

# Half Year Report 09

## JPMorgan Fleming Japanese Smaller Companies Investment Trust plc

Half Year Report & Accounts for the six months ended 30th September 2009

# Features

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### Objective

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

### Investment Policies

- To maintain a portfolio almost wholly invested in Japan.
- To restrict the Company's investment universe to all Japanese quoted companies excluding the largest 200 measured by market capitalisation.
- To utilise borrowings to enhance shareholder returns.
- To operate a gearing policy for the Company 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).

### Benchmark

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

### Capital Structure

The Company has an authorised share capital of 100,000,000 Ordinary shares of 10p each (of which 39,329,986 were in issue at 30th September 2009, including 396,000 shares held in Treasury) and 10,000,000 Subscription shares of 1p each (of which 7,778,310 were in issue at 30th September 2009).

### Management Company

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

# Half Year Performance

Total Returns (capital plus income)

## +44.9%

Unit return to shareholders<sup>1,2</sup>

## +40.6%

Return to Ordinary shareholders<sup>2</sup>

## +36.3%

Undiluted return on net assets<sup>2</sup>

## +30.8%

Diluted return on net assets<sup>2,3</sup>

## +22.3%

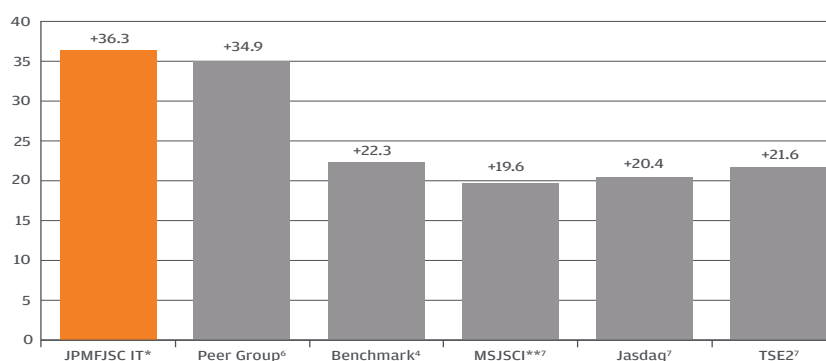
Benchmark return<sup>4</sup>

## Financial Data

	30th September 2009	31st March 2009	% change
Shareholders' funds (£'000)	69,953	51,306	+36.3
Ordinary shares in issue <sup>5</sup>	38,933,986	38,913,423	
Net asset value per Ordinary share	179.7p	131.8p	+36.3
Diluted net asset value per Ordinary share <sup>3</sup>	172.1p	131.6p	+30.8
Ordinary share price	152.5p	108.5p	+40.6
Ordinary share price discount to diluted net asset value per share	11.4%	17.6%	
Subscription share price	43.0p	13.5p	+218.5
Subscription shares in issue	7,778,310	7,798,873	

## Japanese Smaller Companies Indices

(returns for the six months ended 30th September 2009)



\* JPMorgan Fleming Japanese Smaller Companies Investment Trust plc.

\*\* Morgan Stanley Japanese Small Cap Index.

A glossary of terms and definitions is provided on page 15.

<sup>1</sup>A 'Unit' comprises 5 Ordinary shares and 1 Subscription share.

<sup>2</sup>Source: J.P. Morgan.

<sup>3</sup>Assumes that all shares held in Treasury at the balance sheet date were reissued in accordance with the Board's policy on the reissuance of Treasury shares and all Subscription shares outstanding at the balance sheet date were converted into Ordinary shares at the earliest opportunity.

<sup>4</sup>Source: Datastream. The Company's benchmark is the S&P/Citigroup Japan Extended Market Index (Total Return Net) in sterling terms.

<sup>5</sup>Excludes 396,000 (31st March 2009: 396,000) shares held in Treasury.

<sup>6</sup>Source: Morningstar, Japanese smaller companies sector median.

<sup>7</sup>Source: Bloomberg.

