**1. Responsibility**

The Company, whose registered office appears at paragraph 2.1.8 of this Part V, and the Directors, whose names and functions appear on page 16 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

**2. The Company and the Manager**

**2.1 Incorporation**

2.1.1 The Company was incorporated in England and Wales on 7 January 1994. The Company is registered as an investment company under section 833 of the 2006 Act with registered number 2885584. The Company has no subsidiaries.

2.1.2 The Company changed its name from SaveMargin public limited company to Fidelity Japanese Values PLC on 10 February 1994.

2.1.3 The Articles contain provisions requiring the Directors to put a proposal for continuation of the Company to the Shareholders at the Company's AGM in 2010 and thereafter at three yearly intervals.

2.1.4 The Company has at all times conducted its affairs so as to enable it to qualify as an investment trust for the purposes of section 842 of the Taxes Act.

2.1.5 As an investment trust the Company is not regulated as a collective investment scheme by the Financial Services Authority. However, as a company listed on the Official List, it is subject to the Listing Rules.

2.1.6 The Company's Ordinary Shares are listed on the Official List and admitted to trading on the London Stock Exchange's market for listed securities. The ISIN of the Ordinary Shares is GB0003328555.

2.1.7 The principal legislation under which the Company operates is the 2006 Act and regulations promulgated thereunder. The Company is domiciled in England and Wales.

2.1.8 The registered office of the Company is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP, with telephone number 01732 361144.

**2.2 Principal Activities of the Company**

The principal object of the Company is to carry on business as an investment trust company.

**2.3 The Manager**

The Manager is a private unlimited company, incorporated in England and Wales on 13 September 1979 under company number 1448245. The Manager is authorised and regulated by the Financial Services Authority. The principal legislation under which the Manager operates is the FSMA. The address of the registered office of the Manager is Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ with telephone number 01732 361144.

### 3. Share Capital

- 3.1 The following table shows the issued share capital of the Company as at 30 June 2009 (being the last date in respect of which the Company has published financial information) and as at 13 October 2009 (being the latest practicable date prior to the publication of this document):

	<i>30 June 2009</i>		<i>13 October 2009</i>	
	<i>Nominal Value (£)</i>	<i>Number of Ordinary Shares</i>	<i>Nominal Value (£)</i>	<i>Number of Ordinary Shares</i>
Issued share capital (fully paid)	23,894,363	95,577,453	23,894,363	95,577,453

- 3.2 Save for the proposed Bonus Issue of Subscription Shares described in this document, no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.
- 3.3 With effect from Admission, all of the Subscription Shares will be in registered form and, subject to the Subscription Shares being admitted to and accordingly enabled for settlement in CREST, the Subscription Shares will be capable of being held in both certificated and uncertificated form. No temporary documents of title will be issued. All of the Ordinary Shares issued or to be issued by the Company will be in registered form and are capable of being held in certificated and uncertificated form.
- 3.4 The Company's issued share capital history during the last three financial years and since 31 December is as follows:
- in the financial year ended 31 December 2006, the Company did not issue any Ordinary Shares nor did it repurchase any Ordinary Shares (into treasury or otherwise). As at 31 December 2006, the Company had 98,207,453 Ordinary Shares in issue, none of which were held in treasury;
  - in the financial year ended 31 December 2007, the Company did not issue any Ordinary Shares. It repurchased 1,180,000 Ordinary Shares for cancellation. As at 31 December 2007, the Company had 97,027,453 Ordinary Shares in issue, none of which were held in treasury;
  - in the financial year ended 31 December 2008, the Company did not issue any Ordinary Shares. It repurchased 1,450,000 Ordinary Shares for cancellation. As at 31 December 2008, the Company had 95,577,453 Ordinary Shares in issue, none of which were held in treasury; and
  - in the period from 1 January 2009 to 13 October 2009, the Company did not issue any new Ordinary Shares nor did it repurchase any Ordinary Shares (into treasury or otherwise). As at 13 October 2009 (being the latest practicable date prior to publication of this document), the Company had 95,577,453 Ordinary Shares in issue, none of which were held in treasury.
- 3.5 At the General Meeting Shareholders will be asked to pass the Special Resolution, which contains the following operative provisions, some of which will, if the Special Resolution is passed, affect the Company's share capital:
- to adopt the New Articles to provide for the rights attaching to the Subscription Shares and incorporating certain changes to reflect recent legal developments;
  - to authorise the Directors to allot shares pursuant to the Bonus Issue (including pursuant to the exercise of the Subscription Share Rights);
  - to authorise the Directors to capitalise any amount standing to the credit of any of the share premium account, the capital redemption reserve, special reserve and any other applicable reserve (excluding the revenue reserve) otherwise available in order to pay up to 19,115,490 Subscription Shares to be issued pursuant to the Bonus Issue and any Ordinary

Shares to be issued upon the exercise of the Subscription Share Rights or any additional Subscription Shares required to be issued in accordance with the rights attaching to the Subscription Shares;

- (iv) to authorise the Directors to consolidate, sub-divide or redeem share capital to give effect to the rights of the holders of Subscription Shares; and
- (v) to authorise the Company to make market purchases of the Subscription Shares up to 14.99% of the issued subscription share capital.

3.6 The Subscription Shares will have the rights described in Part IV of this document. The Subscription Shares will be denominated in Sterling.

#### **4. Current Memorandum and Articles**

The Memorandum of Association and the Articles contain, amongst other things, material provisions as summarised in paragraphs 4.1 and 4.2 below. If the Special Resolution is passed at the General Meeting the New Articles will be adopted to incorporate the rights attaching to the Subscription Shares (these rights are summarised in Part IV of this document) and certain changes to reflect recent legal developments.

##### **4.1 Memorandum of Association**

If the Special Resolution is passed at the General Meeting the New Articles will be adopted and will no longer contain the provisions of the Company's Memorandum of Association which, by virtue of section 78 of the 2006 Act are to be treated as provisions of the Company Articles.

##### **4.2 Articles of Association**

Set out below is a summary of the provisions of the current Articles. If the Special Resolution is passed at the General Meeting the New Articles, which contain the rights attaching to the Subscription Shares, will be adopted. The proposed changes to the Articles are summarised in Part B of the Appendix to the Notice of the General Meeting on pages 77 – 79 of this document. The rights attaching to the Subscription Shares are set out in Part IV of this document.

###### **4.2.1 Share capital**

The Articles provide that the Company's share capital consists of Ordinary Shares.

The Ordinary Shares have such rights, preferences and restrictions attached to them as are set out in the Articles.

The Articles do not confer any additional rights for the holders of Ordinary Shares to share in any surplus in the event of liquidation of the Company other than rights provided by legislation.

The Company in general meeting may from time to time by ordinary resolution:

- (i) increase its share capital by such sum to be divided into shares of such amount as the resolution prescribes;
- (ii) consolidate and divide all or any of its share capital into shares of larger nominal amount than its existing shares;
- (iii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled; and
- (iv) subject to the provisions of the Companies Act 1985, sub-divide its shares or any of them into shares of smaller amount, and may by such resolution determine that, as between the shares resulting from such sub-division, one or more of the shares may, as compared with others, have any such preferred, deferred or other special rights or be subject to any such restrictions as the Company has power to attach to unissued or new shares.

#### 4.2.2 *Allotment of Ordinary Shares*

- (i) Subject to the provisions of the Companies Act 1985 and to any relevant authority of the Company in general meeting required by the Companies Act 1985, unissued shares at the date of adoption of the Articles and any shares thereafter created shall be at the disposal of the Board, which may allot (with or without conferring rights of renunciation), grant options over, offer or otherwise deal with or dispose of them or grant rights to subscribe for or convert any security into shares to such persons (including the Directors themselves), at such times and generally on such terms and conditions as the Board may decide, provided that no share shall be issued at a discount.
- (ii) Subject to the provisions of the Companies Act 1985 and to any special rights for the time being attached to any existing shares, any share may be issued which is, or at the option of the Company or of the holder of such share is liable, to be redeemed on such terms and in such manner as the Articles may provide.

#### 4.2.3 *Voting rights*

The Shareholders have the right to receive notice of, and to vote at, general meetings of the Company. Each Shareholder who is present in person (or, being a corporation, by representative) at a general meeting on a show of hands has one vote and, on a poll, every such holder who is present in person (or, being a corporation, by representative) or by proxy has one vote in respect of every share held by him.

#### 4.2.4 *Dividends*

The Company may, subject to the provisions of the Companies Act 1985 and the Articles, by ordinary resolution from time to time declare dividends to be paid to members not exceeding the amount recommended by the Board. Subject to the provisions of the Companies Act 1985 in so far as, in the Board's opinion, the Company's profits justify such payments, the Board may pay interim dividends on any class of shares including those carrying a fixed dividend. Any dividend, unclaimed after a period of 12 years from the date such dividend was declared or became payable shall, if the Board resolves, be forfeited and revert to the Company.

#### 4.2.5 *Transfer of Ordinary Shares*

- (i) Each member may transfer all or any of his shares by instrument of transfer, in the case of certificated shares, in writing in any usual form or in any form approved by the Board. Such instrument shall be executed by or on behalf of the transferor and, in the case of partly paid shares, by or on behalf of the transferee. In relation to uncertificated shares, by means of a relevant system in such manner provided for, and subject as provided in the Uncertificated Securities Regulations.
- (ii) The Board may, in its absolute discretion and without giving any reason, refuse to register any share transfer unless:
  - (a) it is in respect of a share which is fully paid up;
  - (b) it is in respect of only one class of share;
  - (c) it is in favour of a single transferee or not more than four joint transferees;
  - (d) it is duly stamped (if so required);
  - (e) it is delivered for registration to the registered office of the Company or such other place as the Board may from time to time determine, accompanied, except in the case of a transfer by a recognised person where a certificate has not been issued, by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so; and

- (f) in the case of partly paid shares which are listed, any refusal prevents dealings in the shares taking place on an open and proper basis.
- (iii) The Board may also refuse to register a transfer of uncertificated shares in such other circumstances as may be permitted or required by the Uncertificated Securities Regulations and the relevant system.

The Board may also order the compulsory transfer of shares in the circumstances envisaged by the Articles of the Company.

#### 4.2.6 *Variation of rights and alteration of capital*

- (i) All or any of the rights for the time being attached to any share or class of shares (and notwithstanding that the Company may or may be about to be in liquidation) may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than 75% in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares to which the provisions of the Articles relating to general meetings shall apply, but so that the quorum thereat shall be two persons holding or representing by proxy at least one third in nominal value of the issued shares of the class in question.

