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JPMorgan Fleming

Asset Management

The Fleming Japanese Smaller Companies Investment Trust plc

Capital growth through investment in

small and medium-sized Japanese companies

its

Annual Report & Accounts • Period ended 31st March 2001

Objective

Capital growth through investment in small and medium-sized Japanese companies.

Policies

To maintain a portfolio almost wholly invested in Japan.

To utilise borrowings to enhance shareholder returns.

The Fleming
Japanese Smaller Companies
Investment Trust plc

Financial Highlights as at 31st March

	2001
Net asset value per ordinary share	283.2p
Ordinary share price[1]	237.5p
Total return on net assets since 11th April 2000[2,3]	–56.6%
Total return on Tokyo Stock Exchange 2nd Section Index (in Sterling) since 11th April 2000[4]	-27.1%

[1]*Source: Datastream.*
[2]*Change in net asset value per share with net dividends reinvested. Source: AITC.*
[3]*Comparisons are made with the NAV per share and share price of JF Fledgeling Japan Limited, the predecessor of this Company. On 11th April 2000 the assets were transferred to this Company.*
[4]*Change in index with net income reinvested. Source: Datastream.*

Annual General Meeting

The Annual General Meeting of The Fleming Japanese Smaller Companies Investment Trust plc will be held at 10 Aldermanbury, London EC2V 7RF at 3.00 p.m. on Tuesday 10th July 2001.

Contents

Chairman's Statement

Patrick Gifford

Your Company

Your Company is the successor to JF Fledgeling Japan Limited, and took over its assets on 11th April 2000. Following incorporation on 26th January 2000 these accounts are for the period since incorporation.

Performance

It is clearly disappointing that your Company 's first period in its new guise as a UK approved investment trust has seen a fall of 56.6% in its net asset value and of 55.9% in its share price. This compares with a fall in the TSE Second Section Index *of 27.1%, and places us last of the five investment trusts specialising in this sector over the* period.

However, the volatile nature of this asset class and particularly growth companies within it can be seen over the three-year period, which includes the extraordinary surge and collapse in technology shares, and shows that our net asset value rose 161%. During the same period the TSE Second Section Index rose 93%. This performance places us second in the peer group and in the top ten of all investment trusts over three years.

Background and Outlook

With hindsight it is clear that the caution expressed by our managers a year ago should have been alarm at the level of the market. Apart from cash, there was no protection available from the downturn, though the collapse in the share prices of a number of good-quality companies did surprise us.

Japan 's woes need no repetition here, though the new government does bring the hope of a change of direction at the top and is indicative of a widely shared appetite for the necessary systemic reforms.

Our Managers' investment focus has always been on growth, and we see no reason to change it in the present slow-growth environment. Indeed, the bear market which has left *our benchmark down 12.6% over ten years has produced many companies whose shares* offer good value and where growth can be found, as well as an improving understanding of the need to reward shareholders. Despite the uncertain economic environment, this should produce rewards for stock-based research.

Discount and Share Buy-Backs

During the period we bought back 13.4% of the shares outstanding at the beginning of the period. In an uncertain environment the Board believes that this activity has helped to maintain stability in the rating. From this level the Board is committed to ensuring that net asset value returns are reflected in the share price, and believes that any improvement in sentiment towards the asset class would be reflected in the discount.

Board and Management Changes

Christopher Buttery retired from the Board on 8th December 2000 due to increasing overseas commitments. We very much valued his contribution and wish him well.

Christopher Purvis agreed to join the Board on 30th November 2000, he brings considerable expertise of Japan and headed SG Warburg's office there for eight years.

I shall be retiring as Chairman at the Annual General Meeting though I shall offer myself for re-election as a Director. I am very pleased that Nicholas Sibley has agreed to take over the Chairmanship. With his experience of both Japan and investment trusts he is very well equipped for the task.

Jonathan Dobson has decided to return to JPMorgan Fleming in London for family reasons, after nine years in Japan. He will still be on the Manager 's Japanese team, but David Scott, who has worked with Jonathan for four years, has taken over the primary responsibility for our investments.

Changes in the Management of your Company

Following the acquisition of Robert Fleming Holdings Limited by The Chase Manhattan Corporation ('Chase') on 1st August 2000, Chase merged with JPMorgan to form JPMorgan Chase & Co. The merger became effective on 2nd January 2001, thus establishing a financial services company with leadership positions in many global markets. The asset management businesses of Chase Fleming and JPMorgan have been integrated to form JPMorgan Fleming Asset Management which is proving to be an extremely powerful combination.

Your Board does not expect any change in the manner in which the Company's investments are managed as a result of the changes in ownership of the Manager.

Annual General Meeting

This year's Annual General Meeting will take place at 3.00 p.m. on Tuesday 10th July 2001 at 10 Aldermanbury, London EC2V 7RF. The formal business of the meeting will be followed by a presentation by the Investment Manager, after which shareholders will be able to meet the Board and representatives of JPMorgan Fleming Asset Management (UK) Limited over afternoon tea. I hope that you will be able to attend.

Patrick Gifford
Chairman

4th June 2001

Company Performance

Summary of Results

	2001
Assets at 31st March	
Total assets (less current liabilities) (£'000)	**181,157**
Shareholders' funds (£'000)	**140,354**
Net asset value per ordinary share	**283.2p**
Revenue for period to 31st March	
Gross revenue (£'000)	**687**
Return available to shareholders (£'000)	**(3,411)**
Return per ordinary share	**(6.33)p**
Market data at 31st March	
Share price[1]	**237.5p**
Discount to net asset value	**16.1%**
Total return comparisons for period to 31st March	
Return on net assets[2,4]	**–56.6%**
Return to shareholders[3,4]	**–55.9%**
Tokyo Stock Exchange 2nd Section Index (in Sterling)[5]	**–27.1%**

[1]*Source: Datastream.*

[2]*Change in net asset value per share with net dividends reinvested. Source: AITC.*

