

Annual Report **2010**

JPMorgan Fleming Japanese Smaller
Companies Investment Trust plc

Annual Report & Accounts for the year ended 31st March 2010

J.P.Morgan
Asset Management

Features

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Objective

Long term capital growth through investment in small and medium sized Japanese companies.

Investment Policies

- To maintain a portfolio almost wholly invested in Japan.
- To restrict the Company's investment universe to all Japanese quoted companies excluding the largest 200 measured by market capitalisation.
- To utilise borrowings to enhance shareholder returns.
- To operate a gearing policy for the Company to within a range of 90% to 120% invested.
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts).

Further details on investment policies and risk management are given in the Directors' Report on page 15.

Benchmark

S&P/Citigroup Japan Extended Market Index (Total Return Net) in sterling terms. Comparison of the Company's performance is made with the benchmark as stated.

Capital Structure

The Company has an authorised share capital of 100,000,000 Ordinary shares of 10p each (of which 39,361,382 were in issue as at 31st March 2010, including 419,500 shares held in Treasury) and 10,000,000 Subscription shares of 1p each (of which 7,746,914 were in issue as at 31st March 2010).

Management Company

The Company employs JF Asset Management Limited ('JFAM' or the 'Manager') to manage its assets and JPMorgan Asset Management (UK) Limited ('JPMAM') as Secretary.

AIC

The Company is a member of the Association of Investment Companies.

Financial Results

Total Returns (includes dividends reinvested)

+49.7%

'Unit' return to shareholders^{1,2}
(2009: -34.4%)

+46.1%

Undiluted return on net assets^{3,4}
(2009: -32.1%)

+27.6%

Benchmark return⁵
(2009: -2.4%)

+46.5%

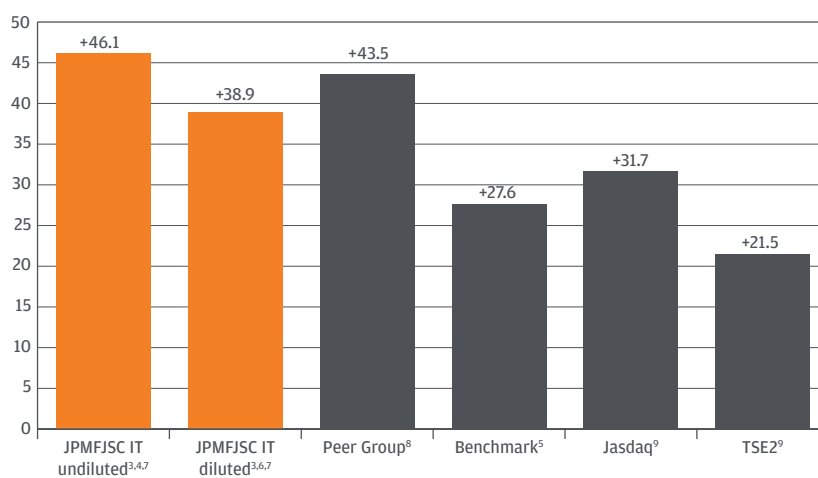
Return to Ordinary
shareholders²
(2009: -36.0%)

+38.9%

Diluted return on net assets^{3,6}
(2009: -32.2%)

Japanese Smaller Companies Returns

(returns for the year ended 31st March 2010)



A glossary of terms and definitions is provided on pages 59 and 60.

¹A Unit comprises 5 Ordinary shares and 1 Subscription share.

²Source: Morningstar/J.P. Morgan.

³Source: J.P. Morgan.

⁴Return on net assets calculated using the undiluted net asset value.

⁵Source: Datastream. The Company's benchmark is the S&P/Citigroup Japan Extended Market Index (Total Return Net) in sterling terms.

⁶Return on net assets calculated using the diluted net asset value, which assumes that all outstanding Subscription shares were converted into Ordinary shares at the year end and the 419,500 (2009: 396,000) shares held in Treasury at the year end were reissued in accordance with the Board's policy on the reissuance of Treasury shares.

⁷JPMorgan Fleming Japanese Smaller Companies Investment Trust plc.

⁸Source: Morningstar. Japanese smaller companies sector median.

⁹Source: Bloomberg.

Chairman's Statement



Investment Performance

It is pleasing to report that the Japanese smaller companies market (the 'Market') produced a steady recovery in the year to 31st March 2010, against a backdrop of improving economic conditions globally. The Market performed particularly well in the first half of the year, as global liquidity injections and improving corporate news flow lifted investor sentiment and prompted a return to risk appetite. The Market fell behind other global indices towards the end of the period as momentum eased amidst concerns surrounding the solvency of the Greek government and the stability of the Euro.

During the year to 31st March 2010, the Company's undiluted total return on net assets increased by 46.1%. This outperformed the return of the Company's benchmark, the S&P/Citigroup Japan Extended Market Index (Total Return Net), which increased by 27.6%, and the peer group median, which rose by 43.5%. The Company's diluted return on net assets, which assumes that all of the Subscription shares in issue were exercised at the rate of 135 pence per share and that all of the Treasury shares were reissued in accordance with the Board's policy on the reissuance of Treasury shares, increased by 38.9%. Over the same period, the Company's Ordinary share price return rose by 46.5%, reflecting a narrowing of the discount to the diluted net asset value per share from 17.6% to 13.1%.

Gearing

The Company has a Japanese yen 2.0 billion credit facility with ING Bank which gives the Investment Managers the ability to gear tactically. The facility is due to expire on 31st August 2010 and is in the process of being renewed. It is pleasing to report that the Investment Managers' use of liability management contributed nearly 4% of the Company's performance during the year. The Board reviews the level of gearing at each Board meeting and has given the Investment Managers the flexibility to operate within the range of 90% to 120% invested. During the year the Company's gearing ranged between 105% and 120% and at the time of writing was 109.5%.

Review of Services Provided by the Manager

During the year, the Board carried out its customary formal review of the investment management, company secretarial, administrative and marketing services provided by the Manager, JF Asset Management ('JFAM') and the Company Secretary, J.P. Morgan Asset Management ('JPMAM'). The review encompassed the investment performance record, management processes, investment style, resources and risk control mechanisms as well as noting the Company's performance against its peers, performance against the benchmark, discount to net asset value, performance attribution and total expense ratio. After full consideration of the above factors, the Board concluded that the continued appointment of the Manager and Company Secretary was in the best interests of shareholders as a whole. Details of the Company's management agreements with JFAM and JPMAM can be found on page 18 of this report.

Subscription Shares

On 5th March 2009 the Company issued 7,798,873 Subscription shares as a bonus issue to Ordinary shareholders on the basis of one Subscription share for every five Ordinary shares held on 3rd March 2009. Each Subscription share confers the right (but not the obligation) to subscribe for one Ordinary share at predetermined prices on any business day during the period from 1st April 2009 until 31st March 2014, after which the rights on the Subscription shares will lapse. From 1st April 2009 to 31st March 2010, 51,959 Subscription shares were exercised into Ordinary shares raising proceeds of £69,000. At the time of writing, a further 504,632 Subscription shares have been exercised raising proceeds of £682,000.

From 1st April 2010, the initial exercise price of 135 pence per share has increased to 147 pence per share. Following this increase, the Company's Ordinary share price, which was 147.25p at the close of business on 15th June 2010, remains above the revised exercise price. The final step-up in exercise price, to 174 pence per share, takes place on 1st April 2012.

Further details on the Subscription shares, including their exercise prices, the apportionments for capital gains tax purposes and how they may be exercised, can be found on the Company's website at www.jpmpjapanesesmallercompanies.co.uk and on page 58 of this report.

Share Issues and Repurchases

During the year, the Company repurchased 23,500 Ordinary shares into Treasury for a total consideration of £34,000. The Company did not issue any shares from Treasury nor issue any new Ordinary shares during this period, other than Ordinary shares issued as a result of the exercise of Subscription shares.

As I have stated in previous years, the Board believes that the ability to issue new Ordinary shares, repurchase Ordinary and Subscription shares for cancellation and to hold and reissue Ordinary shares from Treasury, is in the interests of shareholders in assisting the Company in managing any imbalance between the supply and demand for the Company's shares and in reducing the volatility of the discount. Accordingly, the Board will be seeking shareholders' approval to renew these authorities at this year's Annual General Meeting. Further details are given on pages 20 and 21 of this report.

Articles of Association

At the Annual General Meeting, it is proposed that the Company adopt new Articles of Association. These latest amendments to the current Articles of Association reflect the changes in company law brought about by the Companies Act 2006 (the 'Act'), which came into effect on 1st October 2009, changes made to the Act in August 2009 (designed principally to implement the EU Shareholder Rights Directive in the UK) and some minor technical or clarifying changes. More details on the proposed changes to the Articles are given in the Directors' Report on pages 21 and 22 and in the Appendix to the Notice of Meeting on pages 55 to 57 of this report.

Chairman's Statement continued

Change of Company Name

Following discussions between the Board and the Manager, it is recommended that the Company shorten its name to 'JPMorgan Japan Smaller Companies Trust plc' and a Special Resolution to this effect will be put to shareholders at the forthcoming Annual General Meeting. Shareholders should note that the Company's Bloomberg code of 'JPS' will remain the same regardless of the outcome.

Board of Directors

In accordance with the Company's Articles of Association, John Gibbon will retire by rotation at the forthcoming Annual General Meeting and offers himself for re-election. The Nomination Committee has met to consider the attributes and contributions of John and, following this review, recommends his re-election.

Outlook

Global economic uncertainties and resurgent stock market volatility combine to make any assessment of the outlook for our Company difficult to construct. On the other hand, the attractiveness of the valuations of substantial numbers of small and medium sized Japanese companies offers the potential for further strong returns from a portfolio of well chosen stocks. Furthermore, the economy of Japan, despite its fiscal challenges and the unconvincing political background, remains less vulnerable than those of most G7 countries thanks to its significant exposure to the developing economies of south and east Asia. It is possible then to suggest that a measure of optimism regarding the immediate prospects may be justified, whilst cautioning that some further volatility of returns is highly likely. Your Board has stressed to our Manager that particular vigilance must be exercised in shaping our portfolio in order that it can meet the challenges of this testing period.

Annual General Meeting

This year's Annual General Meeting will be held at the Armourers' Hall, 81 Coleman Street, London EC2R 5BJ on Tuesday 27th July 2010 at 11.30 a.m. In addition to the formal proceedings, there will be a presentation by David Mitchinson, one of your Investment Managers, who will review the past year and comment on the outlook for the current year. I look forward to seeing as many of you as possible at the meeting. If you have any detailed questions, you may wish to raise these in advance with the Company Secretary at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ or via the Company's website at www.jpmpjapanesesmallercompanies.co.uk. Shareholders who are unable to attend the Annual General Meeting in person are encouraged to use their proxy votes. Shareholders who hold their shares through CREST are able to lodge their proxy votes electronically. More details are given in the notes to the Notice of Meeting on pages 53 and 54 of this report.

Alan Clifton
Chairman

16th June 2010

Investment Managers' Report



David Mitchinson

Investment Review

The portfolio outperformed over the last year returning 46.1% against 27.6% for the benchmark. During the year, the Company was geared towards a cyclically recovering Japanese and global economy. This meant that we shunned defensive sectors such as utilities and regional banks and focused on the upside potential from stocks exposed to technology, machinery and emerging markets. We balanced growth opportunities in domestically focused internet and services companies with the cyclical value opportunities that the distressed market offered us last year. In Japan, we can still find many stocks that have yet to see any strong recovery in either trading conditions or share price and recently we have shifted our focus towards some of these lagging, very cheap and more domestic stocks.



Nicholas Weindling

During the year, we contributed 4% to the portfolio's return through the use of liability management. This meant that we successfully increased the portfolio's gearing through periods of strong performance and reduced our exposure as markets contracted. We continue to monitor the Company's liability management on a daily basis and have frequent discussions with the Board on this matter.

Last year was typified by a recovery in stocks geared to production volumes such as semiconductors and automobiles. In particular, the aggressive reduction in inventory, alongside understandable caution on demand levels, meant that the production schedules of these companies were continually revised higher. Although we expect these firms to continue to see growth and to operate at a higher level we can also see better investment opportunities elsewhere. This year our investment policy will focus on beneficiaries of increased corporate cash flows - investment in retooling plant and equipment, increased hiring and advertising as companies try to expand their sales. In terms of domestic stocks, we also expect some better retail sales performance as wages normalise and consumer confidence recovers from very low levels.

Investment Outlook

Our investment stance remains positive as stocks continue to trade near historically low valuations. At the time of writing, the Japanese smaller company index has seen valuations rise by just 17% since the start of 2010 and yet it continues to trade in-line with prior bottom-of-the-cycle levels and still well below book value. At the same time, markets overseas are clearly recovering, especially in Asia, whilst restructuring is moving at an unprecedented pace reflecting the near death experience of many corporations last year. The structural problems in Japan are well documented and there are some signs that overseas investors are reappraising the 'least preferred' status accorded to Japan in asset allocation, as well as the extremely low valuations of the Japanese stock market.

Japan tends to sell high value, discretionary goods to companies and individuals. These areas have been among the most affected by tight credit markets and weak utilisation rates. Now that utilisation rates have increased and the credit cycle has recovered, Japan is experiencing a rise in demand for machinery and technology

Investment Managers' Report continued

Performance attribution for the year ended 31st March 2010

	%	%
Contributions to total returns		
Benchmark total return		27.6
Sector allocation	7.3	
Stock selection	9.2	
Gearing/cash	4.0	
Investment manager contribution		20.5
Portfolio total return		48.1
Management fees/ other expenses	-2.0	
Other effects		-2.0
Net asset value total return (undiluted)		46.1
Subscription share dilution effect		-7.2
Net asset value total return (diluted)		38.9
Share price total return		46.5
Unit share price total return		49.7

Source: Xamin, JPMAM, Morningstar and Datastream.
All figures are on a total return basis.

Performance attribution analyses how the Company achieved its recorded performance relative to its benchmark.

A 'Unit' comprises 5 Ordinary shares and 1 Subscription share.

A glossary of terms and definitions is provided on pages 59 and 60.

products. Whilst Japan has been a laggard in this cycle so far, it is now beginning to improve, while other economies have already seen a strong recovery. This improving situation has not yet been rewarded by investors. One of the most important reasons for the Japanese markets' lacklustre performance remains the Bank of Japan's very tight monetary policy. In stark contrast to other global markets, where central banks have injected liquidity very aggressively, the monetary base in Japan has been contracting. The Democratic Party of Japan ('DPJ') government is making a concerted effort to switch this policy focus towards a tougher anti-deflation stance. The government also has different expenditure priorities from the Liberal Democrat Party ('LDP') and is refocusing spending on social welfare provisions, as reflected in their 2009 election manifesto slogan of 'people not concrete'. The Eurozone crisis will undoubtedly focus attention on their policies as they are being forced to grapple with many of the same issues affecting other mainstream economies; high levels of debt, a large fiscal deficit and a rapidly ageing population. Unlike Greece, Japan has the advantage of a strong ability to fund itself internally, is almost entirely exposed to yen denominated debt and retains control of its currency. We expect that any concern about the Japanese fiscal position will be seen in yen weakness.