#### 4.2.7 *Alteration of share capital*

The Company may from time to time by ordinary resolution, increase its share capital, consolidate or consolidate and then subdivide all or any of its share capital, and cancel any shares which have not been taken or agreed to be taken.

#### 4.2.8 *Purchase of own Ordinary Shares*

Subject to the provisions of the Companies Act 1985 and to any rights for the time being attached to any Ordinary Shares, the Company may purchase any of its own shares of any class (including any redeemable shares). Any shares to be so purchased may be selected in any manner whatsoever.

#### 4.2.9 *Directors*

- (i) Unless otherwise determined by the Company by ordinary resolution, the number of Directors (other than any alternate Directors) shall not be less than two, but there shall be no maximum number of Directors.
- (ii) The Directors shall be entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine provided that the amount paid to each Director by way of fees shall not exceed £50,000 in any financial year, or such greater sum as may be determined from time to time by ordinary resolution of the Company. The Directors shall also be entitled to be repaid all reasonable travelling, hotel and other incidental expenses properly incurred by them in or about the performance of their duties as Directors, including expenses incurred in attending meetings. If, by arrangement with the Board, any Director shall perform or render any special duties or services outside his ordinary duties as a Director, he may be paid such reasonable additional remuneration as the Board may determine.
- (iii) At every AGM any Director who:
  - (a) has been appointed by the Board since the last AGM; or
  - (b) held office at the time of the two preceding AGMs and who did not retire at either of them; or
  - (c) has held office with the Company, other than employment of executive office, for a continuous period of nine years or more at the date of the meeting,

shall retire from the office and may offer himself for re-appointment by the members.

- (iv) No shareholding qualification for Directors shall be required.
- (v) The Board may, subject to the quorum and voting requirements set out in the Articles, authorise any matter which would otherwise involve a Director breaching his duty under the Companies Act to avoid conflicts of interest (“Conflict”).
- (vi) A Director seeking authorisation in respect of a Conflict shall declare to the Board the nature and extent of his interest in a Conflict as soon as is reasonably practicable. The Director shall provide the Board with such details of the relevant matter as are necessary for the Board to decide how to address the Conflict together with such additional information as may be requested by the Board.
- (vii) Any Director (including the relevant Director) may propose that the relevant Director be authorised in relation to any matter the subject of a Conflict. Such proposal and any authority given by the Board shall be effected in the same way that any other matter may be proposed to and resolved upon by the Board under the provisions of the Articles save that:
  - (a) the relevant Director and any other Director with a similar interest shall not count towards the quorum nor vote on any resolution giving such authority; and
  - (b) the relevant Director and any other Director with a similar interest may, if the other members of the Board so decide, be excluded from any Board meeting while the Conflict is under consideration.
- (viii) Where the Board gives authority in relation to a Conflict:
  - (a) the Board may (whether at the time of giving the authority or subsequently)
    - (a) require that the relevant Director is excluded from the receipt of information, the participation in discussion and/or the making of decisions (whether at meetings of the Board or otherwise) related to the Conflict; and
    - (b) impose upon the relevant Director such other terms for the purpose of dealing with the Conflict as it may determine;
  - (b) the relevant Director will be obliged to conduct himself in accordance with any terms imposed by the Board in relation to the Conflict;
  - (c) the Board may provide that where the relevant Director obtains (otherwise than through his position as a Director of the Company) information that is confidential to a third party, the Director will not be obliged to disclose that information to the Company, or to use or apply the information in relation to the Company’s affairs, where to do so would amount to a breach of that confidence;
  - (d) the terms of the authority shall be recorded in writing (but the authority shall be effective whether or not the terms are so recorded); and
  - (e) the Board may revoke or vary such authority at any time but this will not affect anything done by the relevant Director prior to such revocation in accordance with the terms of such authority.
- (ix) If a Director is in any way directly or indirectly interested in a proposed contract with the Company or a contract that has been entered into by the Company, the Director must declare the nature and extent of that interest to the Directors in accordance with the 2006 Act.
- (x) Provided he has declared his interest in accordance with paragraph (ix) above, a Director may:
  - (a) be party to, or otherwise interested in, any contract with the Company or in which the Company has a direct or indirect interest;

- (b) hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of Director for such period and upon such terms, including as to remuneration, as the Board may decide;
  - (c) act by himself or through a firm with which he is associated in a professional capacity for the Company or any other Company in which the Company may be interested (otherwise than as auditor);
  - (d) be or become a director or other officer of, or employed by or otherwise interested in any holding company or subsidiary company of the Company or any other company in which the Company may be interested; and
  - (e) be or become a director of any other company in which the Company does not have an interest and which cannot reasonably be regarded as giving rise to a conflict of interest at the time of his appointment as a director of that other Company.
- (xi) A Director shall not, by reason of his office or of the fiduciary relationship thereby established, be liable to account to the Company for any remuneration, profit or other benefit realised by reason of his having any type of interest authorised or permitted under the Articles and no contract shall be liable to be avoided on the grounds of a Director having any type of interest authorised under or permitted under the Articles.

#### 4.2.10 *Borrowing powers*

Subject as provided in the Articles, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present or future) and uncalled capital of the Company and, subject to the provisions of the Companies Act 1985, to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so that (so far as it is able), without the previous sanction of an ordinary resolution of the Company, no new borrowings are incurred if, as a result, the aggregate principal amount outstanding of all net borrowings by the group (excluding certain borrowings owing by one member of the group to another member of the group) exceeds an amount equal to the adjusted capital and reserves.

#### 4.2.11 *General meetings*

- (a) Notice

AGMs shall be held at such time and place as the Board may determine.

The Board may convene a general meeting whenever it thinks fit. A general meeting shall also be convened on such requisition, or in default may be convened by such requisitionists, as provided by section 368 of the Companies Act 1985. At any meeting convened on such requisition or by such requisitionists no business shall be transacted except that stated by the requisition or proposed by the Board. If there are not within the United Kingdom sufficient members of the Board to convene a general meeting, any Director or any member of the Company may call a General Meeting.

An AGM and a general meeting convened for the passing of a special resolution shall be convened by not less than 21 clear days' notice in writing. All other general meetings shall be convened by not less than 14 clear days' notice in writing. Notwithstanding that a general meeting is called on shorter notice, it shall be deemed duly convened:

- (i) in the case of an AGM, by all the members entitled to attend and vote at the meeting; and

- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

The notice shall specify the nature of the meeting, the place, day and time of the meeting, the general nature of the business to be transacted, the intention to propose a special or an ordinary resolution and a statement that a member is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member.

(b) Quorum

No business shall be transacted unless two persons entitled to attend and to vote on the business to be transacted, each being a member or a proxy for a member or a duly authorised representative of a corporation, are present. If within five minutes or such longer period as the Chairman in his absolute discretion thinks fit, from the time appointed for the holding of the meeting a quorum is not present, or if a quorum ceases to be present during a meeting, the meeting shall stand adjourned to such other day (being not less than three nor more than 28 days) at the same time and place, or to such day and time as the Chairman may determine, unless the meeting was called on the requisition of members, in which case it shall be dissolved.

4.2.12 *Reserves*

The Board may, before recommending any dividend, but having regard to section 842 of the Taxes Act, transfer to reserves out of the profits of the Company such sums as it thinks fit. All sums standing to reserves may be applied from time to time, at the discretion of the Board, for any purpose to which profits of the Company may properly be applied and, pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Board thinks fit.

4.2.13 *Capitalisation of reserves*

The Company may, upon the recommendation of the Board, at any time and from time to time pass an ordinary resolution to the effect that it is desirable to capitalise all or any part of any amount standing to the credit of any reserve or fund (including retained earnings) at the relevant time whether or not the same is available for distribution and accordingly that the amount to be capitalised be set free for distribution among the members or any class of members who would be entitled to it if it were distributed by way of dividend and in the same proportions, on the footing that it is applied either in or towards paying up the amount unpaid at the relevant time on any shares in the Company held by those members respectively or in paying up in full unissued shares debentures or other obligations of the Company to be allotted and distributed credited as fully paid up among those members, or partly in one way and partly in the other, but so that, for the purposes of this article (i) a share premium account and a capital redemption reserve, and any reserve or fund representing unrealised profits, may be applied only in paying up in full unissued shares of the Company, and (ii) where the amount capitalised is applied in paying up in full unissued shares, the Company will also be entitled to participate in the relevant distribution in relation to any shares of the relevant class held by it as treasury shares and the proportionate entitlement of the relevant class of member to the distribution will be calculated accordingly. The Board may authorise any person to enter into an agreement with the Company on behalf of the persons entitled to participate in the distribution and the agreement shall be binding on those persons.

4.2.14 *Distribution of realised capital profits*

The Board shall establish a reserve to be called the “capital reserve”. All surpluses arising from the realisation or revaluation of investments and all other monies realised on or derived from the realisation, payment off of or other dealing with any capital asset in excess of the book value thereof and all other monies which are considered by the Board to be in the nature of accretion to capital reserves shall be credited to the capital reserve. Subject to

the Companies Act 1985, the Board may determine whether any amount received by the Company is to be dealt with in the income account or capital reserve or partly one way and partly the other. Any loss realised on the realisation or payment off of or other dealing with any investments or other capital assets and, subject to the Companies Act 1985, any expenses, loss or liability (or provision therefore) which the Board considers to relate to a capital reserve item or which the Board otherwise considers appropriate to be debited to the capital reserve shall be carried to the debit of the capital reserve. All sums carried and standing to the credit of the capital reserve may be applied for any of the purposes for which sums standing to any revenue reserve are applicable except and provided that notwithstanding any other provision of the Articles no part of the capital reserve or any other money in the nature of accretion to capital reserves shall be available for distribution as dividend. For the avoidance of doubt, any surplus or reserve arising on a reduction of capital or share premium account of the Company shall, subject to provisions of the 2006 Act, be profits of the Company available for distribution.