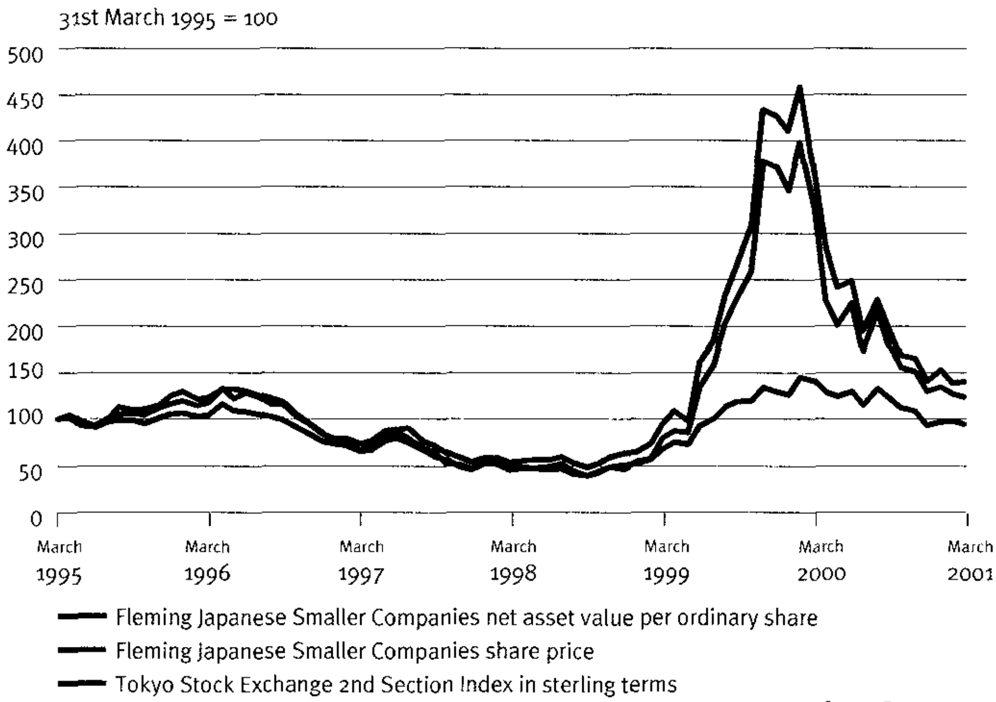
[3]*Change in share price with net dividends reinvested. Source: Datastream.*

[4]*Comparisons are made with the NAV per share and share price of JF Fledgeling Japan Limited, the predecessor of this Company. The assets were transferred to this Company on 11th April 2000.*

[5]*Change in index with net income reinvested. Source: Datastream.*

Company Performance

Performance



Source: Datastream

Prior to 11th April 2000 this graph shows the performance of JF Fledgeling Japan Limited, the Company's predecessor.

Investment Manager's Report

David Scott
Investment Manager

Performance

Having benefited from its heavy weightings in the technology stocks which performed so well in the 1999 fiscal year, your company's portfolio suffered as the prices of these shares fell sharply in the early part of 2000.

The technology-heavy NASDAQ index in the United States fell by more than 50 per cent in the reporting period and Japanese technology stocks fell to a similar extent, while the benchmark TSE2, which is less exposed to technology, fell by 27.1% over the same period.

The Company's technology holdings were reduced in April and May 2000 and then again in the second half of the year, in order to bring the portfolio to a more domestically-focused position. This reduction in the technology exposure, together with the avoidance of cyclicals, which have been dull performers, has been the main reason for improved performance in the second half of the period but it could only limit the damage to some extent. For the period as a whole, the net asset value declined by 56.6%.

Market Review

Fiscal year 2000 brought major changes to Japan's equity markets. The 1999 bull market in technology stocks gave way to a 'value' revival from March 2000. This shift, which was dramatic in its scale, came as a result of two growing market perceptions; that the technology stocks which had performed so well had reached rarefied valuations just as the businesses were beginning to show signs of stress; and that Japan's economy seemed to be in an upswing, with GDP growth turning positive in the October-December quarter. Unfortunately, while the negative view of the technology sector has persisted and even intensified over the past year, the signs of a broader economic recovery in Japan appear to have been illusory.

Expectations for economic growth in Japan fluctuated throughout the year. Government officials and analysts alike had been forecasting GDP growth in excess of 2% in 2001 but recent government estimates are predicting growth of less than 1% and even these projections are set about with caveats. As a result, the market has lost momentum over the last few months.

The January-March 2001 quarter saw a return to rather more normal market conditions insofar as investors' attentions returned to fundamental factors and growth stocks came more into favour. There have been brief runs at the sector level, occasioned by M&A and restructuring stories in high-tech, pharmaceutical or petroleum stocks which were perceived to have a broader significance. However, more generally, the focus has shifted back to the prospects for restructuring at the individual company level. The Company has, in fact, benefited from restructuring in some companies, such as Matsumotokiyoshi, where our fundamental analysis has suggested that a real turnaround is occurring. We are encouraged that more such 'real' restructuring stories are emerging and expect the opportunities which they present to play a larger role in future performance.

The Portfolio

The emphasis in the portfolio is now on non-technology growth stocks, notably non-bank financials and specialist retailers. Pressures on consumer spending are resulting in a shift of consumer allegiance towards the stronger players in the furniture, home electronics and drugstore segments of Japan's retail market, making these companies attractive investments. Non-bank financials, which have some of the lowest valuations in the market, on both a PER and a PEG basis, should continue to do well, as the Bank of Japan keeps interest rates near zero, in a stated policy to reflate the economy.

Recent company visits suggest that there is still considerable upside potential for such stocks. Examples include undervalued retailers such as Otsuka Kagu and non-bank financial companies like Aeon Credit and Aiful, all major holdings in the portfolio.

Throughout calendar 2000 we maintained relatively high levels of cash in the portfolio but we are now more optimistic about market stability and the prospects for corporate profits and are fully invested.

Outlook

Most of the economic problems that we mentioned in the last semi-annual report remain. Deflationary pressures are keeping all but the most competitive companies from achieving sales growth, while deteriorating profits, record numbers of bankruptcies, tightening credit and rising unemployment are likely to put further pressure on consumption. The Bank of Japan's reversion to a zero interest rate policy is a welcome development in this context but it is not without its negative, political ramifications, as it will ultimately lead to a weakening of the Yen and bring further criticism from Japan's Asian neighbours, who already regard the weak Yen policy as a means of exporting the burden of over-capacity without addressing the basic fiscal and structural problems.

The weakness in the US economy that has emerged over the last six months has also dampened expectations for an export-driven recovery in Japan but we expect that, as central banks on both sides of the Pacific lower interest rates in order to stimulate growth, the increased liquidity which results will be positive for equity markets. It is difficult to imagine, however, that this liquidity will chase technology stocks for sustained periods, just as capital expenditure on the sector's products is being pared back. Nor do we expect the economy to grow sufficiently to stimulate cyclicals.

In this environment, we have resisted any temptation to chase short-lived market fads and will continue with our programme of numerous and regular company visits, with the intention of seeking out the undervalued growth stocks which we believe will support the performance of the portfolio in the medium term.

David Scott Investment Manager 4th June 2001

Features of the Portfolio

▼ Kobayashi Pharmaceutical

Value (£'000): 5,613
% of portfolio: 4.1
Excellent product development and pervasive distribution network continue to deliver stable returns.

▲ Ryohin Keikaku

Value (£'000): 4,699
% of portfolio: 3.4
One of Japan's only original brand names fights back to regain share. A retailer operating under the Muji name.

◀ Misumi

Value (£'000): 7,322
% of portfolio: 5.3
Efficient business to business distribution through catalogue and web-based order systems.

▼ Funai Electric

Value (£'000): 7,069
% of portfolio: 5.2
Low cost production of audio visual equipment in China is the key to high US market share.

▲ Otsuka Kagu

Value (£'000): 11,458
% of portfolio: 8.4
Japan's top furniture retailer is continuing to gain market share.