# Chairman's Statement



## Performance

During the six months to 30th September 2009 the Japanese smaller companies market benefited from a strong recovery in Asian equities, as signs of an improving global economy lifted investor sentiment. It is pleasing to report that, during this period, the Company was able to pull back some of the poor performance from the previous year with a positive portfolio return of 36.3%. This compares favourably with an increase of 22.3% from the Company's benchmark, the S&P/Citigroup Japan Extended Market Index (total return net). The diluted total return on net assets, which assumes that all of the Subscription shares were exercised at the rate of 135 pence per share and that all Treasury shares were re-issued in accordance with the Board's policy on the re-issuance of Treasury shares, increased by 30.8%. Over the same period, the Company's Ordinary share price return rose by 40.6% and the Subscription share price return was 218.5%. The Company's 'Unit' share price return, which comprises the total return from 5 Ordinary shares and 1 Subscription share (as issued to shareholders on 5th March 2009) was 44.9%.

## Gearing

The Company has a Japanese Yen 2.0bn credit facility with ING Bank which gives the investment managers the ability to gear tactically. The Board has given the investment managers the flexibility to set gearing within the range of 90% to 120% invested. During the period the level of gearing has ranged between 105% and 120%, ending the half year at 118%.

## Subscription Shares

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

During the six months to 30th September 2009 and up to the date of this report, the Company has issued 30,032 Ordinary shares following the exercise of Subscription shares, amounting to proceeds of £41,000. Further details of the Subscription shares can be found on page 14 of this report and on the Company's website at [www.jpmpjapanesesmallercorporations.co.uk](http://www.jpmpjapanesesmallercorporations.co.uk)

## Share Issues and Repurchases

During the reporting period and up to the date of this report the Company has repurchased 23,500 Ordinary shares into Treasury for a total consideration of £34,000. Other than the exercise of Subscription shares, the Company has not issued any Ordinary shares during this period.

## Outlook

Whilst it is encouraging to note the recent good performance of the Japanese smaller companies market, it is too early to tell if the momentum is sustainable and, for the short term at least, high levels of volatility look set to continue. The Bank of Japan's tight monetary policy has impeded the recovery of the Japanese market of late, although this is expected to ease towards the end of the calendar year. Low valuations, improving earnings momentum and recent government policy initiatives appear to be supportive to the Japanese smaller companies sector and, with this in mind, the Board remains confident that the Company can continue to build on its better recent performance.

**Alan Clifton**

Chairman

27th November 2009

# Investment Managers' Report



David Mitchinson



Nicholas Weindling

## Performance

The six months to 30th September 2009 opened with Japanese smaller companies trading at their lowest valuation levels for more than 30 years. We had believed for some time that the market was offering exceptional value, but also recognised that a catalyst was lacking. We had tried to position the portfolio with a bullish approach, preparing for an eventual upturn in the market. The massive liquidity injection by global authorities and the pick up in production after the near death experience of many companies in the autumn of last year, turned the global business cycle around. Japan, as a cyclical market and one highly dependent on global demand, also began to see these benefits. A combination of cheaply valued stocks and improving corporate news helped push share prices higher. The Japanese market continues to lag behind other global markets, leaving valuations at very cheap levels, but with the economy improving. Even the much maligned Japanese domestic economy is showing signs of bottoming out, which some of our holdings are exploiting very successfully.