#### 4.2.15 *Uncertificated Shares*

- (a) Pursuant and subject to the Uncertificated Securities Regulations, the Board may permit title to shares of any class to be evidenced otherwise than by a certificate and title to shares of such a class to be transferred by means of a relevant system and may make arrangements for a class of shares (if all shares of that class are in all respects identical) to become a participating class. Title to shares of a particular class may only be evidenced otherwise than by a certificate where that class of shares is at the relevant time a participating class. The Board may also, subject to compliance with the Uncertificated Securities Regulations, determine at any time that title to any class of shares may from a date specified by the Board no longer be evidenced otherwise than by a certificate or that title to such a class shall cease to be transferred by means of any particular relevant system.
- (b) In relation to a class of shares which is a participating class and for so long as it remains a participating class, no provision of these Articles shall apply or have effect to the extent that it is inconsistent in any respect with:-
- (i) the holding of shares of that class in uncertificated form;
  - (ii) the transfer of title to shares of that class by means of a relevant system; and
  - (iii) any provision of the Uncertificated Securities Regulations;
- and, without prejudice to the generality of this Article, no provision of these Articles shall apply or have effect to the extent that it is in any respect inconsistent with the maintenance, keeping or entering up by the operator, so long as that is permitted or required by the Uncertificated Securities Regulations, of an operator register of securities in respect of that class of Shares in uncertificated form.
- (c) Shares of a class which is at the relevant time a participating class may be changed from uncertificated to certificated form, and from certificated to uncertificated form, in accordance with and subject as provided in the Uncertificated Securities Regulations.
- (d) If, under these Articles or the 2006 Act, the Company is entitled to sell, transfer or otherwise dispose of, forfeit, re-allot, accept the surrender of or otherwise enforce a lien over an uncertificated share, then, subject to these Articles and the 2006 Act, such entitlement shall include the right of the Board to:
- (i) require the holder of that uncertificated share by notice in writing to change that share from uncertificated to certificated form within such period as may be specified in the notice and keep it as a certificated share for as long as the Board requires;

- (ii) appoint any person to take such other steps, by instruction given by means of a relevant system or otherwise, in the name of the holder of such share as may be required to effect the transfer of such share and such steps shall be as effective as if they had been taken by the registered holder of that share; and
  - (iii) take such other action that the Board considers appropriate to achieve the sale, transfer, disposal, forfeiture, re-allotment or surrender of that share or otherwise to enforce a lien in respect of that share.
- (e) Unless the Board otherwise determines, Shares which a member holds in uncertificated form shall be treated as separate holdings from any Shares which that member holds in certificated form. However Shares held in uncertificated form shall not be treated as forming a class which is separate from certificated Shares with the same rights.
- (f) Unless the Board otherwise determines or the Uncertificated Securities Regulations otherwise require, any Shares issued or created out of or in respect of any uncertificated Shares shall be uncertificated Shares and any Shares issued or created out of or in respect of any certificated Shares shall be certificated Shares.
- (g) The Company shall be entitled to assume that the entries on any record of securities maintained by it in accordance with the Uncertificated Securities Regulations and regularly reconciled with the relevant operator register of securities are a complete and accurate reproduction of the particulars entered in the operator register of securities and shall accordingly not be liable in respect of any act or thing done or omitted to be done by or on behalf of the Company in reliance on such assumption; in particular, any provision of these Articles which requires or envisages that action will be taken in reliance on information contained in the register shall be construed to permit that action to be taken in reliance on information contained in any relevant record of securities (as so maintained and reconciled).

#### 4.2.16 *Untraced Shareholders*

The Company is entitled to sell at the best price reasonably obtainable any certificated share in the Company on behalf of a Shareholder or any share to which a person is entitled by transmission if: (i) for a period of 12 years in the course of which at least three dividends have become payable in respect of the share in question, no cheque or warrant sent by the Company through the post in a prepaid letter addressed to the Shareholder or to the person entitled by transmission to the share at his address on the Company's Register or other last known address given by the Shareholder or the person entitled by transmission to which cheques and warrants are to be sent has been cashed and no communication has been received by the Company from the Shareholder or the person entitled by transmission; (ii) the Company has at the expiration of that 12 year period by advertisement in both a national newspaper and in a newspaper circulating in the area in which the address referred to in (i) above is located giving notice of its intention to sell such share; and (iii) the Company has not during a further period of three months after the date of advertisement and prior to the exercise of the power of sale received any communication from the Shareholder or person entitled by transmission.

The Company must account to the Shareholder or other person entitled to the Share for the net proceeds of sale and shall be deemed to be his debtor and not a trustee for him in respect of the same. Any money not accounted for to the Shareholder or other person entitled to such share shall be carried to a separate account and shall be a permanent debt of the Company. Money in that account may either be employed in the business of the Company or invested in such investments as the Directors may from time to time think fit.

#### 4.2.17 *Duration of Company*

At the AGM falling in the calendar year 2004 and, if the Company has not been liquidated, unitised or reconstructed, at each third AGM of the Company convened by the Board thereafter, the Board shall propose an ordinary resolution that the Company should continue as an investment trust for a further three year period. If any such ordinary resolution is not passed, the Board shall draw up proposals for the voluntary liquidation, unitisation or other reorganisation of the Company for submission to the members of the Company at a general meeting to be convened by the Board for a date not more than three months after the date of the meeting at which such ordinary resolution was not passed. The Board shall ensure that such proposals for the liquidation, unitisation or reconstruction of the Company as are approved by special resolution are implemented as soon as is reasonably practicable after the passing of such resolution.

### **5. Mandatory Bids, Squeeze-out and Sell-out Rules Relating to the Ordinary Shares**

#### **5.1 *Mandatory Bid***

The City Code on Takeovers and Mergers (the “**City Code**”) applies to the Company. Under Rule 9 of the City Code, if:

- (i) a person acquires an interest in shares in the Company which, when taken together with shares already held by him or persons acting in concert with him, carry 30% or more of the voting rights in the Company; or
- (ii) a person who, together with persons acting in concert with him, is interested in not less than 30% and not more than 50% of the voting rights in the Company acquires additional interests in shares which increase the percentage of shares carrying voting rights in which that person is interested,

the acquiror and, depending on the circumstances, his concert parties, would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for any interests in the Ordinary Shares by the acquiror or his concert parties during the previous 12 months.

#### **5.2 *Compulsory Acquisition***

Under sections 974 – 991 of the 2006 Act, if an offeror acquires or contracts to acquire (pursuant to a takeover offer) not less than 90% of the shares (in value and by voting rights) to which such offer relates it may then compulsorily acquire the outstanding shares not assented to the offer. It would do so by sending a notice to outstanding holders of shares telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for the outstanding holders of shares. The consideration offered to the holders whose shares are compulsorily acquired under the 2006 Act must, in general, be the same as the consideration that was available under the takeover offer.

In addition, pursuant to section 983 of the 2006 Act, if an offeror acquires or agrees to acquire not less than 90% of the shares (in value and by voting rights) to which the offer relates, any holder of shares to which the offer relates who has not accepted the offer may require the offeror to acquire his shares on the same terms as the takeover offer.

The offeror would be required to give any holder of shares notice of his right to be bought out within one month of that right arising. Sell-out rights cannot be exercised after the end of the period of three months from the last date on which the offer can be accepted or, if later, three months from the date on which the notice is served on the holder of shares notifying them of their sell-out rights. If a holder of shares exercises his/her rights, the offeror is bound to acquire those shares on the terms of the takeover offer or on such other terms as may be agreed.

## **6. Valuation Policy**

The NAV per Ordinary Share is calculated each Business Day by the Manager. For the purposes of calculating the NAV per Ordinary Share, the Company's listed investments are valued at bid prices. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value. Where premiums are payable by foreign investors, the market value, for the purpose of the financial statements, includes the premium. Unlisted investments are valued by the Board. In making its valuations the Board takes into account, where appropriate, latest dealing prices, valuations from reliable sources, asset values and other relevant factors.

The calculation of the NAV per Ordinary Share will only be suspended in circumstances where the underlying data necessary to value the investments of the Company cannot readily, or without undue expenditure, be obtained. Details of any suspension in making such calculations will be announced through a Regulatory Information Service.

The daily NAV of funds managed by Fidelity International is calculated based on the price of each security in the fund. Generally, the calculation process is routine. Securities which are traded on stock exchanges are to be valued at the last available price at the time when the valuation is carried out, or the securities are to be priced at fair market value in the opinion of the members of the fair value committee or their delegate.

Fidelity has a range of fair value policies which have been in place for a number of years and that are set and monitored by the fair value committee. The policies range from: determining a value of a single security due to a price being unavailable as a result of a corporate action, being unlisted or suspended; to determining valuations for markets as a whole due to the prices being unreliable or out of date as at the valuation point of the funds. Where a third party fund is held as an asset in a portfolio it is subject to review if the latest available price is stale.

The fair value committee comprises representatives from Investment Management, Investment Administration, Head Traders and Corporate and Oversight and receives guidance and briefings from Chief Investment Officers and Specialist Experts identified in the organisation in order to arrive at its decisions.

Fidelity uses fair value pricing to ensure a correct NAV is calculated based upon information available at the valuation point.

The process is closely controlled and conducted in accordance with the regulations and any prospectus current in force.

## **7. Borrowing**

Subject to the 2006 Act, the Articles and to any directions given to the Company in general meeting, the Directors shall manage the Company's business and can use all the Company's powers. In particular, the Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property (present and future) and uncalled capital or any part or parts thereof and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Directors shall restrict the borrowings of the Company and exercise all voting and other rights, powers of control or rights of influence exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (so far, as regards subsidiary undertakings, as by such exercise they can secure) that the aggregate amount for the time being remaining outstanding of all moneys borrowed by the Company and any such subsidiary undertakings and for the time being owing to persons outside the Company and any such subsidiary undertakings shall not at any time without the previous sanction of an ordinary resolution of the Company exceed an amount equal to the adjusted capital and reserves (as defined in the Articles).

## 8. Interests of Directors, Major Shareholders and Related Party Transactions

### 8.1 *Directors' Interests*

As at 13 October 2009 (being the latest practicable date before the publication of this document), the Directors had a beneficial interest in the following number of Ordinary Shares and will, if the Bonus Issue is approved, have a beneficial interest in the following number of Subscription Shares:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>% of issued ordinary share capital</i>	<i>Number of Subscription Shares to be issued under the Bonus Issue</i>	<i>% of subscription share capital</i>
William Thomson	15,000	0.02%	3,000	0.02%
Nicholas Barber, CBE	10,000	0.01%	2,000	0.01%
Simon Fraser	30,000	0.03%	6,000	0.03%
Philip Kay	10,144	0.01%	2,028	0.01%
David Miller, OBE	20,000	0.02%	4,000	0.02%

8.2 Save as disclosed in paragraph 8.1 above, immediately following Admission, no Director will have any interest, whether beneficial or non-beneficial, in the share or loan capital of the Company.

### 8.3 *Directors' Contracts with the Company*

8.3.1 None of the Directors provides his services to the Company pursuant to a service contract with the Company. Their appointments are subject to the terms of their letters of appointment.

William Thomson is engaged by the Company as a non-executive Director. Mr Thomson commenced in that office on 1 May 1997.

Nicholas Barber, CBE is engaged by the Company as a non-executive Director. Mr Barber commenced in that office on 4 December 2000.

