

Annual Report **2012**
JPMorgan Japan Smaller
Companies Trust plc

Annual Report & Accounts for the year ended 31st March 2012

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J.P.Morgan
Asset Management

Features

Contents

About the Company

- 1 Financial Results
- 2 Chairman's Statement

Investment Review

- 5 Investment Managers' Report
- 9 Summary of Results
- 10 Five Year Financial Record
- 11 Ten Largest Investments
- 12 Sector Analysis
- 13 List of Investments

Directors' Report

- 15 Board of Directors
- 17 Directors' Report
- 17 Business Review
- 28 Directors' Remuneration Report

Accounts

- 29 Statement of Directors' Responsibilities
- 30 Independent Auditor's Report
- 31 Income Statement
- 32 Reconciliation of Movements in Shareholders' Funds
- 33 Balance Sheet
- 34 Cash Flow Statement
- 35 Notes to the Accounts

Shareholder Information

- 52 Notice of Annual General Meeting
- 55 Details of Subscription Shares
- 56 Glossary of Terms and Definitions
- 61 Information about the Company

Objective

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

Investment Policies

- To maintain a portfolio almost wholly invested in Japan
- To restrict the Company's investment universe to all Japanese quoted companies excluding the largest 200 measured by market capitalisation
- To utilise borrowings to enhance shareholder returns
- To operate a gearing policy for the Company to within a range of 95% to 115% invested
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts)

Further details on investment policies and risk management are given in the Directors' Report on page 17

Benchmark

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

Capital Structure

At 31st March 2012, the Company's issued share capital comprised 39,456,401 Ordinary shares of 10p each, of which 35,000 were held in Treasury, and 7,232,395 Subscription shares of 1p each

Management Company

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

AIC

The Company is a member of the Association of Investment Companies

Financial Results

Total returns

+1.4%

Return to Ordinary
shareholders¹
(2011: -8.8%)

-1.5%

'Unit' return to shareholders^{1,2}
(2011: -7.9%)

+6.0%

Benchmark³
(2011: +3.2%)

+0.5%

Undiluted return on net assets^{4,5}
(2011: -13.7%)

+0.5%

Diluted return on net assets^{4,6}
(2011: -10.7%)

Japanese Smaller Companies Returns

(returns for the year ended 31st March 2012)

A glossary of terms and definitions is provided on pages 56 and 57

¹Source: Morningstar/J.P. Morgan

²A Unit comprises 5 Ordinary shares and 1 Subscription share

³Source: Datastream. The Company's benchmark is the S&P/Citigroup Japan Extended Market Index (Total Return Net) in sterling terms

⁴Source: J.P. Morgan

⁵Return on net assets calculated using the undiluted net asset value

⁶Return on net assets calculated using the diluted net asset value, which assumes that all outstanding dilutive Subscription shares were converted into Ordinary shares at the year end and any shares held in Treasury at the year end were reissued in accordance with the Board's policy on the reissuance of Treasury shares, where this has a dilutive effect

⁷J.P.Morgan Japan Smaller Companies Trust plc

⁸Source: Morningstar. Japanese smaller companies sector average (mean)

⁹Source: Bloomberg.

Chairman's Statement

Investment Performance

The year to 31st March 2012 proved to be a difficult and frustrating one for your Company

The Company's undiluted total return on net assets (or portfolio return) was 0.5%. This underperformed the return of the Company's benchmark, the S&P/Citigroup Japan Extended Market Index (Total Return Net), which rose by 6.0% and the peer group average, which rose by 5.7%, during the same period. The Company's diluted return on net assets, which assumes that all of the Subscription shares in issue were exercised at the rate of 147 pence per share and that all of the Treasury shares were re-issued in accordance with the Board's policy on the re-issuance of Treasury shares, was +0.5%. Over the same period, the Company's Ordinary share price rose by 1.4%, reflecting a narrowing of the discount to the diluted net asset value per share from 11.2% to 10.4%.

Review of Services Provided by the Manager

The Board of the Company has been very concerned that performance delivered by the Manager, JPMorgan Asset Management ('JPMAM'), is behind what both the Board and Shareholders expect. The results are behind the Company's benchmark and below the peer group average over most time periods. The Directors are cognisant that last year's Annual Report noted that improvements in performance were required as long term performance numbers were weak.