▲ Hosiden

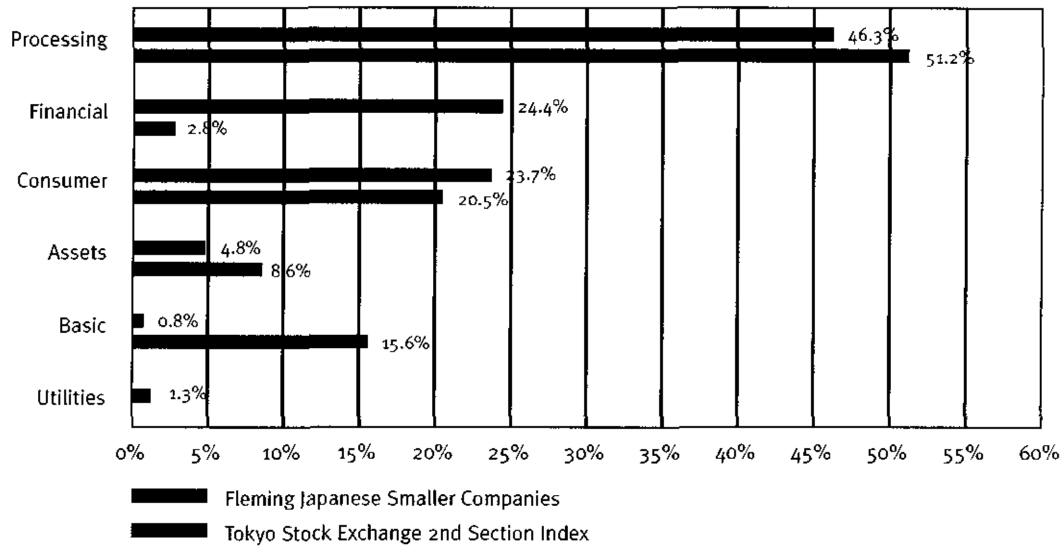
Value (£'000): 5,835
% of portfolio: 4.3
Leading world market share for key electronic components for mobile phones and computer games.

Ten Largest Holdings

Company	Sector	31st March 2001 Value £'000	% of Total Assets
Aeon Credit Services Perhaps the best-run credit card company in Japan. Aeon has never disappointed shareholders and continues to realise margin expansion through incremental efficiency gains. Top-line growth will be supported via affiliation with the Jusco supermarket chain as well as aggressive tie-ups with other national chains like Macdonalds and Toys R Us.	Financial	11,909	6.6
Otsuka Kagu The top furniture retailer in Japan's fragmented market. Taking advantage of its large scale stores to drive small competitors out of business as economy gets weaker. Shifting product mix to furniture made in China to keep gross margins improving.	Consumer	11,458	6.3
Aiful One of the top five consumer lenders in Japan. Aiful is growing rapidly through new sites expansion and aggressive M&A. Low interest rates will support profitability.	Financial	9,347	5.2
Union Tool Top market share for printed circuit board drill bits. Union Tool's technology enables unrivalled low-cost production, and high profitability and a market share. The shares have suffered recently with the downturn in the technology sector, but the positioning of the company has remained strong.	Processing	7,468	4.1
Misumi Misumi is a pioneer in efficient distribution to commercial clients for a wide range of standardised products including press moulds, electronic parts, and medical supplies. Low cost and ease of ordering small lots through on-line catalogues or via fax transmission has been the key to consistent customer base and order value growth.	Processing	7,322	4.0
Funai Electric Low cost but reliable production in China has made Funai a top vendor for unbranded audio visual products to Walmart in the US. Funai is also the top outsourced producer of televisions and video recorders for Philips.	Processing	7,069	3.9
Hosiden The shares have suffered with the recent sell off in technology and components companies despite relatively strong demand trends for next generation mobile phone and Nintendo Gameboy components. The valuation is extremely cheap with order trends among the strongest in the sector.	Processing	5,835	3.2
Kobayashi Pharmaceutical Kobayashi boasts the most pervasive OTC drugs and daily use item distribution network in Japan. This market access combined with considerable in-house product development capability has delivered consistent top-line and bottom-line growth over time.	Consumer	5,613	3.1
Japan Associated Finance Japan's largest venture capital firm. Recent changes in management and bonus structure to make investment teams accountable for decisions are already yielding positive results. As the largest player in Japan's budding private equity marketplace, JAFCO will benefit from organic growth in the industry.	Financial	4,822	2.7
Ryohin Keikaku Following on one bad year of results these shares have been priced for further disappointment. While deflation and competitive pressures have taken their toll on top-line growth in the recent year, management is answering this challenge with a revised strategy and new product lines this spring. With year on year comparisons much easier in fiscal 2001 the shares are on very low valuation.	Consumer	4,699	2.6
Total		75,542	41.7

Analysis of Portfolio

as at 31st March 2001



Analysis of Shareholders

as at 31st March 2001

	Number of shares	% holding
Pension funds	5,995,722	12.10
Insurance companies	11,630,975	23.47
Investment trusts	10,899,000	21.99
Unit trusts	2,118,362	4.27
Other institutions	13,315,408	26.87
Total institutions	**43,959,467**	**88.70**
Investment Trust Share Plan[1]	171,726	0.35
Investment Trust Pension Account[1]	73,233	0.15
Investment Trust Personal Equity Plan[1]	13,768	0.03
Investment Trust Individual Savings Account[1]	53,574	0.11
Retail investors	5,282,655	10.66
Total individuals	**5,594,956**	**11.30**
Total shares in issue	**49,554,423**	**100.00**

Nominee accounts have been allocated to their appropriate category.

[1]JPMorgan Fleming 'Wrapper' products, as described on page 33.

List of Investments

at 31st March 2001

	£'000
Processing	
Services	
Sky Perfect	4,403
Trend Micro	4,218
OBIC Business Consultants	2,688
Bellsystem 24	533
Computer Engineering & Consulting	4
Electrical Machinery	
Hosiden	5,835
Seikoh Giken	3,621
Avex	3,402
Idec Izumi	2,245
Eneserve	1,848
Yamaichi Electronics	1,164
Shindengen Electric	1,120
Machinery	
Union Tool	7,468
THK	721
Yushin Precision Equipment	2
Wholesale	
Misumi	7,322
Other Products	
Funai Electric	7,069
Net One Systems	3,502
Otsuka	3,183
Nippon Foundry	2,319
Aoi Electric	750
Total Processing	**63,417**
Financial	
Other Financials	
Aeon Credit Services	11,909
Aiful	9,347
Japan Associated Finance	4,822
Shohkoh Fund	4,267
Sanyo Electric Credit	3,115
Total Financial	**33,460**

	£'000
Consumer	
Retailers	
Otsuka Kagu	11,458
Ryohin Keikaku	4,699
Matsumotokiyoshi	4,578
Yamada Denki	4,156
Gulliver International	1,164
Pharmaceuticals	
Kobayashi Pharmaceutical	5,613
Foods	
C Two Networks	784
Total Consumer	**32,452**
Assets	
Real Estate	
Relocation Services	4,240
Transport Equipment	
Toyoda Gosei	1,128
Warehousing & Harbour Transport	
H.I.S.	1,144
Total Assets	**6,512**
Basic	
Chemicals	
Showa Denko	1,037
Total Basic	**1,037**
Total Portfolio	**136,878**

Board of Directors

Patrick Gifford (Chairman)
Age 56.