The generally depressed valuations of domestically oriented stocks in part reflect the very tough domestic demand conditions. That said, we do not believe that it reveals the underlying earnings power and we feel that *any* good news could cause some of these stocks to re-rate to higher valuation levels. With the recovery in exports over the last year, we anticipate that some of the emergency cuts to wages and investment will be gradually reduced which will allow a modest improvement in domestic demand. Employment is already picking up, as are overtime hours. We are not arguing for a sustained shift to strong domestic growth, merely that expectations and valuations are much too low in this unloved part of the market. Reflecting this, we have been buying software companies, supermarkets, rental housing and beneficiaries of increased domestic industrial activity all at very low valuation levels. One of our larger positions is towards the condominium markets where recent data is beginning to support the domestic growth story, such as rising secondary market real estate transaction volumes and reduced housing inventory levels and vacancy rates that look set to peak in the next few quarters. We have exposure especially to low end housing where cheap land pricing is enabling previously priced-out customers, such as first time buyers, to access the market. Our other domestic exposure comes through financials, where we are focused on brokers and stock exchanges such as SBI Holdings and Osaka Securities Exchange. These investments are positive overweight positions against the benchmark on the undervalued Japanese stock market where we believe that the firms have a distinct edge and attractive valuations.

Given our expectations for Asian growth, we are maintaining our long standing bias towards Asian consumer demand companies. These often trade at substantial discounts to their Asia quoted counterparts and to their own history. We have used the weak performance by Asian oriented companies in the first quarter of 2010 as an opportunity to increase exposure to some of the most undervalued stocks. One sector where we have a notable stake is motorcycle parts. In many cases there is good visibility into demand as they are key suppliers to larger automobile companies

who have clear and aggressive expansion plans from which they will benefit. For instance, Nissin Kogyo will supply parts for the new Honda Civic that will generate income of 20,000 yen per car compared to just 2,000 yen per car in the current model. The technology sector offers some attractive opportunities as many areas, such as HDD and Flash memory, are now experiencing capacity constraints and we have positioned the portfolio to benefit from a new round of investment. This point remains contentious with many analysts pricing these stocks lower than our expectations.

Our overall stance remains bullish. Japanese smaller company stocks are cheap (often very cheap), the business cycle is gradually improving and stocks are moving upwards. Given this backdrop we are emphasising those economically sensitive parts of the market where valuations remain at rock bottom levels and where sentiment has yet to turn positive.

David Mitchinson
Nicholas Weindling
Investment Managers

16th June 2010

Summary of Results

Total Returns for the year ended 31st March	2010	2009	
'Unit' return to shareholders ^{1,2}	+49.7%	-34.4%	
Return to Ordinary shareholders ²	+46.5%	-36.0%	
Undiluted return on net assets ^{3,4}	+46.1%	-32.1%	
Diluted return on net assets ⁵	+38.9%	-32.2%	
Benchmark return ⁶	+27.6%	-2.4%	
Net Asset Value, Share Price and Discount at 31st March			% change
Total net assets (£'000)	74,984	51,306	+46.2
Undiluted net asset value per Ordinary share	192.6p	131.8p	+46.1
Diluted net asset value per Ordinary share	182.8p	131.6p	+38.9
Ordinary share price	159.0p	108.5p	+46.5
Ordinary share price discount to diluted net asset value per Ordinary share	13.1%	17.6%	
Ordinary shares in issue, excluding shares held in Treasury	38,941,882	38,913,423	
Subscription share price	37.5p	13.5p	
Subscription shares in issue	7,746,914	7,798,873	
Revenue for the year ended 31st March			
Gross revenue return (£'000)	1,044	1,421	-26.5
Net loss attributable to shareholders (£'000)	(566)	(385)	
Loss per Ordinary share	(1.45)p	(0.98)p	
Actual Gearing Factor at 31st March ⁷	117.3%	98.3%	
Total Expense Ratio ⁸	1.96%	1.99%	

A glossary of terms and definitions is provided on pages 59 and 60.

¹A Unit comprises 5 Ordinary shares and 1 Subscription share.

²Source: Morningstar/J.P. Morgan.

³Source: J.P. Morgan.

⁴Return on net assets calculated using the undiluted net asset value.

⁵Return on net assets calculated using the diluted net asset value, which assumes that all outstanding Subscription shares were converted into Ordinary shares at the year end and the 419,500 (2009: 396,000) shares held in Treasury at the year end were reissued in accordance with the Board's policy on the reissuance of Treasury shares.

⁶Source: Datastream. The Company's benchmark is the S&P/Citigroup Japan Extended Market Index (Total Return Net) in sterling terms.

⁷Actual gearing represents investments expressed as a percentage of shareholders' funds.

⁸Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets.

Five Year Financial Record

At 31st March	2005	2006	2007	2008	2009	2010
Total assets less current liabilities (£m)	103.4	160.0	106.3	76.3	51.3	75.0
Undiluted net asset value per Ordinary share (p)	249.9	405.9	269.7	194.0	131.8	192.6
Diluted net asset value per Ordinary share (p) ¹	249.9	405.9	269.7	194.0	131.6	182.8
Ordinary share price (p)	227.0	387.5	256.5	169.5	108.5	159.0
Ordinary share price discount to diluted net asset value per Ordinary share (%)	9.2	4.5	4.9	12.6	17.6	13.1
Actual gearing factor (%) ²	98.2	115.9	115.7	109.5	98.3	117.3
Subscription share price (p)	–	–	–	–	13.5	37.5
Year ended 31st March						
Revenue attributable to Ordinary shareholders (£'000)	1,023	1,266	1,447	1,404	1,421	1,044
Revenue Loss per Ordinary share (p)	(1.89)	(1.61)	(2.14)	(1.29)	(0.98)	(1.45)
Total expense ratio (%) ³	1.56	1.46	1.54	1.80	1.99	1.96
Rebased to 100 at 31st March 2005						
Ordinary share price total return ⁴	100.0	170.7	113.0	74.7	47.8	70.0
Undiluted net asset value total return	100.0	163.3	108.5	78.1	53.0	77.4
Diluted net asset value total return ⁴	100.0	163.3	108.5	78.1	53.0	73.6
Benchmark ⁵	100.0	145.0	116.4	94.1	91.9	117.3

A glossary of terms and definitions is provided on pages 59 and 60.

¹ The diluted net asset value per Ordinary share assumes that all outstanding Subscription shares were converted into Ordinary shares at the year end and the 419,500 (2009: 396,000) shares held in Treasury at the year end were reissued in accordance with the Board's policy on the reissuance of Treasury shares.

² Actual gearing represents investments expressed as a percentage of shareholders' funds.

³ Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets.

⁴ Source: Morningstar.

⁵ Source: Datastream. The Company's benchmark is the S&P/Citigroup Japan Extended Market Index (Total Return Net) in sterling terms.

Ten Largest Investments

at 31st March

Company and Japanese Company Code	Sector	2010 Valuation		2009 Valuation	
		£'000	% ¹	£'000	% ¹
Haseko (1808)² Builds residential, commercial, and institutional buildings such as condominiums and office buildings. The Company also operates real estate brokerage, leasing, and management businesses. Additionally, Haseko provides construction consulting services and operates hotel and financial businesses.	Construction	3,419	3.8	–	–
Osaka Securities Exchange (8697) Provides and operates a marketplace for the trading of equities, futures and options. The Company administers and manages the trading of listed stocks and registered members.	Other Financing Business	2,846	3.2	1,424	2.3
SBI (8473)² Manages venture capital funds which mainly invest in internet related venture companies. The Company also provides brokerage, investment banking and financial services.	Securities & Commodity Futures	2,658	3.0	–	–
CKD (6407)² Manufactures pneumatic equipment and control devices including valves, cylinders, filters and dryers. The Company also produces automated labour-saving machines such as integrated circuit production equipment, assembly machines, auto-transport machinery and packaging machines for pharmaceutical products.	Machinery	2,584	2.9	–	–
Yokogawa Electric (6841)² Develops, manufactures and markets information technology solutions, measuring and control equipment, semiconductors and electronic components. The Company's products include IT controllers, flowmeters, pressure transmitters, analysers, data recorders, switching power supplies and AC adaptors.	Electric Appliances	2,428	2.7	–	–
Mabuchi Motor (6592)² Manufactures and markets small digital camera motors. The Company markets its products to a wide range of users, from audio-visual makers, automobile parts makers, consumer electronics makers, office automation equipment makers, precision machine makers to radio controlled-model cars and video game makers.	Electric Appliances	2,220	2.5	–	–
F.C.C. (7296)² Manufactures and develops clutches and facings for motorcycles, automobiles and lawn mowers. The Company has its operating facilities in the US, Thailand, the Philippines, China and the UK. F.C.C. provides its products to Japanese motorcycle manufacturers including Honda motor, Suzuki Motor and Yamaha Motor.	Transportation Equipment	2,220	2.5	–	–
Amada (6113)² Manufactures metal cutting, forming, shearing and punching machines. The Company also develops factory automation systems and electronic equipment in addition to machine tools. Amada's products are used in fields such as the auto, computer, camera and electric appliance industries.	Machinery	2,207	2.5	256	0.4
Trancom (9058) Provides freight transportation services in the Tokai region. The Company transports products for Sharp Corp., other consumer electronics makers and cosmetics and food producers. Trancom also operates warehousing business and offers distribution information services.	Warehouse & Harbour Transportation	2,197	2.5	1,293	2.1
Meitec (9744)² Provides high-end engineering outsourcing services targeting the R&D sector in various industries such as automobile, telecommunication, semiconductors, consumer electronics and industrial machinery.	Services	2,158	2.4	–	–
Total³		24,937	28.0		

¹Based on total assets less current liabilities, excluding loan balances falling due within one year, of £89.1m (2009: £61.9m).

²Not included in the ten largest investments at 31st March 2009.

³At 31st March 2009, the value of the ten largest investments amounted to £14.2m representing 23.0% of total assets less current liabilities excluding loan balances falling due within one year.

Sector Analysis

	31st March 2010		31st March 2009	
	Portfolio % ¹	Benchmark %	Portfolio % ¹	Benchmark %
Machinery	17.1	8.2	7.5	6.4
Transportation Equipment	16.3	3.4	1.4	2.5
Electric Appliances	13.2	8.9	1.4	7.8
Services	9.8	4.2	14.0	4.5
Real Estate	5.4	5.8	4.5	5.7
Retail Trade	4.7	8.5	11.8	8.8
Chemicals	4.6	9.0	0.7	7.7
Other Financing Business	4.3	1.8	3.7	1.2
Construction	3.8	4.5	1.7	5.1
Warehouse & Harbour Transportation	3.7	0.6	2.1	0.7
Information & Communication	3.5	4.1	11.3	4.7
Securities & Commodity Futures	3.0	1.3	0.7	1.3
Metal Products	2.1	1.5	2.2	1.8
Other Products	1.7	2.7	0.3	2.6
Wholesale Trade	1.7	5.3	1.4	5.3
Land Transportation	1.6	2.0	3.2	3.0
Iron & Steel	1.0	2.2	1.3	1.7
Precision Instruments	0.8	1.1	0.7	0.9
Textiles & Apparels	0.4	2.1	–	2.6
Banks	–	8.5	–	10.7
Foods	–	4.3	3.4	5.3
Nonferrous Metals	–	2.3	1.9	1.7
Pharmaceuticals	–	2.3	4.5	2.9
Glass & Ceramics Products	–	1.7	1.7	1.4
Pulp & Paper	–	1.0	–	1.1
Rubber Products	–	0.9	–	0.7
Fishery Agriculture & Forestry	–	0.6	–	0.7
Electric Power & Gas	–	0.5	–	0.6
Marine Transportation	–	0.4	–	0.3
Insurance	–	0.1	–	0.1
Mining	–	0.1	–	0.1
Oil & Coal	–	0.1	–	0.1
Net current assets (without deducting short term loans)	1.3	–	18.6	–
Total	100.0	100.0	100.0	100.0

¹Based on total assets less current liabilities (without deducting short term loans) of £89.1m (2009: £61.9m). Drawings on the loan facility are used for investment purposes and are therefore included in the assets available for allocation.

List of Investments

at 31st March 2010

Company and Japanese Company Code	Valuation £'000	Company and Japanese Company Code	Valuation £'000
Machinery		Services	
CKD (6407)	2,584	Meitec (9744)	2,158
Amada (6113)	2,207	Pacific Golf (2466)	1,352
Mori Seiki (6141)	1,907	Septeni (4293)	936
Makino Milling Machine (6135)	1,820	Nishio Rent All (9699)	933
Fuji Machine Manufacturing (6134)	1,748	United Technology (2146)	891
THK (6481)	1,637	EPS (4282)	864
Nippon Pillar Packing (6490)	1,172	Prestige International (4290)	545
Okuma (6103)	755	Outsourcing (2427)	535
Torishima Pump Manufacturing (6363)	732	Kanamoto (9678)	162
Nippon Thompson (6480)	542	Nippon Manufacturing Service (2162)	158
Nittan Valve (6493)	73	World Intec (2429)	151
Okano Valve Manufacturing (6492)	37		
Total Machinery	15,214	Total Services	8,685
Transportation Equipment		Real Estate	
F.C.C. (7296)	2,220	Arnest One (8895)	1,240
Nissin Kogyo (7230)	2,119	Goldcrest (8871)	1,153
Musashi Seimitsu Industries (7220)	2,020	Touei Housing (8875)	1,122
Press Kogyo (7246)	1,966	Relo (8876)	534
Futaba Industrial (7241)	1,802	Hajime Construction (3268)	400
TS Tech (7313)	1,799	Leopalace 21 (8848)	390
Showa Aircraft Industry (7404)	1,533		
Toyota Boshoku (3116)	1,098	Total Real Estate	4,839
Total Transportation Equipment	14,557	Retail Trade	
Electric Appliances		Toridoll (3397)	1,368
Yokogawa Electric (6841)	2,428	Nitori (9843)	1,054
Mabuchi Motor (6592)	2,220	Daiei (8263)	917
Micronics Japan (6871)	1,558	Growell (3141)	387
Yaskawa Electric (6506)	1,553	Aoyama Trading (8219)	356
Shinko Electric Industries (6967)	1,151	Ain Pharmaciez (9627)	110
Foster Electric (6794)	1,100	Total Retail Trade	4,192
Star Micronics (7718)	919	Chemicals	
Koito Manufacturing (7276)	791	Nihon Nohyaku (4997)	1,413
Total Electric Appliances	11,720	Kansai Paint (4613)	747
		Miraial (4238)	696
		Mandom (4917)	655
		KOSE (4922)	590
		Total Chemicals	4,101

Company and Japanese Company Code	Valuation £'000
Other Financing Business	
Osaka Securities Exchange (8697)	2,846
Jaccs (8584)	876
Osaka Securities Finance (8512)	146
Total Other Financing Business	3,868
Construction	
Haseko (1808)	3,419
Total Construction	3,419
Warehouse & Harbour Transportation	
Trancom (9058)	2,197
Kintetsu World Express (9375)	1,093
Total Warehouse & Harbour Transportation	3,290
Information & Communication	
GMO Internet (9449)	1,528
Internet Initiative Japan (3774)	773
Simplex Technology (4340)	473
IT (3626)	378
Total Information & Communication	3,152
Securities & Commodity Futures	
SBI (8473)	2,658
Total Securities & Commodity Futures	2,658
Metal Products	
Mimasu Semiconductor Industry (8155)	1,838
Total Metal Products	1,838
Wholesale Trade	
JFE Shoji (3332)	1,437
Wakita (8125)	112
Total Wholesale Trade	1,549

Company and Japanese Company Code	Valuation £'000
Other Products	
Pigeon (7956)	1,480
Total Other Products	1,480
Land Transportation	
Hamakyorex (9037)	1,410
Total Land Transportation	1,410
Iron & Steel	
Tokyo Steel Manufacturing (5423)	784
Maruichi Steel (5463)	70
Total Iron & Steel	854
Precision Instruments	
Asahi Intecc (7747)	665
Total Precision Instruments	665
Textiles & Apparels	
Onward (8016)	390
Total Textiles & Apparels	390
Glass & Ceramics Products	
Taiheiyo Cement (5233)	24
Maruwa (5344)	21
Total Glass & Ceramics Products	45
Insurance	
Anicom (8715)	22
Total Insurance	22
Total Portfolio	87,948

The portfolio comprises all equity investments.