Simon Fraser is engaged by the Company as a non-executive Director. Mr Fraser commenced in that office on 11 May 2000.

Philip Kay is engaged by the Company as a non-executive Director. Mr Kay commenced in that office on 29 October 2004.

David Miller, OBE is engaged by the Company as a non-executive Director. Mr Miller commenced in that office on 29 October 2004.

8.3.2 In the financial year ended 31 December 2008, William Thomson received a Director's fee of £28,000, Nicholas Barber, Philip Kay and David Miller each received a Director's fee of £18,000 and Simon Fraser (then employed by the Manager) waived his fees. The Directors were not paid any amount of remuneration by way of benefits in kind, pension contributions or any contingent or deferred compensation by the Company for their services in all capacities to the Company. Accordingly, there are no amounts set aside or accrued by the Company to provide pension, retirement or similar benefits to the Directors.

8.3.3 The Company has not made any loans to the Directors which are outstanding, nor has it ever provided any guarantees for the benefit of any Director or the Directors collectively.

#### 8.4 **Other Interests**

Over the five years preceding the date hereof, the Directors have held the following directorships (apart from their directorships of the Company or subsidiaries of the Company) and/or partnerships:

*William Thomson:*

*Current directorships:* Ben Line Agencies Limited, Ben Line Shipping Limited, Ben Management Services Limited, Bordlands Developments Limited, British Assets Trust PLC, EG Thomson (Holdings) Limited, John Menzies PLC, Rose Street Nominees Limited, The Merchant Navy Memorial Trust (Scotland)

*Past directorships:* Dobbies Garden Centres plc, Ligentia Logistics Limited, EG Thomson (Bulk Carriers) Limited (dissolved), Trianchors Limited (dissolved)

*Nicholas Barber:*

*Current directorships:* Bolero International Limited, Bolero.Net Limited, Country Houses Foundation, Hult International Business School Limited, The National Institute of Economic and Social Research Limited.

*Past directorships:* The Maersk Company Limited, Maersk Energy UK Limited, Kappa IT Ventures (GP) Limited

*Simon Fraser:*

*Current directorships:* Barclays PLC, Barclays Bank PLC, Fidelity European Values PLC, 12 Redcliffe Square Management Limited, International Partners SA, Triptych SA, H Lundén Holdings AB, H Lundén Kapitalförvaltning AB, Merchants Investment Trust PLC, Foreign & Colonial Investment Trust PLC

*Past directorships:* Fidelity Management & Research (UK) Inc and a number of companies in the FIL Limited group of companies – FIL Investment Services (UK) Limited, FIL Investment Management Limited, FIL Investment Advisors (UK) Limited, FIL Investments International, FIL Pensions Management, FIL Life Insurance Limited

*Philip Kay:*

*Current directorships:* Akamatsu Bonsai Fund, Akamatsu Fund, Kuromatsu Fund, PBG Capital Limited, PBG (UK) Limited and The Society for the Promotion of Roman Studies

*Current partnerships:* PBG London LLP, Black Pine Capital (Cayman) Limited (P)

*Past directorships:* The Workbank Recruitment Consultancy Limited, Workworld Limited

*David Miller:*

*Current directorships:* FBG Investment Limited, Base Camp GSP Limited, Base Camp International Limited, 1 Inverness Gardens Management Limited, Connect Services Group Limited, Titus International Limited.

*Past directorships:* Humberts Leisure Limited, The Malden Trust Limited

8.5 Save as disclosed, none of the Directors, members of any administrative, management and supervisory body, nor any senior manager has any conflict of interest between any duties to the Company and to his private interest or to any other duties.

8.6 In the five year period prior to the date of this document, none of the Directors:

8.6.1 had any convictions in relation to fraudulent offences;

8.6.2 was associated with any bankruptcies, receiverships or liquidations of any partnership or company through acting in the capacity as a member of the administrative, management or supervisory body or as a partner, founder or senior manager of such partnership or company; or

8.6.3 received any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) and has not been disqualified by a court from acting as a member of the administration, management of supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer.

## 8.7 *Major Shareholders*

8.7.1 As at 13 October 2009 (being the latest practicable date before publication of this document) insofar as known to the Company, the following parties had declared a notifiable interest in the Company's voting rights (under the Disclosure and Transparency Rules):

<i>Shareholder</i>	<i>Number of Ordinary Shares</i>	<i>% of voting rights</i>
FIL Limited	23,021,388	24.1
1607 Capital Partners	11,057,068	11.6
Asset Value Investors	6,112,252	6.4
Barclays PLC*	5,188,709	5.4
Wesleyan Assurance Society	3,372,149	3.5

\* Simon Fraser has no influence over the number of shares held by Barclays PLC or the exercise of the rights attached to such shares

8.7.2 All Shareholders have the same voting rights in respect of the share capital of the Company.

8.7.3 The Company and the Directors are not aware of any person, who directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

8.7.4 The Company and the Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

## 8.8 *Related Party Transactions*

Save for the Management Agreement (described in paragraph 11.1 of this Part V), the Company was not a party to, nor had any interest in, any related party transaction at any time during the three financial years to 31 December 2006, 2007 and 2008 or during the period 1 January 2009 to 13 October 2009 (being the latest practicable date before publication of this document).

## 8.9 *Other Material Interests*

The Company is receiving legal and financial advice from Slaughter and May and Collins Stewart respectively, in addition to certain administrative services from third parties in connection with the Bonus Issue. The legal and financial advisers act for many other clients, including others in the investment funds sector and, on occasion, the professional advisers may face conflicts of interest as a result of acting both for the Company and such other clients. In the event of a conflict of interest, the legal and financial advisers will take such reasonable steps to ensure it is resolved fairly.

Save as disclosed, none of the Directors has any conflict of interest between any duties to the Company and his private interests and any other duties. The Manager, the Secretary, their respective directors, officers, employees, agents and affiliates and the Directors and any person or company with whom they are affiliated or by whom they are employed (each an "**Interested Party**") may be involved in other financial, investment or other professional activities which may cause conflicts of interest with the Company. In particular, Interested Parties may provide services similar to those provided to the Company to other entities and shall not be liable to account for any profit from any such services. For example, an Interested Party may acquire on behalf of a client an investment in which the Company may invest.

## 9. **Share Options and Share Scheme Arrangements**

Subject to the Subscription Share Rights attaching to the Subscription Shares, no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

## **10. Investment Restrictions**

The Company is subject to the Listing Rules which apply to closed-ended investment funds.

As required under Listing Rule 15.4.2, the Company will at all times invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published Investment Policy as set out in the Appendix to the Notice of the General Meeting on page 80 of this document.

In accordance with Listing Rule 15.2.3A, the Company (and, if applicable, any subsidiary undertakings) will not conduct any trading activity which is significant in the context of the Company and any such subsidiary undertakings as a whole, but this rule does not prevent the businesses forming part of the Company's investment portfolio from conducting trading activities themselves.

In addition, in order to comply with Listing Rule 15.2.5, the Company will not invest more than 10%, in aggregate, of the value of its total assets (calculated at the time of any relevant investment) in other closed-ended investment funds admitted to the Official List (save to the extent that those closed-ended investment funds have stated investment policies to invest no more than 15% of their gross assets in such other closed-ended investment funds).

In order to gain approval as an investment trust under section 842 of the Taxes Act, the Company is required to operate under certain constraints. These include the following limits on investments and operations:

- no single investment may exceed 15% of the value of the Company's total assets at the time of investment;
- the Company may not retain more than 15% of its eligible investment income;
- at least 70% of income must be eligible investment income, consisting of income deriving from shares and securities or eligible rental income but not bank deposit income; and
- the Company may not distribute capital profits by way of dividend.

In the event of any material breach of the investment restrictions applicable to the Company, Shareholders will be informed of the actions to be taken by the Manager through an announcement via a Regulatory Information Service.

## **11. Material Contracts**

Save as described below, the Company has not (i) entered into any material contracts (other than contracts in the ordinary course of business) within the two years immediately preceding the publication of this document; or (ii) entered into any contracts that contain provisions under which the Company has any obligation or entitlement that is material to the Company as at the date of this document.

### **11.1 Management Agreement**

A Management Agreement dated 6 February 2006 (amending the Management Agreement dated 22 February 1994), was made between the Company and the Manager, under which the Manager has agreed to provide investment management services for a quarterly fee of an amount equal to 0.25% of the value of the Company's assets under management (as defined in the Management Agreement, which excludes investments in other funds managed by the Manager or associated companies) payable quarterly in arrear and calculated as of the last Business Day of March, June, September and December in each year. In addition the Company has agreed to pay to the Manager an index-linked fee for secretarial and administrative services, payable quarterly in arrear, at the current rate (31 December 2008) of £37,156 per annum.

The notice period by either party is six months. The Management Agreement may, however, be terminated without compensation if the Company is liquidated pursuant to the procedures laid down in the Articles regarding the Company's continuation. The Management Agreement may also be terminated forthwith as a result of a material breach of the Management Agreement or on the insolvency of the Manager.

In addition, the Company may terminate the Management Agreement by two months' notice in writing if the Manager ceases to be a subsidiary of FIL Limited.

## 11.2 *The Custody Agreement*

Pursuant to the terms of the Custody Agreement entered into between the Company and JPMorgan Chase Bank (London Branch) dated 2 July 2001, the Custodian is entrusted with the safe custody of the assets of the Company. In particular, it carries out all usual duties relating to cash and securities and, in addition, may delegate such duties to sub-custodians. The Custodian will use reasonable care in the selection and appointment of sub-custodians.

The following sub-custodians hold stock on behalf of the Company:

<i>Country</i>	<i>Name of sub-custodian</i>	<i>Regulatory status of sub-custodian</i>
Japan	The Fuji Bank Limited, Tokyo; and The Bank of Tokyo-Mitsubishi Limited, Tokyo	Regulated by the Financial Services Agency

The Custody Agreement may be terminated by either party upon giving sixty days' notice in writing to the other party. The Custody Agreement is subject to earlier termination by either party in the event of the other party's liquidation or un-remedied material breach of contract, and by the Company in the event of the Custodian ceasing to be authorised by the SFA (Securities and Futures Authority Limited) or ceasing to maintain other appropriate authorisations or permissions.

The Company will pay and the Custodian will receive a fee for its services under the Custody Agreement, together with the Custodian's reasonable out-of-pocket or incidental expenses. The amount, as may be agreed upon in writing, may only be increased by the Custodian upon giving at least 30 days' written notice to the Company.