## Politics

The lower house election on 30th August 2009 brought about the most significant change in the Japanese political landscape for decades. The opposition Democratic Party of Japan (DPJ) swept to a landslide victory pushing aside the Liberal Democratic Party (LDP). This is the first time since 1950 that any party other than the LDP has held a majority. The DPJ, under Yukio Hatoyama, has a strong mandate to push through much needed reforms which could reinvigorate the inefficient domestic economy. In the long-term view there is no doubt that it will be positive if Japan can become a country with two distinct parties offering a real choice to voters. There is much that is laudable within the new ruling party's manifesto, not least a desire to boost domestic demand, a realisation that Japan's future lies in Asia and a focus on the environment. So far the government's inexperience has shone through with confusion surrounding their policies on the yen after the Ministry of Finance head Hirohisa Fujii stated that he supported a strong yen, but then quickly retracted his comments. The DPJ has also proposed a small company support scheme, announced as a debt moratorium, but in reality more of a credit guarantee scheme. This is especially targeted at very small companies where banks may have been cutting credit lines and imposing tougher fees. The DPJ is understandably focused on delivering its core manifesto commitments of improving the Japanese social welfare net, reforming bureaucratic abuses, and supporting workers. So far it has neglected longer term fiscal reform and macroeconomic policy measures, which action, however, markets rate more highly.

## Currency

This year, the strengthening yen has undoubtedly hurt the recovery in Japan. Against some important export markets such as Indonesia, the yen remains 20% higher than last year. This yen shift is enough to hide significant increases in volumes by companies operating there. The Japanese policymakers are operating a very tight monetary policy compared to other developed economies by refusing to expand the central bank balance sheet and inject liquidity aggressively into the market. The monetary policy stance sends a contractionary message to firms and individuals. Our expectation over the medium term is that the Japanese currency, compared to some Asian and commodity currencies, will regain competitiveness. A key driver in this will be increased interest rates in countries like Australia, India and other Asian economies. The widening interest rate gap between Japan and other countries

# Investment Managers' Report continued

should weaken the yen, increasing competitiveness and providing an export boost to the economy. Within the portfolio we have been investing in companies that are highly exposed to Asia to benefit from this longer term trend.

## **Portfolio**

During the period under review, the Company ran with a significant weighting in technology stocks, reflecting our belief that we are entering a new technology cycle. The proliferation in new handheld devices and methods of interacting with content are driving a much broader and wider technology cycle than those based on a narrow category such as PC's. We have also invested in a number of internet companies focused on mobile content. The rapid improvement in network speed and handsets is offering these companies the opportunity to create new businesses.

Over the past few months we have been steadily increasing our weightings in real estate stocks and we also purchased some very beaten down low cost housing shares. With cheap land and low construction prices, they are able to offer everyday Japanese a compellingly priced house. We expect their strong sales performance to continue as many of their former competitors have been wiped out by the financial crisis. It is worth noting that the Japanese housing market remains weak and that most companies are performing badly, but not all.

One theme that seems set to remain an extremely important long term driver is the rapidly rising importance of Asia as a source of earnings for many Japanese companies. This comes from as diverse sectors as Chinese purchases of childcare products, to Indonesian sales of hair wax, Indian paint, to the more obvious machinery and car components. Increasingly, we can buy 'Asian' companies that just happen to be listed in Japan and usually at a substantial discount to those trading on Asian bourses.

## **Market Outlook**

The Japanese smaller companies market offers a diverse range of exciting investments at the moment. The depressing news of last year has been replaced by a more positive outlook, yet valuations remain at rock bottom levels. We can see more and more companies expressing a cautiously positive view and earnings are generally being revised up. Those firms geared most tightly to technology and the emerging worlds have performed the best and we think they will continue to do well. At the same time, the dislocation has offered opportunities for many companies in domestic Japan with low valuations. Sentiment is so depressed that any positive news flow could boost their share prices sharply higher. The Company is fully invested and reflects a positive pro-growth and pro-cyclical investment outlook that we hope will be rewarded in the second half of this year.