Board of Directors



Alan Clifton (Chairman of the Board and the Nomination Committee)

A Director since March 2003 and appointed Chairman in June 2003.

He is Chairman of Schroder UK Growth Fund plc and a Director of several other investment companies. From 1990 until 2001 he was Managing Director of Morley Fund Management, the then asset management arm of Aviva plc, the UK's largest insurance group.



John Gibbon (Chairman of the Audit Committee)

A Director since March 2003.

He is Chairman of BDT Invest Funds plc. He was Chief Investment Officer of BAE SYSTEMS Pension Fund from 1983 to 2001 and is now an advisor to a number of pension funds and charities.



Bernard Grigsby

A Director since August 2003.

He has more than 30 years experience in investment banking and international capital markets and is currently the principal of Rockbridge Advisors, a private advisory and consulting practice. Prior to retiring in December 2005 from the Swiss Re Group, where he latterly served as Vice Chairman of Swiss Re Capital Management and Advisory, he was joint Chief Executive Officer of Tokai Bank Europe Ltd and from 1990-93, the Chief Executive Officer/Managing Director of BZW Securities (Japan) Ltd. He serves on a variety of boards and advisory committees, including the Board of Trustees of Washington & Lee University, and the Boards of LIM-Asia Multi-Strategy Fund, various funds managed by Tudor Investment Corp and Corney & Barrow Group Ltd.



Chris Russell

A Director since January 2006.

He is a Non-Executive Director of a number of listed and unlisted investment and financial service companies in the UK, Guernsey, US and Asia. These include London listed F&C Commercial Property Trust Ltd, HSBC Infrastructure Company Ltd and Castle Asia Alternative pcc Ltd and the New York listed Korea Fund Inc. He is currently a Director of the Association of Investment Companies. He was formerly Head of Overseas Businesses at Gartmore Investment Management plc which included Gartmore's two businesses in Japan. From 1990-1997 he was a Director of the Jardine Fleming Group in Asia after being Head of Research and of International Broking for JF Securities in Tokyo.



Robert White

A Director since October 2008.

He is currently a Partner of Oldfield Partners LLP, responsible for their Japanese investments. He has investment experience in the Japanese market spanning more than 30 years during which time, *inter alia*, he was Senior Representative of Warburg Investment Manager Japan Limited, President of INVESCO MIM Asset Management (Japan) Limited and a Partner of Dalton Strategic Partnership LLP.

All Directors are members of the Audit and Nomination Committees and are considered independent of the Manager.

Directors' Report

The Directors present their report and audited accounts for the year ended 31st March 2010.

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31st March 2009. This is subject to review, should there be any subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year (replaced on 1st April 2010 by Section 1158 of the Corporation Tax Act 2010).

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company is not a close company for taxation purposes.

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 2 to 4, and in the Investment Managers' Report on pages 5 to 7.

Objective

The Company's objective is to achieve long term capital growth through investments in small and medium sized Japanese companies.

Investment Policies and Risk Management

In order to achieve its investment objective and to seek to manage risk, the Company invests in a diversified portfolio of investments in the stock markets of Japan, emphasising capital growth rather than income. The Company's investment universe is restricted to all Japanese quoted companies excluding the largest 200 measured by market capitalisation, at the time of investment.

The Company manages liquidity and borrowings with the aim of increasing returns to shareholders. The assets are managed by two Investment Managers based in Tokyo, supported by a 13 strong Japanese equity team.

The Board has set no minimum or maximum limit on the number of investments in the portfolio but in the year under review, the number of investments ranged between 75 and 98.

It should be noted that the Company invests in smaller companies which tend to be more volatile than larger companies and the Company's shares should therefore be regarded as greater than average risk.

Investment Restrictions and Guidelines

The Board seeks to manage the Company's risk by imposing various limits and restrictions:

- As an investment trust, the Company cannot invest more than 15% of its assets in any one investment, at the time of acquisition.
- The Company will not invest more than 5% of its total assets in any one individual stock at the time of acquisition.
- The Company's gearing policy is to operate within a range of 90%-120% invested in normal market conditions.
- All currency hedging transactions are subject to the prior approval of the Board. The Company did not enter any such arrangements during the year.

These limits and restrictions may be varied by the Board at any time at its discretion. Compliance with the Board's investment restrictions and guidelines is monitored continuously by the Manager and is reported to the Board on a monthly basis.

Performance

In the year to 31st March 2010, the Company produced a total return to Ordinary shareholders of +46.5% and a diluted total return on net assets of +38.9%. This compares with the return on the Company's benchmark index of +27.6%. At 31st March 2010, the value of the Company's investment portfolio was £87.9 million. The Investment Managers' Report on pages 5 to 7 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Total Return, Revenue and Dividends

Total gross return for the year amounted to £25,253,000 (2009: loss of £22,672,000) and distributable revenue after deducting interest, administrative expenses and taxation amounted to a deficit of £566,000 (2009: deficit of £385,000).

Directors' Report continued

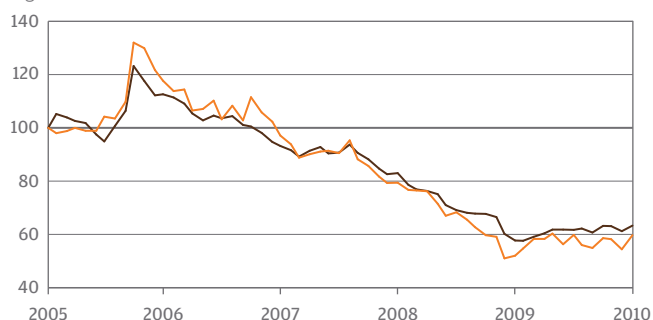
Key Performance Indicators ('KPIs')

The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

- **Performance against the benchmark index**
The Company's performance against its benchmark index is one of the KPIs by which performance is judged.

Performance Relative to Benchmark Index

Figures have been rebased to 100 at 31st March 2005

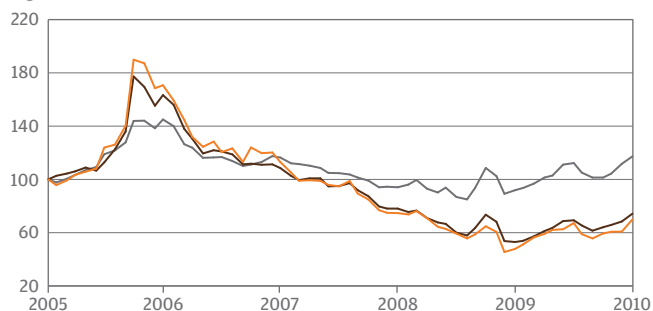


Source: Morningstar/Datastream (total return).

- JPMorgan Fleming Japanese Smaller Companies - Ordinary Share price.
- JPMorgan Fleming Japanese Smaller Companies - diluted net asset value per Ordinary share.
- The benchmark is represented by the grey horizontal line.

Five Year Performance

Figures have been rebased to 100 at 31st March 2005



Source: Morningstar/Datastream (total return).

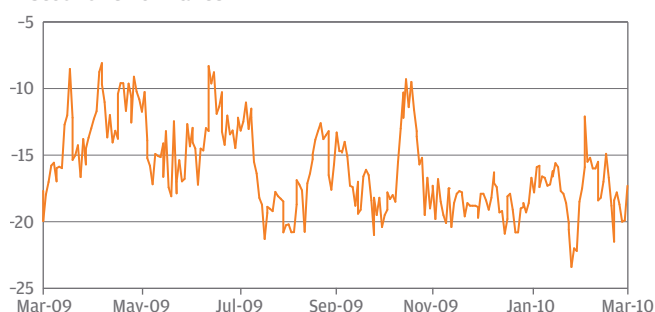
- JPMorgan Fleming Japanese Smaller Companies - Ordinary Share price.
- JPMorgan Fleming Japanese Smaller Companies - diluted net asset value per Ordinary share.
- Benchmark.

- **Performance against the Company's peers**
The principal objective is to achieve capital growth. The Board monitors performance relative to both the benchmark and a broad range of competitor funds. A graph detailing the Company's performance against its peers and

a number of Japanese smaller companies indices can be found on page 1.

- **Discount to net asset value ('NAV')**
The Board has a share repurchase programme which seeks to address imbalances in supply of and demand for the Company's shares within the market. This minimises the volatility and absolute level of the discount to NAV at which the Company's shares trade in relation to its peers in the sector. In the year to 31st March 2010, the shares traded between a discount of 8.1% and 23.4%.

Discount Performance



Source: Datastream (month end data).

- JPMorgan Fleming Japanese Smaller Companies - Discount.

- **Performance attribution**
The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as sector allocation and stock selection. A performance attribution table can be found on page 6.
- **Total expense ratio ('TER')**
The TER represents management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets. The TER for the year ended 31st March 2010 was 1.96% (2009: 1.99%). The Board reviews the TER of the Company regularly. On an annual basis it compares its TER against other companies with similar investment objectives and policies.

Share Capital

The Company has the authority both to purchase shares in the market for cancellation and to issue new shares for cash. In addition, the Company has authority to repurchase shares into Treasury and to reissue shares out of Treasury at a discount to NAV, subject to limits and restrictions, as authorised by shareholders at the 2009 Annual General Meeting.

During the year, the Company repurchased 23,500 Ordinary shares into Treasury for a total consideration of £34,000. Over the same period, the Company issued 51,959 Ordinary shares for a total consideration of £69,000 following the exercise of Subscription shares. Since the year end a further 504,632 Ordinary shares have been issued for a total consideration of £682,000 following the exercise of further Subscription shares.

Resolutions to renew the authority to issue new shares for cash, to reissue shares out of Treasury at a discount to NAV and to purchase shares for cancellation are due to be put to shareholders at the forthcoming Annual General Meeting. The full text of these Resolutions is set out in the Notice of Meeting on pages 52 and 53.

Subscription Shares

On 5th March 2009 the Company issued 7,798,873 Subscription shares as a bonus issue to the Ordinary shareholders on the basis of one Subscription share for every five Ordinary shares held. Each Subscription share confers the right (but not the obligation) to subscribe for one Ordinary share on any business day during the period from 1st April 2009 to 31st March 2014 (both dates inclusive) when the rights under the Subscription shares will lapse.

Future exercise prices have been determined as follows:

- If exercised between 1st April 2010 and 31st March 2012, 147 pence; and
- If exercised between 1st April 2012 and 31st March 2014, 174 pence.

Further details on the Subscription shares, including the apportionments for capital gains tax purposes and how they may be exercised, can be found on page 58 of this report and on the Company's website at www.jpmmfjapaneselesmallercompanies.co.uk

Principal Risks

With the assistance of the Manager, JF Asset Management Limited ('JFAM'), and Secretary, JPMorgan Asset Management (UK) Limited ('JPMAM'), the Board has drawn up a risk matrix, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- **Investment and Strategy:** An inappropriate investment strategy, for example excessive concentration of investments, asset allocation or the level of gearing, may lead to under-performance against the Company's benchmark index and peer companies, which may result in the Company's shares trading on a wider discount. The

Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on. JPMAM provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which shows statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board. In addition to regular Board meetings, the Board visits the offices of JF Asset Management in Tokyo on an annual basis to discuss strategy.

- **Discount:** In order to manage the Company's discount, which can be volatile, the Company operates a share issuance and repurchase programme.
- **Market:** The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these three elements of market price risk is given in note 20(a) on pages 43 to 47 of this report, together with details of how the Board manages these risks.
- **Liquidity:** This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Details of how the Board manages these risks can be found in note 20(b) on pages 47 and 48.
- **Credit:** Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Company. Details of the Company's exposure to credit risk and how the Board manages this risk can be found in note 20(c) on page 48.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 842 of the Income and Corporation Taxes Act 1988 ('Section 842'). Details of the Company's approval are given under 'Business of the Company' on page 15. Should the Company breach Section 842, it may lose its investment trust status and, as a consequence, gains within the Company's portfolio would be subject to Corporation Tax. The Section 842 qualification criteria are

Directors' Report continued

continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of The Companies Act 2006 (the 'Act') and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules may result in the Company's shares being suspended from listing which in turn would breach Section 842 (replaced on 1st April 2010 by Section 1158 of the Corporation Tax Act 2010). The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with the Act and The UKLA Listing Rules.

- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 22 to 25.
- **Operational:** Disruption to, or failure of, JFAM's or JPMAM's accounting, dealing or payments systems or the custodian's records may prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JFAM, JPMAM and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on pages 24 and 25.
- **Loss of Investment Team:** A sudden departure of several members of the investment management team could result in a short-term deterioration in investment performance. The Manager takes steps to reduce the likelihood of such an event by ensuring appropriate succession planning and the adoption of a team-based approach.
- **Political and Economic:** Administrative risks, such as the imposition of restrictions on the free movement of capital.

Future Developments

The future development of the Company is much dependent upon the success of the Company's investment strategy in light of economic and equity market developments; the Investment Managers discuss the outlook in their report on pages 5 to 7.

Management of the Company

The Manager of the Company is JFAM. JPMAM, the London based Manager for the investment trust range of J.P. Morgan, acts as Secretary and provides administrative support. Investment advice is provided to JFAM by JPMorgan Asset Management (Japan) Limited in Tokyo. JFAM and JPMAM are employed under a contract terminable on six months' notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

JFAM and JPMAM are wholly owned subsidiaries of J.P. Morgan Chase Bank which, through other subsidiaries, also provides banking, dealing and custodian services to the Company.

The Board has evaluated the performance of the Manager and Secretary and confirms that it is satisfied that the continuing appointment of the Manager and Secretary is in the interests of shareholders as a whole. In arriving at this view, the Board considered the investment strategy and process of the Manager and the support that the Company receives from JFAM and JPMAM.

Management Fee

The management fee is charged at the rate of 1.25% per annum on the first £115 million of the Company's gross assets and 1.00% per annum on any amount exceeding £115 million of gross assets (save that in relation to cash and near cash assets above 125% of net assets, a reduced fee of 0.25% per annum is payable). A secretarial fee is paid to JPMAM out of this management fee. If the Company invests in funds managed or advised by JFAM, JPMAM or any of its associated companies, those investments are excluded from the calculation and therefore attract no additional fee.

Going Concern

The Directors believe that having considered the Company's investment objective (see page 15), risk management policies (see pages 43 to 49), capital management policies and procedures (see page 49), nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they

consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by these terms. As at 31st March 2010, the Company had no outstanding trade creditors (2009: none).

Directors

The Directors of the Company who held office at the end of the year, together with their beneficial interests in the Company's shares, are shown below:

	31st March 2010	1st April 2009
Ordinary shares		
Alan Clifton	10,000	10,000
John Gibbon	5,000	5,000
Bernard Grigsby	50,000	50,000
Chris Russell	35,000	35,000
Robert White	5,000	5,000
Subscription shares		
Alan Clifton	2,000	2,000
John Gibbon	1,000	1,000
Bernard Grigsby	10,000	10,000
Chris Russell	7,000	7,000
Robert White	1,000	1,000

There were no changes to the Board of Directors during the year and up to the date of signing the accounts.

No changes in the above holdings have been notified as at the date of this report.

In accordance with the Company's Articles of Association, the Director retiring by rotation at the forthcoming Annual General Meeting will be John Gibbon who, being eligible, offers himself for re-election by shareholders.

Director Indemnification and Insurance

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity, as defined by section 234 of the Companies Act 2006. The indemnities were executed on 15th April 2010 and are currently in force.