He is chairman of 3i European Technology Trust plc and a director of several investment trusts and other companies. He was formerly chairman of Fleming Investment Trust Management Limited.

Piers Litherland
Age 44.

He was with the Jardine Group in Asia for 22 years and has been with Jardine Fleming for 14 years. He has been a director of JFAM since 1994. He currently manages Pacific investment mandates and is also a Director of the Asia Bond and Currency Fund listed on the Luxembourg and Dsaka stock exchange

Nicholas Sibley F.C.A.*
Age 63.

He was previously Chairman of Wheelock Capital Limited and Managing Director of Wheelock Pacific Limited. He has also been Executive Chairman of Barclays de Zoete Wedd (Asia Pacific) Limited and Managing Director of Jardine Fleming Holdings Limited. He is also a director of a number of investment companies, Aquarius Platinum Limited and Corney and Barrow Group Limited.

Christopher Purvis*
Age 50.

He is an advisor on Japanese matters to UBS Warburg, of which until 1999 he was managing director. He joined Warburgs in 1974 and from 1978 until 1982 was head of Asian investment management. He is a non-executive director of Foreign & Colonial Pacific Investment Trust plc and of Martin Currie Japan Investment Trust plc and is chief executive of Japan 2001 Limited, a charity organising a series of cultural and educational events relating to Japan in 2001.

George W. Long*
Age 47.

He is the Managing Director of Long Investment Management which he established in 1995. From 1990 until 1995, he was the Managing Director and Chief Investment Officer for BZW Investment Management Hong Kong Limited. He has been a Governor of the Association for Investment Management and Research and is a director of a number of investment companies.

* Members of the Audit Committee

The Fleming Japanese Smaller Companies Investment Trust plc

Directors' Report & Accounts • Period ended 31st March 2001

Report of the Directors

The Company

The Fleming Japanese Smaller Companies Investment Trust plc was formed on 26th January 2000. Following the passing of resolutions at two Special General Meetings of JF Fledgeling Japan Limited, held on 31st March 2000 and 11th April 2000, that Company was placed into liquidation and The Fleming Japanese Smaller Companies Investment Trust plc took over its assets and undertakings, and issued one share of the Fleming Japanese Smaller Companies Investment Trust plc in consideration for the cancellation of one share of JF Fledgeling Japan Limited; accordingly references in this report and accounts to dates earlier than 11th April 2000 refer to JF Fledgeling Japan Limited. Dealings in the Company's shares commenced on the London Stock Exchange on 11th April 2000.

The Company carries on business as an investment trust and is an investment Company within the meaning of the Companies Act 1985. In the opinion of the Directors, the Company has conducted its affairs so that it should qualify as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the period ended 31st March 2001.

Under Corporation Tax Self Assessment, which applies to accounting periods ended after 30th June 1999, the Inland Revenue are no longer obliged to give written confirmation of Section 842 compliance. Instead, the Inland Revenue have twelve months after the return filing date in which to give notice that they intend to enquire into the return and Section 842 approval may not be deemed to be given until after that date.

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 and 3 and the Investment Manager's Report on pages 6 and 7. No important events affecting the Company have occurred since it commenced trading.

Accounts

The accounts of the Company from incorporation to 31st March 2001 are shown on pages 20 to 31.

Going Concern

After making enquiries, the Directors consider that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in the preparation of the accounts.

Payment Policy

It is the Company's policy to settle terms before business is agreed, to ensure that suppliers are aware of them, and to pay bills in accordance with those terms. The Company had no trade creditors at the period end.

Acquisition of the Company's Own Shares

The Company has authority to repurchase shares in the market for cancellation. A resolution to renew the Company's authority to repurchase shares will be put to shareholders at the forthcoming Annual General Meeting, as explained on page 30. Between launch and 27th February 2001 the Company repurchased 7,340,000 shares which amounted to 12.8% of the issued share capital. On 27th February 2001 the Company held an Extraordinary General Meeting to renew this authority in order for a further 7,480,676 shares (14.9% of the issued share capital) to be repurchased and to date 350,000 shares (0.7% of the issued share capital) have been repurchased.

Directors

The Directors of the Company at the end of the period, together with their beneficial interests in the Company's Share Capital, are given below:

	31st March 2001
PAF Gifford	15,314
NT Sibley	6,957
PA Litherland	—
GW Long	—
CTB Purvis	5,000

Under a scheme of reconstruction detailed in the prospectus dated 8th March 2000, JF Fledgeling Japan Limited shareholders were able to exchange their shares for Ordinary Shares in the Company on a one for one basis and Mr Gifford and Mr Sibley exercised this option.

Mr Buttery, who was appointed as a Director on 6th April 2000, resigned on 8th December 2000. Mr Purvis was appointed a Director of the Company on 30th November 2000 and on 5th December 2000 he purchased 5,000 shares.

In accordance with the Company's Articles of Association, all of the Directors will retire at the Company's first Annual General Meeting and being eligible, all offer themselves for re-election as Directors.

During the period an insurance policy has been maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties.

Management of the Company

Responsibility for management

The Manager of the Company is JF Asset Management Limited ('JFAM'). JPMorgan Fleming Asset Management (UK) Limited ('JPMFAM'), the London-based manager for the range of Fleming investment trusts acts as Secretary and provides administrative support. The day-to-day management of the Company's portfolio is delegated by JFAM to JF Investment Trust and Advisory Company Limited ('JFITAC') in Tokyo. JFAM, JPMFAM and JFITAC are all wholly owned subsidiaries of JPMorgan Chase & Co. which, through other subsidiaries, also provides banking, dealing and custodian services to the Company.

Management and administrative expenses

Under the terms of the Management Agreement, the Manager receives a fee, payable monthly in arrears, from the Company equal to 1.25 per cent. per annum on the first £115 million of the Company's Gross Assets and 1 per cent. per annum on any amount exceeding £115 million of Gross Assets (save that in relation to cash and near cash assets above 125 per cent. of Net Assets, a reduced fee of 0.25 per cent. per annum is payable).

A secretarial fee is paid to JPMFAM out of this management fee. The Manager's appointment is terminable on six months' notice by the Company.

If the Company invests in funds managed or advised by the JPMorgan Fleming Group, such assets will be excluded from the management fee calculation to avoid any double charging.

The Company also incurs other costs which include Directors' fees and expenses, audit fees, Registrar's fees, custodian fees, marketing costs and other administration expenses.