**David Mitchinson**  
**Nicholas Weindling**  
Investment Managers

27th November 2009

# Ten Largest Investments

at 30th September 2009

Company	Code	Sector	Valuation £'000	Total Assets % <sup>1</sup>
Disco	6146	Machinery	3,391	4.0
Haseko	1808	Construction	3,029	3.6
Trancom	9058	Warehouse & Harbour Transportation	2,429	2.9
Osaka Securities Exchange	8697	Other Financing Business	2,351	2.8
Gree	3632	Information & Communication	2,265	2.7
Yokogawa Electric	6841	Electric Appliances	2,024	2.4
THK	6481	Machinery	1,908	2.3
Showa Aircraft Industry	7404	Transportation Equipment	1,769	2.1
Mimasu Semiconductor Industry	8155	Metal Products	1,672	2.0
GMO Internet	9449	Information & Communication	1,656	2.0
<b>Total</b>			<b>22,494</b>	<b>26.8</b>

<sup>1</sup>Based on total assets less current liabilities of £83.9m, other than loan balances falling due within 1 year. At 31st March 2009, the value of the ten largest investments amounted to £14.2m, representing 23.0% of total assets less current liabilities other than loan balances falling due within 1 year.

# Sector Analysis

	at 30th September 2009		at 31st March 2009	
	Portfolio % <sup>1</sup>	Benchmark %	Portfolio % <sup>1</sup>	Benchmark %
Machinery	12.5	7.4	7.5	6.4
Services	11.5	4.4	14.0	4.5
Electric Appliances	8.7	8.6	1.4	7.8
Information & Communication	8.3	5.0	11.3	4.7
Retail Trade	6.9	8.8	11.8	8.8
Real Estate	6.7	6.3	4.5	5.7
Transportation Equipment	6.2	3.2	1.4	2.5
Warehousing & Harbour Transportation	5.4	0.6	2.1	0.7
Other Financing Business	5.3	1.4	3.7	1.2
Construction	4.5	4.9	1.7	5.1
Land Transportation	3.6	2.0	3.2	3.0
Nonferrous Metals	3.0	1.9	1.9	1.7
Wholesale Trade	2.9	5.2	1.4	5.3
Other Products	2.7	2.6	0.3	2.6
Securities & Commodity Futures	2.4	1.2	0.7	1.3
Iron & Steel	2.1	2.1	1.3	1.7
Metal Products	2.0	1.4	2.2	1.8
Chemicals	1.8	8.6	0.7	7.7
Precision Instruments	0.8	1.1	0.7	0.9
Pharmaceuticals	0.6	2.4	4.5	2.9
Glass & Ceramics Products	0.5	1.5	1.7	1.4
Banks	–	8.4	–	10.7
Foods	–	4.7	3.4	5.3
Textile & Apparels	–	2.7	–	2.6
Pulp & Paper	–	1.0	–	1.1
Rubber Products	–	0.8	–	0.7
Fishery Agriculture & Forestry	–	0.6	–	0.7
Electric Power & Gas	–	0.5	–	0.6
Marine Transportation	–	0.3	–	0.3
Mining	–	0.2	–	0.1
Oil & Coal	–	0.1	–	0.1
Insurance	–	0.1	–	0.1
Net Current Assets <sup>2</sup>	1.6	–	18.6	–
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	100.0	100.0

<sup>1</sup>Based on total assets less current liabilities of £83.9m (31st March 2009: £61.9m) other than loan balances falling due within 1 year.

<sup>2</sup>Calculated before deducting loan balances falling due within one year.

