Annual Report 08

JPMorgan Fleming Japanese Smaller Companies Investment Trust plc

Annual Report & Accounts for the year ended 31st March 2008

JPMorgan Asset Management

Features

Contents

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 16.

Benchmark

Citigroup Equity Index Japan Extended Market (in sterling terms). Comparison of the Company's performance is made with the benchmark as stated.

Capital Structure

The Company has authorised share capital of 100,000,000 ordinary shares of 10p each, of which 39,309,423 were in issue at the year end.

Management Company

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

Financial Results

Total Returns (capital plus income)

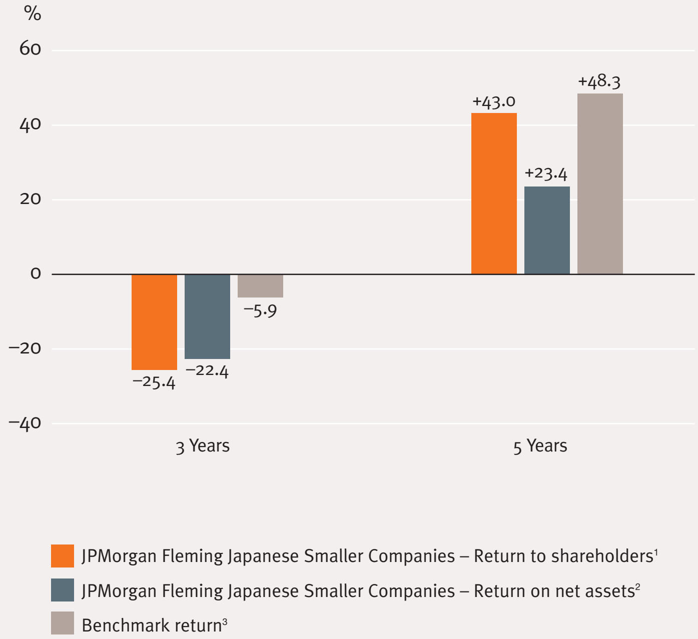
–33.9%
Return to shareholders[1]
(2007: –33.8%)

–28.1%
Return on net assets[2]
(2007: –33.6%)

–19.1%
Benchmark return[3]
(2007: –19.6%)

Long Term Performance

for periods ended 31st March 2008



A glossary of terms and definitions is provided on page 53.

[1]Source: Standard & Poor's – www.fund.morningstar.com

[2]Source: Fundamental Data - www.funddata.com

[3]Source: Russell Mellon Caps. The Company's benchmark is the Citigroup Equity Index Japan Extended Market (in sterling terms).

Chairman's Statement

Investment Performance

The year to 31st March 2008 has been another difficult one for investors in Japanese equities, particularly those investing in smaller companies. It is disappointing to report that, over the year to 31st March 2008, the Company's total return on net assets was -28.1%, which, when compared to the return of -19.1% from the Company's benchmark Index, the Citigroup Equity Index Japan Extended Market (in sterling terms), reveals an underperformance of 9.0% Amongst our peer group of competitor funds, performance has been similarly weak, with three of the four returning worse results over the year.

This period of underperformance has in part been influenced by our Manager's style of investment, which focuses principally on attractively priced growth stocks, and by the impact of gearing. The growth oriented section of the smaller companies market in particular has suffered. Over longer time periods, however, this style of investment has demonstrated that it can deliver substantial outperformance. The Investment Manager's Report, on pages 5 to 7, re-appraises the activity undertaken during the Company's financial year and looks forward to the prospects for the current year.

Gearing

The Company has a Japanese Yen 6bn credit facility with The Royal Bank of Scotland plc which gives the Managers the ability to gear tactically. The facility is due to expire on 30th June 2008 and is in the process of being renewed. The Board has given the investment manager the flexibility to set gearing within the range of 90% to 120% invested. At the time of writing, the Company was 107% geared, reflecting the Manager's optimism as to the prospects for the market.

Corporate Governance

Each year, the Board undertakes a formal review of the Investment Manager, JF Asset Management ('JFAM') and the Company Secretary, JPMorgan Asset Management ('JPMAM'). These reviews cover the investment management, company secretarial, administrative and marketing services provided to the Company and encompass the investment performance record, management processes, investment style, resources and risk control mechanisms. After full consideration, the Board concluded that the continued appointment of the Investment Manager on the terms agreed for the provision of its services is 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.

Your Board

Your Board has put in place procedures to ensure that the Company complies fully with the revised Combined Code and the AIC Code on Corporate Governance. Full details are given in the Corporate Governance section of this report on pages 21 to 24.

In accordance with the Company's Articles of Association, the Directors retiring by rotation at this year's Annual General Meeting will be Bernard ("Ben") Grigsby and myself. Ben has proven to be a knowledgeable and well informed contributor and will seek re-election from shareholders. In my absence, the Nomination Committee met to discuss my own position and unanimously recommends my re-election to shareholders.

Share Repurchase and Treasury Facility

At the Annual General Meeting in 2007 shareholders gave the Directors authority to repurchase the Company's shares for cancellation. The Company bought back 100,000 (2007: nil) shares during the year and your Board believes that, given the volatile markets in which your Company invests, this facility is a valuable tool which can be utilised, when circumstances warrant it, to the benefit of shareholders as a whole. The Board is therefore seeking approval from shareholders to renew this authority at this year's Annual General Meeting.

At the Annual General Meeting in 2007 shareholders gave the Directors authority to buy shares into treasury and to reissue them at a later date. Although no shares were bought into treasury during the course of the year, your Board believes that the ability to hold and reissue 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 volatility. Accordingly, your Board will be seeking shareholders' approval to renew the authority at this year's Annual General Meeting. The Board is aware that this continues to be a controversial matter for certain groups of shareholders and, in view of this, the Board will maintain the criteria for the issuance of treasury shares at the discount to net asset value which was approved last year. Shares will only be reissued at a discount narrower than the weighted average of those then held in treasury, and the aggregate dilution associated with any reissuance from treasury will not exceed 0.5% of the net asset value over the one year period of the authority. This, in the Board's view, represents a balanced and considered approach to this matter.

Companies Act and new Articles of Association

It is proposed that the Company adopts new Articles of Association in order to comply with the provisions of the Companies Act 2006 that have been brought into effect already and those that will become effective from 1st October 2008. The new Act is being introduced in stages and is expected to be fully enacted by 1st October 2009. More details on the proposed changes to the Articles are given in the Directors' Report on page 20 and in the Appendix to the Notice of Meeting on pages 50 to 52. One of the principal changes will allow the Company to use electronic communications to send half year and annual reports to shareholders, although shareholders will have the right to opt to continue to receive hard copies if they wish and will continue to receive hard copy forms of proxy. The Board is also considering whether to take advantage of new regulations which allow companies not to post the half year report to shareholders, but instead direct shareholders to the Company's website. Both of these measures would reduce the Company's administrative expenses, but the Board would welcome shareholder feedback on these possible changes.

Annual General Meeting

Your Directors and I very much look forward to welcoming shareholders to the Company's Annual General Meeting which will be held on 24th July 2008 at 1.30pm. As in previous years, the venue will be The Library, JPMorgan, 60 Victoria Embankment, London EC4Y 0JP. The investment manager will review the past year

Chairman's Statement continued

and comment on the outlook for the current year. 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 website. 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 page 49.

Outlook

The short term prospects for the Japanese markets are far from clear, but what is clear is that in valuation terms Japanese smaller companies are attractively priced. As operating performance improves and the economic cycle turns, investors we believe, will return to this asset class. The conditions for a rally in the sector are in place, what is needed is a catalyst to stimulate that recovery.

Alan Clifton
Chairman 17th June 2008

Investment Manager's Report

The Japanese smaller company market had another dreadful year with already cheap valuations being compressed even further. There has been a downwards trend for these stocks for over two years now and it seems appropriate to set out where we believe we are in terms of the investment cycle and what our strategy is. The simple answer is that on a multi year basis we are very bullish and that our position is reinforced by compelling market valuations.

Firstly, the market is trading on a low price to book level. At the beginning of 2007, the TSE2 Index, which comprises the majority of smaller stocks quoted on the Japanese stock market, was trading on a ratio of around 1.15x price to book ("P/B") – a rather low level – and ended the year at only 0.8x P/B. This compares with the 2006 peak of 1.8x P/B, and the 2002/3 low of 0.65x P/B. In short the market has retraced in valuation terms almost all of the bull market seen since 2002/3 - having tripled in valuations terms on the way up it has collapsed to the "bottom of the bear market lows" valuation levels. The bad news is that the market has experienced a brutal de-rating that has pummelled stock prices, the good news is that, on almost any measure, smaller companies in Japan trade on cheap valuations. Our strategy is to start moving towards a more aggressive portfolio with more cyclical elements and one that is anticipating the recovery in the market. This is especially the case if there is any shorter term pullback.

Our stance is that the next major direction of the market is up and that we need to be positioned accordingly. As those shareholders who have been investors in the Company for a number of years will know, the market exhibits strong cyclicality and there is potential for some of the smaller companies to perform very strongly as the cycle picks up and valuations move from the current unusually cheap levels towards the top of their valuation ranges.

The reason behind our multi year bullishness lies in this longer term valuation and performance cycle that smaller companies as a whole 'enjoy'. Right now stocks have become beaten down and ignored by many investors - there is a distinct sense of revulsion towards smaller companies from analysts and investors. As in 2003, brokerage firms based in Japan are reducing their commitment towards smaller company stocks with cuts being made at many of the leading houses. This capitulation by brokerage firms is just a reflection of a widespread negative sentiment towards these stocks. It is this revulsion and despair that creates the opportunities to acquire stock at bargain prices - with investors willing to sell positions at almost any price.

As companies show stronger operating performance and the economic cycle turns around, investors should be tempted by the cheapness and the improving outlook to buy these stocks once again. The attractiveness of the smaller company market should be aided by the fact that both the Japanese financial system and corporate balance sheets are significantly stronger, whilst areas such as corporate governance, dividend payout ratios and share buybacks have all shown significant improvement. Downside is limited whilst the upside of higher earnings and higher valuation seems rather attractive. Just now we have a good opportunity to invest in these stocks - cheap valuations, very depressed sentiment and significant upside potential.