Your Board has looked extensively into the reasons behind the continued underperformance and has considered a range of options. We have concluded, however, that JPMAM remains the best option for the management of the Company's assets but agreed with them that a change in the team responsible for the Company's portfolio was required. The new management arrangements are that Shoichi Mizusawa, the head of the investment team in Tokyo, has become the lead investment manager with direct responsibility for the portfolio. Further resources have been allocated, with Shoichi Mizusawa being supported by Nicholas Weindling and Naohiro Ozawa. This team of three is backed up by seven other managers with Japanese and regional research responsibilities based in Tokyo and Hong Kong.

We also agreed with JPMAM that improvements in the construction of the portfolio had to be made. To this end oversized sector and stock bets will be avoided by setting active limits for sectors and stocks. A dedicated model portfolio has been designed and is now being utilised to enhance both sector and stock selections. We believe the portfolio will now display a greater conviction towards stock selection, which should lead to a reduction in portfolio turnover and a move towards a greater "buy and hold" strategy. The new management team is utilising much more of the new model as a key element in a robust portfolio approach to provide a more focused and stronger overall structure to the portfolio. This approach has led to a creditable track record in similar small cap mandates run by members of the team and the early evidence for our Company is encouraging.

We will closely monitor the performance of the Company in the coming months and will not hesitate to take further action if required. The management fee charged by JPMorgan Asset Management has been reduced from 1.25% per annum to 1% per annum with effect from 1 January 2012.

Gearing

The Company has a Japanese yen 2.0bn credit facility with Scotiabank Europe PLC which gives the Investment Manager the ability to gear tactically. The facility is due to expire on 4th October 2013. The Board reviews the level of gearing at each Board meeting and has given the Investment Managers the flexibility to operate within the range of 95% to 115% invested. During the year the Company's gearing ranged between 96% and 112% and at the time of writing was 98%.

Subscription Shares

On 5th March 2009 the Company issued 7,798,873 Subscription shares as a bonus issue to Ordinary shareholders on the basis of one Subscription share for every five Ordinary shares held on 3rd March 2009. Each Subscription share confers the right (but not the obligation) to subscribe for one Ordinary share at predetermined prices on any business day during the period from 1st April 2009 until 31st March 2014, after which the rights on the Subscription shares will lapse. From 1st April 2011 to 31st March 2012, 4,476 Subscription shares were exercised into Ordinary shares raising proceeds of £7,000. At the time of writing, a further 33,417 Subscription shares have been exercised raising proceeds of £49,000.

Further details on the Subscription shares, including their exercise prices, the apportionments for capital gains tax purposes and how they may be exercised, can be found on the Company's website at www.jpmmjapan.com and on page 55 of this report.

Share Issues and Repurchases

The Company repurchased 35,000 Ordinary shares into Treasury during the year under review. The Company did not issue any shares from Treasury nor issue any new Ordinary shares during this period, other than Ordinary shares issued as a result of the exercise of Subscription shares.

Your Board believes that the ability to issue new Ordinary shares, repurchase Ordinary and Subscription shares for cancellation and to hold and reissue Ordinary shares from Treasury at a premium, is in the interests of shareholders in assisting the Company in managing any imbalance between the supply and demand for the Company's shares and in reducing the volatility of the discount. Accordingly, the Board will be seeking shareholders' approval to renew these authorities at this year's Annual General Meeting. Further details are given on pages 22 and 23 of this report.

Chairman's Statement continued

Board of Directors

In accordance with the Company's Articles of Association, Christopher Russell and Robert White will retire at the forthcoming Annual General Meeting and seek re-appointment. In addition, John Gibbon, who has served as a Director for longer than nine years, retires in accordance with corporate governance best practice and seeks reappointment. The Nomination Committee has met to consider the attributes and contributions of each of the Directors and, following this review, recommends their re-appointment.

Outlook

The outlook for Japan remains unclear and depends to a large degree on the success of the actions taken to address the problems besetting the global economy. The Eurozone debt crisis and the lacklustre performance of the US and Chinese economies threatens to prolong the downturn and impinge on the ability of Japanese companies to make real progress. Japan, however, continues to show strong entrepreneurial activity in a significant number of areas where it still has a competitive advantage and we are confident that our new management team will be successful in identifying smaller companies with the ability to grow earnings and market share and provide shareholders with a satisfactory return on their investments.