# Income Statement

for the six months ended 30th September 2009

	(Unaudited) Six months ended 30th September 2009			(Unaudited) Six months ended 30th September 2008			(Audited) Year ended 31st March 2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Gains/(losses) on investments held at fair value through profit or loss</b>	–	19,642	19,642	–	(17,421)	(17,421)	–	(22,282)	(22,282)
Net foreign currency losses	–	(628)	(628)	–	(36)	(36)	–	(1,811)	(1,811)
Income from investments	371	–	371	370	–	370	1,215	–	1,215
Other interest receivable and similar income	3	–	3	158	–	158	206	–	206
<b>Gross return/(loss)</b>	<b>374</b>	<b>19,014</b>	<b>19,388</b>	528	(17,457)	(16,929)	1,421	(24,093)	(22,672)
Management fee	(439)	–	(439)	(494)	–	(494)	(945)	–	(945)
Other administrative expenses	(174)	–	(174)	(164)	–	(164)	(585)	–	(585)
<b>Net (loss)/return on ordinary activities before finance costs and taxation</b>	<b>(239)</b>	<b>19,014</b>	<b>18,775</b>	(130)	(17,457)	(17,587)	(109)	(24,093)	(24,202)
Finance costs	(133)	–	(133)	(105)	–	(105)	(191)	–	(191)
<b>Net (loss)/return on ordinary activities before taxation</b>	<b>(372)</b>	<b>19,014</b>	<b>18,642</b>	(235)	(17,457)	(17,692)	(300)	(24,093)	(24,393)
Taxation	(22)	–	(22)	(26)	–	(26)	(85)	–	(85)
<b>Net (loss)/return on ordinary activities after taxation</b>	<b>(394)</b>	<b>19,014</b>	<b>18,620</b>	(261)	(17,457)	(17,718)	(385)	(24,093)	(24,478)
<b>(Loss)/return per Ordinary share - undiluted</b> (note 3)	<b>(1.01)p</b>	<b>48.85p</b>	<b>47.84p</b>	(0.66)p	(44.41)p	(45.07)p	(0.98)p	(61.45)p	(62.43)p
<b>(Loss)/return per Ordinary share - diluted</b> (note 3)	<b>(1.01)p</b>	<b>48.60p</b>	<b>47.59p</b>	(0.66)p	(44.41)p	(45.07)p	(0.98)p	(61.45)p	(62.43)p

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

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

# Reconciliation of Movements in Shareholders' Funds

Six months ended 30th September 2009 (Unaudited)	Called up share capital £'000	Share premium £'000	Other reserve £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>At 31st March 2009</b>	4,008	–	314,857	1,794	(258,254)	(11,099)	<b>51,306</b>
Issue of Ordinary shares on exercise of Subscription shares	2	25	–	–	–	–	<b>27</b>
Net return/(loss) on ordinary activities	–	–	–	–	19,014	(394)	<b>18,620</b>
<b>At 30th September 2009</b>	<b>4,010</b>	<b>25</b>	<b>314,857</b>	<b>1,794</b>	<b>(239,240)</b>	<b>(11,493)</b>	<b>69,953</b>

Six months ended 30th September 2008 (Unaudited)	Called up share capital £'000	Share premium £'000	Other reserve £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>At 31st March 2008</b>	3,930	–	315,427	1,794	(234,161)	(10,714)	<b>76,276</b>
Net loss on ordinary activities	–	–	–	–	(17,457)	(261)	<b>(17,718)</b>
<b>At 30th September 2008</b>	<b>3,930</b>	<b>–</b>	<b>315,427</b>	<b>1,794</b>	<b>(251,618)</b>	<b>(10,975)</b>	<b>58,558</b>

Year ended 31st March 2009 (Audited)	Called up share capital £'000	Share premium £'000	Other reserve £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>At 31st March 2008</b>	3,930	–	315,427	1,794	(234,161)	(10,714)	<b>76,276</b>
Shares bought into Treasury	–	–	(492)	–	–	–	<b>(492)</b>
Bonus issue of Subscription shares	78	–	(78)	–	–	–	<b>–</b>
Net loss on ordinary activities	–	–	–	–	(24,093)	(385)	<b>(24,478)</b>
<b>At 31st March 2009</b>	<b>4,008</b>	<b>–</b>	<b>314,857</b>	<b>1,794</b>	<b>(258,254)</b>	<b>(11,099)</b>	<b>51,306</b>