How then are we positioned and why?

The Company currently comprises several different themes – some cyclical and some secular. The overriding intention is to have exposure to those areas that offer dramatic upside through growth or by valuation adjustment over the next several

Investment Manager's Report continued

Performance attribution for the year to 31st March 2008

Contributions to Total Return		%
Benchmark total return		–19.1
Asset allocation	–2.0	
Stock selection	–3.2	
Gearing/cash	–2.5	
Investment Manager contribution		–7.7
Portfolio total return		–26.8
Management fees/ other expenses	–1.5	
Share repurchases	+0.0	
Residual*	+0.2	
Other effects		–1.3
Net asset value total return		–28.1
Increase in discount		–5.8
Share price total return		—33.9

Source: Jaffa/JPMAM/Fundamental Data.
All figures are on a total return basis.

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

*The residual arises principally from timing differences in the treatment on income flows. The Jaffa attribution system accounts for income on a received (on the Ex-dividend date) basis whereas Fundamental Data calculates the Company's NAV Total Return using the actual dividend(s) paid by the Company (on the Ex-dividend date).

A glossary of terms and definitions is provided on page 53.

years. Using some specific stocks as examples we will illustrate our thought process and how that fits into the investment philosophy.

In the cyclical basket - where investment flows are particularly directed - we are seeking companies that trade at the very low end of their historical valuation ranges and where the upside potential as their business cycle strengthens is large.

Innotech is a stock positioned as a growth cyclical. Innotech supplies Toshiba and other semiconductor memory makers with testing equipment. Business has shown consistent growth and the company's business structure has been shifting towards higher value added products - in a bear market investors don't care - but we see that there has been renewed interest and believe that as the company shows healthy growth it will be re-rated in line with its semiconductor equipment related peers. As investors, the risk reward relationship seems firmly skewed in our favour as we have a disliked stock, cheap valuation, good underlying business performance with substantial upside potential.

There are also some names that are delivering steady secular growth but where the valuation has become far too cheap and the company has become caught in the small cap downswing even though the business is performing strongly. Quite a few of our holdings fall into this structural growth company category - particularly in the service sector. Their business models tend to be additive where success one year leads to a new, higher business base for the next year. In contrast to some cyclicals where each year represents a new challenge.

Trancom is one such structural growth company. A player in the logistics industry, Trancom is benefiting from the trend for companies to outsource their logistics operations to specialists. In Japan this trend is still quite new unlike in Europe or the US where it is well established. Earnings have grown at a very healthy rate as its logistics business continues to attract more customers as it can cut costs and improve efficiency. The company expects almost 20% per annum growth over the next few years and, given the highly profitable business and strong execution capability, we feel that Trancom is capable of delivering substantial upside scope over the next few years.

A new addition has been a shift into financials and especially some market volume related stocks reflecting our bullish posture for the medium term. Whilst previously we have held some regional banks due to their valuation and stable performance it seems extremely likely that when the market picks up there will also be a return of domestic investors. Currently trading by Japanese retail investors has declined by around 90% since the peak in 2006. As such operating performance at almost every brokerage firm looks poor - it is hard to see how already extremely low volumes could fall much further. New stock offerings and other activity have also almost completely dried up. As such we think this provides an opportunity to add some cyclical growth that relates to individual investors. When Japan returns to a bull market then we will see big flows towards stocks and a resurgence in new listings (we dream of an active mergers and acquisition market!). To some extent it is a chicken and egg investment – when valuations are cheap and attractive the earnings are low and market activity is weak, when earnings are high the market is already strong and valuations are expensive. We are buying before the business picks up, with low valuations and waiting for a market improvement - as the conditions improve we will likely increase exposure further.

There are also some deep value holdings that we are persisting with, expecting a catalyst to unlock substantial 'hidden value'. One of our longer term holdings is Showa Aircraft. This company has legacy land holdings that have a great potential to be redeveloped into a civilian airfield operation. These land holdings are held on the company's books at only a nominal valuation and the stock is valued at approximately a fifth of this asset value. With strong upside such as this we are prepared to be patient. Recent signs of faster progress in developing the land site offer some expectation that we may see some of this value unlocked - or at least begin to be reflected in the share price more fully.

We are keen to run some of our existing structural growth stories such as Trancom and hope that we can finally enjoy growth in the share price of these companies. We are moving away from some of the defensive names we have been holding and moving that money into new holdings at the beginning of a new stock performance cycle. This should increase the overall upside potential for the portfolio at this low point in the cycle. This increased aggression is also reflected by a recent increase in the gearing level towards the 110% level.

The overall strategy is quite simply to find a diversified basket of stocks where we feel that downside is quite limited but where we can see substantial medium term upside potential. Our strategy now is to shift from a cautious positioning in some names towards a more aggressive one that anticipates the cyclical upturn and the improvement in stock market sentiment. The portfolio is beginning to reflect this, with the cyclical and growth names complementing the deep value and structured growth stocks already held.

The last few years have amply demonstrated that Japan is a market that is cyclical both in its earnings and in the valuation ranges. In both cases it seems that we are close to the bottom of these cycles and that the next few years should offer much better conditions with both a cyclical upturn and a cyclical positive re-rating waiting to be enjoyed. As such we are bulls on both Japan and especially on her smaller companies which magnify the swings in sentiment, valuation and the cycle.

David Mitchinson
Investment Manager 17th June 2008

Summary of Results

	2008	2007	
Total Returns for the year ended 31st March			
Return to shareholders[1]	–33.9%	–33.8%	
Return on net assets[2]	–28.1%	–33.6%	
Benchmark return[3]	–19.1%	–19.6%	
Net Asset Value, Share Price and Discount at 31st March			% change
Shareholders' funds (£'000)	76,276	106,303	–28.2
Net asset value per share	194.0p	269.7p	–28.1
Share price	169.5p	256.5p	–33.9
Discount of share price to net asset value	12.6%	4.9%	
Shares in issue	39,309,423	39,409,423	
Revenue for the year ended 31st March			
Gross revenue return (£'000)	1,404	1,447	–3.0
Net loss attributable to shareholders (£'000)	(508)	(842)	
Loss per share	(1.29)p	(2.14)p	
Actual Gearing Factor at 31st March[4]	109.5%	115.7%	
Total Expense Ratio ('TER')[5]	1.80%	1.54%	

A glossary of terms and definitions is provided on page 53.

[1]Source: Standard & Poor's – www.funds.morningstar.com

[2]Source: Fundamental Data – www.funddata.com

[3]Source: Russell Mellon Caps.

[4]Actual gearing represents investments expressed as a percentage of shareholders' funds

[5]Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets. The method of calculating the TER has been changed and prior years restated. Further details are given in the glossary of terms and definitions on page 53.

Performance

JPMorgan Fleming Japanese Smaller Companies – Share price

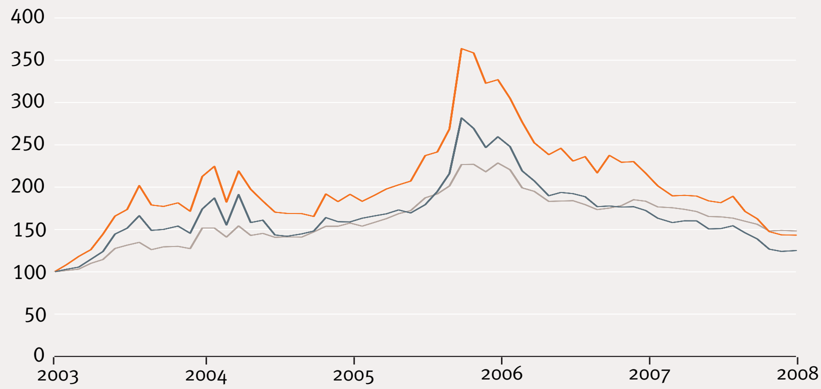
JPMorgan Fleming Japanese Smaller Companies – Net asset value

Benchmark

Source: Standard & Poor's – www.funds.morningstar.com/ Fundamental Data – www.funddata.com/ Russell Mellon Caps. (Total Return)

Five Year Performance

Figures have been rebased to 100 at 31st March 2003



JPMorgan Fleming Japanese Smaller Companies – Share price

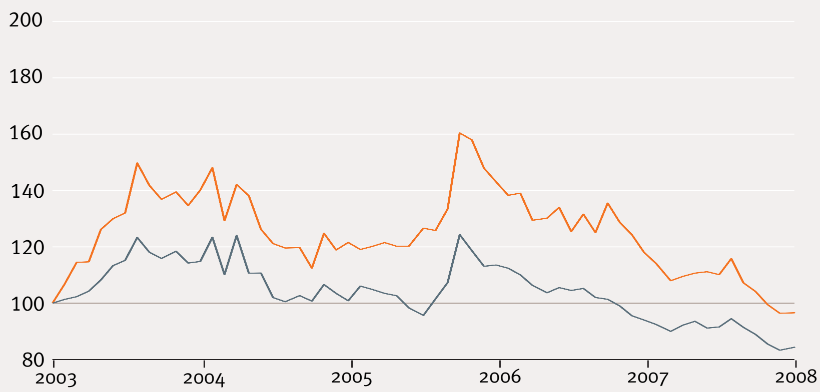
JPMorgan Fleming Japanese Smaller Companies – Net asset value

Benchmark

Source: Standard & Poor's – www.funds.morningstar.com/ Fundamental Data – www.funddata.com/ Russell Mellon Caps. (Total Return)

Performance Relative to Benchmark

Figures have been rebased to 100 at 31st March 2003



Five Year Financial Record

As at 31st March	2003	2004	2005	2006	2007	2008
Total assets less current liabilities (£'m)	66.9	123.3	103.4	160.0	106.3	76.3
Net asset value per share (p)	157.2	273.9	249.9	405.9	269.7	194.0
Share price (p)	118.5	252.0	227.0	387.5	256.5	169.5
Discount (%)	24.6	8.0	9.2	4.5	4.9	12.6
Actual gearing factor (%)	97.8	114.0	98.2	115.9	115.7	109.5
Year ended 31st March						
Revenue attributable to shareholders (£'000)	708	974	1,023	1,266	1,447	1,404
Loss per share (p)	(3.51)	(2.11)	(1.89)	(1.61)	(2.14)	(1.29)
Total expense ratio ('TER') (%)[1]	1.64	1.58	1.56	1.46	1.54	1.80
Rebased to 100						
Share price total return[2]	100.0	212.7	191.6	327.0	216.5	143.0
Net asset value total return[3]	100.0	174.2	159.0	258.2	171.6	123.4
Benchmark[4]	100.0	151.7	157.6	228.6	183.4	148.3

A glossary of terms and definitions is included on page 53.