The Custody Agreement contains provisions for the indemnification by the Company of the Custodian, the sub-custodians and their respective nominees, directors, officers, agents and employees (together, the "**Custody Indemnified Party**") against any costs, claims, losses, liabilities, damages, expenses, fines, penalties, taxes and other matters that may be imposed on, incurred by or asserted against the Custody Indemnified Party by reason of the Custody Indemnified Party acting pursuant to the Custody Agreement or by their status as a holder of record of Securities, except to the extent that they result from the fraud, negligence or wilful default of the Custodian or from the action of the Custody Indemnified Party for which the Custodian is liable to under the Custody Agreement.

## 12. **UK Taxation**

### 12.1 *Introduction*

The following statements are based upon current UK tax law and what is understood to be the current practice of HMRC, both of which are subject to change, possibly with retrospective effect. The statements are intended only as a general guide and may not apply to certain Shareholders, such as dealers in securities, insurance companies, collective investment schemes or Shareholders who have (or are deemed to have) acquired their shares by virtue of an office or employment, who may be subject to special rules. They apply only to Shareholders resident and ordinarily resident for UK tax purposes in the UK (except in so far as express reference is made to the treatment of non-UK residents), who hold Shares as an investment rather than trading stock and who are the absolute beneficial owners of those Shares.

The information contained in this Prospectus relating to taxation matters is a summary of the taxation matters which the Directors consider should be brought to the attention of Shareholders and is based upon the law and practice currently in force and is subject to changes therein. All Shareholders, and in particular those who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the UK, should consult their own

professional advisers on the potential tax consequences of holding, transferring or otherwise disposing of Subscription Shares or exercising the Subscription Share Rights under the laws of their country and/or state of citizenship, domicile or residence.

## 12.2 *The Company*

It is the intention of the Directors to conduct the affairs of the Company so that it satisfies and continues to satisfy the conditions necessary for it to be approved by HMRC as an investment trust under section 842 of the Taxes Act. However, neither the Manager nor the Directors can guarantee that this approval will be maintained. One of the conditions for a company to qualify as an investment trust is that it is not a close company. The Directors consider that the Company should not be a close company immediately following the issue of the Subscription Shares pursuant to the Bonus Issue. In respect of each accounting period for which the Company continues to be approved by HMRC as an investment trust the Company will be exempt from UK taxation on its capital gains. The Company will, however, be liable to UK corporation tax on its income in the normal way. From 1 July 2009 the rules relating to the taxation of foreign profits were revised such that overseas dividend income received after that date will in most cases be exempt from UK corporation tax. Income arising from any overseas investments may be subject to foreign withholding tax at the relevant jurisdiction's applicable rate, but relief may be available under the terms of an applicable double tax treaty.

## 12.3 *Shareholders*

12.3.1 For the purposes of United Kingdom capital gains tax and corporation tax on chargeable gains ("CGT"), the receipt of the Subscription Shares arising from the Bonus Issue will be a re-organisation of the share capital of the Company. Accordingly, the Subscription Shares will be treated as the same asset as the Shareholder's holding of Ordinary Shares and as having been acquired at the same time as the Shareholder's holding of Ordinary Shares was acquired. As a result of the Bonus Issue the Shareholder's original base cost in his or her Ordinary Shares will be apportioned between his or her Ordinary Shares and the Subscription Shares by reference to their respective market values on the day on which the Subscription Shares are admitted to trading on the London Stock Exchange's market for listed securities. That is to say, the base cost of such a Shareholder's Ordinary Shares is deemed to be the actual base cost to the Shareholder of those Ordinary Shares multiplied by a fraction whose numerator is A and whose denominator is (A+B), where A is the market value of the Ordinary Shares on the day on which the Subscription Shares are admitted to trading, and B is the market value of the Subscription Shares on the same date. The base cost of the Subscription Shares is deemed to be the actual base cost of the Ordinary Shares less the deemed base cost of the Ordinary Shares calculated as described above.

On the exercise of the right to convert any Subscription Shares into Ordinary Shares, the Ordinary Shares issued pursuant to the Subscription Share Rights will be treated as the same asset as the Subscription Shares in respect of which the Subscription Share Rights are exercised. The base cost of each such Ordinary Share will be the deemed base cost of the Subscription Share that it replaces, calculated as described above, plus the applicable Subscription Price.

### 12.3.2 *Taxation of capital gains*

Individual Shareholders who are resident or ordinarily resident in the UK for tax purposes will generally be subject to capital gains tax at the flat rate of 18% in respect of any gain arising on a disposal or deemed disposal of their Ordinary Shares or Subscription Shares. No indexation allowance will be available to such Shareholders. However, each individual has an annual exemption, such that capital gains tax is chargeable only on gains arising from all sources during the tax year in excess of this figure. The annual exemption is £10,100 for the tax year 2009-2010.

Shareholders who are individuals and who are temporarily non-resident in the UK may, under anti-avoidance legislation, still be liable to UK tax on any capital gain realised (subject to any available exemption or relief).

Corporate Shareholders who are resident in the UK for tax purposes will generally be subject to corporation tax on chargeable gains arising on a disposal of their Shares. The indexation allowance may reduce the amount of chargeable gain that is subject to corporation tax but may not create or increase any allowable loss.

Capital losses realised on a disposal of Ordinary Shares or Subscription Shares must be set as far as possible against chargeable gains for the same tax year (or accounting period in the case of a Corporate Shareholder), even if this reduces an individual Shareholder's total gain below the annual exemption. Any balance of losses is carried forward without time limit and set off against net chargeable gains (that is, after deducting the annual exemption) in the earliest later tax year. Losses cannot generally be carried back, with the exception of losses accruing to an individual Shareholder in the year of his death.

### 12.3.3 *Taxation of dividends*

Under current tax law, the Company will not be required to withhold tax at source when paying a dividend.

An individual Shareholder who is resident in the UK for tax purposes and who receives a dividend from the Company should generally be entitled to a tax credit which may be set off to the appropriate extent against the Shareholder's total income tax liability on the dividend. An individual UK resident Shareholder will be liable to income tax on the sum of the tax credit and the dividend (the "**gross dividend**") which will be treated as the top slice of the individual's income for UK income tax purposes. The tax credit equals 10% of the gross dividend. The tax credit therefore also equals one-ninth of the cash dividend received.

A UK resident individual Shareholder who is liable to income tax at the basic rate will be subject to tax on the dividend at the rate of 10% of the gross dividend. This means that the tax credit will satisfy in full such a Shareholder's liability to income tax on the dividend.

The rate of income tax applied to dividends received by a UK resident individual Shareholder liable to income tax at the higher rate will be 32.5% to the extent that such dividends, when treated as the top slice of the Shareholder's income, fall above the threshold for higher rate income tax. In the case of such Shareholder's liability, the tax credit will be set against, but will not fully match, his tax liability on the gross dividend. After taking account of the 10% tax credit, such Shareholder will have to account for additional tax equal to 22.5% of the gross dividend (which equals 25% of the cash dividend received) to the extent that it falls above the threshold for higher rate income tax.

The Government has announced proposals to introduce, with effect from 6 April 2010, a new tax rate of 50% for taxable non-savings and savings income above £150,000. On and after the date on which the new rate takes effect, if and to the extent that the gross dividend received by a UK resident individual falls above the threshold for income tax at the new 50% rate, that individual will be subject to tax on the gross dividend at the rate of 42.5%. If the new rate of tax is applied in the same way as the existing rates, that individual would be able to set the tax credit off against part of this liability and the effect of that set-off of the tax credit would be that such an individual would have to account for additional tax equal to 32.5% of the gross dividend (which is also equal to 36.1% of the cash dividend received), to the extent that the gross dividend fell above the threshold for the new 50% rate of income tax.

There will be no repayment of all or part of the tax credit to an individual Shareholder whose liability to income tax on all or part of the gross dividend is less than the amount of the tax credit. This will include a Shareholder who holds the Ordinary Shares or the Subscription Shares through an ISA.

UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim a repayment of the tax credit attaching to dividends paid by the Company.

UK resident corporate Shareholders will generally not be subject to corporation tax on dividends paid by the Company but will not be able to claim a repayment of the tax credit attaching to the dividends.

Following the Finance Act 2009, most UK and overseas dividends received by UK corporate shareholders (subject to specific anti avoidance rules) will be exempt from UK corporation tax. Shareholders within the charge to UK corporation tax are however advised to consult their independent professional tax advisers in relation to the implications of the legislation.

Non-UK resident Shareholders will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends paid by the Company. A Shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. It is particularly important that Shareholders who are not resident in the UK for tax purposes obtain their own tax advice concerning tax liabilities on dividends received from the Company.

#### 12.3.4 *Stamp duty and stamp duty reserve tax*

Transfers on the sale of Ordinary Shares or Subscription Shares will generally be subject to UK stamp duty at the rate of 0.5% of the consideration given for the transfer. The purchaser normally pays the stamp duty.

An agreement to transfer Ordinary Shares or Subscription Shares will normally give rise to a charge to stamp duty reserve tax (“SDRT”) at the rate of 0.5% of the amount or value of the consideration payable for the transfer. If a duly stamped transfer in respect of the agreement is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional) any SDRT paid is repayable, generally with interest, and otherwise the SDRT charge is cancelled. SDRT is, in general, payable by the purchaser.

Paperless transfers of Ordinary Shares or Subscription Shares within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of shares into CREST will not generally be subject to SDRT, unless the transfer into CREST is itself for consideration.

#### 12.3.5 *ISAs*

The Subscription Shares and the Ordinary Shares arising on the exercise of the Subscription Share Rights should be eligible to be held in a stocks and shares ISA, subject to applicable annual subscription limits (£7,200 for the 2009-2010 tax year (except for those aged 50 or over, for whom it is £10,200 from 6 October 2009) and £10,200 generally for the 2010-2011 tax year). Investments held in ISAs will be free of UK tax on both capital gains and income. The opportunity to invest in Subscription Shares or Ordinary Shares through an ISA is restricted to certain UK resident individuals aged 18 or over. The Subscription Price paid upon any exercise of the right to convert Subscription Shares into Ordinary Shares would contribute towards the annual subscription limit in the year in which the Subscription Share Right was exercised, unless the Subscription Price were paid out of cash already within the Shareholder’s stocks and shares ISA, or with cash subscribed in the same tax year to a cash ISA held by the Shareholder and transferred to the Shareholder’s stocks and shares ISA. Sums received by a Shareholder on a disposal of Subscription Shares or Ordinary Shares would not count towards the Shareholder’s annual limit; but a disposal of Subscription Shares or Ordinary Shares held in an ISA will not serve to make available again any part of the annual subscription limit that has already been used by the Shareholder in that tax year. Individuals wishing to invest in Subscription Shares through an ISA should contact their professional advisers regarding their eligibility.