Notifiable Share Interests

At 16th May 2001 the Company had been notified of the following interests in its ordinary shares:

Shareholders	Number of shares held	%
Philips Pensionenfonds	5,360,000	10.82

Corporate Governance

To ensure the appropriate level of corporate governance, the Board has put in place arrangements which it believes are suitable for an investment trust and enable the Company to comply with the Principles of Good Governance and Code of Best Practice (the 'Combined Code'), published by the Committee on Corporate Governance in June 1998. The Board considers that the Company has complied with the provisions contained within Section 1 of the Combined Code throughout the accounting period ended 31st March 2001 and the following describes how the relevant principles of governance are applied to the Company.

Report of the Directors continued

The Board

The Board consists solely of non-executive Directors, the majority of whom are independent of the Company's Manager. Accordingly, the Board does not believe that it is necessary to appoint a senior independent Director.

A management agreement between the Company and JFAM sets out matters over which the Manager has authority. All other matters are reserved for the approval of the Board.

The Board will meet on at least four occasions each year and between these meetings is in regular contact with the Manager who provides the Board with appropriate and timely management information. JPMFAM also provides company secretarial advice and services. The Directors have access, where necessary, in the furtherance of their duties, to independent professional advice at the expense of the Company.

Board Committees

The Board as a whole fulfils the function of the Nomination Committee and meets when necessary to select and propose suitable candidates for appointment to the Board. The Board as a whole also fulfils the function of the Remuneration Committee and reviews Directors' fees on a regular basis.

To ensure its independence from the Manager, the Audit Committee excludes from membership all Directors who are employed by, or who are recent former employees of, JPMorgan Fleming or any of its subsidiaries or associated companies. The Audit Committee meets at least twice each year.

The Committee 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 also reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the external auditors. The Directors' statement on the Company's system of internal control is set out below.

Directors' Remuneration

Since the Company's incorporation, Directors' remuneration has been set at £12,000 per annum for each Director and £16,000 per annum for the Chairman. These amounts are calculated on a pro-rata basis for service periods less than one year.

Relations with Shareholders

At the Company's Annual General Meeting, the Directors and representatives of the Manager will be available in person to meet and answer shareholders' questions. In addition, a presentation will be given by the Investment Manager who will review the Company's activities. During the period the Corporate Brokers, the Investment Manager and JPMFAM held regular discussions with institutional shareholders. The Directors are made fully aware of any views expressed in these meetings and appropriate responses are made. The Chairman and Directors make themselves available as and when required to address shareholders' queries.

Accountability and Audit

The Directors' responsibilities in respect of the Accounts are set out on page 19.

Internal Control

The Combined Code requires the Directors at least annually to conduct a review of the effectiveness of the Company's system of internal control and to report to shareholders that they have done so. This has extended the previous requirement which focused on internal financial control, and now 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 information used within the business, or published, is reliable. However, such a system is 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 material mis-statement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by subsidiaries of JPMorgan Chase, the Company's system of internal control mainly comprises monitoring the services provided by JPMFAM and JFAM, and their associates, including the operating controls established by them to ensure they meet the Company's business objectives.

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 regulated by IMRO and a custodian regulated by the SFA, whose responsibilities are clearly defined in a written agreement.

Management Systems – Inclusion in the Manager's system of internal control through organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. JPMFAM's Compliance Department regularly monitors compliance with IMRO rules.

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

The Board 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:

- the Board, through the Audit Committee, reviews the terms of the management agreement and receives regular reports from JPMFAM's Compliance Department;
- the Directors review the report on the internal controls and the operations of its custodian, Chase Manhattan Bank, which is independently audited by PricewaterhouseCoopers; and
- the Directors review every six months a report on the internal controls and operations of JPMFAM, which is independently reported on by PricewaterhouseCoopers.

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 period ended 31st March 2001.

Report of the Directors continued

Auditors

The Auditors, Arthur Andersen, were appointed on 6th March 2000 and have expressed their willingness to continue in office. A resolution to reappoint them and authorise the Directors to agree their remuneration for the ensuing year will be proposed at the Annual General Meeting.

Annual General Meeting

A Resolution relating to the following item of special business will be proposed at the forthcoming Annual General Meeting.

The Directors consider that the renewal of the authority to repurchase the Company's shares would be in the interest of shareholders as a whole as the repurchase of shares at a discount to the underlying net asset value ('NAV') would enhance the NAV of the remaining shares. The Directors therefore recommend that shareholders vote in favour of the resolution.

By order of the Board
J.P. Morgan Fleming Asset Management (UK) Limited,
Secretary
HA Lowe
4th June 2001

Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the period and of the revenue for the period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts 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.

Auditors' Report

Auditors' Report to the shareholders of The Fleming Japanese Smaller Companies Investment Trust plc.

We have audited the accounts on pages 20 to 29 which have been prepared under the historical cost convention as modified by the revaluation of fixed assets and the accounting policies set out on page 23.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 18, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if 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 or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statements on pages 16 to 18 reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if they do 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, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the accounts.

Basis of Audit Opinion

We conducted our audit in accordance with the Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the adequacy of the overall presentation of information in the accounts.

Opinion

In our opinion, the accounts give a true and fair view of the state of the Company's affairs as at 31st March 2001 and of its return for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

ARTHUR ANDERSEN Arthur Andersen

Chartered Accountants and Registered Auditors

London, 4th June 2001

Statement of Total Return

for the period from 26th January 2000 to 31st March 2001

	Notes	Revenue £'000	2001 Capital £'000	Total £'000
Realised losses on investments	7	–	(128,162)	(128,162)
Unrealised depreciation	7	–	*(64,964)*	*(64,964)*
Currency losses on cash and short-term deposits held during the period	12	–	(3,558)	(3,558)
Unrealised currency gain on yen loan	12	–	2,501	2,501
Other capital charges	12	–	216	216
Income from investments	1	601	–	601
Other income	1	86	–	86
Gross return		687	(193,967)	(193,280)
Management fee	2	(2,869)	–	(2,869)
Other administrative expenses	3	(346)	–	(346)
Interest payable	4	(793)	–	(793)
Return before taxation		(3,321)	(193,967)	(197,288)
Taxation	5	(90)	–	(90)
Transfer from reserves		(3,411)	(193,967)	(197,378)
Return per ordinary share	6	(6.33)p	(359.58)p	(365.91)p

The figures are from the Company's incorporation on the 26th January 2000 to 31st March 2001 and therefore there are no comparative figures.

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

The notes on pages 23 to 29 form part of these accounts.

Balance Sheet

at 31st March 2001

	Notes	2001 £'000
ASSETS EMPLOYED		
Fixed assets		
Investments at valuation	7	**136,878**
Current assets		
Debtors	8	**4,918**
Cash and short-term deposits		**39,456**
		44,374
Current liabilities		
Creditors: amounts falling due within one year	9	**(95)**
Net current assets		**44,279**
Total assets less current liabilities		**181,157**
Creditors		
Amounts falling due after more than one year	10	**(40,803)**
Net assets		**140,354**
FINANCED BY		
Capital and reserves		
Called-up share capital	11	**4,955**
Capital reserve – realised	12	**(131,504)**
Capital reserve – unrealised	12	**(62,463)**
Other reserve	12	**332,008**
Revenue reserve	12	**(3,411)**
Equity shareholders' funds		**140,354**
Net asset value per ordinary share	13	**283.2p**

The accounts on pages 20 to 29 were approved by the Directors on 4th June 2001 and are signed on their behalf by:

Patrick Gifford
Chairman

P.A. Gifford

The notes on pages 23 to 29 form part of these accounts.