[1]Management fees and all other operating expenses, excluding interest, expressed as a percentage of the average of the opening and closing net assets. The method of calculating the TER has been changed and prior years restated. Further details are given in the glossary of terms and definitions on page 53.

[2]Source: Standard & Poor's – www.funds.morningstar.com

[3]Source: Fundamental Data – www.funddata.com

[4]Source: Russell Mellon Caps.

Ten Largest Investments

Company and Japanese Company Code	Sector	As at 31st March 2008 Valuation £'000	%[1]	As at 31st March 2007 Valuation £'000	%
Aeon Delight (9787) Provides services such as cleaning, security and equipment management for buildings.	Services	3,201	3.8	2,304	1.9
DTS (9682) Provides system, operation and network engineering services for financial and communication-related companies. Also provides product services and support services including system development, maintenance and management.	Information & Communication	3,089	3.7	2,291	1.9
AI Holdings (3076)[2] Operates in the development, manufacturing and sales of security equipment, card and office equipment and computer peripheral equipment.	Wholesale Trade	2,912	3.5	—	—
Moshi Moshi Hotline (4708) Provides marketing services utilising telephone, fax and electronic mail. The company, an affiliate of Mitsui & Co., also provides customer services, market research and sales promotion services for businesses.	Services	2,658	3.2	2,254	1.8
Tecmo (9650)[2] A global developer and publisher of interactive entertainment software.	Information & Communication	2,638	3.2	—	—
Towa (6315)[2] Involved in the manufacturing and sales of semi conductor manufacturing precision molds, semi conductor manufacturing equipment and plastic moldings.	Machinery	2,044	2.4	—	—
NEC Networks & System Integration (1973)[2] Provides network integration support services and telecommunications engineering.	Construction	2,029	2.4	—	—
Dena (2432)[2] Provides services to the mobile e-commerce market.	Services	2,029	2.4	—	—
SRA Holdings (3817)[2] Principal activities are development of systems, provisions of network and system services and technical consulting services.	Information & Communication	1,962	2.3	725	0.6
GMO Internet (9449)[2] Provides online infrastructure service business, providing a full suite of solutions to its clients ranging from web hosting to online security, to credit card payment processing.	Information & Communication	1,917	2.3	—	—
Total[3]		24,479	29.2		

[1]Based on total assets less current liabilities of £83.7m (2007: £123.6m) other than loan balances falling due within one year.
[2]Not included in the ten largest investments as at 31st March 2007.
[3]As at 31st March 2007, the value of the ten largest investments amounted to £23.5m representing 19.0% of total assets less current liabilities other than loan balances falling due within one year.

Sector Analysis

	31st March 2008		31st March 2007	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Information & Communication	15.1	3.9	4.1	3.5
Services	14.4	4.8	12.6	4.0
Retail Trade	10.4	7.4	8.0	7.3
Wholesale Trade	10.2	4.5	6.5	6.3
Construction	8.5	3.5	2.4	4.0
Chemicals	7.6	8.2	5.3	8.5
Electric Appliances	6.2	9.0	5.3	8.1
Pharmaceuticals	5.3	2.7	1.3	2.1
Machinery	5.1	7.8	5.1	7.9
Transportation Equipment	4.9	3.1	5.3	3.4
Banks	3.0	8.5	7.4	7.3
Warehousing & Harbour Transportation	1.9	1.3	0.5	1.2
Textiles & Apparels	1.9	2.4	1.0	2.1
Other Financing Business	1.8	1.7	3.9	2.0
Land Transportation	1.6	2.2	2.5	2.0
Real Estate	1.2	7.2	19.6	9.2
Glass & Ceramic Products	0.4	1.8	1.3	1.6
Other Products	0.3	2.4	3.4	2.2
Foods	—	5.7	—	5.0
Iron & Steel	—	2.8	—	2.9
Nonferrous Metals	—	1.7	0.9	2.0
Precision Instruments	—	1.3	1.6	1.4
Metal Products	—	1.3	1.5	1.5
Securities & Commodities	—	1.0	—	1.2
Rubber Products	—	0.9	—	0.9
Electric Power & Gas	—	0.7	—	0.6
Pulp & Paper	—	0.6	—	0.6
Fishery Agriculture & Forestry	—	0.5	—	0.5
Marine Transportation	—	0.5	—	0.2
Insurance	—	0.4	—	0.3
Mining	—	0.1	—	0.1
Oil & Coal	—	0.1	—	0.1
Net current assets	0.2	—	0.5	—
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £83.7m (2007: £123.6m) other than loan balances falling due within one year.

List of Investments

at 31st March 2008

Company and Japanese Company Code	Valuation £'000
Information & Communication	
DTS (9682)	3,089
Tecmo (9650)	2,638
SRA Holdings (3817)	1,962
GMO Internet (9449)	1,917
Works Application (4329)	1,319
Hudson Soft (4822)	884
Net One Systems (7518)	820
	12,629
Services	
Aeon Delight (9787)	3,201
Moshi Moshi Hotline (4708)	2,658
Dena (2432)	2,029
United Technology Holdings (2146)	1,311
Cyberagent (4751)	1,199
EPS (4282)	1,101
So-Net M3 (2413)	420
Pacific Golf Group (2466)	151
	12,070
Retail Trade	
Doutor Nichires Holdings (3087)	1,537
Point (2685)	1,394
ABC-Mart (2670)	1,156
Nitori Co (9843)	1,126
K's Holdings (8282)	839
Welcia Kanto (2717)	768
Maruetsu (8178)	650
Shimachu (8184)	621
Ozeki (7617)	443
San-A (2659)	102
Okuwa (8217)	70
Bals (2738)	15
	8,721
Wholesale Trade	
AI Holdings (3076)	2,912
JFE Shoji (3332)	1,601
Innotech (9880)	1,399
Mitsui Mining (3315)	1,310
Fields (2767)	687
Onoken (7414)	617
	8,526

Company and Japanese Company Code	Valuation £'000
Construction	
NEC Networks & System Integration (1973)	2,029
Kyowa Exeo (1951)	1,566
Kinden (1944)	1,128
Taihei Kogyo (1819)	870
Chudenko (1941)	783
Sanki Engineering (1961)	694
Dai-Dan (1980)	26
	7,096
Chemicals	
Nihon Nohyaku (4997)	1,595
Kobayashi Pharmaceutical (4967)	1,572
Ishihara Sangyo Kaisha (4028)	1,555
Takasago International (4914)	1,154
Mandom (4917)	463
	6,339
Electric Appliances	
Nihon Kohden (6849)	1,805
Hosiden (6804)	1,659
Nohmi Bosai (6744)	581
Aloka (7704)	378
MCJ (6670)	377
Furuno Electric (6814)	362
	5,162
Pharmaceuticals	
Kissei Pharmaceutical (4547)	1,641
Kyorin (4569)	1,257
Hisamitsu Pharmaceutical (4530)	745
Nichi-Iko Pharmaceutical (4541)	573
Fuji Pharma (4554)	219
	4,435
Machinery	
Towa (6315)	2,044
Heiwa (6412)	792
Torishima Pump Manufacturing (6363)	765
Eagle Industry (6486)	668
Aruze (6425)	36
	4,305
Transportation Equipment	
TS Tech (7313)	1,601
Showa Aircraft Industry (7404)	1,454
ShinMaywa Industries (7224)	531
Daihatsu Diesel Manufacturing (6023)	520
	4,106

List of Investments continued

Company and Japanese Company Code	Valuation £'000
Banks	
Keiyo Bank (8544)	1,423
Suruga Bank (8358)	1,115
	2,538
Warehouse & Harbour Transportation	
Trancom (9058)	1,457
Yusen Air & Sea Services (9370)	155
	1,612
Textiles & Apparels	
Katakura Industries (3001)	1,580
	1,580
Other Financing Business	
Osaka Securities Exchange (8697)	1,350
Industrial & Infrastructure Fund (3249)	133
	1,483
Land Transportation	
Hitachi Transport System (9086)	1,346
	1,346
Real Estate	
Nippon Commercial (3229)	697
Re-Plus (8936)	323
	1,020
Glass & Ceramics Products	
Nichias Corp (5393)	361
	361
Other Products	
SRI Sports (7825)	127
Shoei (7839)	66
	193
Total Portfolio	**83,522**

The portfolio comprises all equity investments.

Board of Directors

Alan Clifton (Chairman of the Board and of the Nomination Committee)
A Director since March 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 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 is a Director of several investment companies, including the Vietnam Opportunity Fund, LIM Asia Arbitrage Fund, funds managed by Tudor Investment Corp. as well as other corporates and institutions. He was previously Vice Chairman of Swiss Re Capital Management and Advisory. Between 1995 and 2001 he was the Joint Chief Executive Officer of Tokai Bank Europe and earlier served as CEO of BZW Securities (Japan) from 1990 to 1993.

Chris Russell
A Director since January 2006.

He is Chairman of F&C Event Driven Limited and a number of other listed and unlisted investment companies. These include Investec High Income Trust plc, Candover plc, British Airways Pensions Investment Management Ltd, The Korea Fund Inc and three public but unlisted investment companies in Asia. He is an associate of GaveKal Research in Hong Kong and was formerly Head of Overseas Businesses at Gartmore Investment Management plc, including Gartmore Japan. From 1990 to 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.