#### 12.3.6 *Self-Invested Personal Pensions (SIPPs)*

The Ordinary Shares and Subscription Shares in the Company will constitute permitted investments for SIPPs.

### 13. Corporate Governance

The Company is committed to high standards of corporate governance. The Board has put in place a framework for corporate governance which it believes is suitable for an investment trust and which will enable the Company to comply with the Combined Code and the AIC Code. Save as disclosed below, the Company complies with the best practice provisions of the Combined Code and the AIC Code.

The Combined 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 Corporate Governance Guide and in the preamble to the Combined Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment company.

Nicholas Barber was appointed by the Board as Senior Independent Director on 10 March 2005.

The Board, currently chaired by William Thomson, consists of five non-executive Directors, four of whom are regarded by the Board as independent of the Manager, including the Chairman. Mr Fraser is regarded as non-independent due to his recent employment relationship with the Manager.

All appointments to the Board and replacements of Directors take place in accordance with the 2006 Act and the Company's Articles. The Nomination and Remuneration Committee is responsible for identifying possible candidates for consideration by the Board. Whilst the independent Directors take the lead in the appointment of new Directors, any proposal for a new Director will be discussed and approved by the entire Board. External consultants are also used to identify potential candidates.

#### 13.1 *The Audit Committee*

The Audit Committee consists of all of the independent Directors and William Thomson, Chairman of the Company, also chairs this Committee as the Board believes it appropriate for him to do so. The Committee considers that collectively the members of the Committee have sufficient recent and relevant financial experience to discharge its responsibilities fully.

The Committee's authority and duties are clearly defined in its written terms of reference which are available for inspection at the Company's registered office and are included on the Company's pages of the Manager's website ([www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)). These include responsibility for reviewing the half-yearly financial statements and annual reports and financial statements, reviewing the scope and results of the audit and the effectiveness and cost of the audit process and reviewing the Company's internal financial controls. They also include responsibility for reviewing and monitoring the external Auditor's independence and objectivity with particular regard to the provision of non-audit services taking into consideration relevant UK professional and regulatory requirements. No work other than the audit was carried out by the Company's Auditor during the year ended 31 December 2008.

The Audit Committee of the Board meets at least three times a year and with the Auditor at least once a year to review these and other appropriate matters.

In the year to 31 December 2008 the Audit Committee discharged its responsibilities by, amongst other things:

- Reviewing the Company's draft annual and half-yearly financial statements prior to Board approval and reviewing the external Auditor's report on the annual financial statements
- Reviewing the appropriateness of the Company's accounting policies
- Reviewing and approving the audit fee
- Reviewing the external Auditor's terms of engagement

- Reviewing the external Auditor’s plan for the audit of the Company’s financial statements
- Reviewing the external Auditor’s quality control procedures
- Reviewing and monitoring the effectiveness of the external audit process and the external Auditor’s independence and objectivity
- Reviewing the overall services provided by the Company’s external Auditor and alternative audit services available
- Considering the scope of work undertaken by the Manager’s internal audit department
- Reviewing the Manager’s semi-annual report on internal controls and reporting to the Board
- Considering and reconfirming that the Company does not need an internal audit function given that the Company delegates its day to day operations to third parties

### 13.2 *The Nomination and Remuneration Committee*

The Nomination and Remuneration Committee consists of all of the independent Directors. William Thomson chairs the Committee. The Committee is charged with nominating new Directors for consideration by the Board of Directors, and subsequent approval by Shareholders. It believes that the best way of ensuring that the Board as a whole and each independent Director individually carry out their duties in an independent manner, irrespective of the interests of the Manager, is to ensure that the search for, the interview of and recommendation to the Board of a candidate is entirely controlled by this Committee. The Nomination and Remuneration Committee also considers the re-election of Directors who are retiring by rotation.

The Committee also concerns itself with the remuneration of the Directors, considering as it does the remit of the job and the responsibility and time involved. It also makes itself aware of the directors’ fees of other investment trust companies and other comparable entities. The level of remuneration of the non-executive Directors is set by the Nomination and Remuneration Committee.

This Committee meets on an annual basis and as and when required, making recommendations to the Board where appropriate.

The Committee’s terms of reference are available for inspection at the Company’s registered office and are included on the Company’s pages of the Manager’s website ([www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)).

### 13.3 *The Management Engagement Committee*

The Management Engagement Committee consists of all of the independent Directors, and William Thomson chairs the Committee. The Committee is charged with reviewing and monitoring the performance of the Manager in respect of its contract and the fees it is paid. This Committee meets at least once a year and reports to the Board of Directors, making recommendations where appropriate.

The level of remuneration of the Manager is determined by the Management Engagement Committee; it relates to the investment management function, on which a percentage of the funds under management is paid (thereby relating this part of its remuneration to performance) and to the administrative function. The Board is mindful that the amounts paid to the Manager should be sufficient to ensure that both the Portfolio Manager and the administrators within the management house appointed to look after its affairs are highly skilled and that those individuals should be largely focused on the Company’s business.

The criteria which are taken into consideration in reviewing the performance of the Manager are set out below:

- Quality of team – the skills and particularly experience of the team involved in managing all aspects of the Company’s business

- Commitment of the Manager to the investment trust business generally and to the Company in particular
- Managing the Company – in running and controlling the administration, the accounting and the company secretarial function of the Company
- Investment management – portfolio management skills, experience and track record and other investment related considerations
- Shareholders – Shareholder consciousness and relations, discount management and commitment to the Company’s goals
- Management Agreement – consideration of fees, notice period and duties
- Marketing – commitment to and execution of activities designed to secure sustainable demand from prospective long term Shareholders.

The Committee met and reviewed the performance of the Manager for the year to 31 December 2008. Having reviewed the criteria set out above, the Committee concluded that it was in the interests of Shareholders that the Management Agreement should continue.

The Committee’s terms of reference are available for inspection at the Company’s registered office and on the Company’s pages of the Manager’s website ([www.fidelity.co.uk/its](http://www.fidelity.co.uk/its)). Details of the Management Agreement appear at paragraph 11.1 of this Part V.

#### **14. Litigation**

There have been no governmental, legal or arbitration proceedings (and no such proceedings are pending or threatened of which the Company is aware) in the previous 12 months which may have, or have had in the recent past, significant effects on the Company’s financial position or profitability. The Company has no subsidiaries.

#### **15. Significant Change**

As described on page 11 of this document, save for (i) the repayment of the fixed rate unsecured loan from The Royal Bank of Scotland plc of Yen 1,499,040,000 on 13 August 2009, the overdraft facility which the Company is currently utilising at a level that corresponds to the net gearing immediately prior to the loan’s repayment; and (ii) the NAV per share as at 13 October 2009 being 58.91 pence (an increase of 7.25 pence per share representing a +14.03% change) there has been no significant change in the financial or trading position of the Company since 30 June 2009, being the date to which the latest unaudited half-yearly results of the Company were published.

Details of the overdraft facility are provided under the heading “Liquidity” on page 35 of this document.

#### **16. Third Party Information and Consents**

16.1 Collins Stewart has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which they appear.

16.2 In relation to information provided by third parties, the Company confirms that that information has been accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the information reproduced inaccurate or misleading.

#### **17. General**

17.1 The Company does not conduct any significant trading activity.

17.2 The Company is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Company’s business or profitability.

- 17.3 The most recent annual fees of the Auditor for audit services were £20,000 (excluding VAT). Apart from these fees and the fees payable to the Manager and the Custodian as disclosed in **paragraphs 11.1 and 11.2** of this **Part V** there are no other material fees payable by the Company. The most recent annual fees of the Registrar for registrar services were £22,000 (excluding VAT).
- 17.4 Where Subscription Shares are converted into Ordinary Shares, the total assets of the Company will increase by that number of Ordinary Shares multiplied by the relevant Subscription Price. It is not expected that there will be any material impact on the earnings and liabilities per Ordinary Share as the net proceeds resulting from any Conversion are expected to be invested in a manner consistent with the investment objective and policy of the Company.
- 17.5 The typical investors for whom an investment in the Company is intended are professionally advised private investors, or institutional investors, seeking long term capital growth from investment in Japan. An investment in the Company may also be suitable for financially sophisticated private investors who are not professionally advised but are capable of evaluating the risks and merits of an investment in the Company and who have sufficient resources to bear any loss that may result from such an investment. However, such investors should consider consulting an independent financial adviser authorised under the FSMA before investing.

## **18. Auditor**

The auditor to the Company for the financial year ended 31 December 2006 was RSM Robson Rhodes LLP. The auditor to the Company for the financial years ended 31 December 2007 and 31 December 2008 was Grant Thornton UK LLP of 30 Finsbury Square, London EC2P 2YU.

## **19. Documents on Display**

The following documents will be available for inspection during usual business hours on any day (Saturdays, Sundays and public holidays excepted) at Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP for so long as this document remains valid:

- 19.1 this Prospectus;
- 19.2 the Memorandum of Association of the Company, the Articles and the New Articles;
- 19.3 the existing Investment Policy and New Investment Policy;
- 19.4 the audited financial statements of the Company for the financial years ended 31 December 2006, 31 December 2007 and 31 December 2008 respectively, together with the half-yearly reports for the six months ended 30 June 2008 and 2009;
- 19.5 the letters of appointment referred to in paragraph 8.3 above; and
- 19.6 the material contracts referred to in paragraph 11 above.

