Half Year Report 07

JPMorgan Fleming Japanese Smaller Companies Investment Trust plc

Half Year Report & Accounts for the six months ended 30th September 2007

JPMorgan
Asset Management

Features

Contents

Objective

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

Investment Policy

- 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).

Benchmark

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

Structure

- UK domiciled.
- Full listing on the London Stock Exchange.
- Authorised share capital of 100,000,000 ordinary shares of 10p each, of which 39,359,423 were in issue as at 30th September 2007.

Management Company

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

Interim Performance

Total Returns (capital plus income)

–16.1%
Return to shareholders[1]

–12.4%
Return on net assets[2]

–10.4%
Benchmark return[3,4]

Financial Data

	30th Sept 2007	31st March 2007	% change
Shareholders' funds (£'000)	92,963	106,303	–12.5
Number of shares in issue	39,359,423	39,409,423	–0.1
Net asset value per share	236.2p	269.7p	–12.4
Share price	215.3p	256.5p	–16.1
Discount of share price to net asset value	8.8%	4.9%	

A glossary of terms and definitions is provided on page 13.

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

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

[3]Source: Financial Times.

[4]The Company's benchmark is the Citigroup Equity Index Japan Extended Market in sterling terms.

Interim Management Report

Chairman's Statement

"... there are signs that sentiment towards the sector, and to Japan itself, may be changing for the better..."

Performance

The first half of the Company's financial year has seen a continuation of the difficult and volatile market conditions that have bedevilled the Japanese smaller companies sector for the last eighteen months. Over the six months to 30th September 2007, your Company's net asset value fell by 12.4% in total return terms, underperforming the total return of the benchmark index, which fell by 10.4%. However, whilst this continued underperformance is disappointing, there are signs that sentiment towards the sector, and to Japan itself, may be changing for the better, as our Manager, David Mitchinson, discusses in his review.

Gearing

The Company has remained geared throughout the period with the level of gearing ranging between 110% and 116%, ending the period at 112%.

Discount Management

As at 30th September 2007, the Company's discount, calculated with liabilities valued at their fair value, was 8.8%, having widened, in line with all Japanese investment trusts, from 4.9% at the start of the year. On 27th June 2007, the Company repurchased 50,000 ordinary shares (0.1% of the shares in issue) for cancellation at a discount of 9.5%.

Outlook

In contrast to the Japanese equity markets, Corporate Japan has been performing well, posting its sixth straight year of earnings growth and enjoying the relatively benign economic environment. For these positives to be reflected by higher share prices a change in sentiment from both consumers and investors, is required. With deflationary pressures receding and property prices and real wages beginning to edge ahead, the prospects of this occurring are improving.

Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company fall into five broad categories: investment and strategy; accounting, legal and regulatory; corporate governance and shareholder relations; operational; and financial. Information on each of these areas is given in the Business Review within the Annual Report and Accounts for the year ended 31st March 2007.

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 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

29th November 2007

Investment Manager's Report

"Despite the tough conditions, we are sticking to our stance of buying good companies with growth potential."

The Japanese smaller companies market continued to struggle during the half year to 30th September 2007, declining 10%, and we modestly underperformed our benchmark. Against this negative market backdrop, defensive names outperformed growth companies. Growth indices were sharply lower than our more balanced benchmark. Our exposure to strongly growing businesses with good profitability hurt our performance. Japan as a whole remains distinctly out of favour, with a recent Merrill Lynch fund manager survey showing near record numbers of investors underweight, and happy to be so. Smaller companies are even more unpopular just now as investors have chased the hot Indian and Chinese markets. Typically, such a negative performance would have been associated with an economy in recession and sharply dropping company profits. Far from it, as corporate Japan has continued to grow earnings far above the rate of GDP growth. Our portfolio is expected to show 23% earnings growth this year. This has created a position where smaller company stocks, and the Japanese market, have de-rated to valuations similar to those witnessed at the bottom of the long bear market in 2003. Many companies trade on single digit or low double digit p/e multiples, or even below the level of cash on their balance sheet. In short, Japanese companies are cheap and unloved.