# Balance Sheet

at 30th September 2009

	(Unaudited) 30th September 2009 £'000	(Unaudited) 30th September 2008 £'000	(Audited) 31st March 2009 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	82,573	62,624	50,409
<b>Current assets</b>			
Debtors	2,050	2,886	1,499
Cash and short term deposits	2,230	8,272	12,042
	4,280	11,158	13,541
<b>Creditors:</b> amounts falling due within one year	<b>(16,900)</b>	(15,224)	(12,644)
<b>Net current (liabilities)/assets</b>	<b>(12,620)</b>	(4,066)	897
<b>Total assets less current liabilities</b>	<b>69,953</b>	58,558	51,306
<b>Total net assets</b>	<b>69,953</b>	58,558	51,306
<b>Capital and reserves</b>			
Called up share capital	4,010	3,930	4,008
Share premium	25	–	–
Other reserve	314,857	315,427	314,857
Capital redemption reserve	1,794	1,794	1,794
Capital reserve	(239,240)	(251,618)	(258,254)
Revenue reserve	(11,493)	(10,975)	(11,099)
<b>Shareholders' funds</b>	<b>69,953</b>	58,558	51,306
<b>Net asset value per Ordinary share - undiluted</b> (note 4)	<b>179.7p</b>	149.0p	131.8p
<b>Net asset value per Ordinary share - diluted</b> (note 4)	<b>172.1p</b>	149.0p	131.6p

# Cash Flow Statement

for the six months ended 30th September 2009

	(Unaudited) Six months ended 30th September 2009 £'000	(Unaudited) Six months ended 30th September 2008 £'000	(Audited) Year ended 31st March 2009 £'000
<b>Net cash (outflow)/inflow from operating activities</b> (note 5)	(135)	155	17
<b>Net cash outflow from return on investments and servicing of finance</b>	(117)	(53)	(180)
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b>	(12,268)	1,265	10,118
<b>Net cash inflow/(outflow) from financing</b>	3,055	5,189	(804)
<b>(Decrease)/increase in cash for the period</b>	<b>(9,465)</b>	6,556	9,151
<b>Reconciliation of net cash flow to movement in net debt</b>			
Net cash movement	(9,465)	6,556	9,151
Net loans (drawdown)/repaid	(3,091)	(5,190)	376
Exchange movements	(628)	(36)	(1,811)
Movement in net funds/debt in the period	<b>(13,184)</b>	1,330	7,716
Net funds/(debt) at the beginning of the period	<b>1,447</b>	(6,269)	(6,269)
<b>Net (debt)/funds at the end of the period</b>	<b>(11,737)</b>	(4,939)	1,447
Represented by:			
Cash and short term deposits	<b>2,230</b>	8,272	12,042
Debt falling due within one year	<b>(13,967)</b>	(13,211)	(10,595)
<b>Net (debt)/funds at the end of the period</b>	<b>(11,737)</b>	(4,939)	1,447

# Notes to the Accounts

for the six months ended 30th September 2009

## 1. Financial statements

The information contained within the Financial Statements in this half year report has not been audited or reviewed by the Company's auditors.

The figures and financial information for the year ended 31st March 2009 are extracted from the latest published accounts of the Company. These are an extract only and do not constitute the full statutory accounts. Those accounts have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

## 2. Accounting policies

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' issued in January 2009.

All of the Company's operations are of a continuing nature.

The accounting policies applied in these half year accounts are consistent with those applied in the accounts for the year ended 31st March 2009.

## 3. (Loss)/return per Ordinary share

	(Unaudited) Six months ended 30th September 2009 £'000	(Unaudited) Six months ended 30th September 2008 £'000	(Audited) Year ended 31st March 2009 £'000
(Loss)/return per Ordinary share is based on the following:			
Revenue loss	(394)	(261)	(385)
Capital return/(loss)	19,014	(17,457)	(24,093)
Total return/(loss)	18,620	(17,718)	(24,478)
Weighted average number of Ordinary shares in issue during the period used for the purpose of the basic (undiluted) calculation	38,924,543	39,309,423	39,207,211
Weighted average number of Ordinary shares in issue during the period used for the purpose of the diluted calculation	39,123,442	39,309,423	39,207,211
<b>Basic (undiluted)</b>			
Revenue loss per Ordinary share	(1.01)p	(0.66)p	(0.98)p
Capital return/(loss) per Ordinary share	48.85p	(44.41)p	(61.45)p
Total return/(loss) per Ordinary share	47.84p	(45.07)p	(62.43)p
<b>Diluted</b>			
Revenue loss per Ordinary share	(1.01)p	(0.66)p	(0.98)p
Capital return/(loss) per Ordinary share	48.60p	(44.41)p	(61.45)p
Total return/(loss) per Ordinary share	47.59p	(45.07)p	(62.43)p