Cash Flow Statement

for the period from 26th January 2000 to 31st March 2001

	Note 15	2001 £'000
Operating activities		
Cash received from investments		244
Deposit interest received		86
Management fee paid		(2,869)
Directors' fees paid		(64)
Other cash payments		(310)
Net cash outflow from operating activities		(2,913)
Servicing of finance		
Interest paid		(1,607)
Net cash outflow from servicing of finance		(1,607)
Capital expenditure and financial investment		
Purchases of investments		(144,675)
Sales of investments		218,489
Other capital charges		216
Net cash inflow from capital expenditure and financial investment		74,030
Net cash inflow before financing		69,510
Financing		
Buyback of shares		(26,277)
Repayment of short-term loans		(17,600)
Net cash outflow from financing		(43,877)
Increase in cash for the period		25,633

The notes on pages 23 to 29 form part of these accounts.

Notes to the Accounts

for the period from 26th January 2000 to 31st March 2001

A SUMMARY OF THE PRINCIPAL ACCOUNTING POLICIES, ALL OF WHICH HAVE BEEN APPLIED CONSISTENTLY THROUGHOUT THE PERIOD, IS SET OUT BELOW;

THE COMPANY COMMENCED OPERATIONS ON 11th APRIL 2000. THEREFORE THE CURRENT REPORT COVERS ITS FIRST ACCOUNTING PERIOD AND CONSEQUENTLY THERE ARE NO COMPARATIVE FIGURES.

i. Basis of accounting
The accounts are prepared under the historical cost convention, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial statements of investment trust companies' (SORP).

ii. Valuation of investments
Quoted investments are valued at middle market prices. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve – unrealised.

iii. Income
Income from investments is included in the revenue account on an ex-dividend basis.

Interest receivable is dealt with on an accruals basis.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in capital reserve – realised.

iv. Expenses
All expenses are accounted for on an accruals basis. Expenses are charged wholly to the revenue account except as follows:
- expenses which are incidental to the acquisition of an investment are included within the cost of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

v. Finance costs
Finance costs are accounted for within the revenue account on an accruals basis and in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments'.

vi. Foreign currency
Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end or, where appropriate, at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve – realised or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

vii. Taxation
The charge for taxation is based on the net revenue for the period. The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Company's effective rate of taxation for the accounting period.

Notes to the Accounts continued

for the period from 26th January 2000 to 31st March 2001

	2001 £'000
1. Income	
Income from investments	
Overseas dividends	601
Other income	
Deposit interest	86
Total income	687
2. Management fee	
Management fee	2,869

The management fee has been calculated in accordance with the terms agreed by the Board and summarised on page 15.

3. Other administrative expenses	
Directors' fees[1]	64
Auditors' remuneration[2]	8
Other management expenses	274
	346

The total Directors' fees of £64,000 comprise £40,000 in respect of aggregate emoluments paid to Directors and £24,000 paid to third parties for making available the services of two of the Directors.

[1]For the period ended 31st March 2001, the Chairman was paid at the rate of £16,000 per annum, other Directors at the rate of £12,000 per annum each. These amounts are calculated on a pro-rata basis for service periods less than one year.

[2]In addition £1,600 was paid to the Auditors in respect of non-audit services. This amount forms part of other management expenses.

4. Interest payable	
On bank overdraft	8
On long term loans	785[1]
	793

[1]Actual interest paid on long term loans amounted to £1,607,000, this amount was offset against the amortisation of swap interest of £822,000.

5. Taxation	
Overseas taxation	90

	Revenue £'000	2001 Capital £'000	Total £'000
6. Return per ordinary share			
Attributable to ordinary shareholders	(3,411)	(193,967)	(197,378)
Return per ordinary share	(6.33)p	(359.58)p	(365.91)p

The revenue return per ordinary share is based on the revenue on ordinary activities after taxation the capital return per ordinary share is based on net capital returns. Both returns are based on 53,942,404 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

	2001 £'000
7. Investments	
Investments listed on a recognised investment exchange	136,878

Analysis of investments:	
Purchases – initial transfer	408,408
Purchases at cost	144,675
Sales – proceeds	(223,079)
Sales – realised losses	(128,162)
Unrealised depreciation	(64,964)
	136,878

Closing book cost	201,842
Closing unrealised depreciation	(64,964)
	136,878

In accordance with the arrangements outlined in the Listing Particulars the Company purchased part of the portfolio of JF Fledgeling Japan Limited. See note 11 for full details.

8. Debtors	
Amounts falling due within one year:	
Securities sold for future settlement	4,590
Dividends and interest receivable	267
Other debtors	61
	4,918

9. Creditors	
Amounts falling due within one year:	
Other creditors	33
Interest on long term loan	62
	95

10. Creditors	
Amounts falling due after more than one year:	
Yen 6.5 billion committed and drawn facility	40,803
Closing balance	40,803

The Yen 6.5 billion committed facility consists of Yen 3.25 billion from The Royal Bank of Scotland and Yen 3.25 billion from Den Danske Bank. The effective rate payable by the Company has been fixed by entering into an interest rate swap agreement with The Royal Bank of Scotland at a rate of 3.53%, expiring on 31st January 2006.

Notes to the Accounts continued

for the period from 26th January 2000 to 31st March 2001

	2001 £'000
11. Share capital	
Authorised share capital:	
100,000,000 ordinary shares of 10p each	**10,000**
Issued and fully-paid share capital:	
Issued 57,244,423 ordinary shares at 10p each	**5,724**
Repurchase of 7,690,000 ordinary shares at 10p each	**(769)**
Closing balance 49,554,423 ordinary shares at 10p each	**4,955**

The authorised share capital of the Company on incorporation on 26th January 2000 was £50,000 represented by 50,000 ordinary shares of £1 each of which two shares were issued and fully paid.

On 22nd February 2000, each issued and unissued ordinary share of £1 each was subdivided and redesignated as 10 ordinary shares of 10p each in the capital of the Company. It was also resolved that the authorised share capital of the Company be increased from £50,000 to £10,000,000 by the creation of 99,000,000 ordinary shares of 10p each and 50,000 redeemable shares of £1 each.

To enable the Company to obtain a trading certificate under Section 117, on 29th February 2000, 50,000 redeemable shares were allocated to Robert Fleming Investment Trust Limited against its irrevocable undertaking to pay £1 in cash for each redeemable share on the date of admission. The Company was listed on the London Stock Exchange on 11th April 2000 and on that date each of these shares were redeemed, and were automatically subdivided and redesignated as 10 ordinary shares of 10p each in the authorised share capital of the Company.