Annual General Meeting

This year's Annual General Meeting will be held at the Holborn Bars, 138-142 Holborn, London EC1N 2NQ on Monday 23rd July 2012 at 11.30 a.m. In addition to the formal proceedings, there will be a presentation by Shoichi Mizusawa, our principal Portfolio Manager, who will review the past year and comment on the outlook for the current year. I look forward to seeing as many of you as possible at the meeting. If you have any detailed questions, you may wish to raise these in advance with the Company Secretary at Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ or via the Company's website at www.jpmmjapan-smaller-companies.co.uk. Shareholders who are unable to attend the Annual General Meeting in person are encouraged to use their proxy votes. Shareholders who hold their shares through CREST are able to lodge their proxy votes electronically. More details are given in the notes to the Notice of Meeting on pages 53 and 54.

Alan Clifton
Chairman

26th June 2012

Investment Managers' Report

In the Chairman's statement, shareholders will have noted that JPMorgan Asset Management has agreed with the Board of Directors to implement a change in the portfolio management team responsible for the management of the stocks in the portfolio. A number of changes to the portfolio construction methodology have also been agreed with the Board and we are now working hard to ensure these are implemented without undue disruption. We strongly believe that there are many opportunities in Japan for active investors such as ourselves to identify and invest in high quality companies that will benefit the Company.

Shoichi Mizusawa

The performance we delivered for the 12 months under review was not good. Over the year to 31 March 2012, the Company's net asset value rose by 0.5% which compares unfavourably with the return from the benchmark index, the S&P/Citigroup Japan Extended Market Index which rose by 6.0%. We have set out below our review of the year which goes into detail as to the reasons for this underperformance. The Board and shareholders rightfully expect that we should deliver better results than those reported to date and we shall be striving to achieve this in the future.

Review of 2011/2012

Nicholas Weindling

In March 2011, Japan's north-eastern region was hit by a devastating earthquake and tsunami which subsequently caused problems at a nuclear power plant in Fukushima and significant disruption for many industries. These difficulties were compounded in the Autumn of 2011 when heavy flooding impacted company supply chains in Thailand - notably impacting electronics and automotive production. A lacklustre global economic backdrop and a poor domestic political environment were also significant headwinds. Seen in the light of these challenges Japanese corporate performance was robust.

The key focus of the Company's holdings was little changed - Japanese companies that have an opportunity to grow in Asia, those that are restructuring and those that are in structural growth niches within the domestic economy. We focus on companies and industries that are able to show sustained business expansion and that trade at attractive multiples, typically the balance sheet is strong, operating margins are high as are returns on assets and equity. Overall there is a very strong focus on quality managements.

Naohiro Ozawa

Whilst this approach served us well in the second, third and fourth quarters of 2011, the aggressive market rally in the first three calendar months of 2012 saw a sharp rotation between these longer term winners and those stocks that suffered for most of last year - especially those in the financial, commodity and technology areas. We have maintained the quality bias overall as we have seen rallies spurred by short term stimulus come and go several times in the last few years. We believe that gains made by lower quality stocks in the first quarter of the calendar year will prove temporary as their poor business models come under renewed pressure.

Investment Managers' Report continued

Performance attribution for the year ended 31st March 2012

| | % | % |
|---|------|-------------|
| Contributions to total returns | | |
| Benchmark total return | | 6.0 |
| Stock selection | -3.0 | |
| Sector allocation | -0.2 | |
| Gearing/cash | -0.3 | |
| Investment manager contribution | | -3.5 |
| Portfolio total return | | 2.5 |
| Management fee/ other expenses | -2.0 | |
| Other effects | | 0.5 |
| Exercise of Subscription shares | - | |
| Net asset value total return (undiluted) | | 0.5 |
| Subscription share dilution effect | | - |
| Net asset value total return (diluted) | | 0.5 |
| Share price total return | | 1.4 |
| Unit share price total return | | -1.5 |

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

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

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

A glossary of terms and definitions is provided on pages 56 and 57.

The Great East Japan Earthquake

The triple disaster in March led to a significant slowdown in the economy as factories shut, supply chains were damaged and power was rationed. Encouragingly, the recovery from this tragedy has been far quicker than many expected and production has now normalised for most companies. Disciplined power consumption during the summer months meant that further significant disruptions were avoided. Currently almost all of Japan's nuclear capacity remains closed for maintenance and no plants have restarted since the accident - straining conventional power sources. The key long-term consequence will be a reappraisal of Japan's energy policy, a process that has already begun.