# Notes to the Accounts continued

## 4. Net asset value per Ordinary share

### Undiluted

The undiluted net asset value per Ordinary share is calculated by dividing shareholders' funds by the number of Ordinary shares in issue at 30th September 2009 of 38,933,986 (30th September 2008: 39,309,423 and 31st March 2009: 38,913,423), excluding shares held in Treasury.

### Diluted

The diluted net asset value per Ordinary share is calculated assuming that all shares held in Treasury at the balance sheet date were re-issued in accordance with the Board's policy on the re-issuance of Treasury shares and all Subscription shares outstanding at the balance sheet date were converted into Ordinary shares at the earliest opportunity. The Board will only re-issue shares out of Treasury if the share price discount to NAV is at least 5% narrower than the weighted average discount of the shares held in Treasury at the time of the sale. Holders of Subscription shares may currently exercise their right to subscribe for Ordinary shares at a price of 135 pence up to 31st March 2010.

## 5. Reconciliation of net return/(loss) on ordinary activities before finance costs and taxation to net cash (outflow)/inflow from operating activities

	(Unaudited) Six months ended 30th September 2009 £'000	(Unaudited) Six months ended 30th September 2008 £'000	(Audited) Year ended 31st March 2009 £'000
Total return/(loss) on ordinary activities before finance costs and taxation	18,775	(17,587)	(24,202)
Less capital (return)/loss before finance costs and taxation	(19,014)	17,457	24,093
Decrease in accrued income	168	317	124
Decrease/(increase) in other debtors	45	14	(10)
(Decrease)/increase in other creditors	(87)	(20)	97
Overseas withholding tax	(22)	(26)	(85)
Net cash (outflow)/inflow from operating activities	(135)	155	17

# Interim Management Report

The Company is required to make the following disclosures in its half year report.

## Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company fall into the following broad categories: investment and strategy; market; accounting, legal and regulatory; corporate governance and shareholder relations; operational; foreign currency; and financial (including credit risk). Information on each of these areas is given in the Business Review within the Annual Report and Accounts for the year ended 31st March 2009.

During the recent period of market turmoil, JPMAM reacted with heightened management scrutiny of counterparty risk. In addition, reviews were initiated of exposures, policies, procedures and legal arrangements applicable to the major sources of counterparty exposure.

## Related Parties Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position or the performance of the Company during the period.

## Directors' Responsibilities

The Board of Directors confirms that, to the best of its knowledge:

- (i) the condensed set of financial statements contained within the half yearly financial report has been prepared in accordance with the Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and
- (ii) the interim management report includes a fair review of the information required by DTR 4.2.7R and 4.2.8R of the UK Listing Authority Disclosure and Transparency Rules.

For and on behalf of the Board

**Alan Clifton**  
Chairman

27th November 2009

# Subscription Shares

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

During the period, shareholders exercised their right to convert 20,563 Subscription shares into Ordinary shares for a total consideration of £28,000. Since the period end and at the time of writing, shareholders have exercised their right to convert 9,469 Subscription shares into Ordinary shares for a total consideration of £13,000.

The exercise prices have been determined as follows:

- (a) If exercised between 1st April 2009 and 31st March 2010 – 135 pence;
- (b) If exercised between 1st April 2010 and 31st March 2012 – 147 pence;
- (c) If exercised between 1st April 2010 and 31st March 2014 – 174 pence.