On 6th March 2000 it was resolved to issue up to 70,000,000 Ordinary Shares. Ten per cent of the Ordinary Shares issued pursuant to the issue were issued for the purpose of the purchase by the Company of Ordinary Shares in the market prior to Court approval being obtained for the cancellation of the Company's share premium account.

As described in the Prospectus dated 8th March 2000 arrangements had been put in place for the Company to purchase a portion of the assets of JF Fledgeling Japan Limited.

On the 11 April 2000 assets to the value of £364,009,126 (including investments valued at £408,408,000) were transferred to the Company and 57,244,423 shares were issued at 635.9p per share to satisfy the purchase consideration.

	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Capital redemption reserve £'000	Share premium account £'000	Other reserve £'000	Revenue reserve £'000
12. Reserves						
Currency losses on cash and short-term deposits held during the period	(3,558)	–	–	–	–	–
Realised losses on investments	(128,162)	–	–	–	–	–
Unrealised depreciation	–	(64,964)	–	–	–	–
Issue of ordinary shares	–	–	–	358,285	–	–
Redesignation of share premium account	–	–	–	(358,285)	358,285	–
Other capital charges	216	–	–	–	(26,277)	–
Repurchase of ordinary shares	–	–	769[1]	–	–	–
Net change in revalued Yen loans	–	2,501	–	–	–	–
Revenue deficit	–	–	–	–	–	(3,411)
Closing balance	(131,504)	(62,463)	769	–	332,008	(3,411)

[1] Represents the nominal value of shares repurchased

13. Net asset value per ordinary share

	Net asset value per share 2001 pence	Net assets attributable 2001 £'000
Ordinary shares	283.2	140,354

Net asset value per ordinary share is based on shareholders' funds attributable to ordinary shareholders and on 49,554,423 ordinary shares in issue at the period end.

	2001 £'000
14. Reconciliation of movements in shareholders' funds	
Issue of ordinary shares	364,009
Repurchase of ordinary shares	(26,277)
Total losses for the period	(197,378)
Closing shareholders' funds	140,354
15. Reconciliation of operating profit to operating cash flow	
Income before interest payable and taxation	(2,528)
Increase in accrued income	(267)
Increase in other debtors	(61)
Increase in other creditors	33
Tax on unfranked investment income	(90)
Net cash outflow from operating activities	(2,913)
Reconciliation of net cash flow to movement in net debt	
Increase in cash for the period	25,633
Repayment of short-term loans	17,600
Change in net debt resulting from cash flow	43,233
Effect of changes in foreign exchange rates	(1,057)
Other movements	822
Movement in net debt for the period	42,998
Cash position on transfer of assets	(44,345)
	(1,347)

Analysis of net debt	Cash position on transfer of assets £'000	Cashflow £'000	Exchange movement £'000	Other movements £'000	**At 31st March 2001 £'000**
Cash at bank and in hand	17,381	25,633	(3,558)	—	39,456
Short term bank loans	(17,600)	17,600	—	—	—
Long term bank loans	(44,126)	—	2,501	822	(40,803)
	(44,345)	43,233	(1,057)	822	(1,347)

A material non-cash transaction took place during the period. Details are disclosed in note 11.

16. Transactions with JPMorgan Fleming

Details of the management contract are set out on page 15. The terms make allowance for the exclusion of management charges on investments held in funds managed by JPMFAM and it subsidiaries. Details of the management fee paid to JFAM for the year can be found in note 2, page 24. Other management expenses, as shown in note 3 on page 24, include safe custody fees of £46,140. These fees were paid to third party custodians by Robert Fleming & Co. Limited on behalf of the Company, who, until 31st December 2000, were custodian to the Company.

JFAM carries out some of its dealing transactions through other group subsidiaries. These transactions are carried out at arms' length. The Company has been informed that certain of its dealing transactions may be subject to soft commission arrangements.

17. Financial instruments

The Company's financial instruments comprise:

- Equity shares, with Japanese exposure. These are held in accordance with the Company's investment objective and policies;
- Short-term debtors, creditors and cash amounts arising directly from its operations;
- Long-term bank loan denominated in Japanese Yen, for which the main purpose is to raise finance for the Company's operations.

As an investment trust, the Company invests in securities for the long-term. Accordingly it is, and has been throughout the period under review, the Company's policy that no short-term trading in investments or other financial instruments shall be undertaken. A review of the Company's investment strategy during the period is included in the Manager's report on pages 5 and 6.

The main risk arising from the Company's financial instruments is market price risk which incorporates both foreign currency and interest rate risk. The Board's policy for managing these risks is summarised below. These policies have remained unchanged since the beginning of the year to which these financial statements relate.

17. Financial instruments continued

MARKET PRICE RISK

Market risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio in order to monitor its risk/reward profile. An individual fund manager has responsibility for monitoring the existing portfolio selected in accordance with the overall asset allocation parameter described above and seeks to ensure that individual stocks also meet the risk reward-profile that is acceptable.

INTEREST RATE RISK

The Company finances part of its investment activities through bank borrowings. The Company enters into foreign currency borrowings at floating rates of interest and then uses an interest rate swap to generate the desired interest rate profile and, to manage the Company's exposure to interest rate fluctuations.

FOREIGN CURRENCY RISK

The income and capital value of the Company's investments can be affected by exchange rate movements as all of the Company's assets and income are denominated in one currency other than sterling which is the Company's reporting currency.

The Board has identified four principal areas where foreign currency risk could impact the Company:

- Movements in rates affect the value of investments.
- Movements in rates affect short-term timing differences.
- Movements in rates affect the income received.
- Movements in rates affect the value of long-term loans.

The Company may be subject to short-term exposure to exchange rate movement, for instance where there is a difference between the date an investment purchase or sale is entered into and the date when settlement of the proceeds occurs.

LIQUIDITY RISK

The Company's assets comprise mainly realisable securities, which can be sold to meet funding requirements if necessary. Short-term flexibility is achieved through the use of overdraft facilities.

The material accounting policies adopted in accounting for financial instruments are disclosed on page 23.

With the exception of the note on currency exposures, the Company has excluded short-term debtors and creditors from the following analysis.

CURRENCY EXPOSURES

An analysis of the Company's net currency assets at 31st March 2001 is:

	2001 Yen Total £m
Investments	136.9
Net current assets	44.3
Loans	(40.8)
Financial instruments outstanding at period end	140.4

17. Financial instruments continued

INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The majority of the Company's financial assets are equity shares or other investments which neither pay interest nor have a maturity date.

LIABILITIES

The Company has entered into an interest rate swap agreement in relation to the 6.5 billion Yen loan with The Royal Bank of Scotland. This agreement enables the interest on the loan to be paid at a fixed rate of interest.

This is the Company's only fixed rate liability. Details are given in note 10 on page 25.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are included in the balance sheet at values which represent fair values except in respect of the item disclosed below. The fair value of the loan, which is stated after the effect of interest rate swap, has been calculated by estimating the breakage costs of the loan and the swap.