Dated: 15 October 2009

**PART VI**  
**DEFINITIONS**

In this document the words and expressions listed below have the meanings set out opposite them, except where the context otherwise requires:

<b>2006 Act</b>	the Companies Act 2006
<b>Admission</b>	the admission of the Subscription Shares (i) to the Official List and (ii) to trading on the London Stock Exchange's market for listed securities becoming effective in accordance with the Listing Rules and the Admission and Disclosure Standards
<b>Admission and Disclosure Standards</b>	the admission and disclosure standards of the London Stock Exchange for securities admitted or seeking to be admitted to trading, as amended from time to time
<b>AGM</b>	annual general meeting of the Company
<b>AIC</b>	the Association of Investment Companies
<b>AIC Code</b>	the Association of Investment Companies Code of Corporate Governance, as amended from time to time
<b>Articles</b>	the Articles of Association of the Company, as amended from time to time
<b>Auditor</b>	Grant Thornton UK LLP
<b>Board or Directors</b>	the board of Directors of the Company or any duly constituted committee thereof
<b>Bonus Issue</b>	the issue to Qualifying Shareholders of Subscription Shares on the basis of one Subscription Share for every five Existing Ordinary Shares held
<b>Business Day</b>	any day on which banks are open for business in London (excluding Saturdays, Sundays and public holidays)
<b>Capita Registrars</b>	a trading name of the Registrars
<b>CFDs</b>	contracts for difference
<b>Chairman</b>	the chairman of the Company
<b>collateral</b>	assets provided as security for the unrealised profits or losses under CFDs
<b>Combined Code</b>	the Financial Reporting Council's Combined Code
<b>Companies Act 1985</b>	the Companies Act 1985
<b>Company</b>	Fidelity Japanese Values PLC
<b>Collins Stewart</b>	Collins Stewart Europe Limited
<b>CREST</b>	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the Uncertificated Securities Regulations

<b>Custodian</b>	JPMorgan Chase Bank (London Branch) (formerly The Chase Manhattan Bank)
<b>Custody Agreement</b>	the agreement between the Custodian and the Company regarding the custody of the assets of the Company dated 2 July 2001
<b>Disclosure and Transparency Rules</b>	the disclosure rules made by the FSA under Part VI of the FSMA
<b>EEA</b>	the European Economic Area
<b>EEA State</b>	a member state of the EEA
<b>Euroclear</b>	Euroclear UK & Ireland Limited, being the operator of CREST
<b>Existing Ordinary Shares</b>	the Ordinary Shares in issue on the Record Date
<b>Fidelity Investment Trust Share Plan</b>	the Fidelity Investment Trust Share Plan
<b>Financial Services Authority or FSA</b>	the single regulatory authority for the UK financial services industry
<b>Form of Proxy</b>	the form of proxy provided with this document for use in connection with the General Meeting by Shareholders
<b>FSMA</b>	the Financial Services and Markets Act 2000
<b>General Meeting</b>	the general meeting of the Company to consider the Special Resolution and the Ordinary Resolution, convened for 10 November 2009 at 25 Cannon Street, London EC4M 5TA or any adjournment thereof
<b>HMRC</b>	HM Revenue & Customs
<b>Investment Policy</b>	the investment policy of the Company as determined by the Directors from time to time and published in the Company's annual report and financial statements
<b>ISA</b>	an individual savings account maintained in accordance with the UK Individual Savings Account Regulations 1998 (as amended from time to time)
<b>LIBOR</b>	London Interbank Offered Rate, being the average rate of interest offered by banks in London to other banks in the interbank market in London for deposits of the relevant currency for the relevant period
<b>Listing Rules</b>	the listing rules issued by the UK Listing Authority
<b>London Stock Exchange</b>	London Stock Exchange plc
<b>Management Agreement</b>	the agreement dated 6 February 2006 between the Manager and the Company, as amended from time to time
<b>Manager</b>	FIL Investments International
<b>Memorandum of Association</b>	the Memorandum of Association of the Company
<b>NAV</b>	net asset value as calculated in accordance with the Company's accounting policies and the Articles or the value of the net assets per Ordinary Share, as the context requires

<b>New Articles</b>	the Articles of Association of the Company as proposed to be adopted at the General Meeting
<b>New Investment Policy</b>	the new investment policy of the Company as proposed to be adopted at the General Meeting
<b>Notice of General Meeting</b>	the notice of General Meeting as set out in this document
<b>Official List</b>	the Official List maintained by the UK Listing Authority
<b>Ordinary Resolution</b>	the ordinary resolution to be proposed at the General Meeting relating to the proposed change in Investment Policy
<b>Ordinary Share or Shares</b>	an ordinary share of 25 pence each in the capital of the Company with ticker: FJV LN and ISIN: GB0003328555
<b>Overseas Shareholders</b>	Shareholders who are resident in territories outside the EEA
<b>Prospectus</b>	this document
<b>Prospectus Rules</b>	the rules and regulations made by the FSA under Part V of the FSMA (as amended from time to time)
<b>Qualifying Shareholders</b>	Shareholders whose names are entered on the Register at the close of business on the Record Date
<b>Record Date</b>	the date on which Qualifying Shareholders' entitlements to the Bonus Issue will be assessed against the Register, expected to be 5.00 p.m. on 10 November 2009
<b>Register</b>	the register of members of the Company
<b>Registrars</b>	Capita Registrars Limited
<b>Regulatory Information Service</b>	a service authorised by the UK Listing Authority to release regulatory announcements to the London Stock Exchange
<b>Resolutions</b>	the Special Resolution and the Ordinary Resolution
<b>Savings Schemes</b>	the Fidelity Investment Trust Share Plan and the Fidelity ISA
<b>Savings Scheme Participant</b>	a holder of Shares though either of the Savings Schemes
<b>Secretary</b>	FIL Investments International
<b>Securities Act</b>	the US Securities Act of 1933, as amended
<b>Shareholder</b>	a holder of Ordinary Shares and/or Subscription Shares, as the context requires
<b>Shares</b>	the Ordinary Shares and/or the Subscription Shares as the context requires
<b>SIPP</b>	self invested personal pension
<b>Special Resolution</b>	the special resolution to be proposed at the General Meeting relating to the Bonus Issue
<b>SSAS</b>	small self-administered pension scheme
<b>Sterling</b>	the lawful currency of the United Kingdom

<b>Subscription Price</b>	the price at which the Subscription Share Rights are exercised in accordance with the rights attaching to the Subscription Shares (and subject to adjustment in accordance with those rights)
<b>Subscription Shareholders</b>	holders of Subscription Shares
<b>Subscription Share Rights</b>	the right conferred by each Subscription Share to subscribe for one Ordinary Share as detailed in Part IV of this Prospectus and contained in the New Articles
<b>Subscription Shares</b>	the subscription shares of five pence each in the capital of the Company with Ticker: FJVS and ISIN: GB00B4PF8J20 to be issued pursuant to the Bonus Issue
<b>Taxes Act</b>	the Income and Corporation Taxes Act 1988
<b>UK or United Kingdom</b>	the United Kingdom of Great Britain and Northern Ireland
<b>UK GAAP</b>	United Kingdom Generally Accepted Accounting Principles
<b>UK Listing Authority</b>	the Financial Services Authority acting in its capacity as the competent authority for the purposes of admissions to the Official List
<b>Uncertificated Securities Regulations</b>	the Uncertificated Securities Regulations 2001
<b>VAT</b>	UK value added tax
<b>Voting Instruction Form</b>	the voting instruction form provided with this document for use in connection with the General Meeting by Shareholders who hold Ordinary Shares through either of the Savings Schemes
<b>Yen</b>	the lawful currency of Japan

## PART VII

### NOTICE OF GENERAL MEETING

#### FIDELITY JAPANESE VALUES PLC

*Incorporated and registered in England and Wales with company number 2885584*

*Terms defined in the Prospectus of the Company dated 15 October 2009 and not otherwise defined in this Notice of General Meeting will bear the same meaning in this Notice of General Meeting.*

Notice is hereby given that a General Meeting (the “**Meeting**”) of Fidelity Japanese Values PLC (the “**Company**”) will be held at 25 Cannon Street, London EC4M 5TA on 10 November 2009 at 2.00 p.m. to consider and, if thought fit, approve the following Resolutions:

#### ORDINARY RESOLUTION

1. **THAT** the New Investment Policy set out in the Prospectus from the Company to its Shareholders dated 15 October 2009 (the “**Prospectus**”), a copy of which will be marked “A” and signed for the purpose of identification by the Chairman of the Meeting, be and is hereby approved and adopted with immediate effect as the Company’s New Investment Policy in place of the Company’s existing Investment Policy.

#### SPECIAL RESOLUTION

2. **THAT** subject to the UK Listing Authority agreeing to admit to the Official List the subscription shares of £0.05 each in the capital of the Company (the “**Subscription Shares**”) to be issued pursuant to the bonus issue described in the Prospectus (the “**Bonus Issue**”) and London Stock Exchange plc agreeing to admit such Subscription Shares to trading on its market for listed securities:
  - (A) the Company’s Articles be hereby amended by deleting all the provisions of the Company’s Memorandum of Association which, by virtue of section 28 of the 2006 Act, are to be treated as provisions of the Company’s Articles and the New Articles produced to the Meeting marked “B” and signed by the Chairman of the Meeting for the purposes of identification be adopted as the Company’s New Articles in substitution for, and to the exclusion of, the existing Articles of the Company;
  - (B) in addition to any existing authority under section 80 of the Companies Act 1985 granted to the Directors at any AGM held before the passing of this Resolution, for the purposes of section 560 of the 2006 Act (and so that expressions used in this resolution shall bear the same meanings as in the said section 560) the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot Subscription Shares pursuant to the Bonus Issue and Ordinary Shares pursuant to the exercise of the rights attaching to the Subscription Shares to subscribe for such shares (the “**Subscription Share Rights**”) as set out in the New Articles to be adopted pursuant to sub-paragraph (A) of this Resolution, up to a maximum aggregate nominal amount of £955,774.50 provided that such authority shall expire at the conclusion of the Company’s AGM to be held in 2010, save that the Company may prior to the expiry of such period make any offer or agreement which would or might require such Subscription Shares and/or Ordinary Shares to be allotted after such expiry and the Directors may allot such Subscription Shares and/or Ordinary Shares in pursuance of any such offer or agreement as if the authority conferred hereby had not expired;
  - (C) the Directors be and are hereby empowered to capitalise any part of the amount then standing to the credit of any of the share premium account, the capital redemption reserve, special reserve and any other applicable reserve (excluding the revenue reserve) otherwise available for the purpose of paying up in full at par up to 19,115,490 Subscription Shares to be issued pursuant to the Bonus Issue, such shares to be allotted and distributed credited as fully paid up to and among such holders in the proportion of one new Subscription Share

for every five Ordinary Shares held (fractions of a Subscription Share being ignored) and, to the extent necessary, paying up in full any Ordinary Shares to be allotted in accordance with the provisions of the New Articles of the Company as adopted by sub-paragraph (A) of this Resolution relating to the exercise of rights attaching to the Subscription Shares and any additional Subscription Shares required to be issued to holders of Subscription Shares in accordance with the rights attaching to the Subscription Shares;

- (D) any consolidation, sub-division or redemption of share capital required in the opinion of the Directors to give effect to the rights of the holders of Subscription Shares be hereby approved;
- (E) in addition to any existing authority under section 701 of the 2006 Act granted to the Company at any AGM held before the passing of this Resolution, the Company be generally and, subject as hereinafter appears, unconditionally authorised in accordance with section 701 of the 2006 Act to make market purchases (within the meaning of section 693(4) of the Companies Act 1985) of its issued Subscription Shares, provided that:
  - (i) the maximum number of Subscription Shares hereby authorised to be purchased shall be 2,865,411 or if less, that number of Subscription Shares which is equal to 14.99% of the Company's issued Subscription Share capital immediately following Admission (as defined in the Prospectus);
  - (ii) the minimum price which may be paid for a Subscription Share is £0.05;
  - (iii) the maximum price which may be paid for a Subscription Share will not exceed the higher of (i) 5% above the average of the middle market quotations (as derived from the Official List) for the five consecutive dealing days ending on the dealing day immediately preceding the date on which the purchase is made and (ii) the higher of the price quoted for (a) the last independent trade of, or (b) the highest current independent bid for, any number of Subscription Shares on the trading venue where the purchase is carried out;
  - (iv) the authority hereby conferred shall expire on 10 February 2011 unless the authority is renewed at the Company's AGM in 2010 or at any other general meeting prior to such time; and
  - (v) the Company may make a contract to purchase Subscription Shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of Subscription Shares pursuant to any such contract notwithstanding such expiry.