The Japanese economy has delivered tepid growth over the last six months, impacted positively by strong overseas demand from Asia and negatively by some new government policies on consumer finance and more onerous planning regulations. Whilst the slow growth is a macro concern, many companies have de-linked their business and earnings from the overall economic cycle – either through new products or because they are benefiting from some structurally positive factors. The wider backdrop is also supportive, as the long term problem of declining land prices has been overcome with a gradual rippling out effect from central Tokyo of rising land prices. For banks and others this supports the collateral values for lending and should create a more positive backdrop for consumers. Wages have followed the economy and are not growing strongly – in 2002/3/4 wages and bonuses were dropping very sharply so this is a much better situation – but for many categories of workers wages are increasing. The inflation outlook is also more mixed with prices for food and energy rising whilst charges for mobile phones and appliances are declining. Japan also has relatively little exposure to sub-prime loans and CDOs so the financial system is in a strongly capitalised shape – unlike in 2002/3. In fact many of the excesses that are now weighing on the American economy have been avoided in Japan - no refinancing for consumption, no aggressively leveraged M&A and companies are maintaining extremely healthy balance sheets. This suggests that Japan as an economy should not be tremendously exposed to the US growth slowdown. Our basic assumption is that modest growth will continue.

The fund has used the weakness over the past few months to broaden the portfolio, increasing exposure to areas as diverse as power grid maintenance, Liquid crystal display chemicals, sporting goods retailers and security companies. At the same time, some longer run themes such as games software and IT software services remain very much intact. The new games software cycle is the fund's largest position encompassing both hardware manufacturers of the consoles themselves as well as games software design companies. This is an area where Japanese firms led by Nintendo and Sony have a strong competitive edge. A growing number of small engineering firms are being reassessed as their products are seeing increasing global adoption in areas such as valves for oil pipelines, radar equipment for ships, and headphones for Apple and Nokia as the quality of the product is gaining more attention. In each case, these companies have a high global market share, a clearly defined edge over competitors and have been traded at lowly valuation levels. We have also used the weakness to build up positions in a number of strongly growing companies. Currently these businesses are out of favour, but as they show healthy sales and profits growth we believe that investors will eventually return to them.

Interim Management Report continued

In particular we are looking for firms where management has changed (restructuring), the market it is exposed to is attractive (structural support) or there is a new product cycle (secular growth) – and where the upside potential over several years is material. One example is Ai Holdings. This newly created company was formed through the merger of Dodwell BMS and Graphtec. Uncertainty over tax losses, the shape of the balance sheet and an irregular financial year caused investors to sell off this company. Previously Dodwell had commanded a high premium rating driven by its strong growth in card machines and other security devices. The newly formed company had a lower market cap even though sales and profits had both risen. We expect around 20% growth in profits over the next few years – a prediction underwritten by the withdrawal from the market and contracting its production to Ai of one of its major competitors. An example of another of our long standing holdings, Aeon Delight, is also performing very solidly. Aeon Delight is steadily taking over the building maintenance operations at Aeon malls and shopping centres throughout Japan (and China). The management is working to increase not just top line, but also margins, delivering substantial earnings growth over the next 3 years. The management has successfully completed several substantial M&A deals and is keen to expand. Finally, Nihon Kohden has launched its patient monitor in the US, Europe and South America and is seeing very strong sales and profits growth from this new product. A shortage of nurses is driving greater use of patient monitors in hospitals globally and Kohden's simple to use and competitively priced models are seeing widespread adoption. Valuations are also undemanding - reflecting the company's conservative forecasts - and provide plenty of upside potential in terms of earnings growth but also multiple re-rating. Notably, all of these companies carry substantial net cash - a common trait throughout the portfolio. Despite the tough conditions, we are sticking to our stance of buying good companies with growth potential. The whole market has de-rated and these companies have seen their p/e multiples contract and in many cases trade at levels below those companies with 'defensive' earnings streams despite their long track records of delivering growth. From here it would be very unusual to see further de-rating of these companies especially when their balance sheets are supportive, earnings are healthy and their valuations are reaching historically low levels. The corollary of this is that we are being extremely tough on stocks that are disappointing - implementing a tough sell discipline and striving to avoid earnings disappointments.