The Economy

The speed of the global economic recovery following the 2008 Lehman disaster has been relatively slow. Unemployment in the United States has remained at high levels for longer than many expected. The Eurozone crisis has deepened, and remains severe, as politicians have failed to deal with some of the key issues. Many countries are proceeding with austerity measures at the same time as economic growth falters. This does not bode well for future growth. By contrast, Asia has remained robust and Japan benefits from its many and varied links within this rapidly transforming region. Japanese exports to Asia are now larger than to the US and Europe combined and many of the products in demand in these areas are key areas of Japanese competitive strength. In particular we are focused on consumer related activity in Asia where an emerging middle class is a powerful secular driver of demand for many Japanese produced goods.

Currency

The strength of the Japanese Yen has been a feature of the last four years. In spite of the recent sell off, the Yen still trades at multi-year high levels against many currencies including the US Dollar, the British Pound and the Euro. Against the Pound the exchange rate has moved from ¥250 in the middle of 2007 to around ¥130 currently. The strength of the Yen is important because many of Japan's key competitor nations have very weak currencies. It is remarkable that Japanese manufacturers have dealt so well with this rapidly appreciating currency. The main response has been to cut costs, reduce wages and shift capacity overseas. Weakly positioned companies without a strong competitive edge are the most impacted by swings in the currency - this is especially noticeable in commodity sectors such as chemicals but much less so in medical equipment, automotive parts and high end machinery where companies have more control over their destiny via differentiated products, high market shares and service oriented competition. The portfolio is heavily skewed to this latter group and sharply underweight the former.

Politics

At the end of August Yoshihiko Noda was elected Japan's sixth prime minister in five years. He succeeded Naoto Kan who stepped down under pressure of his handling of the March earthquake and subsequent nuclear crisis. Clearly, this level of turnover of senior politicians is not helpful. However, Japan's bureaucracy is strong and these changes have close to no impact on individual companies. More recently the Bank of Japan has come under intense pressure to take a stronger anti-deflationary stance. The expansion of its balance sheet and an apparent shift in February towards a more formal inflation target of 1%, were warmly welcomed by the market and led to a weakening of the Yen and a temporary rally in the stock market. The degree of actual policy follow through from this announcement, however, remains to be seen.

Portfolio Strategy

There are many long-term structural trends in Japan and we try to use these to our advantage when choosing the Trust's investments.

There is rapid growth of the middle class across the developing world and this has two main consequences for companies in the portfolio. First, disposable incomes are rising which means increased demand for many products, such as motorbikes. In this regard we hold a number of Honda related motorcycle stocks due to their dominant market shares and rapidly growing end markets. Secondly, as wages and quality requirements rise there is a greater necessity to automate production and Japan has many globally leading companies in the fields of robotics and factory automation, for example, Nabtesco.

We hold the shares of a number of companies that benefit from the ageing population. For example, Message, which is a leading operator of sheltered accommodation. We also have exposure to the drugstore industry which should benefit as the number of prescriptions increases. Our focus in healthcare equipment has been in the high end testing equipment area where Japanese companies command a very strong market share. Not only do the recurring reagent sales produce stable revenue streams but ageing populations in the West and expanding wealth in the East are creating an expanding market for new systems. Sysmex, in particular, has a very strong market share in haematology analysers globally and is the clear market leader in China.

Domestically there are long term trends in the retail sector producing a stark divergence between winners and losers. Firstly, the percentage of online shopping in Japan is some way behind the level we see in other developed markets. We expect that this will change over time and that the environment will become tougher for some traditional retailers. Kakaku.com is a key beneficiary of this trend as its price comparison shopping engine is the leader in the Japanese market. Secondly, we

Investment Managers' Report continued

expect consolidation in this fragmented industry as many "mom and pop" store owners retire. One example of this is discount retailer Don Quijote. We believe this to be a focused and well run business that is steadily expanding by taking market share from weaker operators.

We also anticipate major change in the world of computer games. We no longer expect the majority of people to buy consoles such as the Nintendo Wii or Microsoft Xbox. Rather we think games will be downloaded directly to smart phones, tablet computers and, eventually, televisions and the providers of this content will be key beneficiaries. In Japan, mobile gaming has already eclipsed traditional consoles in market size. Companies such as Konami should benefit. These firms having established sizeable Japan-only mobile gaming businesses are now exploring the international markets. Many stocks in this area have recently fallen sharply as investors worry about how much more growth is possible and whether they can succeed overseas. In contrast we believe that mobile gaming is a newly emerging trend in the rest of the world.