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

Directors' Report

The Directors present their report for the year ended 31st March 2008.

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 2007. 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.

Approval for the year ended 31st March 2007 is subject to review, should there be any subsequent enquiry under Corporation Tax Self Assessment.

The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. 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 Manager's Report on pages 5 to 7.

Objective

The Company's objective is to achieve long term capital growth through investment 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 17 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 63 to 104.

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.

Performance

In the year to 31st March 2008, the Company produced a total return to shareholders of –33.9% and a total return on net assets of –28.1%. This compares with the return on the Company's benchmark index of –19.1%. As at 31st March 2008, the value of the Company's investment portfolio was £83.5m. The Investment Manager's 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 loss for the year amounted to £27,922,000 (2007: loss of £51,360,000) and distributable revenue after deducting interest, administrative expenses and taxation amounted to a deficit of £508,000 (2007: deficit of £842,000).

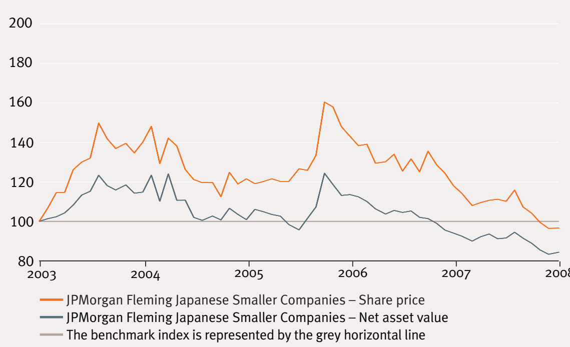
Key Performance Indicators ('KPIs')

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

- **Performance against the 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.
- **Performance against the benchmark index**
  Another important KPI is the Company's performance against its benchmark index.

Performance relative to Benchmark Index

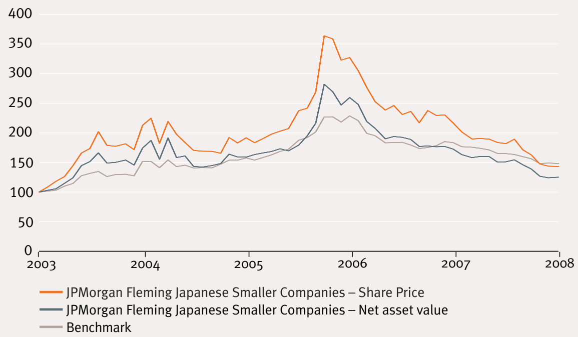
Figures have been rebased to 100 at 31st March 2003



Source: Standard & Poor's – www.funds.morningstar.com/Fundamental Data – www.funddata.com. (Total Return)

Five Year Performance

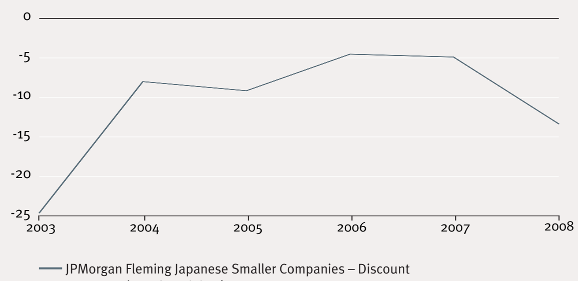
Figures have been rebased to 100 at 31st March 2003



Source: Standard & Poor's – www.funds.morningstar.com/Fundamental Data – www.funddata.com.
Total Return

- **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 2008, the shares traded between a discount of 2.4% and 18.8%.

Discount Performance



Source: Datastream (month end data)

- **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 asset allocation and stock selection. Details of the attribution analysis for the year ended 31st March 2008 are given in the Investment Manager's Report 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 2008 was 1.80% (2007: 1.54% as restated). 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 into Treasury or for cancellation and to issue new shares for cash.

During the year, the Company repurchased a total of 100,000 ordinary shares for cancellation, for a total consideration of £193,000. Resolutions to renew the authority to issue new shares for cash and to purchase shares into Treasury or 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 47 and 48.

Principal Risks

With the assistance of the Manager and Secretary, 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 investment, 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 Manager, who attend all Board meetings, and reviews data which shows statistical measures of the Company's risk profile. The Investment Manager employs the Company's gearing tactically, within a strategic range set by the Board. In addition to regular Board reviews of investment and strategy, the Board holds a separate meeting devoted to strategy each year.
- Market: Market risk arises from fluctuations in the fair value or future cash flows from the Company's investments due to changes in the market prices. It represents the potential loss that the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by JPMAM. The Board monitors the implementation and results of the investment process with the Manager.
- 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

Directors' Report continued

are given under "Business of the Company" above. 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 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 1985 and, as its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies 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. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with The Companies Act 1985 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 21 to 24.
- 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 with the Internal Control section of the Corporate Governance report on page 23.
- Financial: The financial risks faced by the Company include market price risk, interest rate risk, foreign currency risk, liquidity risk, gearing and credit risk. Additional disclosures are provided this year for the first time in accordance with FRS29. Further details are disclosed in notes 19 to 21 on pages 39 to 44.

Future Developments

Clearly 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 Manager discusses the outlook in his report on pages 5 to 7.

Management of the Company

The Manager of the Company is JF Asset Management Limited ('JFAM'). JPMorgan Asset Management (UK) Limited ('JPMAM'), the London based Manager for the investment trust range of JPMorgan, acts as Secretary and provides administrative support. Investment advice is provided to JFAM by JF Investment Trust and Advisory Company Limited ('JFITAC') 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 JPMorgan 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 and Secretarial 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% 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 or JPMAM or any of its associated companies, those investments are excluded from the calculation and therefore attract no additional fee.

Going Concern

The Directors consider that the Company has adequate resources, an appropriate financial structure and suitable arrangements in place for its management to continue in operational existence for the foreseeable future. For this reason, they 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 2008, the Company had no outstanding trade creditors (2007: 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 ordinary share capital are shown below:

Directors	31st March 2008	1st April 2007
Alan Clifton	10,000	5,000
John Gibbon	5,000	5,000
Bernard Grigsby	50,000	50,000
Chris Russell	35,000	35,000

No changes in the above holdings have been recorded to the date of this report.

In accordance with the Company's Articles of Association, the Directors retiring by rotation at the forthcoming Annual General Meeting will be Alan Clifton and Bernard Grigsby who, being eligible, offer themselves for re-election by shareholders.

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:

(a) so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

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 11 to the Notice of AGM on page 49.

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]	5,145,579	13.1
Included within this is the following:		
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[1]	2,575,006	6.6
Legal & General Investment Management	1,588,524	4.0
Wesleyan Assurance Society	1,183,500	3.0

[1]Non-beneficial.

The rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Acts 1985 and 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 & Touche 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:

(i) Authority to allot new shares for cash and disapply pre-emption rights (Resolutions 6 and 7)

The Directors will seek renewal of the authority at the AGM to issue up to 3,930,942 new ordinary shares for cash up to an aggregate nominal amount of £393,094, such amount being equivalent to approximately 10% of the present issued share capital. The full text of the resolutions is set out in the Notice of Meeting on page 47.

It is advantageous for the Company to be able to issue new 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. Any such issues would only be made at prices greater than the NAV, thereby increasing the assets underlying each share and spreading 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.

(ii) Authority to repurchase the Company's shares (resolution 8)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2007 Annual General Meeting, will expire on 24th January 2009 unless renewed at the forthcoming Annual General Meeting The Directors consider that the renewing of the authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining shares.

Directors' Report continued

The full text of the resolution is set out in the Notice of Meeting on pages 47 and 48. Repurchases 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 as and when market conditions are appropriate.

(iii) Treasury shares/disapplication of pre-emption rights (resolutions 9 and 10)

The Company is permitted to purchase up to 10% of its own 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 believes 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 shares trade to their net asset value for the benefit of shareholders.

Accordingly, shareholders will also be asked at the Annual General Meeting to approve resolutions 9 and 10 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 be sold from Treasury when market demand is identified. 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 2009 Annual General Meeting, the aggregate dilution in net asset value per share arising on such sales does not exceed 1.00 pence per share, being approximately 0.5% of the net asset value per ordinary share at 31st March 2008.

(iv) Adoption of new Articles of Association (Resolution 11)

The Company proposes to adopt new Articles of Association. These incorporate amendments to the current Articles of Association to reflect the provisions of the Companies Act 2006 (the '2006 Act') and otherwise generally update the Articles of Association for current law, regulation and market practice. The 2006 Act came, or will come, into effect in 2007, 2008 and 2009. As the 2006 Act will not be fully in force until October 2009, it is not yet possible to fully reflect the 2006 Act changes and it is expected that shareholders will be asked to approve further changes to the Articles of Association at the 2009 AGM.

The principal changes brought about by the new Articles of Association proposed to be adopted at the forthcoming AGM relate to electronic communication with shareholders, shareholder meetings and resolutions, directors' indemnities, transfers of shares and directors' conflicts of interest. For a more detailed explanation of these and other amendments please refer to the Appendix on pages 50 to 52.

A copy of the current Articles of Association and the proposed new Articles of Association 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 from the date of this report up until the close of the AGM. Copies will also be available at 60 Victoria Embankment, London EC4Y 0PJ, being the place of the AGM, for 15 minutes prior to, and during, the meeting.

Recommendation

The Board considers that resolutions 6 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 100,000 shares representing approximately 0.3% of the voting rights of the Company.

By order of the Board
Andrew Norman, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
17th June 2008

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 26 indicates how the Company has applied the principles of recommended governance of the Financial Reporting Council Combined Code (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 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 four non-executive Directors, all of whom are regarded by the Board as independent, including the Chairman. The Directors have 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 15.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below. 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. The Nomination Committee evaluates the Chairman's performannce.

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 re-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. Any Director who has served for a period of more than nine years will submit himself 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 Annual General Meeting.

The Board confirms that Alan Clifton and Bernard Grigsby, who retire by rotation at this year's Annual General Meeting, continue to be effective Directors and demonstrate commitment to their role, and therefore recommends their re-election.

Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of committees are shown with the Directors' profiles on page 15. Directors who are not members of Committees may attend at the invitation of the Chairman.

Corporate Governance continued

The table below details the number of Board, Audit Committee and Nomination Committee meetings attended by each Director. During the year there were seven 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, two Audit Committee meetings and two 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

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 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. The Nomination Committee evaluates the Chairman's performance. The Board as a whole evaluates the Manager, its own performance and that of its Committees.

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 required.

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 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; in the Directors' opinion the auditors are considered independent. Representatives of the Company's auditors attend the Committee meeting at which the draft annual report and accounts are considered.

The Directors' statement on the Company's system of internal control is set out on page 23.

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 Annual General Meeting.

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 financial 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 shares.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager and Secretary are available in person to meet with shareholders and answer questions. In addition, a presentation is given by the investment manager who reviews the Company's performance. During the year the Company's brokers, the investment manager 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 45.

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. 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 45.

Details of the proxy voting position on each resolution will be published on the Company's website shortly after the Annual General Meeting.

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, which reports any material failings or weaknesses. This arrangement is kept under annual review. 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 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
- reviews every six months an independent report on the internal controls and the operations of 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 2008, and to the date of approval of this Annual Report and 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.

Corporate Governance continued

"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."

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. 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 page 27.

Directors' fees were last adjusted on 1st April 2006 and for the year under review they 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:

Directors' Remuneration[1]

Director's Name	2008 £	2007 £
Alan Clifton	25,000	25,000
John Gibbon	20,000	20,000
Bernard Grigsby	17,500	17,500
Chris Russell	17,500	17,500
George Long	5,586	17,500
Total	85,586	97,500

[1]Audited information.

The total Directors' fees of £85,586 (2007: £97,500) in respect of aggregate emoluments have been paid to Directors. Within this amount fees of £5,586 (2007: £17,500) have been paid to third parties for making available the services of the Directors.

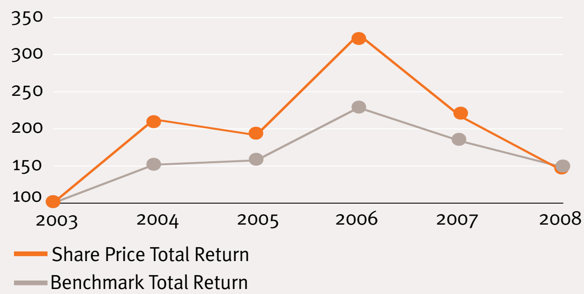
The Board's policy for this and subsequent years is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board. The Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfilling these 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 relevant third parties 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 share price total return compared with its benchmark, the Citigroup Equity Index Japan Extended Market (in sterling terms), over the last five years is shown below.

Five year share price and benchmark total return to 31st March



Source: Russell Mellon Caps/Standard & Poor's – www.funds.morningstar.com

By order of the Board
Andrew Norman, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
17th June 2008

Directors' Responsibilities in Respect of the Accounts

The Directors are responsible for preparing the annual 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). The financial statements are required by law to 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 UK 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 confirm that they comply with these requirements.

The Directors are responsible for keeping proper accounting records which 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 1985. 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 financial statements are published on the www.jpmfjapanesesmallercompanies.co.uk website, which is maintained by the Company's Manager, 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 it faces.

For and on behalf of the Board
Alan Clifton,
Chairman
17th June 2008

Independent Auditors' Report

Independent Auditors' Report to the shareholders of JPMorgan Fleming Japanese Smaller Companies Investment Trust plc

We have audited the financial statements of JPMorgan Fleming Japanese Smaller Companies Investment Trust plc for the year ended 31st March 2008 which comprise the Income Statement, Reconciliation of Movement in Shareholders' Funds, Balance Sheet, Cash Flow statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Investment Manager's Report that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st March 2008 and of its total return for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
London, United Kingdom 17th June 2008

Income Statement

for the year ended 31st March 2008

	Notes	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Losses from investments held at fair value through profit or loss	2	—	(28,224)	(28,224)	—	(54,956)	(54,956)
Net foreign currency (losses)/gains		—	(1,102)	(1,102)	—	2,149	2,149
Income from investments	3	1,215	—	1,215	1,282	—	1,282
Other interest receivable and similar income	3	189	—	189	165	—	165
Gross return/(loss)		1,404	(29,326)	(27,922)	1,447	(52,807)	(51,360)
Management fee	4	(1,321)	—	(1,321)	(1,714)	—	(1,714)
Other administrative expenses	5	(320)	—	(320)	(331)	—	(331)
Net loss on ordinary activities before finance costs and taxation		(237)	(29,326)	(29,563)	(598)	(52,807)	(53,405)
Finance costs	6	(186)	—	(186)	(154)	—	(154)
Net loss on ordinary activities before taxation		(423)	(29,326)	(29,749)	(752)	(52,807)	(53,559)
Taxation	7	(85)	—	(85)	(90)	—	(90)
Total loss on ordinary activities after taxation		(508)	(29,326)	(29,834)	(842)	(52,807)	(53,649)
Loss per share	8	(1.29)p	(74.50)p	(75.79)p	(2.14)p	(133.99)p	(136.13)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 published 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 32 to 44 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st March 2008

	Called up share capital £'000	Other reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31st March 2006	3,940	315,620	1,784	(152,028)	(9,364)	159,952
Net loss from ordinary activities	—	—	—	(52,807)	(842)	(53,649)
At 31st March 2007	3,940	315,620	1,784	(204,835)	(10,206)	106,303
Shares bought back and cancelled	(10)	(193)	10	—	—	(193)
Net loss from ordinary activities	—	—	—	(29,326)	(508)	(29,834)
At 31st March 2008	3,930	315,427	1,794	(234,161)	(10,714)	76,276

The notes on pages 32 to 44 form an integral part of these accounts.

Balance Sheet

at 31st March 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Investments at fair value through profit or loss	9	83,522	122,977
Current assets	10		
Debtors		1,723	676
Cash at bank and in hand		1,161	1,789
		2,884	2,465
Creditors: amounts falling due within one year	11	(10,130)	(19,139)
Net current liabilities		(7,246)	(16,674)
Total assets less current liabilities		76,276	106,303
Total net assets		76,276	106,303
Capital and reserves			
Called up share capital	12	3,930	3,940
Other reserve	13	315,427	315,620
Capital redemption reserve	13	1,794	1,784
Capital reserve	13	(234,161)	(204,835)
Revenue reserve	13	(10,714)	(10,206)
Shareholders' funds		76,276	106,303
Net asset value per share	14	194.0p	269.7p

The accounts on pages 28 to 44 were approved and authorised for issue by the Directors on 17th June 2008 and are signed on their behalf by:

Alan Clifton

Chairman

The accompanying notes on pages 32 to 44 form an integral part of these accounts.

Cash Flow Statement

for the year ended 31st March 2008

	Notes	2008 £'000	2007 £'000
Net cash outflow from operating activities	15	(355)	(797)
Returns on investments and servicing of finance			
Interest paid		(201)	(138)
Net cash outflow from returns on investments and servicing of finance		(201)	(138)
Capital expenditure and financial investment			
Purchases of investments		(173,973)	(128,791)
Sales of investments		185,055	137,765
Other capital charges		(17)	(22)
Net cash inflow from capital expenditure and financial investment		11,065	8,952
Net cash inflow before financing		10,509	8,017
Financing			
Net repayment of loans		(11,473)	(4,731)
Net overdraft repayment		—	(1,298)
Repurchase of ordinary shares		(193)	—
Net cash outflow from financing		(11,666)	(6,029)
(Decrease)/increase in cash for the year	16	(1,157)	1,988

The accompanying notes on pages 32 to 44 form an integral part of these accounts.

Notes to the Accounts

for the year ended 31st March 2008

1. Accounting Policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 1985, United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (the 'SORP') issued by the AIC in December 2005. 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 Company has adopted FRS 29: 'Financial Instruments: Disclosures' for the first time in these accounts. FRS 29 introduces new disclosure requirements relating to financial instruments. This standard does not have any impact on the classification and/or valuation of the Company's financial instruments. The disclosures required by this standard are given in notes 20 to 21 on pages 39 to 44.

(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 '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 is bid market price for listed investments.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are included in capital within 'Gains/(losses) from investments held at fair value through profit or loss'. Expenses incidental to the purchase and sale of investments are also included within this caption. 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 taken to capital.

Overseas dividends are included gross of 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 broker commission. In accordance with the SORP, disclosure of transaction costs is required and can be found in note 9.

(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.

1. Accounting Policies continued

(f) Financial instruments

Cash at bank and in hand 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 FRS23: '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 the 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. Gains and losses on investments arising from a change in exchange rates are included in gains/(losses) from investments held at fair value through profit or loss.

(h) 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 probable that taxable profits will be available against which those timing differences can be utilised.

	2008 £'000	2007 £'000
2. Losses from investments held at fair value through profit or loss		
Losses from investments held at fair value through profit or loss based on historical cost	(32,519)	(21,064)
Amounts recognised as revaluation losses/(gains) in the previous year	2,866	(18,548)
Realised losses based on fair value at previous balance sheet date	(29,653)	(39,612)
Net movement in revaluation gains	1,449	(15,320)
Other capital charges	(20)	(24)
Total losses from investments held at fair value through profit or loss	(28,224)	(54,956)

Notes to the Accounts continued

	2008 £'000	2007 £'000
3. Income		
Income from investments		
Dividends from investments listed overseas	1,215	1,282
Other income		
Deposit interest	5	4
Stock lending fees	184	161
	189	165
Total income	1,404	1,447

	2008 £'000	2007 £'000
4. Management fee		
Management fee	1,321	1,714

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

	2008 £'000	2007 £'000
5. Other administrative expenses		
Other management expenses	183	184
Directors' fees[1]	86	98
Savings product[2]	32	36
Auditors' remuneration - for audit services	15	11
Auditors' remuneration - for all other services	4	2
	320	331

[1]Full disclosure is given in the Directors' Remuneration Report on page 25.