An insurance policy is maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties. There is no cover against fraudulent or dishonest actions.

Disclosure of information to Auditors

In the case of each of the persons who are Directors of the Company at the time when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and
- each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006.

Section 992 Companies Act 2006

The following disclosures are made in accordance with Section 992 Companies Act 2006.

Capital Structure

The Company's capital structure is summarised on the inside front cover of this report.

Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 15 to the Notice of Meeting on page 54.

Environmental Matters, Social and Community Issues

Information on environmental matters, social and community issues is set out on page 25. The Company has no employees.

Directors' Report continued

Notifiable Interests in the Company's Voting Rights

At the date of this report, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	%
Lazard Asset Management LLC ¹	6,334,700	16.1
Asset Value Investors ¹	5,145,576	13.0
<i>Included within this is:</i>		
British Empire Securities and General Trust plc	2,877,809	7.3
Midas Capital plc	2,880,000	7.3
JPMorgan Asset Management (UK) Limited	2,575,006	6.5
1607 Capital Partners	2,046,495	5.2
Legal & General Investment Management	1,556,673	4.0
Wesleyan Assurance Society	1,183,500	3.0

¹Non-beneficial.

The rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or repurchase the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that affect its control following a takeover bid; and no agreements between the Company and its Directors concerning compensation for loss of office.

Independent Auditors

Deloitte LLP have expressed their willingness to continue in office as auditor to the Company and a resolution proposing their re-appointment and authorising the Directors to determine their remuneration for the ensuing year will be put to shareholders at the Annual General Meeting.

Annual General Meeting

NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial advisor authorised under the Financial Services and Markets Act 2000.

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting ('AGM'):

(i) Authority to allot new Ordinary shares and to disapply pre-emption rights (Resolutions 5 and 6)

The Directors will seek renewal of the authority at the AGM to issue up to 3,986,601 new Ordinary shares for cash up to an aggregate nominal amount of £398,660, such amount being equivalent to approximately 10% of the present issued Ordinary share capital (including Treasury shares) as at the last practicable date before the publication of this document. This authority will expire at the conclusion of the AGM of the Company in 2011 unless renewed at a prior general meeting.

It is advantageous for the Company to be able to issue new Ordinary shares to participants purchasing shares through the JPMAM savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. As such issues would only be made at prices greater than the net asset value ('NAV'), they increase the NAV per share and spread the Company's administrative expenses, other than the management fee which is charged on the value of the Company's net assets, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policies. The full text of the Resolutions can be found in the Notice of Meeting on page 52.

(ii) Authority to repurchase the Company's shares (Resolution 7)

The authority to repurchase up to 14.99% of the Company's issued Ordinary shares and Subscription shares, granted by shareholders at the 2009 AGM, will expire on 21st January 2011 unless renewed at the AGM. The Directors consider that the renewing of the authority is in the interests of shareholders as a whole, as, in the case of the Ordinary shares, the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining Ordinary shares. The repurchase of Subscription shares reduces the potential dilutive impact.

Resolution 7 gives the Company authority to repurchase its own issued Ordinary shares and Subscription shares in the market as permitted by the Companies Act 2006 (the 'Act'). The authority limits the number of shares that could be purchased to a maximum of: (i) 5,913,032 Ordinary shares; and (ii) 1,085,618 Subscription shares, representing approximately 14.99% of the Company's issued Ordinary shares (less Treasury shares) and issued Subscription shares respectively, as at 15th June 2010 (being the latest practicable date prior to the publication of this document). The authority also sets minimum and maximum prices and will expire on 26th January 2012 unless renewed at a prior general meeting.

As at 15th June 2010 (being the latest practicable date prior to the publication of this document), there were no warrants or options over Ordinary shares in the capital of the Company, other than the 7,242,282 Subscription shares in issue (each of which gives the holder thereof the right to subscribe for one new Ordinary share) which represent 18.2% of the Company's issued Ordinary share capital. If the authority to purchase the Company's Ordinary shares was exercised in full (and the authority to purchase Subscription shares not exercised at all) then the Subscription shares would represent 21.3% of the Company's issued Ordinary share capital.

The full text of the Resolution is set out in the Notice of Meeting on pages 52 and 53. Repurchases of Ordinary shares will be made at the discretion of the Board and will only be made in the market at prices below the prevailing NAV per share, thereby enhancing the NAV of the remaining shares as and when market conditions are appropriate.

(iii) Treasury shares/disapplication of pre-emption rights (Resolutions 8 and 9)

The Company is permitted to purchase up to 10% of its own Ordinary shares into Treasury (for sale or cancellation at a future date) as an alternative to immediate cancellation. The Board considers that circumstances could arise in which it would be in shareholders' interests for such powers to be exercised. This 10% would form part of the 14.99% referred to in (ii) above.

The Board continues to believe that the effective use of Treasury shares assists the Company in managing any imbalance between supply and demand, thereby minimising the volatility and absolute level of the discount at which the Company's Ordinary shares trade to their net asset value for the benefit of shareholders.

Accordingly, shareholders will also be asked at the AGM to approve Resolutions 8 and 9 which will allow the Company to sell shares from Treasury at a discount to net asset value and disapply the statutory pre-emption rights respectively. This will enable the Company to sell shares held in Treasury without having to first make a pro rata offer to existing shareholders.

Should the Resolutions be passed by shareholders, shares would only be sold from Treasury when market demand is identified and would be limited to 5% of the total Ordinary shares in issue (including shares held in Treasury). This 5% would form part of the 10% issue authority referred to in (i) on page 20. Sales would only be made at a discount narrower than the weighted average discount of the shares held in Treasury at

that time. This process ensures that the enhancement in net asset value associated with share purchases exceeds the dilution in net asset value associated with the sale of Treasury shares at a discount.

The Board is mindful that shareholders may be concerned about the dilution in net asset value associated with the sale of Treasury shares at a discount. It is therefore proposed that the sale of shares from Treasury at a discount be limited so that in the year to the Company's 2011 AGM, the aggregate dilution in net asset value per share arising on such sales does not exceed 0.90 pence per Ordinary share, being approximately 0.5% of the net diluted asset value per Ordinary share at 31st March 2010. The full text of the Resolutions can be found in the Notice of Meeting on page 53.

(iv) Adoption of new Articles of Association (Resolution 10)

The Company proposes to adopt new Articles of Association (the 'Articles'). These incorporate amendments to the current articles of association to reflect the changes in company law brought about by the Act which came into effect on 1st October 2009 and changes made to the Act in August 2009 to implement the EU Shareholder Rights Directive in the UK, as well as some minor technical or clarifying changes.

The principal changes in the new Articles proposed to be adopted at the AGM relate to shareholder meetings and resolutions, the Company's constitution and share capital.

In August 2009, changes were made to the provisions in the Act on company meetings by The Companies (Shareholders' Rights) Regulations 2009 ('Shareholders' Rights Regulations') to implement the EU Shareholder Rights Directive in the UK. The new Articles incorporate amendments in relation to meetings to ensure consistency with the Act (as amended by the Shareholders' Rights Regulations).

Under the Act all provisions of the Company's memorandum, but most significantly the objects clause, are deemed to form part of the Company's Articles of Association from 1st October 2009. It is possible for the objects clause to be removed or amended by amending the Articles of Association by special resolution. It is not necessary under the Act for a company to set out its objects. The Act provides that, unless the Articles of Association state otherwise, a company's objects will be unrestricted.

One of the other key provisions of the memorandum which is deemed to form part of the Company's Articles of Association from 1st October 2009 is the restriction created by the existing authorised share capital statement. The Act removes the

Directors' Report continued

requirement for a company to place limits on its authorised share capital.

By adopting the new Articles which do not contain the objects clause or the authorised share capital statement, the Company will remove these provisions, which would otherwise be deemed to form part of the Company's Articles of Association under section 28 of the Act, from its Articles of Association.

For a more detailed explanation of these and other amendments please refer to the Appendix to this document on pages 55 to 57. The full text of the Resolution is set out on page 53.

A copy of the current articles of association and the proposed new Articles that reflect these amendments will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the offices of JPMAM, Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ up until the close of the AGM. Copies will also be available at The Armourers' Hall, 81 Coleman Street, London EC2R 5BJ being the place of the AGM, for 15 minutes prior to, and during, the AGM.

(v) Change of Company Name (Resolution 11)

The Board recommends that the Company's name be shortened to 'JPMorgan Japan Smaller Companies Trust plc'.

The full text of the Resolution is set out on page 53.

Recommendation

The Board considers that Resolutions 5 to 11 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the Resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 105,000 Ordinary shares with voting rights representing approximately 0.3% of the voting rights of the Company.

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Directors' Responsibilities in Respect of the Accounts on page 27 indicates how the Company has applied the principles of good governance of the Financial Reporting Council 2008 Combined Code¹ (the 'Combined Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the

Combined Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the Combined Code, other than in respect of the provision relating to a Senior Independent Director, and the AIC Code throughout the year under review.

Role of the Board

A management agreement between the Company, JFAM and JPMAM sets out the matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

The Board has procedures in place to deal with potential conflicts of interest and confirms that the procedures have operated effectively during the year under review.

The Board meets at least quarterly during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, JPMAM, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Board Composition

The Board, chaired by Alan Clifton, consists of five non-executive Directors, all of whom, including the Chairman, are regarded by the Board as independent. The Directors have a breadth of investment, business and financial skills and

¹Copies of the Combined Code and the AIC Code may be found on the respective organisations' websites at www.frc.org.uk and www.theaic.co.uk

a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 14.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board. The Board has considered whether a Senior Independent Director should be appointed and has concluded that, as the Board consists entirely of Non-Executive Directors, this is unnecessary.

Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter, a Director's appointment will run for a term of three years. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the Director to seek an additional term. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking re-election but, when making a recommendation, the Board will take into account the requirements of the Combined Code, including the need to refresh the Board and its Committees. The Company's Articles of Association require that Directors stand for re-election at least every three years. In addition, any Director who has served for a period of more than nine years will stand for annual re-election thereafter.

The terms and conditions of Directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the AGM.

The Board confirms that John Gibbon, who retires by rotation at this year's AGM, continues to be an effective Director and demonstrates commitment to his role, and therefore recommends his re-election.

Meetings and Committees

The Board delegates certain responsibilities and functions to Committees. All Directors are members of the Committees.

The table below details the number of Board, Audit Committee and Nomination Committee meetings attended by each Director. During the year there were 7 Board meetings, which included a private session of the Directors to evaluate the Manager and an overseas visit to the offices of JF Asset Management in Tokyo to discuss strategy, 2 Audit Committee meetings and 2 Nomination Committee meetings.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Alan Clifton	7	2	2
John Gibbon	7	2	2
Bernard Grigsby	7	2	2
Chris Russell	7	2	2
Robert White	7	2	2

Training and Appraisal

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter, regular briefings are provided on changes in regulatory requirements that affect the Company and Directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trusts.

The Board conducts a formal annual evaluation of the Manager, its own performance and that of its Committees and individual Directors. Questionnaires, drawn up by the Board, are completed by each Director. The responses are collated and then discussed at a private meeting. The evaluation of individual Directors is led by the Chairman and the Nomination Committee evaluates the Chairman's performance.

Board Committees

Nomination Committee

The Nomination Committee, chaired by Alan Clifton, consists of all of the Directors, and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. Various sources, which may include the use of external search consultants, are used to ensure that a wide range of candidates are considered.

The Committee undertakes an annual performance evaluation, as described above, to ensure that all members of the Board have devoted sufficient time and contributed adequately to the work of the Board. The Committee also reviews Directors' fees and makes recommendations to the Board as and when appropriate.

On an annual basis each Director submits a list of potential conflicts of interest for approval at the Nomination Committee meeting. These are considered carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved for a period of one year.

Directors' Report continued

Audit Committee

The Audit Committee, chaired by John Gibbon, consists of all of the Directors, and meets at least twice each year. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee.

The Committee reviews the actions and judgements of the Manager and Secretary in relation to the half year and annual accounts and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Manager's Compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors, including the provision of non-audit services and the period of service held by the senior statutory auditor. In the Directors' opinion the auditors are considered independent. Representatives of the Company's auditors attend the Audit Committee meeting at which the draft Annual Report & Accounts are considered. There are no contractual restrictions on the choice of the Committee as to external auditors. The current tenure of the external auditor dates from 26th July 2002. Any decision to open the external audit to tender is taken on the recommendation of the Audit Committee. The Directors' statement on the Company's system of internal control is set out on pages 24 and 25.

Terms of Reference

Both the Nomination Committee and the Audit Committee have written terms of reference which define clearly their respective responsibilities, copies of which are available on the Company's website, on request at the Company's registered office and at the AGM.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders quarterly each year by way of the annual report and accounts, the half year report and two interim management statements. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's Ordinary shares.

All shareholders have the opportunity, and are encouraged, to attend the Company's AGM at which the Directors and representatives of the Manager and Secretary are available in person to meet with shareholders and answer their questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. During the year the

Company's brokers, the investment managers and the Secretary hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries and consult major shareholders on an annual basis. The Directors may be contacted through the Secretary whose details are shown on page 61.

The Company's Annual Report & Accounts is published in time to give shareholders at least 20 working days' notice of the AGM. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 61.

Details of the proxy voting position on each Resolution will be published on the Company's website shortly after the AGM.

Internal Control

The Combined Code requires the Directors, at least annually, to review the effectiveness of the Company's system of internal control and to report to shareholders that they have done so. This encompasses a review of all controls which the Board has identified as including business, financial, operational, compliance and risk management.

The Directors are responsible for the Company's system of internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material mis-statement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by JFAM, JPMAM and its associates, the Company's system of internal control mainly comprises monitoring the services provided by JFAM, JPMAM and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. The Company does not have an internal audit function of its own, but relies on the internal audit department of JFAM and JPMAM. The key elements designed to provide effective internal control are as follows:

Financial Reporting - Regular and comprehensive review by the Board of key investment and financial data, including management accounts, revenue projections, analysis of transactions and performance comparisons.

Management Agreement – Appointment of a Manager and custodian who are regulated by the Financial Services Authority ('FSA'), whose responsibilities are clearly defined in a written agreement.

Management Systems – The Manager's system of internal control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by JFAM and JPMAM's compliance department which regularly monitors compliance with FSA rules.

Investment Strategy – Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board.

The Board, either directly or through the Audit Committee, keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of the key operating controls of the Manager and its associates as follows:

- reviews the terms of the management agreement and receives regular reports from JPMAM's Compliance department;
- reviews the report on the internal controls and the operations of its custodian, JPMorgan Chase Bank, which is itself independently reviewed; and
- the Directors review on a regular basis an independent report on the internal controls and the operations of JFAM and JPMAM.

By the means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of internal control for the year ended 31st March 2010, and to the date of approval of this Annual Report & Accounts.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM. The following is a summary of JPMAM's policy statement on corporate governance and voting policy which has been noted by the Board. The full policy is available from JPMAM on request, or can be downloaded from the internet as follows: go to www.jpmorganassetmanagement.co.uk/institutional and within the 'Commentary & Analysis' tab you will find a section on corporate governance.

"JPMAM is committed to delivering superior investment performance to its clients worldwide. We believe that one of the drivers of investment performance is an assessment of the corporate governance principles and practices of the companies in which we invest our clients' assets and we expect those companies to demonstrate high standards of governance in the management of their business.

Proxy voting is an important part of the corporate governance process, and we view seriously our obligation to manage the voting rights of the shares entrusted to us as we would manage any other asset. It is the policy of JPMAM to vote in a prudent and diligent manner, based exclusively on our reasonable judgement of what will best serve the financial interests of our clients. So far as is practicable we will vote at all of the meetings called by companies in which we are invested.