Whilst the short term catalyst that will re-rate the smaller companies market is always difficult to see, we are expecting that ongoing solid execution of the business plans will draw investors' attention rather than any external catalyst. As it has for several months the smaller company markets offer plenty of value, alongside healthy growth in sales and earnings. What is lacking is an appetite amongst investors to pick up oversold Japanese businesses. With the markets beaten down and cheap, there are plenty of attractive opportunities to invest in. We have been trying to bolster the value and growth profile of the fund and exploit some of the short term panic amongst investors by acquiring good businesses at bargain prices. Once investors' appetites return these businesses will not be so cheap anymore.

David Mitchinson
Investment Manager 29th November 2007

Ten Largest Investments

at 30th September 2007

Company	Code	Sector	Valuation £'000	Total Assets %[1]
Tecmo	9650	Information & Communication	3,593	3.4
Matsuda Sangyo	7456	Wholesale	3,323	3.1
DTS	9682	Information & Communication	2,937	2.8
AI Holdings	3076	Wholesale	2,694	2.6
Nippon Seiki	7287	Transportation Equipment	2,643	2.5
Furuno Electric	6814	Electric Appliances	2,602	2.5
Nissin Kogyo	7230	Transportation Equipment	2,574	2.4
Aeon Delight	9787	Services	2,469	2.3
Daido Steel	5471	Iron & Steel	2,442	2.3
Asics	7936	Other Products	2,375	2.2
Total			27,652	26.1

[1]Based on total assets less current liabilities of £105.8m, other than loan balances falling due within 1 year. 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

Sector	at 30th September 2007 Portfolio %	Benchmark %	at 31st March 2007 Portfolio %	Benchmark %
Wholesale Trade	12.3	5.6	6.5	6.3
Electric Appliances	11.5	8.4	5.3	8.1
Information & Communication	10.0	3.2	4.1	3.5
Transportation Equipment	8.6	3.8	5.3	3.4
Machinery	8.3	9.1	5.1	7.9
Chemicals	8.0	8.8	5.3	8.5
Services	5.2	4.1	12.6	4.0
Iron & Steel	4.8	3.3	—	2.9
Glass & Ceramic	4.6	1.9	1.3	1.6
Metal Products	4.2	1.5	1.5	1.5
Real Estate	4.0	8.4	19.6	9.2
Marine Transportation	3.4	0.5	—	0.2
Construction	2.6	3.9	2.4	4.0
Textile & Apparels	2.5	2.0	1.0	2.1
Other Products	2.2	2.2	3.4	2.2
Nonferrous Metals	1.8	2.0	0.9	2.0
Rubber Products	1.6	1.1	—	0.9
Banks	1.4	7.0	7.4	7.3
Land Transportation	1.2	2.1	2.5	2.0
Retailing	—	6.7	8.0	7.3
Foods	—	5.1	—	5.0
Pharmaceutical	—	2.2	1.3	2.1
Precision Instruments	—	1.4	1.6	1.4
Other Financing Business	—	1.3	3.9	2.0
Warehousing & Harbour Transportation	—	1.2	0.5	1.2
Securities & Commodities	—	0.9	—	1.2
Pulp & Paper	—	0.7	—	0.6
Electric Power & Gas	—	0.6	—	0.6
Fishery Agriculture & Forestry	—	0.4	—	0.5
Insurance	—	0.3	—	0.3
Oil & Coal	—	0.2	—	0.1
Mining	—	0.1	—	0.1
Net current assets	1.8	—	0.5	—
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £105.8m (31st March 2006: £123.6m) other than loan balances falling within 1 year.