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

	2008 £'000	2007 £'000
6. Finance costs		
Interest on bank loans and overdrafts measured at amortised cost	186	154
	186	154

	2008 £'000	2007 £'000
7. Taxation		
UK corporation tax	—	—
Overseas withholding tax	85	90
Current tax	85	90

The tax assessed for the year is higher (2007: higher) than the standard rate of corporation tax in the UK of 30% (2007: 30%). The differences are explained below:

	2008 £'000	2007 £'000
Net revenue loss on ordinary activities before taxation	(423)	(752)

	2008 £'000	2007 £'000
Net revenue loss on ordinary activities before taxation multiplied by the standard rate of corporation tax of 30% (2007: 30%)	(127)	(226)
Income taxed in different periods	—	(30)
Unrelieved expenses	127	256
Overseas taxation	85	90
	85	90

The Company has an unrecognised deferred taxation asset of £3,181,000 based on a prospective corporation tax rate of 28% (2007: £3,177,000 based on a corporation tax rate of 30%). This has arisen from deductible expenses exceeding 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.

8. Loss per share

The revenue loss per share is based on the revenue loss attributable to the ordinary shares of £508,000 (2007: £842,000 loss) and on the weighted average number of shares in issue throughout the year of 39,361,346 (2007: 39,409,423).

The capital loss per share is based on the capital loss attributable to the ordinary shares of £29,326,000 (2007: £52,807,000 loss) and on the weighted average number of shares in issue throughout the year of 39,361,346 (2007: 39,409,423).

The total loss per share is based on the total loss attributable to the ordinary shares of £29,834,000 (2007: £53,649,000 loss) and on the weighted average number of shares in issue throughout the year of 39,361,346 (2007: 39,409,423).

Notes to the Accounts continued

	2008 £'000	2007 £'000
9. Investments		
Investments listed on a recognised investment exchange	83,522	122,977
Opening book cost	124,884	153,397
Opening revaluation (losses)/gains	(1,907)	31,961
Opening valuation	122,977	185,358
Movement in the year:		
Purchases at cost	174,827	129,108
Sales – proceeds	(186,078)	(136,557)
Sales – realised losses on investments	(29,653)	(39,612)
Net movement in revaluation gains[1]	1,449	(15,320)
	83,522	122,977
Closing book cost	81,114	124,884
Closing revaluation gains/(losses)	2,408	(1,907)
	83,522	122,977

[1]During the year, prior year revaluation losses amounting to £2,866,000 have been transferred to realised losses as disclosed in note 13.

Transaction costs on purchases during the year amounted to £210,000 (2007: £187,000) and on sales during the year amounted to £198,000 (2007: £170,000). These costs comprise mainly broker commission.

	2008 £'000	2007 £'000
10. Current assets		
Debtors		
Securities sold for future settlement	1,049	26
Dividends and interest receivable	613	613
Other debtors	61	37
	1,723	676

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

Cash at bank and in hand

Cash at bank and in hand comprises bank balances and cash held by the Company, including short term bank 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.

	2008 £'000	2007 £'000
11. Creditors: amounts falling due within one year		
Bank loans	7,430	17,272
Securities purchased for future settlement	2,619	1,765
Other creditors and accruals	81	102
	10,130	19,139

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 6.0 billion floating rate loan facility with The Royal Bank of Scotland Plc, expiring on 30th June 2008. Interest is payable at Yen LIBOR at the time of the draw down, as offered in the market for the loan period, plus a margin of 0.45%. At 31st March 2008 the Company had drawn down Yen 1.47 billion on this facility in two tranches of Yen 1 billion and Yen 470 million. The interest rate on these loans was 1.30% and 1.36% respectively and both were repayable on 17th April 2008. At 31st March 2007 the Company had drawn down Yen 4.0 billion on a similar loan facility with The Royal Bank of Scotland Plc.

	2008 £'000	2007 £'000
12. Called up share capital		
Authorised share capital:		
100,000,000 ordinary shares of 10p each	10,000	10,000
Issued and fully paid share capital:		
Opening balance of 39,409,423 shares (2007: same)	3,940	3,940
Buyback of 100,000 shares (2007: nil)	(10)	—
Closing balance of 39,309,423 shares (2007: 39,409,423 shares)	3,930	3,940

	Other reserve[1] £'000	Capital redemption reserve £'000	Capital reserve – realised £000	Revaluation reserve £'000	Revenue reserve £'000
13. Reserves					
Opening balance	315,620	1,784	(205,461)	626	(10,206)
Currency gains on cash and short term deposits held during the year	—	—	529	—	—
Realised currency losses on Yen loan	—	—	(844)	—	—
Unrealised currency losses on Yen loan	—	—	—	(787)	—
Unrealised currency gains on Yen loan now realised	—	—	1,942	(1,942)	—
Realised losses on investments	—	—	(29,653)	—	—
Net movement in revaluation gains	—	—	—	1,449	—
Transfer on disposal of investments	—	—	(2,866)	2,866	—
Other capital charges	—	—	(20)	—	—
Shares bought back and cancelled	(193)	10	—	—	—
Net revenue loss for the year	—	—	—	—	(508)
Closing balance	315,427	1,794	(236,373)	2,212	(10,714)

[1]The share premium has been cancelled and redesignated as 'other reserve' for the purpose of financing share buybacks.

Notes to the Accounts continued

14. Net asset value per share

The net asset value per share is based on the net assets attributable to shareholders of £76,276,000 (2007: £106,303,000) and on the 39,309,423 (2007: 39,409,423) shares in issue at the year end.

	2008 £'000	2007 £'000
15. Reconciliation of total losses on ordinary activities before finance costs and taxation to net cash outflow from operating activities		
Total loss on ordinary activities before finance costs and taxation	(29,563)	(53,405)
Capital return before finance costs and taxation	29,326	52,807
Increase in accrued income	—	(93)
Increase in other debtors	(24)	(4)
Decrease in accrued expenses	(9)	(12)
Overseas taxation	(85)	(90)
Net cash outflow from operating activities	(355)	(797)

	At 31st March 2007 £'000	Cashflow £'000	Exchange movement £'000	At 31st March 2008 £'000
16. Analysis of changes in net debt				
Cash at bank and in hand	1,789	(1,157)	529	1,161
Bank loans and overdrafts falling due within one year	(17,272)	11,473	(1,631)	(7,430)
	(15,483)	10,316	(1,102)	(6,269)

17. Capital commitments and contingent liabilities

At the balance sheet date there were no capital commitments or contingent liabilities (2007: none).

18. Transactions with JPMorgan

Details of the management contract are set out in the Directors' Report on page 18. The management fee payable for the year was £1,321,000 (2007: £1,714,000) of which £nil (2007: £nil) was outstanding at the year end.

During the year £32,000 (2007: £36,000) was payable to JPMAM for the marketing of 'wrapper' products, of which £nil (2007: £8,000) was outstanding at the year end.

Included in other management expenses in note 5 on page 34 are safe custody fees payable to JPMAM group subsidiaries amounting to £14,000 (2007: £19,000) of which £7,000 (2007: £4,000) 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 JPMorgan Securities for the year was £11,000 (2007: £20,000) of which £nil (2007: £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 £20,000 (2007: £23,000) of which £13,000 (2007: £10,000) was outstanding at the year end.

The Company received £184,000 (2007: £161,000) from stock lending transactions during the year. JPMAM received commissions amounting to £46,000 (2007: £40,000) in respect of these transactions.

At the year end, a bank balance of £1,161,000 (2007: £1,789,000) was held with JPMorgan Chase. A net amount of interest of £4,000 (2007: £4,000) was received by the Company during the year from JPMorgan Chase.

19. Summary of financial assets and financial liabilities by category.

The carrying amounts of the Company's financial assets and financial liabilities at the balance sheet date are as follows. The accounting policies on pages 32 and 33 explain how the various categories of financial instruments are measured.

	2008 £'000	2007 £'000
Financial assets		
Financial assets at fair value through profit or loss		
Fixed asset investments – designated as such upon initial recognition	83,522	122,977
Loans and receivables		
Debtors (amounts due from brokers, income receivable, overseas tax and prepayments)	1,723	676
Cash and short term deposits	1,161	1,789
	2,884	2,465
Financial liabilities		
Measured at amortised cost		
Creditors: amounts falling due within one year (bank loans, amounts due to brokers and other creditors and accruals)	10,130	19,139

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 or a reduction in the profits available for dividends. These risks include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. 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.

A summary of the Company's financial assets and financial liabilities by category is given in note 19.

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 analysis where appropriate. The Board reviews and agrees policies for managing these risks, which 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

(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.

	2008 Yen £'000	2007 Yen £'000
Investments at fair value through profit or loss that are monetary items	—	—
Debtors (amounts due from brokers and income receivable)	1,662	639
Cash at bank	1,161	1,789
Bank loans	(7,430)	(17,272)
Creditors (amounts due to brokers)	(2,619)	(1,765)
Foreign currency exposure on net monetary items	(7,226)	(16,609)
Investments at fair value through profit or loss that are equities	83,522	122,977
Total net foreign currency exposure	76,296	106,368

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

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 assumes a 5% appreciation or depreciation in Sterling against the Yen, which is deemed reasonable based on the volatility of exchange rates during the year.

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

	2008 £'000	2007 £'000
Income statement revenue after taxation:		
Revenue return	61	64
Capital return	(361)	(830)
Total revenue after taxation for the year	(300)	(766)
Net assets	(300)	(766)

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

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

	2008 £'000	2007 £'000
Income statement revenue after taxation:		
Revenue return	(61)	(64)
Capital return	361	830
Total revenue after taxation for the year	300	766
Net assets	300	766

In the opinion of the Directors, the above sensitivity analysis is broadly representative of the whole year.

(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 term one month periods and therefore there is limited exposure to interest rate risk.

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

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 rates, giving cash flow interest rate risk when rates are re-set, is as follows:

	2008 £'000	2007 £'000
Amounts exposed to floating interest rates:		
Cash at bank	1,161	1,789
Creditors: amounts falling due within one year		
– borrowings on the loan facility	(7,430)	(17,272)
Total exposure	(6,269)	(15,483)

Interest receivable on cash balances is at a margin over LIBOR (2007: same).