In order to do this we have formulated detailed guidelines for each region, which set out our stance on a variety of key corporate governance issues, including disclosure and transparency, board composition and independence, control structures, director independence and remuneration, as well as social and environmental issues. These guidelines form the basis of our proxy voting decisions, although it should be noted that JPMAM makes all of its voting decisions on a case by case basis, taking into account the individual circumstances of each vote."

Corporate Social Responsibility

The following is a summary of JPMAM's policy statement on corporate social responsibility which has been noted by the Board:

"We believe it is our primary duty to act in the best financial interests of our clients and to achieve good financial returns consistent with an acceptable level of risk. We recognise that non-financial issues, such as social and environmental issues, can have an economic impact and that any company run in the long-term interests of its shareholders will need to manage effectively relationships with its employees, suppliers and customers, to behave ethically and to have regard to the environment and society as a whole. Our Investment Managers take these factors into account as part of any investment decision."

By order of the Board
Christopher Legg, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
16th June 2010

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution to approve this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The auditors' opinion is included in their report on pages 28 and 29.

Directors' Remuneration¹

Directors Name	2010 £	2009 £
Alan Clifton	25,000	25,000
John Gibbon	20,000	20,000
Bernard Grigsby	17,500	17,500
Chris Russell	17,500	17,500
Robert White ²	17,500	8,750
Total	97,500	88,750

¹Audited information.

²Appointed as a Director of the Company on 1st October 2008.

For the year under review, Directors' fees were paid at the fixed rate of £25,000 for the Chairman, £20,000 for the Chairman of the Audit Committee and £17,500 for the other Directors.

The total Directors' fees of £97,500 (2009: £88,750) comprised £97,500 (2009: £88,750) in respect of aggregate emoluments paid to Directors and £nil (2009: £nil) paid to third parties for making available the services of the Directors.

Having taken account of the date of the last fee increase (1st April 2006) and the historic median of Directors' fees of similar companies, the Board approved an increase to the Directors' fees, with effect from 1st April 2010, to a fixed rate of £28,000 per annum for the Chairman, £23,000 per annum for the Chairman of the Audit Committee and £20,000 per annum for each other Director.

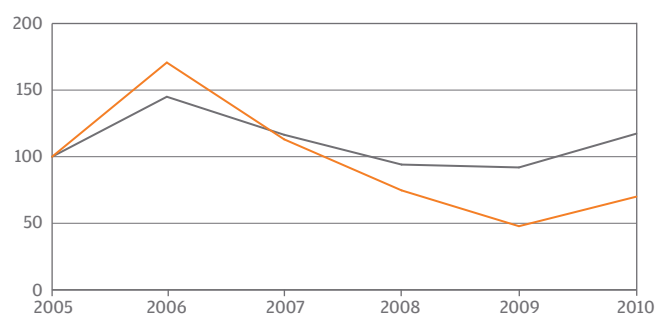
The Board's policy for this and subsequent years is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board. The Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfilling those roles.

As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Secretary, JPMAM, and industry research on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance-related. The Articles stipulate that aggregate fees must not exceed £150,000. Any increase in this amount requires both Board and shareholder approval.

The Company does not operate any type of incentive or pension scheme and therefore no Directors receive bonus payments or pension contributions from the Company or hold options to acquire shares in the Company. Directors are not paid compensation for loss of office. No other payments are made to Directors, other than the reimbursement of reasonable out-of-pocket expenses incurred in connection with attending the Company's business.

A graph showing the Company's Ordinary share price total return compared with its benchmark, the S&P/Citigroup Japan Extended Market Index (Total Return Net) in sterling terms, over the last five years is shown below.

Five Year Ordinary Share Price and Benchmark Total Return to 31st March 2010



Source: Morningstar/Datastream.

— Ordinary share Price Total Return.
— Benchmark.

By order of the Board
Christopher Legg, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
16th June 2010

Directors' Responsibilities in Respect of the Accounts

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

Company law requires the Directors to prepare accounts for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

The accounts are published on the www.jpmmfjapanesemallercompanies.co.uk website, which is maintained by the Company's Secretary, JPMorgan Asset Management (UK) Limited ('JPMAM'). The maintenance and integrity of the website maintained by JPMAM is, so far as it relates to the Company, the responsibility of JPMAM. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. The financial statements are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions

Statement under the Disclosure & Transparency Rules 4.1.12

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

- (a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- (b) this Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board
Alan Clifton,
Chairman
16th June 2010

Independent Auditors' Report

We have audited the financial statements of JPMorgan Fleming Japanese Smaller Companies Investment Trust plc for the year ended 31st March 2010 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the

reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st March 2010 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement contained within the Directors' Report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Clive Bouch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors,
London

16th June 2010

Income Statement

for the year ended 31st March 2010

	Notes	Revenue £'000	2010 Capital £'000	Total £'000	Revenue £'000	2009 Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	2	–	25,071	25,071	–	(22,282)	(22,282)
Net foreign currency losses		–	(862)	(862)	–	(1,811)	(1,811)
Income from investments	3	1,019	–	1,019	1,215	–	1,215
Other interest receivable and similar income	3	25	–	25	206	–	206
Gross return/(loss)		1,044	24,209	25,253	1,421	(24,093)	(22,672)
Management fee	4	(938)	–	(938)	(945)	–	(945)
Other administrative expenses	5	(301)	–	(301)	(585)	–	(585)
Net (loss)/return on ordinary activities before finance costs and taxation		(195)	24,209	24,014	(109)	(24,093)	(24,202)
Finance costs	6	(304)	–	(304)	(191)	–	(191)
Net (loss)/return on ordinary activities before taxation		(499)	24,209	23,710	(300)	(24,093)	(24,393)
Taxation	7	(67)	–	(67)	(85)	–	(85)
Net (loss)/return on ordinary activities after taxation		(566)	24,209	23,643	(385)	(24,093)	(24,478)
(Loss)/return per Ordinary share – undiluted	8	(1.45)p	62.19p	60.74p	(0.98)p	(61.45)p	(62.43)p
(Loss)/return per Ordinary share – diluted	8	(1.45)p	62.01p	60.56p	(0.98)p	(61.45)p	(62.43)p

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

The 'Total' column of this statement is the profit and loss account of the Company and the 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies. The total column represents all the information that is required to be disclosed in a Statement of Total Recognised Gains and Losses ('STRGL'). For this reason a STRGL has not been presented.

The notes on pages 34 to 49 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st March 2010

	Called up share capital £'000	Share premium £'000	Other reserve £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st March 2008	3,930	–	315,427	1,794	(234,161)	(10,714)	76,276
Repurchase of shares into Treasury	–	–	(492)	–	–	–	(492)
Bonus issue of Subscription shares	78	–	(78)	–	–	–	–
Net loss on ordinary activities	–	–	–	–	(24,093)	(385)	(24,478)
At 31st March 2009	4,008	–	314,857	1,794	(258,254)	(11,099)	51,306
Repurchase of shares into Treasury	–	–	(34)	–	–	–	(34)
Exercise of Subscription shares into Ordinary shares	(1)	1	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	5	64	–	–	–	–	69
Net return/(loss) on ordinary activities	–	–	–	–	24,209	(566)	23,643
At 31st March 2010	4,012	65	314,823	1,794	(234,045)	(11,665)	74,984

The notes on pages 34 to 49 form an integral part of these accounts.

Balance Sheet

at 31st March 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Investments held at fair value through profit or loss	9	87,948	50,409
Current assets			
Debtors	10	1,442	1,499
Cash and short term deposits		2,385	12,042
		3,827	13,541
Creditors: amounts falling due within one year	11	(16,791)	(12,644)
Net current (liabilities)/assets		(12,964)	897
Total assets less current liabilities		74,984	51,306
Total net assets		74,984	51,306
Capital and reserves			
Called up share capital	12	4,012	4,008
Share premium	13	65	–
Other reserve	13	314,823	314,857
Capital redemption reserve	13	1,794	1,794
Capital reserves	13	(234,045)	(258,254)
Revenue reserve	13	(11,665)	(11,099)
Shareholders' funds		74,984	51,306
Net asset value per Ordinary share – undiluted	14	192.6p	131.8p
Net asset value per Ordinary share – diluted	14	182.8p	131.6p

The accounts on pages 30 to 49 were approved and authorised for issue by the Directors on 16th June 2010 and were signed on their behalf by:

Alan Clifton
Chairman

The accompanying notes on pages 34 to 49 form an integral part of these accounts.

The Company's registration number is 3916716

Cash Flow Statement

for the year ended 31st March 2010

	Notes	2010 £'000	2009 £'000
Net cash (outflow)/inflow from operating activities	15	(371)	17
Returns on investments and servicing of finance			
Interest paid		(289)	(180)
Net cash outflow from returns on investments and servicing of finance		(289)	(180)
Capital expenditure and financial investment			
Purchases of investments		(88,297)	(92,588)
Sales of investments		76,687	102,721
Other capital charges		(11)	(15)
Net cash (outflow)/inflow from capital expenditure and financial investment		(11,621)	10,118
Net cash (outflow)/inflow before financing		(12,281)	9,955
Financing			
Net drawdown/(repayment) of loans		3,091	(376)
Issue of Ordinary shares on exercise of Subscription shares		69	–
Repurchase of shares into Treasury		(98)	(428)
Net cash inflow/(outflow) from financing		3,062	(804)
(Decrease)/increase in cash in the year	16	(9,219)	9,151

The accompanying notes on pages 34 to 49 form an integral part of these accounts.

Notes to the Accounts

for the year ended 31st March 2010

1. Accounting policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the AIC in January 2009. All of the Company's operations are of a continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments at fair value. The disclosures on going concern on page 18 of the Directors' Report form part of these financial statements.

The accounting policies applied in these accounts are consistent with those applied in the accounts in the preceding year. There has been an amendment to FRS 29 in respect of fair value disclosures and the details of this are given in note 19 on page 43.

(b) Valuation of investments

Investments are designated as 'held at fair value through profit or loss' in accordance with FRS 26: 'Financial Instruments: Measurement'.

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition the investments are designated by the Company as 'held at fair value through profit or loss'. They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off to capital at the time of acquisition. Subsequently the investments are valued at fair value which are quoted bid market prices for investments traded in active markets.

Changes in the value of investments held at fair value through profit or loss and gains and losses on sales are included in the capital column of the Income Statement within 'Gains/(losses) on investments held at fair value through profit or loss'. Gains and losses on sales of investments, including the related foreign exchange gains and losses of a capital nature, foreign exchange gains and losses on cash and other capital receipts and payments, are dealt with in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments held at the year end including the related foreign exchange gains and losses are dealt with in capital reserves within 'Investment holding gains and losses'. Unrealised exchange gains and losses on foreign currency loans are dealt with in capital reserves within 'Unrealised reserve'.

All purchases and sales are accounted for on a trade date basis.

(c) Income

Dividends receivable from equity shares are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital.

Overseas dividends are included gross of any withholding tax.

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in revenue. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital.

Deposit interest receivable and stock lending income are taken to revenue on an accruals basis.

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to revenue except for expenses incidental to purchases and sales of investments which are written off to capital. These expenses are commonly referred to as transaction costs and comprise mainly brokerage commission. Details of transaction costs are given in note 9 on page 39.

(e) Finance costs

Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest rate method and in accordance with FRS 25 'Financial Instruments: Presentation' and FRS 26 'Financial Instruments: Measurement'.

Finance costs are allocated wholly to revenue.

(f) Financial instruments

Cash and short term deposits may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Other receivables and payables do not carry any interest, are short term in nature and are accordingly stated at cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Bank loans and overdrafts are recorded initially at the proceeds received net of direct issue costs. Loans are subsequently recorded at amortised cost using the effective interest rate method.

The Company has not utilised any derivative instruments in the current or comparative year.

(g) Foreign currency

In accordance with FRS 23: 'The effects of changes in Foreign Currency Exchange Rates' the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency. Sterling is also the currency in which the accounts are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction.

Assets and liabilities denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

Any gain or loss on monetary assets arising from a change in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature.

(h) Deferred Taxation

Deferred taxation is accounted for in accordance with FRS 19: 'Deferred Tax'.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date.

Deferred taxation liabilities are recognised for all taxable timing differences but deferred taxation assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which those timing differences can be utilised.

	2010 £'000	2009 £'000
2. Gains/(losses) on investments held at fair value through profit or loss		
Gains/(losses) on investments held at fair value through profit or loss based on historical cost	6,645	(17,949)
Amounts recognised in investment holding gains and losses at the previous year end in respect of investments sold during the year	374	(1,572)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	7,019	(19,521)
Net movement in investment holding gains and losses	18,057	(2,746)
Other capital charges	(5)	(15)
Total gains/(losses) on investments held at fair value through profit or loss	25,071	(22,282)

Notes to the Accounts continued

	2010 £'000	2009 £'000
3. Income		
Income from investments		
Dividends from investments listed overseas	1,019	1,215
Other interest receivable and similar income		
Deposit interest	1	7
Stock lending fees	24	199
	25	206
Total income	1,044	1,421

	2010 £'000	2009 £'000
4. Management fee		
Management fee	938	945

Details of the management fee are given in the Directors' Report on page 18.

	2010 £'000	2009 £'000
5. Other administrative expenses		
Other administration expenses	177	194
Directors' fees ¹	98	89
Savings scheme expenses ²	21	19
Subscription share costs (written back)/charged	(21)	260
Auditors' remuneration for audit services	20	17
Auditors' remuneration for all other services	6	6
	301	585

¹Full disclosure is given in the Directors' Remuneration Report on page 26.

²These fees were paid to JPMAM for the marketing of 'Wrapper' products.

	2010 £'000	2009 £'000
6. Finance costs		
Interest payable on bank loans and overdrafts	304	191

7. Taxation

	2010 £'000	2009 £'000
(a) Analysis of tax charge in the year		
UK corporation tax	–	–
Overseas withholding tax	67	85
Current tax charge for the year	67	85

(b) Factors affecting current tax charge for the year

The tax assessed for the year is lower (2009: higher) than the standard rate of corporation tax in the UK of 28%. The factors affecting the current tax charge for the year are as follows:

	Revenue £'000	2010 Capital £'000	Total £'000	Revenue £'000	2009 Capital £'000	Total £'000
Net (loss)/return on ordinary activities before taxation	(499)	24,209	23,710	(300)	(24,093)	(24,393)
Net (loss)/return on ordinary activities before taxation multiplied by the standard rate of corporation tax of 28% (2009: 28%)	(140)	6,778	6,638	(84)	(6,746)	(6,830)
Income taxed in different periods	147	–	147	37	–	37
Non taxable overseas dividends	(302)	–	(302)	–	–	–
Non taxable capital (gains)/losses	–	(6,778)	(6,778)	–	6,746	6,746
Expenses disallowed for tax purposes	(6)	–	(6)	–	–	–
Unrelieved expenses	301	–	301	47	–	47
Overseas withholding tax	67	–	67	85	–	85
	67	–	67	85	–	85

The Company has an unrecognised deferred taxation asset of £3,349,000 (2009: £3,048,000), which arises from cumulative tax deductible expenses in excess of taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future.