#### **BY ORDER OF THE BOARD**

*FIL Investments International*  
*Secretary*

Date: 15 October 2009

Registered Office: Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey KT20 6RP

Notes:

- (i) A member entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint one or more proxies to exercise all or any of the rights of the member to attend and speak and vote in his place. A proxy need not be a member of the Company.

- (ii) To appoint a proxy you may use the Form of Proxy enclosed with this Notice of General Meeting. To be valid, the Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be completed and returned in accordance with the instructions printed thereon to the Company's Registrars, Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, or delivered by hand during office hours to the same address as soon as possible and in any event by not later than 2.00 p.m. on 8 November 2009.
- (iii) Completion of the Form of Proxy will not prevent you from attending and voting in person.
- (iv) Any person receiving a copy of this Notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a "Nominated Person") should note that the provisions in Notes (i) to (iii) above concerning the appointment of a proxy or proxies to attend the General Meeting in place of a member, do not apply to a Nominated Person as only Shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the Meeting.
- (v) Nominated persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or perhaps the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.
- (vi) Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only Shareholders registered in the register of members of the Company by not later than 6.00 p.m. two days prior to the time fixed for the Meeting shall be entitled to attend and vote at the Meeting in respect of the number of Shares registered in their name at such time. If the Meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned Meeting is 6.00 p.m. two days prior to the time of the adjournment. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
- (vii) In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
- (viii) Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
- (ix) If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority. As a result, any member holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make a separate notification to the Company and the Financial Services Authority.
- (x) As at 13 October 2009, being the last business day prior to the printing of this Notice, the Company's issued capital consisted of 95,577,453 Ordinary Shares carrying one vote each. Therefore, the total voting rights in the Company as at 13 October 2009 are 95,577,453 Ordinary Shares carrying one vote each.
- (xi) The proposed New Articles are available for inspection at the registered office of the Company, Beechgate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this Notice until the conclusion of the Meeting and will be available for inspection at the place of the Meeting for at least 15 minutes prior to and during the Meeting.

## APPENDIX

### A: Current and Proposed New Investment Policy

#### (i) Current Investment Policy

The markets in which the Company may invest will comprise primarily the Tokyo Stock Exchange, the Jasdaq and the regional stockmarkets of Fukuoka, Nagoya, Osaka and Sapporo. In order to diversify the Company's portfolio, the Board has set guidelines for the Manager to restrict investment to a maximum of 7.5% in the aggregate of all securities of any one company or other investment entity (10% for any group of companies) at the time of purchase, which is further limited to 12% of the Company's equity portfolio based on the latest market value.

The Company is permitted to invest up to 30% of its assets (at the time of acquisition) in equity-related and debt instruments. The Company may also invest in derivatives for efficient portfolio management to protect the portfolio against market risk. However, any such investment would normally be at a low level and the Company would primarily invest in shares.

The Company may invest up to 5% of its assets (at the time of acquisition) in securities which are not listed on any stock exchange or traded on the Jasdaq market, but the Company would not normally make any such investment except where the Manager expects that the securities would shortly become registered for trading on the OTC market or become listed on a Japanese stockmarket.

A maximum of 15% of the Company's total assets may be invested in the securities of other investment trust companies.

The Company's policy is to be geared in the belief that long term investment returns will exceed the cost of borrowing. The effect is that if markets move up the NAV will be positively impacted and if markets move down the NAV will be adversely impacted. The Board is responsible for the level of gearing in the Company and reviews the position on a regular basis. In normal circumstances the Directors do not expect the total amount borrowed to exceed 30% of shareholders' funds at the time of borrowing. Subsequently, and particularly during volatile market conditions, this limit may be exceeded where the Board does not believe it appropriate to bring the gearing levels down by selling the Company's investments to raise cash.

Generally, the maximum that the Company would hold in cash would be 20% of the total value of the Company's assets, however, in practice, this position would normally be much lower.

The spread of risk within the Company's portfolio is achieved by holding a wide range of stocks which are chosen on their individual merits, which can be easily sold to meet funding commitments if necessary, and not by sectoral allocation.

#### (ii) Proposed New Investment Policy

The markets in which the Company may invest will comprise primarily the Tokyo Stock Exchange, the Jasdaq and the regional stockmarkets of Fukuoka, Nagoya, Osaka and Sapporo. In order to diversify the Company's portfolio, the Board has set guidelines for the Manager to restrict investment to a maximum of 7.5% in the aggregate of all securities of any one company or other investment entity (10% for any group of companies) at the time of purchase, which is further limited to 12% of the Company's equity portfolio based on the latest market value.

The Company is permitted to invest up to 30% of its assets (at the time of acquisition) in equity-related and debt instruments. The Company may also invest in derivatives for efficient portfolio management to protect the portfolio against market risk. However, any such investment for efficient portfolio management would normally be at a low level and the Company would primarily invest in shares.

The Company may invest up to 5% of its assets (at the time of acquisition) in securities which are not listed on any stock exchange or traded on the Jasdaq market, but the Company will not normally make any such investment except where the Manager expects that the securities would shortly become registered for trading on the OTC market or become listed on a Japanese stockmarket.

A maximum of 15% of the Company's total assets may be invested in the securities of other investment trust companies.

The Company's policy is to be geared in the belief that long-term investment returns will exceed the costs of gearing. This gearing will be obtained through the use of borrowing and/or through the use of contracts for difference ("CFDs") to obtain exposure to Japanese equities selected by the Manager. The effect of gearing is to magnify the consequence of market movements on the portfolio and if the portfolio value rises the NAV will be positively impacted, but if it falls the NAV will be adversely impacted. The Board is responsible for the level of gearing in the Company and reviews the position on a regular basis.

The aggregate exposure of the Company to Japanese equities, whether held directly or under CFDs, will not exceed 130% of total net assets at the time at which any CFD is entered into or a security acquired. The Board also intends that the exposure will not exceed 140% at any other time unless exceptional circumstances exist. It should be stressed that the majority of the Company's exposure to Japanese equities will be through direct investment, not CFDs. In addition, the limits on exposure to individual companies and groups set out above will be calculated on the basis that the Company has acquired the securities to which any CFD is providing exposure.

The investment of any borrowed money in Japanese equities will be subject to the exposure limits set out above and the total amount borrowed will not exceed 30% of shareholders' funds at the time of borrowing.

Generally, the maximum that the Company will hold in cash will be 25% of the total value of the Company's assets, but this limit will not include any cash or cash equivalent paid as collateral for unrealised losses on CFDs. In practice the cash position will normally be much lower.

The spread of risk within the Company's portfolio is achieved by having exposure to a wide range of stocks which are chosen on their individual merits with stocks directly held to be easily sold to meet funding commitments if necessary.

## **B: Changes to the Existing Articles in Connection with the 2006 Act**

### **1. The Company's Objects**

The provisions regulating the operations of the Company are currently set out in the Company's Memorandum and Articles. The Company's Memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The 2006 Act significantly reduces the constitutional significance of a company's memorandum. The 2006 Act provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the 2006 Act, the objects clause and all other provisions which are contained in a company's memorandum, for existing companies are deemed to be contained in a company's Articles of Association but the company can remove these provisions by special resolution.

Further, the 2006 Act states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the 2006 Act, are treated as forming part of the Company's Articles of Association. Resolution 2(A) confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's Memorandum of Association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of Shareholders.

### **2. Articles which Duplicate Statutory Provisions**

Provisions in the Company's Articles which replicate provisions contained in the 2006 Act are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution.

### **3. Change of Name**

Under the Companies Act 1985, a company could only change its name by special resolution. Under the 2006 Act a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the Directors to pass a resolution to change the Company's name.

### **4. Authorised Share Capital and Unissued Shares**

The 2006 Act abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the 2006 Act, save in respect of employee share schemes.

### **5. Redeemable Shares**

Under the Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The 2006 Act enables directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the Directors would need Shareholders' authority to issue new shares in the usual way.

### **6. Authority to Purchase Own Shares, Consolidate and Sub-divide Shares, and Reduce Share Capital**

Under the Companies Act 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The Articles

include these enabling provisions. Under the 2006 Act, a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the New Articles.

#### **7. Use of Seals**

Under the Companies Act 1985, a company required authority in its articles to have an official seal for use abroad. Under the 2006 Act, such authority will no longer be required. Accordingly, the relevant authorisation has been removed in the New Articles.

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one Director in the presence of a witness, whereas previously the requirement was for signature by either a Director and the Secretary or two Directors or such other person or persons as the Directors might approve.

#### **8. Vacation of Office by Directors**

The Articles specify the circumstances in which a Director must vacate office. The New Articles update these provisions to treat physical illness in the same manner as mental illness.

#### **9. Voting by Proxies on a Show of Hands**

The Shareholders' Rights Regulations have amended the 2006 Act so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles remove provisions in the Articles dealing with proxy voting on the basis that these are dealt with in the 2006 Act and contain a provision clarifying how the provision of the 2006 Act giving a proxy a second vote on a show of hands should apply to discretionary authorities.

#### **10. Chairman's Casting Vote**

The New Articles remove the provision giving the Chairman a casting vote in the event of an equality of votes as this is no longer permitted under the 2006 Act.

#### **11. Adjournments for Lack of Quorum**

Under the 2006 Act as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least ten clear days after the original meeting. The Articles have been changed to reflect this requirement.

#### **12. Dispute Resolution Provisions**

In line with guidance issued by the Association of British Insurers and the National Association of Pension Funds, the New Articles no longer contain dispute resolution provisions.

#### **13. General**

Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovations and Skills.