The Company has arranged a Yen 6.0 billion floating rate loan facility with The Royal Bank of Scotland Plc, expiring on 30th June 2008. Interest is payable at Yen LIBOR at the time of the draw down, as offered in the market for the loan period, plus a margin of 0.45%. At 31st March 2008 the Company had drawn down Yen 1.47 billion on this facility in two tranches of Yen 1 billion and Yen 470 million. The interest rate on these loans was 1.30% and 1.36% respectively and both were repayable on 17th April 2008. At 31st March 2007 the Company had drawn down Yen 4.0 billion on a similar loan facility with The Royal Bank of Scotland Plc.

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

	2008 £'000	2007 £'000
Maximum interest rate exposure to floating rates	(15,483)	(24,728)
Minimum interest rate exposure to floating rates	(1,405)	(13,188)

Notes to the Accounts continued

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

Interest rate sensitivity

The following table illustrates the sensitivity of the revenue after taxation for the year and net assets to a 1.0% 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 reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2008		2007	
	Increase in rate £'000	Decrease in rate £'000	Increase in rate £'000	Decrease in rate £'000
Income statement - return after taxation:				
Revenue return	(63)	63	(155)	155
Net assets increase/(decrease)	(63)	63	(155)	155

In the opinion of the Directors, the above sensitivity analysis is not representative of the whole year as the level of exposure changes frequently as borrowings are drawn down and repaid during the year. During the year, the highest amount drawn down on the Loan Facility amounted to Yen 4.25 billion and the interest rate fluctuated between 1.1% and 1.4%.

(iii) Other price risk

Other price risks include 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:

	2008 £'000	2007 £'000
Equity investments at fair value through profit or loss	83,522	122,977

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 13 and 14. 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's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

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

Other price risk sensitivity

The following table illustrates the sensitivity of net assets to an increase or decrease of 10% in the fair value of the Company's equities. This level of change is considered to be reasonably possible 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.

	2008		2007	
	Increase in fair value £'000	Decrease in fair value £''000	Increase in fair value £'000	Decrease in fair value £'000
Income statement: revenue after taxation				
Revenue return – (decrease)/increase	(104)	104	(154)	154
Capital return – increase/(decrease)	8,352	(8,352)	12,298	(12,298)
Total return after taxation and net assets - increase/(decrease)	8,248	(8,248)	12,144	(12,144)

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in settling financial liabilities as they fall due.

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 41 and 42.

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:-

	2008		2007	
	Three months or less £'000	Total £'000	Three months or less £'000	Total £'000
Creditors: amounts falling due within one year				
Bank loans	7,430	7,430	17,272	17,272
Amounts due to brokers	2,619	2,619	1,765	1,765
Other creditors	81	81	102	102
	10,130	10,130	19,139	19,139

Notes to the Accounts continued

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

(c) Credit risk

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

Management of credit risk

This risk is considered not to be significant and is managed by:

- only dealing with brokers which have been approved by JPMAM and banks with high credit ratings assigned by international credit rating agencies; and
- setting limits to the maximum exposure to any one counterparty at any time.

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.

Cash at bank comprises balances held at banks with an AA credit rating (2007: same).

The aggregate value of securities on loan as at 31st March 2008 amounted to £13,135,000 and this was the highest value of securities loan during the year. Collateral, with a fair value equivalent to a minimum of 105% of the outstanding value of securities on loan is obtained by JPMorgan Chase & Co. as agent to the Company. Collateral acceptable under the Stock Lending Agreement may comprise: cash, British Government Stock, Sterling Issues by foreign governments, Sterling Certificates of Deposit and other securities with a similarly high credit rating.

(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 cost in the balance sheet is a reasonable approximation of fair value.

21. Capital management policies and procedures

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 balance of equity capital and debt.

The policy is that debt should be between 0% and 17% of total capital.

Composition of the Company's capital	2008 £'000	2007 £'000
Debt		
Loan facility with the Royal Bank of Scotland Plc	7,430	17,272
Equity		
Equity share capital	3,930	3,940
Reserves	72,346	102,363
	76,276	106,303
Total capital	83,706	123,575
Debt as a percentage of total capital	8.9%	14.0%

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 re- issues from Treasury.

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
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 was incorporated and took over its assets and undertakings. Dealings on the new Company began on the London Stock Exchange on 11th April 2000.

Company Numbers
Company's registration number: 3916716
London Stock Exchange number: 0316581/JPS
ISIN: GB0003165817
Bloomberg code: JPS LN

Market Information
The Company lists its shares on and publishes its estimated net asset value ('NAV') via the London Stock Exchange. The market price is shown daily in the Financial Times, The Times, the Daily Telegraph, The Scotsman, The Independent and on the JPMorgan website at www.jpmfjapanesesmallercompanies.co.uk, where the share price is updated every fifteen minutes during trading hours.

Website
www.jpmfjapanesesmallercompanies.co.uk

Share Transactions
The 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 Investment Trust Share Plan, Individual Savings Account ('ISA'), and the Pension Account.

Manager
JF Asset Management Limited.

Secretary
JPMorgan Asset Management (UK) Limited.

Company's Registered Office
Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ
Telephone number: 020 7742 6000

Please contact Andrew Norman for company secretarial and administrative matters at the Company's registered office.

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

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 their holdings on the internet by visiting www.shareview.co.uk.

Savings Products Administrators
For queries on the JPMorgan ISA, Share Plan or Pension Account, see contact details on the back cover of this report.

Auditors
Deloitte & Touche LLP
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

aic
The Association of Investment Companies
A member of the AIC

Shareholder Analysis

at 31st March 2008

	Number of shares	% Holding
Unit Trusts	13,190,090	33.6
Investment Trusts[1]	6,534,330	16.6
Pension Funds	4,545,124	11.6
Other Institutions	3,724,039	9.4
Insurance Companies	1,729,952	4.4
Total Institutions	29,723,535	75.6
Private Client Brokers	5,153,154	13.1
Retail investors holding shares directly or through nominee accounts[2]	3,373,024	8.6
Individuals in the Investment Trust Share Plan[3]	530,639	1.4
Individuals in the Investment Trust Individual Savings Account[3]	324,909	0.8
Individuals in the Investment Trust Pension Account[3]	167,731	0.4
Individuals in the Investment Trust Personal Equity Plan[3]	36,431	0.1
Total Retail Holdings	9,585,888	24.4
Total Shares in Issue	39,309,423	100.0

Nominee accounts have been allocated to their appropriate category.

[1]Includes 1,045,000 shares held by JPMorgan Elect plc.
[2]Includes shares below 10,000 threshold.
[3]Savings products managed by JPMorgan.
Source: Thomson Financial.

Notice of Meeting

Notice is hereby given that the eighth Annual General Meeting of JPMorgan Fleming Japanese Smaller Companies Investment Trust plc will be held at JPMorgan's offices at 60 Victoria Embankment (entrance located on John Carpenter Street) London EC4Y 0PJ on Thursday 24th July 2008 at 2.00 p.m. for the following purposes:

1 To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st March 2008.

2 To approve the Directors' Remuneration Report for the year ended 31st March 2008.

3 To re-elect Alan Clifton a Director of the Company.

4 To re-elect Bernard Grigsby a Director of the Company.

5 To re-appoint Deloitte & Touche LLP as Auditors to the Company and to authorise the Directors to agree their remuneration.

Special Business:

To consider the following resolutions:

Authority to allot new shares – Ordinary Resolution

6 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 Section 80 of the Companies Act 1985 (the 'Act') to exercise all the powers for the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £393,094, representing approximately 10% of the Company's issued ordinary share capital 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 2009 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 relevant securities to be allotted after such expiry and so that the Directors of the Company may allot relevant 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

7 THAT subject to the passing of Resolution 6 set out above, the Directors of the Company be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the 'Act') to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by Resolution 7 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £393,094, representing approximately 10% of the total ordinary share capital 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 at the conclusion of the Annual General Meeting of the Company to be held in 2009 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 pursuant of such offers, agreements or arrangements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

8 THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of Section 163 of the Act) of its issued shares of 10 pence each in the capital of the Company

PROVIDED ALWAYS THAT

(i) the maximum number of shares hereby authorised to be purchased shall be 5,892,482 or if less, that number of shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this resolution;

(ii) the minimum price which may be paid for an share shall be 10 pence;

Notice of Meeting continued

(iii) the maximum price which may be paid for an share shall be an amount equal to the highest of (a) 105% of the average of the middle market quotations for an 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 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 23rd January 2010 unless the authority is renewed at the Company's Annual General Meeting in 2009 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 shares from Treasury – Special Resolution

9 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 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 £393,094, representing approximately 10% of the total share capital in issue 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 shares and such sale prices that, in the year to the Company's 2009 Annual General Meeting, the aggregate dilution associated with all the sales does not exceed 1.00 pence per share, being approximately 0.5% of the NAV per share as at 31st March 2008.

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

10 THAT subject to the passing of resolution 9 set out above, the Directors of the Company be and they are hereby empowered pursuant to Section 95 of the Act to allot (within the meaning of Section 94 (3A) of the Act) equity securities (within the meaning of Section 94(2) of the Act) wholly for cash as if Section 89(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 94(3A) of the Act) of equity securities for cash out of Treasury up to an aggregate nominal amount of £393,094, representing approximately 10% of the Company's total share capital in issue as at the date of the passing of this resolution and shall expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2009, or fifteen months after the date of the passing of this resolution, 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

11 THAT the Articles of Association, contained in the document produced to the meeting and signed by the Chairman for the purposes of identification, be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the 2008 Annual General Meeting.

By order of the Board
Andrew Norman, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
17th June 2008

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 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.

4 Any instrument appointing a proxy, to be valid,must be lodged in accordance with the instructions given on the proxy form.

5 You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to 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 sent shall be treated as replacing and revoking the other or others.

6 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 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 days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice.