Given the Company's status as an Investment Trust Company and the intention to continue meeting the conditions required to obtain approval, the Company has not provided deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

Notes to the Accounts continued

	2010 £'000	2009 £'000
8. (Loss)/return per Ordinary share		
(Loss)/return per Ordinary share is based on the following:		
Revenue loss	(566)	(385)
Capital return/(loss)	24,209	(24,093)
Total return/(loss)	23,643	(24,478)
Weighted average number of Ordinary shares in issue during the year used for the purpose of the undiluted calculation	38,928,451	39,207,211
Weighted average number of Ordinary shares in issue during the year used for the purpose of the diluted calculation	39,040,383	39,207,211
Undiluted		
Revenue loss per share	(1.45)p	(0.98)p
Capital return/(loss) per share	62.19p	(61.45)p
Total return/(loss) per share	60.74p	(62.43)p
Diluted		
Revenue loss per share	(1.45)p	(0.98)p
Capital return/(loss) per share	62.01p	(61.45)p
Total return/(loss) per share	60.56p	(62.43)p

The diluted (loss)/return per Ordinary share represents the (loss)/return on ordinary activities after taxation divided by the weighted average number of Ordinary shares in issue during the year as adjusted in accordance with the requirements of Financial Reporting Standard 22 'Earnings per share'.

There was no dilution to the returns for the year ended 31st March 2009.

	2010 £'000	2009 £'000
9. Investments		
Investments listed on a recognised investment exchange	87,948	50,409
Opening book cost	52,319	81,114
Opening investment holding (losses)/gains	(1,910)	2,408
Opening valuation	50,409	83,522
Movement in the year:		
Purchases at cost	89,085	91,765
Sales - proceeds	(76,622)	(102,611)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	7,019	(19,521)
Net movement in revaluation gains and losses ¹	18,057	(2,746)
	87,948	50,409
Closing book cost	71,427	52,319
Closing investment holding gains/(losses)	16,521	(1,910)
	87,948	50,409

¹During the year, prior year revaluation losses amounting to £374,000 have been transferred to realised losses as disclosed in note 13.

Transaction costs on purchases during the year amounted to £84,000 (2009: £111,000) and on sales during the year amounted to £62,000 (2009: £102,000). These costs comprise mainly brokerage commission.

	2010 £'000	2009 £'000
10. Current assets		
Debtors		
Securities sold awaiting settlement	874	939
Dividends and interest receivable	516	489
Other debtors	52	71
	1,442	1,499

The Directors consider that the carrying amount of debtors approximates to their fair value.

Cash and short term deposits

Cash and short term deposits comprises bank balances and short term deposits. The carrying amount of these represents their fair value. Cash balances in excess of a predetermined amount are placed on short term deposit at market rates of interest.

Notes to the Accounts continued

	2010 £'000	2009 £'000
11. Creditors: amounts falling due within one year		
Bank loans	14,110	10,595
Securities purchased awaiting settlement	2,584	1,796
Shares repurchased into Treasury awaiting settlement	–	64
Subscription share costs	–	40
Other creditors and accruals	97	149
	16,791	12,644

The Directors consider that the carrying amount of creditors falling due within one year approximates to their fair value.

The Company has arranged a yen 2.0 billion floating rate loan facility with ING Bank N.V., expiring on 31st August 2010. Interest is payable at yen LIBOR at the time of the drawdown, as offered in the market for the loan period, plus a margin of 2.0% plus mandatory costs, which are the costs of complying with certain regulatory requirements of the Bank of England. At 31st March 2010 the Company had drawn down the whole yen 2.0 billion on this facility at an interest rate of 2.253%. At 31st March 2009, the Company had drawn down yen 1.5 billion on a similar loan facility with ING Bank N.V..

	2010 £'000	2009 £'000
12. Called up share capital		
Authorised share capital:		
100,000,000 (2009: 100,000,000) Ordinary shares of 10p each	10,000	10,000
10,000,000 (2009: 10,000,000) Subscription shares of 1p each	100	100
Issued and fully paid share capital:		
Ordinary shares		
Opening balance of 38,913,423 (2009: 39,309,423) Ordinary shares excluding shares held in Treasury	3,890	3,930
Issue of 51,959 (2009: nil) Ordinary shares on conversion of Subscription shares	5	–
23,500 (2009: 396,000) Ordinary shares bought into Treasury ¹	(2)	(40)
Subtotal	3,893	3,890
419,500 (2009: 396,000) Ordinary shares held in Treasury	42	40
Closing balance²	3,935	3,930
Subscription shares		
Issue of 7,798,873 Subscription shares of 1p each	78	78
Exercise of 51,959 (2009: nil) Subscription shares into Ordinary shares	(1)	–
Closing balance³	77	78
Total called up share capital	4,012	4,008

¹During the year, the Company made market purchases of 23,500 of its own Ordinary shares, nominal value £2,350, into Treasury representing 0.1% of the issued share capital at the beginning of the year. The consideration paid for these shares amounted to £34,000. The reason for the purchases was to seek to manage the volatility and absolute level of the share price discount to net asset value. Further details of transactions in the Company's shares are given in the Directors' Report on pages 16 and 17.

²Represented by 39,361,382 (2009: 39,309,423) Ordinary shares including 419,500 (2009: 396,000) Ordinary shares held in Treasury.

³Comprises 7,746,914 (2009: 7,798,873) Subscription shares of 1p each. The Subscription shares were issued as a bonus issue to the Ordinary shareholders on 5th March 2009 on the basis of one Subscription share for every five Ordinary shares held. Each Subscription share confers the right (but not the obligation) to subscribe for one Ordinary share on any business day during the period from 1st April 2009 to 31st March 2014 (inclusive) when the rights under the Subscription shares will lapse. During the year, holders of 51,959 Subscription shares exercised their right to convert those shares into Ordinary shares at a price of 135 pence per share, giving a total consideration of £69,000. Future exercise prices have been determined as follows:

- (a) if exercised between 1st April 2010 and 31st March 2012 - 147p
 (b) if exercised between 1st April 2012 and 31st March 2014 - 174p

	Capital reserves								Total £'000
	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserve ¹ £'000	Gains and losses			Revenue reserve £'000	
					on sales of investments £'000	Investment holding gains and losses £'000	Other revaluation reserve £'000		
13. Reserves									
Opening balance	4,008	–	1,794	314,857	(253,201)	(1,910)	(3,143)	(11,099)	51,306
Foreign currency exchange losses on cash and short term deposits held during the year	–	–	–	–	(438)	–	–	–	(438)
Unrealised exchange losses on yen loan	–	–	–	–	–	–	(424)	–	(424)
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	–	7,019	–	–	–	7,019
Net movement in investment holding gains and losses	–	–	–	–	–	18,057	–	–	18,057
Transfer on disposal of investments	–	–	–	–	(374)	374	–	–	–
Conversion of Subscription shares into Ordinary shares	(1)	1	–	–	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	5	64	–	–	–	–	–	–	69
Other capital charges	–	–	–	–	(5)	–	–	–	(5)
Repurchase of shares into Treasury	–	–	–	(34)	–	–	–	–	(34)
Net revenue loss for the year	–	–	–	–	–	–	–	(566)	(566)
Closing balance	4,012	65	1,794	314,823	(246,999)	16,521	(3,567)	(11,665)	74,984

¹The share premium was cancelled in the opening period ended 31st March 2001 and redesignated as 'other reserve' for the purpose of financing share buybacks.

14. Net asset value per Ordinary share

	2010	2009
Undiluted		
Ordinary shareholders funds (£'000)	74,984	51,306
Number of Ordinary shares in issue	38,941,882	38,913,423
Net asset value per Ordinary share	192.6p	131.8p
Diluted		
Ordinary shareholders funds assuming exercise of dilutive Subscription shares and reissuance of Treasury shares (£'000)	86,126	51,721
Number of potential dilutive Ordinary shares in issue	47,108,296	39,309,423
Net asset value per Ordinary share	182.8p	131.6p

The diluted net asset value per Ordinary share assumes that all outstanding dilutive Subscription shares were converted into Ordinary shares at the year end and all shares held in Treasury at the year end were reissued in accordance with the Board's policy on the reissuance of Treasury shares.

Notes to the Accounts continued

	2010 £'000	2009 £'000
15. Reconciliation of total return/(loss) on ordinary activities before finance costs and taxation to net cash (outflow)/inflow from operating activities		
Total return/(loss) on ordinary activities before finance costs and taxation	24,014	(24,202)
Add back capital (return)/loss before finance costs and taxation	(24,209)	24,093
(Increase)/decrease in accrued income	(27)	124
Decrease/(increase) in other debtors	19	(10)
(Decrease)/increase in accrued expenses	(101)	97
Overseas withholding tax	(67)	(85)
Net cash (outflow)/inflow from operating activities	(371)	17

	2009 £'000	Cash flow £'000	Exchange movement £'000	2010 £'000
16. Analysis of changes in net funds/(debt)				
Cash and short term deposits	12,042	(9,219)	(438)	2,385
Bank loans and overdrafts falling due within one year	(10,595)	(3,091)	(424)	(14,110)
Net funds/(debt)	1,447	(12,310)	(862)	(11,725)

17. Capital commitments and contingent liabilities

At the balance sheet date there were no capital commitments or contingent liabilities (2009: none).

18. Transactions with J.P. Morgan

Details of the management contract are set out in the Directors' Report on page 18. The management fee payable for the year was £938,000 (2009: £945,000) of which £nil (2009: £66,000) was outstanding at the year end.

During the year £21,000 (2009: £19,000) was payable to JPMAM for the marketing of 'wrapper' products, of which £nil (2009: £2,000) was outstanding at the year end.

Included in other administration expenses in note 5 on page 36 are safe custody fees payable to JPMAM group subsidiaries amounting to £10,000 (2009: £11,000) of which £3,000 (2009: £3,000) was outstanding at the year end.

JPMAM carries out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable to J.P. Morgan Securities for the year was £5,000 (2009: £11,000) of which £nil (2009: £nil) was outstanding at the year end.

Handling charges payable on dealing transactions undertaken by JPMAM group subsidiaries on behalf of the Company during the year amounted to £5,000 (2009: £15,000) of which £3,000 (2009: £10,000) was outstanding at the year end.

The Company received £24,000 (2009: £199,000) from stock lending transactions during the year. JPMAM received commissions amounting to £5,000 (2009: £50,000) in respect of these transactions.

At the year end, a bank balance of £2,385,000 (2009: £12,042,000) was held with JPMorgan Chase. A net amount of interest of £1,000 (2009: £7,000) was receivable by the Company during the year from JPMorgan Chase of which £nil (2009: £nil) was outstanding at the year end.

19. Disclosures regarding financial instruments measured at fair value

The disclosures required by the amendment to FRS 29: 'Improving Disclosures about Financial Instruments' are given below. The Company's financial instruments within the scope of FRS 29 that are held a fair value comprise its investment portfolio. The Company currently holds no derivative financial instruments and its liabilities are not held at fair value.

The investments are categorised into a hierarchy consisting of the following three levels:

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

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Details of the valuation techniques used by the Company are given in note 1(b) on page 34.

The following table sets out the fair value measurements using the FRS 29 hierarchy:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial instruments held at fair value through profit or loss at 31st March 2010				
Equity investments	87,948	–	–	87,948
Total	87,948	–	–	87,948

There have been no transfers between Levels 1, 2 or 3 during the year.

20. Financial instruments' exposure to risk and risk management policies

As an investment trust, the Company invests in equities and other securities for the long-term so as to secure its investment objective stated on the Features page. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets. These risks include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company Secretary, in close cooperation with the Board and the Manager, coordinates the Company's risk management strategy.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's financial instruments comprise the following:

- investments in Japanese equity shares, which are all held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations; and
- a yen denominated bank loan, the main purpose of which is to finance the Company's operations.

(a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these three elements of market price risk is given in parts (i) to (iii) of this note, together with sensitivity analyses where appropriate. The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

Notes to the Accounts continued

20. Financial instruments' exposure to risk and risk management policies continued

(a) Market risk continued

(i) Currency risk

The Company's assets, liabilities and income are denominated primarily in yen. The Company's functional currency (and the currency in which it reports) is sterling. As a result, movements in the sterling/yen exchange rate will affect the sterling value of those items.

Management of currency risk

The Manager monitors the Company's exposure to the yen on a daily basis and reports to the Board, which meets on at least four occasions each year. The Manager measures the risk to the Company of this exposure by considering the effect on the Company's net asset value and income of a movement in the sterling/yen rate of exchange to which the Company's assets, liabilities, income and expenses are exposed. Yen borrowing may be used to limit the exposure of the Company's portfolio of investments to changes in the exchange rate. This borrowing is limited to an amount commensurate with the asset exposure to the yen. Income denominated in yen is converted to sterling on receipt. The Company may use short term forward currency contracts to manage working capital requirements.

Foreign currency exposure

The fair value of the Company's monetary items that have foreign currency exposure at 31st March are shown below. Where the Company's equity investments (which are not monetary items) are priced in yen, they have been included separately in the analysis so as to show the overall level of exposure.

	2010 Yen £'000	2009 Yen £'000
Investments held at fair value through profit or loss that are monetary items	—	—
Securities sold awaiting settlement, dividends and interest receivable	1,390	1,428
Cash and short term deposits	2,377	12,042
Bank loans	(14,110)	(10,595)
Securities purchased awaiting settlement	(2,584)	(1,796)
Foreign currency exposure on net monetary items	(12,927)	1,079
Investments held at fair value through profit or loss that are equities	87,948	50,409
Total net foreign currency exposure	75,021	51,488

The above year end amounts are broadly representative of the exposure to foreign currency risk during the current and comparative years.

Foreign currency sensitivity

The following tables illustrate the sensitivity of return after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's foreign currency exposure at each balance sheet date and the income received in foreign currency and assumes a 10% (2009: 10%) appreciation or depreciation in sterling against the yen, which is deemed a reasonable illustration based on the volatility of exchange rates during the year.

If sterling had weakened this would have had the following effect:

	2010 £'000	2009 £'000
Income statement return after taxation:		
Revenue return	102	122
Capital return	(1,292)	108
Total return after taxation for the year	(1,190)	230
Net assets	(1,190)	230

Conversely if sterling had strengthened this would have had the following effect:

	2010 £'000	2009 £'000
Income statement return after taxation:		
Revenue return	(102)	(122)
Capital return	1,292	(108)
Total return after taxation for the year	1,190	(230)
Net assets	1,190	(230)

(ii) Interest rate risk

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

Management of interest rate risk

The Company does not normally hold significant cash balances. Short term borrowings are used when required.

The Company finances part of its activities through borrowings at levels approved and monitored by the Board.

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the yen loan facility. However, amounts drawn down on this facility are for short periods and therefore there is limited exposure to interest rate risk.

Derivatives are not used to hedge against the exposure to interest rate risk.

Notes to the Accounts continued

20. Financial instruments' exposure to risk and risk management policies continued

(a) Market risk continued

(ii) Interest rate risk continued

Interest rate exposure

The Company has no financial assets or liabilities carrying fixed rates of interest. The exposure of financial assets and liabilities to floating interest rates, giving cash flow interest rate risk when rates are re-set, is as follows:

	2010 £'000	2009 £'000
Amounts exposed to floating interest rates:		
Cash and short term deposits	2,385	12,042
Creditors: amounts falling due within one year		
Bank loans	(14,110)	(10,595)
Total exposure	(11,725)	1,447

Interest receivable on cash balances or paid on overdrafts is at a margin below or above LIBOR respectively (2009: same).

The Company has arranged a yen 2.0 billion floating rate loan facility with ING Bank N.V., expiring on 31st August 2010. Interest is payable at yen LIBOR at the time of the drawdown, as offered in the market for the loan period, plus a margin of 2.0% plus mandatory costs, which are the costs of complying with certain regulatory requirements of the Bank of England. At 31st March 2010 the Company had drawn down the whole yen 2.0 billion on this facility at an interest rate of 2.253%. At 31st March 2009, the Company had drawn down yen 1.5 billion on a similar loan facility with ING Bank N.V..