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

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

Ordinary shares:	101.75p
Subscription shares:	7p

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

# Glossary of Terms

## **Unit Return to Shareholders**

Increase or decrease in the mid-market price of a 'Unit' over the period. A 'Unit' comprises 5 Ordinary shares and 1 Subscription share.

## **Return to Ordinary Shareholders**

Increase or decrease in the mid-market price of an Ordinary share over the period.

## **Undiluted Return on Net Assets**

Increase or decrease in the undiluted net asset value per Ordinary share over the period.

## **Diluted Return on Net Assets**

Increase or decrease in the diluted net asset value per Ordinary share (as defined below) over the period.

## **(Loss)/Return Per Ordinary Share**

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

The diluted (loss)/return per Ordinary share represents the (loss)/return on ordinary activities after taxation divided by the weighted average number of Ordinary shares in issue during the period as adjusted for the conversion at the earliest opportunity of dilutive Subscription shares. For this purpose, the assumed proceeds from this conversion are regarded as having been received from the issue of Ordinary shares at the average market price of Ordinary shares during the period. The difference between the number of Ordinary shares issued and the number of Ordinary shares that would have been issued at the average market price of Ordinary shares during the period is treated as an issue of Ordinary shares for no consideration. Where this calculation has no dilutive effect, the basic (loss)/return per Ordinary share is presented instead.

## **Diluted Net Asset Value per Ordinary Share**

The resulting net asset value ('NAV') per Ordinary share assuming all shares held in Treasury at the balance sheet date were re-issued in accordance with the Board's policy on the re-issuance of Treasury shares and all Subscription shares outstanding at the balance sheet date were converted into Ordinary shares at the earliest opportunity. The Board will only re-issue shares out of Treasury if the share price discount to NAV is at least 5% narrower than the weighted average discount of the shares held in Treasury at the time of the sale. Holders of Subscription shares may currently exercise their right to subscribe for Ordinary shares at a price of 135 pence up to 31st March 2010.

## **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 benchmark.

## **Ordinary Share Price Discount to Diluted Net Asset Value (NAV) Per Share**

If the share price of an investment company is lower than the diluted NAV per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the diluted 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 at a premium.

# Information about the Company

## Financial Calendar

Financial year end	31st March
Final results announced	June
Half year end	30th September
Half year results announced	November
Interim Management Statements announced	July and January
Subscription share exercise dates	1st April 2009 to 31st March 2014
Annual General Meeting	July/August

### History

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

### Directors

Alan Clifton (Chairman)  
John Gibbon  
Bernard Grigsby  
Chris Russell  
Robert White

### Company Numbers

Company registration number: 3916716

### Ordinary Shares

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

### Subscription Shares

London Stock Exchange Sedol number: B3Q7DL7  
ISIN: GB00B3Q7DL73  
Bloomberg ticker: JPSS

### Market Information

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

The Company's Subscription share price is listed on the London Stock Exchange and quoted daily in the Financial Times and on the J.P. Morgan website at [www.jpmmfjapanesemallercompanies.co.uk](http://www.jpmmfjapanesemallercompanies.co.uk), where the Subscription share price is updated every fifteen minutes during trading hours.

### Website

[www.jpmmfjapanesemallercompanies.co.uk](http://www.jpmmfjapanesemallercompanies.co.uk)

**aic**

The Association of  
Investment Companies

A member of the AIC

### 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

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

### Registrars

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

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 2093.

Registered shareholders can obtain further details on individual holdings on the internet by visiting [www.shareview.co.uk](http://www.shareview.co.uk).

### Auditors

Deloitte LLP  
Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR

### Savings Product Administrators

For queries on the J.P. Morgan ISA, Share Plan or Pension Account, see contact details on the back cover of this report.

JPMorgan Helpline  
Freephone 0800 20 40 20 or 020 7742 9999  
9.00 am to 5.30 pm Monday to Friday

Your telephone call may be recorded for your security

[www.jpmpjapanesesmallercompanies.co.uk](http://www.jpmpjapanesesmallercompanies.co.uk)