Income Statement

for the six months ended 30th September 2007

	(Unaudited) Six months ended 30th September 2007			(Unaudited) Six months ended 30th September 2006			(Audited) Year ended 31st March 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses from investments held at fair value through profit or loss	—	(12,653)	(12,653)	—	(42,168)	(42,168)	—	(54,956)	(54,956)
Net foreign currency (losses)/gains	—	(32)	(32)	—	1,295	1,295	—	2,149	2,149
Income from investments	391	—	391	518	—	518	1,282	—	1,282
Other interest receivable and similar income	87	—	87	150	—	150	165	—	165
Gross revenue and capital gains/(losses)	478	(12,685)	(12,207)	668	(40,873)	(40,205)	1,447	(52,807)	(51,360)
Management fee	(721)	—	(721)	(925)	—	(925)	(1,714)	—	(1,714)
Other administrative expenses	(175)	—	(175)	(171)	—	(171)	(331)	—	(331)
Net loss before finance costs and taxation	(418)	(12,685)	(13,103)	(428)	(40,873)	(41,301)	(598)	(52,807)	(53,405)
Finance costs	(97)	—	(97)	(70)	—	(70)	(154)	—	(154)
Net loss before taxation	(515)	(12,685)	(13,200)	(498)	(40,873)	(41,371)	(752)	(52,807)	(53,559)
Taxation	(27)	—	(27)	(36)	—	(36)	(90)	—	(90)
Net loss after taxation	(542)	(12,685)	(13,227)	(534)	(40,873)	(41,407)	(842)	(52,807)	(53,649)
Loss per share (note 3)	(1.38)p	(32.21)p	(33.59)p	(1.36)p	(103.71)p	(105.07)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 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. 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

for the six months ended 30th September 2007 (unaudited)

	Called up share capital £'000	Other reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31st March 2007	3,940	315,620	1,784	(204,835)	(10,206)	106,303
Shares bought back and cancelled	(5)	(113)	5	—	—	(113)
Capital loss from ordinary activities	—	—	—	(12,685)	—	(12,685)
Revenue loss from ordinary activities	—	—	—	—	(542)	(542)
At 30th September 2007	3,935	315,507	1,789	(217,520)	(10,748)	92,963
Six months ended 30th September 2006 (unaudited)						
At 31st March 2006	3,940	315,620	1,784	(152,028)	(9,364)	159,952
Capital loss from ordinary activities	—	—	—	(40,873)	—	(40,873)
Revenue loss from ordinary activities	—	—	—	—	(534)	(534)
At 30th September 2006	3,940	315,620	1,784	(192,901)	(9,898)	118,545
Year ended 31st March 2007 (audited)						
At 31st March 2006	3,940	315,620	1,784	(152,028)	(9,364)	159,952
Capital loss from ordinary activities	—	—	—	(52,807)	—	(52,807)
Revenue loss from ordinary activities	—	—	—	—	(842)	(842)
At 31st March 2007	3,940	315,620	1,784	(204,835)	(10,206)	106,303

Balance Sheet

as at 30th September 2007

	(Unaudited) 30th September 2007 £'000	(Unaudited) 30th September 2006 £'000	(Audited) 31st March 2007 £'000
Fixed assets			
Investments at fair value through profit or loss	103,842	134,380	122,977
Current assets			
Debtors	2,172	994	676
Cash and short term deposits	1,429	2,637	1,789
	3,601	3,631	2,465
Creditors: amounts falling due within one year	(14,480)	(19,466)	(19,139)
Net current liabilities	(10,879)	(15,835)	(16,674)
Total assets less current liabilities	92,963	118,545	106,303
Total net assets	92,963	118,545	106,303
Capital and reserves			
Called up share capital	3,935	3,940	3,940
Other reserve	315,507	315,620	315,620
Capital redemption reserve	1,789	1,784	1,784
Capital reserve	(217,520)	(192,901)	(204,835)
Revenue reserve	(10,748)	(9,898)	(10,206)
Shareholders' funds	92,963	118,545	106,303
Net asset value per share (note 4)	236.2p	300.8p	269.7p