The exposure has fluctuated during the year as borrowings were drawn down and repaid as follows:

	2010 £'000	2009 £'000
Maximum debit interest rate exposure to floating rates - net loan balances	(13,552)	(6,832)
Maximum credit interest rate exposure to floating rates - net cash balances	1,447	1,447

Interest rate sensitivity

The following table illustrates the sensitivity of the revenue after taxation for the year and net assets to a 1% (2009: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's cash and loan balances held at the balance sheet date, with all other variables held constant.

	2010		2009	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
Income statement - return after taxation:				
Revenue return	117	(117)	14	(14)
Net assets	117	(117)	14	(14)

In the opinion of the Directors, the above sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to the fluctuation in the level of cash balances and amounts drawn down on the Company's loan facility.

(iii) Other price risk

Other price risk includes changes in market prices, other than those arising from interest rate risk or currency risk, which may affect the value of equity investments.

Management of other price risk

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks meet an acceptable risk reward profile.

Other price risk exposure

The Company's total exposure to changes in market prices at 31st March comprises its holdings in equity investments as follows:

	2010 £'000	2009 £'000
Equity investments held at fair value through profit or loss	87,948	50,409

The above data is broadly representative of the exposure to other price risk during the year.

Concentration of exposure to other price risk

An analysis of the Company's investments is given on pages 12 and 13. This shows that all of the investments' value is in Japanese equities. Accordingly there is a concentration of exposure to that country. However, it should also be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

Other price risk sensitivity

The following table illustrates the sensitivity of net assets to an increase or decrease of 10% (2009: 10%) in the fair value of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee, but with all other variables held constant.

	2010		2009	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
Income statement - return after taxation:				
Revenue return	(110)	110	(63)	63
Capital return	8,795	(8,795)	5,041	(5,041)
Total return after taxation and net assets	8,685	(8,685)	4,978	(4,978)

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of the risk

Liquidity risk is not significant as the Company's assets comprise readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities.

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities, working capital requirements and to gear the Company as appropriate. Details of the current loan facility are given in part (a)(ii) to this note on pages 45 and 46.

Notes to the Accounts continued

20. Financial instruments' exposure to risk and risk management policies continued

(b) Liquidity risk continued

Liquidity risk exposure

Contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required are as follows:

	2010		2009	
	Three months or less or less £'000	Total £'000	months or less £'000	Three months or less £'000
Creditors: amounts falling due within one year				
Bank loans	14,110	14,110	10,595	10,595
Securities purchased awaiting settlement	2,584	2,584	1,796	1,796
Repurchase of shares into Treasury awaiting settlement	–	–	64	64
Subscription share costs	–	–	40	40
Other creditors and accruals	97	97	149	149
	16,791	16,791	12,644	12,644

(c) Credit risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Company.

Management of credit risk

Portfolio dealing

The Company invests in markets that operate DVP (Delivery Versus Payment) settlement. The process of DVP mitigates the risk of losing the principal of a trade during the settlement process. The Manager continuously monitors dealing activity to ensure best execution, a process that involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparty lists are maintained and adjusted accordingly.

Cash

Counterparties are subject to daily credit analysis by the Manager and trades can only be placed with counterparties that have a minimum rating of A1/P1 from Standard & Poor's and Moody's respectively.

Exposure to JPMorgan Chase

The Company's assets are ring-fenced in client designated accounts. Therefore these assets are designed to be protected from creditors or shareholders in the event that JPMorgan Chase were to cease trading. However no absolute guarantee can be given to investors on the protection of all assets of the Company.

Credit risk exposure

The amounts shown in the balance sheet under debtors and cash and short term deposits, represent the maximum exposure to credit risk at the current and comparative year ends.

The aggregate value of securities on loan at 31st March 2010 amounted to £nil and the maximum value of stock on loan during the year amounted to £2,591,000. Collateral is obtained by J.P. Morgan Asset Management and is called in on a daily basis to a value of 102% of the value of the securities on loan if that collateral is denominated in the same currency as the securities on loan and 105% if it is denominated in a different currency. Collateral acceptable under the Stock Lending Agreement may comprise cash in sterling, euros, or US dollars, Eurozone government securities, UK government securities and US government securities.

(d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either included in the balance sheet at fair value or the carrying amount in the balance sheet is a reasonable approximation of fair value.

21. Capital management policies and procedures

Composition of the Company's Capital	2010 £'000	2009 £'000
Debt		
Bank loan	14,110	10,595
Equity		
Share capital	4,012	4,008
Reserves	70,972	47,298
	74,984	51,306
Total debt and equity	89,094	61,901

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise capital return to its equity shareholders through an appropriate level of gearing.

	2010 £'000	2009 £'000
Investments held at fair value through profit or loss	87,948	50,409
Net assets	74,984	51,306
Gearing	117.3%	98.3%

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Manager's views on the market;
- the need to buy back equity shares, either for cancellation or to hold in Treasury, which takes into account the share price discount or premium; and
- the need for issues of new shares, including issues from Treasury.

22. Post balance sheet event

At the end of the year, notice was received from the holders of 496,885 Subscription shares who wished to exercise their rights to subscribe for Ordinary shares at a price of 135p per share. The new Ordinary shares were duly allotted in April 2010 and therefore this transaction has not been included in these accounts prepared as at 31st March 2010.

The new conversion price available to Subscription shareholders wishing to exercise their rights on or after 1st April 2010 is 147p per share. If the above transaction had been brought into account and assuming the remaining Subscription shares were converted into Ordinary shares at the new price of 147p, the diluted net asset value per Ordinary share would be 189.1p per share, compared with the diluted net asset value per Ordinary share of 182.8p per share disclosed in these accounts.

Shareholder Analyses

at 31st March 2010

Ordinary Shares	Number of shares	% Holding
Unit Trusts	13,214,830	33.6
Investment Trusts ¹	6,154,330	15.6
Pensions	5,137,757	13.1
Other Institutions	2,971,958	7.5
Insurance Companies	2,357,529	6.0
Charities	373,118	0.9
Total Institutions	30,209,522	76.7
Private Client Brokers	3,685,336	9.4
Retail investors holding shares directly or through nominee accounts ²	3,639,852	9.2
Individuals in the Investment Trust Share Plan ³	1,161,864	3.0
Individuals in the Investment Trust Individual Savings Account ³	165,847	0.4
Individuals in the Investment Trust Self Invested Personal Pension ³	79,461	0.2
Total Retail Holdings	8,732,360	22.2
Treasury Shares ⁴	419,500	1.1
Total Shares in Issue	39,361,382	100.0

¹Includes 1,045,000 shares held by JPMorgan Elect plc.

²Includes shares below threshold of 10,000 shares.

³Savings product managed by J.P. Morgan.

⁴Shares held in Treasury do not carry any voting rights.

Source: Thomson Reuters.

Subscription Shares	Number of shares	% Holding
Unit Trusts	2,024,501	26.1
Other Institutions	1,054,020	13.6
Investment Trusts ¹	1,026,866	13.3
Pensions	645,086	8.3
Insurance Companies	346,608	4.5
Charities	55,352	0.7
Total Institutions	5,152,433	66.5
Retail investors holding shares directly or through nominee accounts ²	1,492,464	19.3
Private Client Brokers	820,871	10.6
Individuals in the Investment Trust Share Plan ³	184,757	2.4
Individuals in the Investment Trust Individual Savings Account ³	68,010	0.9
Individuals in the Investment Trust Self Invested Personal Pension ³	28,379	0.3
Total Retail Holdings	2,594,481	33.5
Total Shares in Issue	7,746,914	100.0

¹Includes 209,000 shares held by JPMorgan Elect plc.

²Includes shares below threshold of 10,000 shares.

³Savings product managed by J.P. Morgan.

Source: Thomson Reuters.

Notice of Meeting

Notice is hereby given that the tenth Annual General Meeting of JPMorgan Fleming Japanese Smaller Companies Investment Trust plc will be held at The Armourers' Hall, 81 Coleman Street, London EC2R 5BJ on Tuesday, 27th July 2010 at 11.30 a.m. for the following purposes:

- 1 To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st March 2010.
- 2 To approve the Directors' Remuneration Report for the year ended 31st March 2010.
- 3 To re-elect John Gibbon as a Director of the Company.
- 4 To re-appoint Deloitte LLP as Auditors to the Company and to authorise the Directors to determine their remuneration.

Special Business

To consider the following resolutions:

Authority to allot new Ordinary shares – Ordinary Resolution

- 5 THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot equity securities in the Company and to grant rights to subscribe for, or to convert any security into, Ordinary shares in the Company ('Rights') up to an aggregate nominal amount of £398,660, representing approximately 10% of the Company's issued Ordinary share capital (including shares held in Treasury) as at the date of the passing of this resolution providing that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2011 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

Authority to disapply pre-emption rights on allotment of new Ordinary shares – Special Resolution

- 6 THAT subject to the passing of Resolution 5, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 5 as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £398,660, representing approximately

10% of the total Ordinary share capital (including shares held in Treasury) as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 5, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

- 7 THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of its issued Ordinary shares and Subscription shares on such terms and in such manner as the Directors may from time to time determine.

PROVIDED ALWAYS THAT

- (i) the maximum number of Ordinary shares and Subscription shares hereby authorised to be purchased shall be 5,913,032 and 1,085,618 respectively, or if less, that number of Ordinary shares or Subscription shares which is equal to 14.99% of the Company's issued share capital (less shares held in Treasury) of the relevant share class as at the date of the passing of this Resolution;
- (ii) the minimum price which may be paid for an Ordinary share and Subscription share shall be 10 pence and 1 pence respectively;
- (iii) the maximum price which may be paid for a share shall be an amount equal to the highest of (a) 105% of the average of the middle market quotations for a share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is purchased, or (b) the price of the last independent trade; or (c) the highest current independent bid;
- (iv) any purchase of Ordinary shares will be made in the market for cash at prices below the prevailing NAV per share (as determined by the Directors);
- (v) the authority hereby conferred shall expire on 26th January 2012 unless the authority is renewed at the Company's Annual General Meeting in 2011 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares

pursuant to any such contract notwithstanding such expiry.

Authority to sell Ordinary shares from Treasury – Special Resolution

- 8 THAT the Directors of the Company be authorised, for the purposes of paragraph 12.6 of the Listing Rules of the United Kingdom Listing Authority, to reissue Ordinary shares of 10 pence each in the capital of the Company at a price below the NAV per share of the existing shares in issue, provided always that such issue will be limited to:
- (i) up to an aggregate nominal amount of £199,330, representing approximately 5% of the total Ordinary shares in issue (including shares held in Treasury) as at the date of the passing of this resolution;
 - (ii) the sale of shares which, immediately before such reissue, were held by the Company as Treasury shares; and
 - (iii) the discount to NAV being narrower than the weighted average discount of the shares held in Treasury at the time of sale; and
 - (iv) such number of Ordinary shares and such sale prices that, in the year to the Company's 2011 Annual General Meeting, the aggregate dilution associated with all the sales does not exceed 0.90 pence per Ordinary share, being approximately 0.5% of the diluted NAV per Ordinary share as at 31st March 2010.

Authority to disapply pre-emption rights on the sale of Ordinary shares from Treasury – Special Resolution

- 9 THAT subject to the passing of Resolution 8, the Directors of the Company be and they are hereby empowered pursuant to Section 570 of the Act to allot (within the meaning of Section 560(2) of the Act) equity securities (within the meaning of Section 560(1) of the Act) wholly for cash as if Section 561(1) of the Act did not apply to any such sale, provided that this power shall be limited to the allotment (within the meaning of Section 560(2) of the Act) of equity securities for cash out of Treasury up to an aggregate nominal amount of £199,330, representing approximately 5% of the Company's total Ordinary shares in issue (including shares held in Treasury) as at the date of the passing of this Resolution and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2011, unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allocated after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

Adoption of new Articles of Association – Special Resolution

10 THAT:

- (i) the Articles of Association of the Company be amended by deleting all the provisions formerly in the Company's Memorandum of Association which, by virtue of Section 28 of the Companies Act 2006, are treated as provisions of the Company's Articles of Association; and
- (ii) the Articles of Association produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification be adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

Change of Company Name – Special Resolution

- 11 THAT subject to the consent of the Registrar of Companies, the name of the Company be changed to 'JPMorgan Japan Smaller Companies Trust plc'.

By order of the Board
Christopher Legg, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
16th June 2010

Notes

These notes should be read in conjunction with the notes on the reverse of the proxy form.

1. A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person. If you attend the Meeting in person, your proxy appointment will automatically be terminated.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form.
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments also applies in relation to amended instructions. Any attempt to

Notice of Meeting continued

terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.

5. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.00 p.m. two business days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.00 p.m. two business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the Meeting or adjourned Meeting.
6. Entry to the Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.
7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.
Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.
8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous AGM, which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.
10. Under Sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to

require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

11. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.jpmpjapanesesmallercompanies.co.uk.
13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Annual General Meeting. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.
15. As at 15 June 2010 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 39,866,014 (of which 419,500 are held in Treasury) Ordinary shares, carrying one vote each and 7,242,282 Subscription shares with no voting rights. Therefore the total voting rights in the Company are 39,446,514.

Electronic appointment - CREST members

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. See further instructions on the proxy form.

Appendix

Explanatory Notes to Resolution 10

The Companies Act 2006 ('the 2006 Act'), which is replacing the Companies Act 1985 ('the 1985 Act') has been implemented in stages but is fully in force from 1 October 2009. In addition, the Shareholders' Rights Regulations which amend certain provisions of the 2006 Act relating to meetings of the Company came into force in August 2009. Under Resolution 10, the Company is adopting new Articles of Association ('the Articles') which will reflect the changes in company law brought about by the Shareholders' Rights Regulations and by the provisions of the 2006 Act which came into effect on or before 1st October 2009. The Articles also include some other modernising and clarificatory amendments, including, where appropriate, tracking the wording of the new model form articles for public companies contained in Schedule 3 to the Companies (Model Articles) Regulations 2008 ('the model form articles'), which are replacing the Table A articles under the 1985 Act on which many of the Company's current articles are based. Set out below is a summary of the principal changes.

1 The Company's objects

The 2006 Act significantly reduces the constitutional significance of a company's memorandum. The provisions governing the operations of the Company are currently set out in both its memorandum of association and its articles of association. Under the 2006 Act, the memorandum no longer contains an objects clause and simply records the names of the subscribers and the number of shares which each subscriber agreed to take in the Company. Under section 28 of the 2006 Act, the objects clause and all other provisions in the memorandum are treated as part of the articles with effect from 1st October 2009 but the Company can remove these provisions by special resolution. Unless the articles provide otherwise, the Company's objects will be unrestricted. 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 as of 1 October 2009. Resolution 10 confirms the removal of these provisions and adopts the new Articles.

2 Limited liability (Article 3)

Under the 2006 Act, the memorandum of association also no longer contains a clause stating that the liability of the members of a company is limited. For existing companies, this statement is automatically treated as having moved into the articles on 1st October 2009. As noted in paragraph 1 above, Resolution 10 confirms the removal, from the Company's articles of association, of the provisions of the Company's memorandum of association which are treated as forming part of the Company's articles of association by virtue of section 28 of the 2006 Act, which includes the statement of limited

liability. An explicit statement of the members' limited liability is therefore included in the new Articles.

3 Authorised share capital and unissued shares

The 2006 Act abolishes the concept of authorised share capital and under the 2006 Act, the memorandum of association no longer contains a statement of the Company's authorised share capital. For existing companies, this statement is deemed to be a provision of the Company's articles of association setting out the maximum amount of shares that may be allotted by the Company. The adoption of the new Articles by the Company will have the effect of removing this provision relating to the maximum amount. Directors will still need to obtain the usual shareholders' authorisation in order to allot shares, except in respect of employee share schemes.