	Accounts value	Fair value
	£m	£m
6.5 billion Yen facility	40.8	41.4

The figures are from the Company's incorporation on the 26th January 2000 to 31st March 2001 and therefore there are no comparative figures.

18. Investment Company Status

The Company carries on business as an investment company within the meaning of Section 266, of the Companies Act 1985. In the opinion of the Directors the Company has continuously conducted its affairs so that it should continue to qualify.

The Company intends to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year. However, under Corporation Tax Self Assessment which applies to accounting periods ended after 30th June 1999 the Inland Revenue will no longer be obliged to give written approval. Instead, the Inland Revenue has twelve months after the return filing date in which to give notice that they intend to enquire into the return but if no such notice is given then approval may be assumed to have been obtained. The Company is not a close Company for taxation purposes.

Notice of Meeting

Notice is hereby given that the first Annual General Meeting of The Fleming Japanese Smaller Companies Investment Trust plc will be held at 10 Aldermanbury, London EC2V 7RF on Tuesday 10th July 2001 at 3.00 p.m. for the following purposes.

1 To receive the Directors' report, the annual accounts and the Auditors' report for the period ended 31st March 2001.

2 To re-elect Patrick Gifford a Director of the Company.

3 To re-elect Piers Litherland a Director of the Company.

4 To re-elect George Long a Director of the Company.

5 To re-elect Christopher Purvis a Director of the Company.

6 To re-elect Nicholas Sibley a Director of the Company.

7 To re-appoint Arthur Andersen as Auditors to the Company and to authorise the Directors to agree their remuneration.

Special Business:
To consider the following resolutions which will be proposed as special resolutions:

Authority to Repurchase the Company's Shares

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 ordinary shares which of 10p each in the capital of the Company ("Ordinary Shares").

PROVIDED ALWAYS THAT

(i) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 7,428,208 or, if less, that number of Ordinary 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 Ordinary Share shall be 10p;

(iii) the maximum price which may be paid for an Ordinary Share shall be an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary 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;

(iv) any purchase of Ordinary Shares will be made in the market for cash at prices below the prevailing net asset value per Ordinary Share (as determined by the Directors);

(v) the authority hereby conferred shall expire on 10th January 2003 unless the authority is renewed at the Company's Annual General Meeting in 2002 or at any other general meeting prior to such time; and

(vi) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of Ordinary Shares pursuant to any such contract notwithstanding such expiry.

By order of the Board
J.P. Morgan Fleming Asset Management (UK) Limited,
Secretary.
4th June 2001

Notes

1 A shareholder entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and on a poll vote on his behalf. A proxy need not be a shareholder of the Company. The lodging of a form of proxy does not prevent a shareholder from attending and voting if he so wishes.

2 Proxy forms must be lodged not less than 48 hours before the time of the meeting at the office of the Registrar.

3 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 48 hours before 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 at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

4 Admittance to the above Meeting will be restricted to shareholders. Guests will only be admitted by prior arrangement.

Information about the Company

History

The Fleming Japanese Smaller Companies Investment Trust plc was formed on 26th January 2000. Following the passing of resolutions at two Special General Meetings of JF Fledgeling Japan Limited, held on 31st March 2000 and 11th April 2000, that Company was placed into liquidation and The Fleming Japanese Smaller Companies Investment Trust plc took over its assets and undertakings. Dealings in this Company commenced on the London Stock Exchange on 11th April 2000.

Financial Calendar

Financial year end	31st March
Interim results announced	November
Final results announced	June
Annual General Meeting	July

Company Number

3916716

Market Information

The shares are listed on the London Stock Exchange and are quoted daily in the Financial Times, The Daily Telegraph, The Times and The Herald and on the JPMorgan Fleming internet site at www.jpmorganfleming.com/its, where the share price is updated every fifteen minutes during trading hours.

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'), Personal Equity Plan ('PEP') and the Pension Account.

AI TC The Company is a member of The Association of Investment Trust Companies

Investing through JPMorgan Fleming

JPMorgan Fleming has a range of 'wrapper' products available which enable investors to purchase Fleming investment trusts as follows:

Share Plan

The Investment Trust Share Plan is a savings plan allowing investments in any of the Fleming investment trusts, as shown below. The minimum investment is £50 per month or a lump sum of £500. There is a 1% transaction charge (plus 0.5% Government stamp duty) on all purchases, with a maximum charge of £50 for each transaction in each trust.

Individual Savings Account ('ISA')

Tax-free savings in any of the Fleming investment trusts through either a mini or a maxi stocks and shares component ISA. Under current legislation, investments grow free of income and capital gains tax. The minimum investment is £100 per month per trust or a lump sum of £1,000 per trust subject to the overall annual allowances.

Personal Equity Plan ('PEP') Transfer

Available to investors with existing PEPs with other providers who would like to consolidate their investments. Under current legislation investments grow free of all income and capital gains tax. The minimum transfer value is £1,000 per trust.

The Range of Fleming Investment Trusts

Fleming American
Capital growth from North American investments

Fleming Asian
Capital growth from Asian investments, excluding Japan

Fleming Chinese
Capital growth from 'Greater China' investments

Fleming Claverhouse
Capital and income growth from UK investments

Fleming Continental European
Capital growth from Continental European investments

Fleming Emerging Markets
Capital growth from emerging markets worldwide

Fleming European Fledgeling
Capital growth from smaller Continental European companies

Fleming Income & Capital
Income and capital growth from UK investments through a split-capital structure

Fleming Income & Growth
Income and capital growth from higher-yielding investments through a split-capital structure. Invests in equities and fixed interest securities

Fleming Indian
Capital growth from investment in India

Fleming Japanese
Capital growth from Japanese investments

Fleming Japanese Smaller Companies
Capital growth through investment in small and medium-sized Japanese companies

Fleming Managed Growth
Long-term capital growth from investing in the range of investment trusts managed by JPMorgan Fleming

Fleming Managed Income
Growth of income with potential of long-term capital growth from investing in JPMorgan Fleming managed funds and fixed income securities

Fleming Mercantile
Capital growth from a portfolio of medium and smaller UK companies

Fleming Mid Cap
Capital growth from medium-sized UK companies

Fleming Overseas
Capital growth from overseas markets

Fleming Smaller Companies
Capital growth from UK smaller companies

Fleming Technology
Capital growth from global investment in the applied science and technology sectors

Fleming US Discovery
Capital growth from investing in US micro cap companies

Fleming Worldwide Income
High income with capital growth through a split-capital structure from a portfolio of equities and bonds with international exposure

Please remember that the value of shares and the income from them can fall as well as rise and investors may not get back the full amount invested. Past performance is not necessarily a guide to the future. For trusts investing in emerging markets the risk to your capital may be greater. Exchange rate changes may cause the value of overseas investments to rise or fall. Unquoted investments may be illiquid and difficult to value and may be more volatile.

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