Cash Flow Statement

for the six months ended 30th September 2007

	(Unaudited) Six months ended 30th September 2007 £'000	(Unaudited) Six months ended 30th September 2006 £'000	(Audited) Year ended 31st March 2007 £'000
Net cash outflow from operating activities	(153)	(253)	(797)
Net cash outflow from return on investments and servicing of finance	(106)	(59)	(138)
Net cash inflow from capital expenditure and financial investment	4,474	9,165	8,952
Net cash outflow from financing	(4,543)	(6,028)	(6,029)
(Decrease)/increase in cash for the period	(328)	2,825	1,988

Notes to the Accounts

for the six months ended 30th September 2007

1. Financial Statements

The information contained within the financial statements in this half-yearly report has not been audited or reviewed by the Company's auditors.

The figures and financial information for the year ended 31st March 2007 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. 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 237(2) or 237(3) of the Companies Act 1985.

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' dated 31st December 2005.

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

The accounting policies applied in these interim accounts are consistent with those applied in the accounts for the year ended 31st March 2007.

	(Unaudited) Six months ended 30th September 2007 £'000	(Unaudited) Six months ended 30th September 2006 £'000	(Audited) Year ended 31st March 2007 £'000
3. Loss per share			
Loss per share is based on the following:			
Revenue loss	(542)	(534)	(842)
Capital loss	(12,685)	(40,873)	(52,807)
Total loss	(13,227)	(41,407)	(53,649)
Weighted average number of shares in issue	39,359,423	39,409,423	39,409,423
Revenue loss per share	(1.38)p	(1.36)p	(2.14)p
Capital loss per share	(32.21)p	(103.71)p	(133.99)p
Total loss per share	(33.59)p	(105.07)p	(136.13)p

4. Net asset value per share

Net asset value per ordinary share is calculated by dividing shareholders' funds by the number of shares in issue at 30th September 2007 of 39,359,423 (30th September 2006 and 31st March 2007: 39,409,423).

Information about the Company

Financial Calendar

Financial year end	31st March
Interim results announced	November
Final results announced	June
Annual General Meeting	July/August
Interim Management Statements	July and January

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
John Gibbon
Bernard Grigsby
Chris Russell

Company Numbers
Company's registration number: 3916716
London Stock Exchange code: 0316581/JPS
Bloomberg code: JPS LN
Reuters code: JPS.L

Market Information
The 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 JPMorgan internet site 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 Personal Equity Plan ('PEP').

Manager
JF Asset Management Limited.

Secretary
JPMorgan Asset Management (UK) Limited.

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For company secretarial and administrative matters, please contact Andrew Norman.

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Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1101. Registered shareholders can obtain further details on their holdings on the internet by visiting www.shareview.co.uk.

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

aic
The Association of Investment Companies
A member of the AIC

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.

Discount/Premium
If the share price of an investment company is lower than the net asset value ('NAV') per share, the trust is said to be trading at a discount. The discount is shown as a percentage of the NAV. The opposite of a discount is a premium. It is more common for an investment company to trade at a discount than a premium.

JPMorgan Helpline
Freephone 0800 40 30 30 or 0207 742 9999
9.00 am to 5.30 pm Monday to Friday

JPMorgan Pension Helpline
Freephone 0800 41 31 76 or 0172 241 4888
9.00 am to 5.00 pm Monday to Friday
Please use this number if you have any queries relating to the Pension Account.

Your telephone call may be recorded for your security

www.jpmfjapanesesmallercompanies.co.uk