References to authorised share capital and to unissued shares have therefore been removed from the new Articles.

4 Redeemable shares (Article 5)

Under the 2006 Act, the articles of association need not include the terms on which redeemable shares may be redeemed. The directors may determine the terms, conditions and manner of redemption of redeemable shares provided they are authorised to do so by the articles. The new Articles contain such authorisation.

5 Share certificates (Article 12)

The new Articles contain new provisions for the issue of consolidated share certificates, in line with the model form articles.

6 Transfer of shares (Articles 30 and 31)

The provision which gave the ability to suspend the registration of transfers of shares for periods not exceeding 30 days in any one year has been removed from the new Articles as there is no ability under the 2006 Act to close the register.

7 Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital (Article 45)

Under the 1985 Act, a company required specific authorisations in its articles of association to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital. Under the 2006 Act, public companies do not require specific authorisations in their articles of association to undertake these actions; but shareholder authority is still required. Amendments have been made to the new Articles to reflect these changes.

8 Participation in meetings at different places and by electronic means (Article 56)

Amendments made to the 2006 Act by the Shareholders' Rights Regulations specifically provide for the holding and conducting of electronic meetings. The new Articles include amendments to provide greater scope for members to

Appendix continued

participate in meetings of the Company even if they are not present in person at the principal place where the meeting is being held. The amendments allow for members to participate not only by attendance at satellite meeting locations, but also by any other electronic means of participation.

9 Adjournments (Article 58)

The Shareholders' Rights Regulations add a provision to the 2006 Act which requires that, when a general meeting is adjourned due to lack of quorum, at least ten days' notice must be given to reconvene the meeting. The new Articles include amendments to the provisions dealing with notice of adjourned meetings to make them consistent with this new requirement.

10 Removal of chairman's casting vote

Pursuant to changes brought about by the Shareholders' Rights Regulations, a traded company is no longer permitted to allow the chairman to have a casting vote in the event of an equality of votes. Accordingly, this provision has been removed in the new Articles.

11 Voting rights (Article 67)

The Shareholders' Rights Regulations clarify the various powers of proxies and representatives of corporate members in respect of resolutions taken on a show of hands. Where a proxy has been duly appointed by one member, he has one vote on a show of hands unless he has been appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been appointed by more than one member to vote for the resolution and by more than one member to vote against the resolution. Where a corporate member appoints representatives to attend meetings on its behalf, each representative duly appointed by a corporate member has one vote on a show of hands. The new Articles contain provisions which clarify these rights and also clarify how the provisions giving a proxy a second vote on a show of hands should apply to discretionary powers.

12 Voting record date (Article 68)

The new Articles include a new provision which was not previously in the Company's articles of association, dealing with the method for determining which persons are allowed to attend or vote at a general meeting of the Company and how many votes each person may cast. Under this new provision, when convening a meeting the Company may specify a time, not more than 48 hours before the time of the meeting (excluding any part of a day that is not a working day), by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting. This new provision is in line with a requirement for listed companies introduced by the Shareholders' Rights Regulations.

13 Validity of votes (Article 72)

Following the implementation of the Shareholders' Rights Regulations, proxies are expressly required to vote in accordance with instructions given to them by members. The new Articles contain a provision stating that the Company is not required to enquire whether a proxy or corporate representative has voted in accordance with instructions given to him and that votes cast by a proxy or corporate representative will be valid even if he has not voted in accordance with his instructions.

14 Termination of proxy authority (Article 78)

Article 78 provides that the termination of a proxy's authority should be in writing as this is required by the Shareholders' Rights Regulations.

15 Corporate representatives (Article 80)

The new Articles provide that the Company can require a corporate representative to produce a certified copy of the resolution appointing him before permitting him to exercise his powers.

16 Retirement of directors by rotation (Articles 86 and 87)

The new Articles have been redrafted in order to make this provision clearer and to ensure (as far as possible) a regular number of retiring directors each year, with the number to retire being the number nearest to one-third of the board, excluding those directors who are retiring and seeking re-election for other reasons. Article 86 continues to comply with Combined Code provision A.7.1 which recommends that all directors should be subject to re-election at intervals of no more than three years. Article 87 requires any non-executive director who has held office for nine years or more to put himself up for re-election at each annual general meeting. This is in line with Combined Code provision A.7.2.

17 Alternate directors (Articles 93, 95 and 97)

Article 93 now clarifies that an alternative director is entitled to be paid expenses (but not directors' fees). Article 95 is a new provision which effectively applies the provisions of Article 91, regarding removal of directors, to alternate directors. Article 97(c) makes it clear that an alternate is subject to the same restrictions as the director who appointed him.

18 Borrowing powers (Article 99)

A number of presentational and descriptive amendments have been made to the borrowing powers provision:

- (i) Article 99(1)(a) - a reference has been added to amounts 'credited as paid up' on share capital to clarify that these should be included as well as amounts actually paid up.

- (ii) Article 99(1)(b) - this has been amended to refer to total of 'any credit balance on the distributable and undistributable reserves of the Group', to clarify that all reserves of the Group will be relevant for the calculation and to reflect the language used by those preparing the accounts. The reference to "including share premium account, capital redemption reserve and credit balance on the profit and loss account reserve" has therefore been deleted.
- (iii) Article 99(1) - the last paragraph has been amended to allow the company also to adjust for variations in its capital redemption reserve since the balance sheet date as the directors may reasonably consider to be appropriate.
- (iv) Articles 99(1)(a) and 99(3)(e) - additional wording has been included to clarify how any preference shares that might be issued should be treated for the purposes of the borrowing powers. Under IFRS and UK GAAP preference shares are now treated as a debt on a company's balance sheet, rather than equity. The additional wording included in Articles 99(1)(a) and 99(3)(e) reflects this accounting treatment. The effect of this wording is to exclude the amount of any preference share capital from the calculation of the Company's share capital and reserves and to include such amount in the calculation of the Company's borrowings.

19 Delegation to persons or committees (Article 100)

Article 100 follows the new, simplified approach to delegation adopted in the model form articles, allowing the directors to delegate as they decide appropriate.

20 Directors' appointments, interests and conflicts of interest (Article 105)

Article 105, which is the provision for dealing with conflicts in our current articles, allowing directors to be interested in transactions and to be an officer of or employed by or interested in a body corporate in which the company is interested provided that he has disclosed his interest in accordance with the articles and the provisions of the Acts, has been amended so that it contains provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director from being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict falls within the situations covered by Article 105.

21 Procedures regarding board meetings & resolution in writing (Articles 107 & 110)

The provisions of Article 107 have been amended to make it clear that notice of a Board meeting may be given personally,

by telephone, in hard copy or in electronic form. The requirements for giving notice to directors who are not in the United Kingdom have also been clarified. In order to clarify the procedure for written resolutions of directors, Article 110 has been amended so that, rather than referring to a resolution in writing by all directors, a resolution in writing will be valid and effectual as if it had been passed at a meeting if executed by all the directors entitled to receive notice of the meeting and who would have been entitled to vote (and whose vote would have been counted) on a resolution at a meeting.

22 Quorum (Article 111)

The proposed amendment to Article 111, which deals with the quorum requirement for board meetings, clarifies that a director cannot count in the quorum for a matter or resolution on which he is not entitled to vote (or when his vote cannot be counted) but he may count in the quorum for the other matters or resolutions to be considered or voted on at the meeting.

23 Permitted interests and voting (Article 112)

Article 112 has been amended to allow a director to vote on a resolution which relates to giving him an indemnity or funding for expenditure incurred in defending proceedings provided all the other directors have been given or are to be given arrangements on substantially the same terms. This exception has become a common exception for listed companies to include.

24 Notice when post not available (Article 132)

Article 132 is the article covering service of notice in the event of a postal strike. It has been amended to allow the Company in such circumstances to serve notices only on those members who receive notices via electronic means, provided that, as before, the Company also puts an advert in two national newspapers and sends a confirmatory hard copy notice if the postal service is available again within seven days of the meeting.

25 The seal (Articles 141 and 142)

Article 141 provides an alternative option (in the absence of specific instructions from the Directors) for documents (other than share certificates) to which the seal is affixed to be signed by one authorised person in the presence of a witness, in addition to either two directors or a director the secretary.

26 Change of name (Article 144)

Under the Companies Act 1985, a company could only change its name by special resolution. Under the Companies Act 2006 a company is 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.

Details of Subscription Shares

On 5th March 2009 the Company issued Subscription shares as a bonus issue to the Ordinary shareholders on the basis of one Subscription share for every five Ordinary shares held. Each Subscription share conferred the right (but not the obligation) to subscribe for one Ordinary share on any business day during the period from 1st April 2009 to 31st March 2014, after which the rights on the Subscription shares will lapse.

For the purposes of UK taxation, the issue of Subscription shares is treated as a reorganisation of the Company's share capital. Whereas such reorganisations do not trigger a chargeable disposal for the purposes of the taxation of capital gains, they do require shareholders to reallocate the base costs of their Ordinary shares between Ordinary shares and Subscription shares received.

At the close of business on 5th March 2009 the middle market prices of the Company's Ordinary shares and Subscription shares were as follows:

Ordinary shares:	101.75p
Subscription shares:	7p

Accordingly an individual investor who on 5th March 2009 held five Ordinary shares (or a multiple thereof) would have received a bonus issue of one Subscription share (or the relevant multiple thereof) and would apportion the base cost of such holding 98.64% to the five Ordinary shares and 1.36% to the Subscription shares.

Future exercise prices of the Subscription shares have been determined as follows:

If exercised between 1st April 2010 and 31st March 2012 - 147 pence.

If exercised between 1st April 2010 and 31st March 2014 - 174 pence.

Notice of the exercise of the Subscription share rights may be given at any time from 1st April 2009 until 31st March 2014 and the Ordinary shares arising on conversion will be issued within ten business days of the first business day of the calendar month following the month in which the relevant notices are received by the registrars. For further details on how to exercise the Subscription share rights please refer to the Company's website at www.jpmpjapanesesmallercompanies.co.uk or contact the Secretary on 020 7742 6000.

Glossary of Terms and Definitions

Unit Return to Shareholders

Total return to the 'Unit' holder on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested, without transaction costs, into Units at the time the shares were quoted ex-dividend.

A Unit comprises 5 Ordinary shares and 1 Subscription share.

Return to Ordinary Shareholders

Total return to the Ordinary shareholder on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested, without transaction costs, in the Ordinary shares of the Company at the time the shares were quoted ex-dividend.

Diluted Net Asset Value ('NAV') per Ordinary Share

The diluted NAV per Ordinary share assuming that all outstanding dilutive Subscription shares were converted into Ordinary shares at the year end and all shares held in Treasury at the year end were reissued in accordance with the Board's policy on the reissuance of Treasury shares.

Undiluted Return on Net Assets

Return on the undiluted NAV per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested in the shares of the Company at the undiluted NAV per share at the time the shares were quoted ex-dividend.

Diluted Return on Net Assets

Return on the diluted NAV, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested in the shares of the Company at the diluted NAV per share at the time the shares were quoted ex-dividend.

Benchmark Return

Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested in the shares of the underlying companies at the time the shares were quoted ex-dividend.

The benchmark is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not follow or 'track' this index and consequently, there may be some divergence between the Company's performance and that of the benchmark.

Actual Gearing Factor

Investments expressed as a percentage of shareholders' funds. This shows the effect of gearing on the NAV if the market value of the portfolio were to increase by 100%.

Total Expense Ratio

Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets.

Share Price Discount to Diluted NAV per Ordinary Share

If the share price of an investment company is lower than the NAV per share, the shares are said to be trading at a discount. The discount is shown as a percentage of the NAV. The opposite of a discount is a premium. It is more common for an investment company's shares to trade at a discount than at a premium.

(Loss)/Return per Ordinary Share - Diluted

The diluted (loss)/return per Ordinary share represents the (loss)/return on ordinary activities after taxation divided by weighted average number of Ordinary shares in issue during the year as adjusted in accordance with the requirements of Financial Reporting Standard 22 'Earnings per share'.

(Loss)/Return per Ordinary Share - Undiluted

The undiluted (loss)/return per Ordinary share represents the (loss)/return on ordinary activities after taxation divided by the weighted average number of Ordinary shares in issue during the year.

Performance Attribution

Analysis of how the Company achieved its recorded performance relative to its benchmark.

Performance Attribution Definitions:**Sector Allocation**

Measures the impact of allocating assets differently from those in the benchmark, via the portfolio's weighting in different countries, sectors or asset types.

Stock Selection

Measures the effect of investing in securities to a greater or lesser extent than their weighting in the benchmark, or of investing in securities outside the benchmark.

Gearing/Cash

Measures the impact on returns of borrowings or cash balances on the Company's relative performance.

Management Fees/Other Expenses

The payment of fees and expenses reduces the level of total assets, and therefore has a negative effect on relative performance.

Subscription Share Dilution Effect

Measures the dilutive effect of the potential conversion of all outstanding Subscription shares at the year end.

Information about the Company

Financial Calendar

Financial year end	31st March
Final results announced	June
Half year end	30th September
Half year results announced	November
Interim Management Statements announced	July and January
Subscription shares exercise dates	1st April 2010 to 31st March 2014
Annual General Meeting	July/August

History

The Company and its predecessor, JF Fledgeling Japan Limited, have been investing in Japanese smaller companies since 1984. In early 2000, JF Fledgeling Japan Limited was placed into voluntary liquidation and JPMorgan Fleming Japanese Smaller Companies Investment Trust plc was incorporated and took over its assets and undertakings. Dealings in the new Company began on the London Stock Exchange on 11th April 2000.

Company Numbers

Company registration number: 3916716

Ordinary Shares

London Stock Exchange Sedol number: 0316581
ISIN: GB0003165817
Bloomberg code: JPS LN

Subscription Shares

London Stock Exchange Sedol number: B3Q7DL7
ISIN: GBOOB3Q70L73
Bloomberg code: JPSS

Market Information

The Company's net asset value ('NAV') is published daily, via the London Stock Exchange. The Company's Ordinary shares are listed on the London Stock Exchange and are quoted daily in the Financial Times, The Times, The Daily Telegraph, The Scotsman, The Independent and on the J.P. Morgan website at www.jpmmfjapanesessmallercompanies.co.uk, where the Ordinary share price is updated every fifteen minutes during trading hours.

The Company's Subscription share price is listed on the London Stock Exchange and quoted daily in the Financial Times and on the J.P. Morgan website at www.jpmmfjapanesessmallercompanies.co.uk, where the subscription share price is updated every fifteen minutes during trading hours.

Website

www.jpmmfjapanesessmallercompanies.co.uk

Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. They may also be purchased and held through the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP. These products are all available on the online wealth manager service, J.P. Morgan WealthManager+ available at www.jpmmorganwealthmanagerplus.co.uk

Manager

JF Asset Management Limited.

Secretary

JPMorgan Asset Management (UK) Limited.

Company's Registered Office

Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ
Telephone: 020 7742 6000

For company secretarial and administrative matters, please contact Christopher Legg.

Registrars

Equiniti
Reference 2093
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0871 384 2539

Calls to this number cost 8p per minute from a BT landline. Other providers' costs may vary. Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday. The overseas helpline number is +44 (0)121 415 7047.

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 2093. Registered shareholders can obtain further details on individual holdings on the internet by visiting www.shareview.co.uk

Auditors

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Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

Brokers

Collins Stewart Europe Limited
88 Wood Street
London EC2V 7QR

Savings Product Administrators

For queries on the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP, see contact details on the back cover of this report.



JPMorgan Helpline
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

www.jpmpjapanesesmallcompanies.co.uk