7 Entry to the Meeting will be restricted to shareholders, with guests admitted only by prior arrangement.

8 A corporation, which is a shareholder, may appoint individuals to act as its representatives and to vote in person at the Meeting (see instructions given on the proxy form). In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that (i) if a corporate shareholder has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the Meeting but the corporate shareholder has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.

9 The register of interests of the Directors and connected persons in the share capital of the Company is 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.

10 No Director has any contract of service with the Company.

11 As at 16th June 2008 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 39,309,423 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 39,309,423.

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 11

The Companies Act 2006 (the '2006 Act'), which is replacing the Companies Act 1985 (the '1985 Act') is being implemented in stages and will be fully in force by 1st October 2009. Under resolution 11, the Company is proposing to adopt new Articles of Association (the 'new Articles') which will reflect the changes in company law brought about by the 2006 Act which are already in force or which are to come into effect on 1st October 2008, as well as some minor technical or clarifying changes. The new Articles will also generally update the Articles of Association for current law regulation and market practice.

1. Transfer of shares (Articles 31 and 32)

Under the 2006 Act, a company must either register a transfer or give the transferee notice of, and reasons for, its refusal to register the transfer. Any registration of a transfer or notice of refusal must be made or given as soon as practicable and in any event within two months from the date that the transfer is lodged with the company. The new Articles reflect these requirements.

2. Disclosure of interests (Article 45)

The provisions relating to the disclosure of interests in shares contained in the 1985 Act, including Section 212 on company investigation powers, were repealed in January 2007. Section 793 and related sections in Part 22 of the 2006 Act, which contain the corresponding company investigation powers previously contained in Section 212, were brought into force simultaneously. Article 45 reflects the replacement of Section 212 of the 1985 Act with Section 793 of the 2006 Act.

3. Notice of general meetings (Article 52 and 53)

The provisions in the new Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are in line with the relevant provisions of the 2006 Act. In particular, a general meeting (other than the annual general meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

The amendment to Article 53 deals with situations where, because of a postal strike or similar situation beyond the control of the Company, a notice of meeting is not received by a shareholder. The amendment will ensure that such failure does not invalidate proceedings at the meeting in question.

4. Quorum (Article 54)

Article 54 makes it clear that two persons who are proxies for the same member or representatives of the same body corporate can constitute a quorum.

5. Attending and speaking at meetings (Article 60)

Article 60 of the new Articles provides that the Chairman of the meeting may permit non-members or persons who are not entitled to exercise the rights of members to attend and, at the Chairman's discretion, speak at a general meeting.

6. Polls (Article 66)

Article 66 clarifies that a poll may be demanded before a show of hands, as well as immediately after the result of a show of hands, and to give the directors the right to demand a poll as well as the Chairman of the meeting.

7. Votes of members, proxies and corporate representatives (Articles 73, 79 and 85)

Under the 2006 Act, proxies are entitled to vote on a show of hands as well as on a poll, and members may appoint a proxy to exercise all or any of their rights to attend, speak and vote at meetings. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share or shares. The new Articles reflect these new proxy rights. The 2006 Act also provides for multiple corporate representatives to be appointed and the Articles therefore refer to the right to appoint multiple corporate representatives.

8. Receipt of appointments of proxy and termination of proxy authority (Articles 82 and 83)

Article 82 provides that proxies for a poll to be taken after the date of a meeting or adjourned meeting must be received not less than 24 hours, or such shorter time as the directors may determine, before the time of the poll. The deadlines for receipt of termination of proxy authority have been brought into line with the deadlines for receipt of proxies. Article 82 also permits the directors to specify, in a notice of meeting, that in determining the time for delivery of proxies, no account shall be taken of non-working days.

9. Directors' appointments, interests and conflicts of interest (Articles 107 and 108)

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1st October 2008 a director has a statutory duty to avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate, if the articles of association contain a provision to this effect. The 2006 Act also allows the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

Article 107, which is the provision for dealing with conflicts, 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. It confirms that such interests, offices or employment will not infringe the conflicts duty as codified in the 2006 Act.

Article 108 gives the directors authority to approve conflict situations including other directorships held by the company's directors and include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards that will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

The proposed Article 108 also 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 has previously been authorised by the directors.

It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

10. Permitted interests and voting (Article 117)

The provisions which previously deemed certain interests of a director's connected persons to be the interests of the director himself for the purposes of this article have been deleted. There is no requirement in the 2006 Act to include such a provision and the 2006 Act contains a much wider definition of 'connected person' of a director. The director and the Company must still take a view each time a matter is being considered as to whether the interests of the director's connected persons mean that the director should be treated as interested for the purposes of this article.

11. Making and retention of minutes (Article 120)

Article 120 contains a new provision to the effect that minutes must be retained for at least 10 years, reflecting the relevant provision of the 2006 Act. (No minimum retention time was previously specified.)

12 The seal (Articles 122 and 123)

Article 122 provides that instruments (other than share certificates) to which the seal is affixed shall be signed by two authorised persons or by a director in the presence of a witness, whereas previously the requirement was for signature by either the director and secretary or two directors.

13. Notices and other communications (Articles 81, 137-146)

The 2006 Act enables companies to communicate with their members by electronic communication to a greater extent than previously permitted. Article 138 will provide the Company with a general power to send or supply any notice, document or information to any member by a variety of methods – in person, by post or in electronic form (such as by email), or by making it available on the Company's website. In addition to any notice, document or information which is specifically required to be sent or supplied under the 2006 Act, the Company will also be able to send any other document or information to members using this variety of methods.

Article 81 allows proxies to be sent or supplied in electronic form and, where the Company gives an electronic address in a form of proxy, shareholders may send the appointment of proxy to that electronic address, subject to any conditions or limitations specified in the relevant notice of meeting.

The Company may ask each member for his or her consent to receive communications from the Company via its website. If the member does not respond to the request for consent within 28 days, the Company may take that as consent by the member to receive communications in this way. If the Company sends or supplies any notice, document or information to members by making it available on the Company's website, it must notify each member who has consented (or is deemed to have consented) to receive documents via the website, either by post or by email (if the member has specifically agreed to receive communications in electronic form), that the notice, document or information has been placed on the website. A member who has consented or is deemed to have consented to receive communications via the website can request a hard copy of any document at any time. Members can also revoke their consent to receive electronic communications at any time by giving notice in writing to the Company.

In relation to joint holders of shares, Article 138(3) provides that the agreement of the first-named holder on the register of members to accept notices, documents or information electronically or via a website shall be binding on the other joint holders. Article 138(4) permits the Company not to send or supply any notice, document or information to a member whose registered address is not in the United Kingdom unless that member gives a non-electronic address in the United Kingdom.

Appendix continued

Articles 138(5) and 138(6) cater for situations where the provision of corporate information in electronic form or via a website may amount to a breach of securities laws of another jurisdiction. The Company may send hard copies if it needs to restrict the circulation of information in certain circumstances, such as for US securities law reasons.

Article 145 deals with notices, documents or information sent by the Company to a member which have been returned undelivered on three consecutive occasions. The member will only be entitled to be sent further communications upon provision of a new postal or electronic address to the Company.

Article 146 is included to deal with the validation of documents in electronic form by members where required by the Articles. In the case of notices of meetings or proxies, any validation requirements must be specified in the notice.

14. Power to indemnify directors (Article 149)

The law governing the giving by a company of indemnities to directors of that company or an associated company was amended in 2005 and further amended by the 2006 Act. In particular, a company may now, inter alia, do the following: (i) in the case of liabilities arising from actions brought by third parties (other than regulatory authorities or criminal prosecutors), both the costs (of the director and of the third party) and any damages may be paid by the company even if the judgement goes against the director; (ii) in the case of liabilities arising from actions brought by the company or an associated company, the company will not be able to indemnify a director against damages awarded to the company itself but may pay the directors' defence costs as they are incurred (although a director would be liable to repay his defence costs if his defence was to be unsuccessful); (iii) the company will not be permitted to indemnify directors against criminal fines, fines by regulators or the legal costs of successful criminal proceedings against directors; and (iv) a company may, subject to the provisions of the 2006 Act, indemnify a director of an associated company that is the trustee of an occupational pension scheme, taking advantage of the qualifying pension scheme indemnity provision in the 2006 Act.

As a result of the above, the directors' indemnity provisions of the Articles of Association have been amended. Article 149 has now been drafted as a permissive provision that gives the Company a broad power to indemnify a director, subject to the provisions of the 2006 Act. Article 148 also permits the maintenance by the Company of liability insurance for directors and it specifically makes it clear that the Company may, subject to the provisions of the 2006 Act, indemnify a director of an associated company that is the trustee of an occupational pension scheme, taking advantage of the qualifying pension scheme indemnity provision in the 2006 Act.

Glossary of Terms

Return to shareholders
Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received (net of tax) were reinvested in the shares of the Company at the time the shares were quoted ex-dividend. Transaction costs of reinvestment are not taken into account.

Return on net assets
Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company (net of tax) were reinvested in the shares of the Company at 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 (net of tax) 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 stated index.

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 was to increase by 100%.

Total Expense Ratio ('TER')
Management fees and all other operating expenses, excluding interest, expressed as a percentage of the average of the opening and closing net assets. The method of calculating the TER has been changed and prior years restated. In prior years the TER was: Management fees and all other operating expenses (including tax relief where applicable but excluding interest) expressed as a percentage of the average month end net assets over the year. The reason for the change is to bring the method into line with industry practice and to make the calculation more transparent, as all the numbers now used in the calculation are extracted from the audited accounts.

Discount/Premium
If the share price of an investment company is lower than the NAV per share, the Company's 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 trust Company's shares to trade at a discount than a premium.

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

Performance Attribution Definitions:

Asset 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.

Share Repurchases
Measures the effect on relative performance of decreasing the number of shares in issue.

Residual
Arises when there is a divergence between total return as calculated by Fundamental Data (includes dividends paid out by the Investment Trust) and total return from the attribution systems (includes dividend income received in on the stocks held by the Investment Trust). This is a result of methodologies and timing differences.

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