Outlook

There are many long-term trends in Japan, both positive and negative. We believe that the differences between those companies that will succeed and those that will not are set to become ever greater. Our local presence on the ground in Tokyo should be a strong competitive advantage in identifying long-term country, sector and stock specific themes. Although there are many macro-economic headwinds we are positive on the outlook for the Company's holdings in the long-term view. Our focus remains on those companies that benefit most from the longer run structural trends - Asian consumers, ageing population, capital deepening in China, and restructuring in Japan - and where their business model is robust.

Valuations remain compelling with the market still trading at the very low end of historical ranges despite dramatically higher exposure to growing Asian markets and a more aggressive pursuit of profit than has been the case in the past. Through continued focus on these beneficiaries of powerful secular trends, at a cheap valuation, we believe that the outlook for our holdings remains highly attractive. We look forward to meeting shareholders at the Annual General Meeting.

Shoichi Mizusawa
Nicholas Weindling
Naohiro Ozawa
Investment Managers

26th June 2012

Summary of Results

| Total returns for the year ended 31st March | 2012 | 2011 | |
|---|-------------------|-------------|-----------------|
| Return to Ordinary shareholders ² | 1.4% | -8.8% | |
| 'Unit' return to shareholders ^{1,2} | -1.5% | -7.9% | |
| Benchmark return ⁶ | 6.0% | +3.2% | |
| Undiluted return on net assets ^{3,4} | 0.5% | -13.7% | |
| Diluted return on net assets ⁵ | 0.5% | -10.7% | |
| Net asset value, share price and discount at 31st March | | | % change |
| Total net assets (£'000) | 65,878 | 65,558 | +0.5 |
| Undiluted net asset value per Ordinary share | 167.1p | 166.2p | +0.5 |
| Diluted net asset value per Ordinary share | 164.0p | 163.2p | +0.5 |
| Ordinary share price | 147.0p | 145.0p | +1.4 |
| Ordinary share price discount to diluted net asset value per Ordinary share | 10.4% | 11.2% | |
| Ordinary shares in issue, excluding shares held in Treasury | 39,421,401 | 39,451,925 | |
| Subscription share price | 20.0p | 41.5p | |
| Subscription shares in issue | 7,232,395 | 7,236,871 | |
| Revenue for the year ended 31st March | | | |
| Gross revenue return (£'000) | 1,296 | 1,223 | +6.0 |
| Net loss attributable to shareholders (£'000) | (164) | (434) | |
| Loss per Ordinary share - diluted | (0.42)p | (1.11)p | |
| Actual Gearing Factor at 31st March ⁷ | 105.2% | 101.5% | |
| Total Expense Ratio ⁸ | 1.87% | 1.96% | |

A glossary of terms and definitions is provided on pages 56 and 57

¹A Unit comprises 5 Ordinary shares and 1 Subscription share

²Source: Morningstar/J.P. Morgan

³Source: J.P. Morgan

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

⁵Return on net assets calculated using the diluted net asset value, which assumes that all outstanding dilutive Subscription shares were converted into Ordinary shares at the year end and any shares held in Treasury at the year end were reissued in accordance with the Board's policy on the reissuance of Treasury shares, where this has a dilutive effect

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

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

⁸Management fee and all other operating expenses excluding finance costs expressed as a percentage of the average of the month end net assets during the year

Five Year Financial Record

| At 31st March | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|-------------|-------------|-------------|-------------|-------------|---------------|
| Total assets less current liabilities (£m) | 106.3 | 76.3 | 51.3 | 75.0 | 65.6 | 65.9 |
| Undiluted net asset value per Ordinary share (p) | 269.7 | 194.0 | 131.8 | 192.6 | 166.2 | 167.1 |
| Diluted net asset value per Ordinary share (p) ¹ | 269.7 | 194.0 | 131.6 | 182.8 | 163.2 | 164.0 |
| Ordinary share price (p) | 256.5 | 169.5 | 108.5 | 159.0 | 145.0 | 147.0 |
| Ordinary share price discount to diluted net asset value per Ordinary share (%) | 4.9 | 12.6 | 17.6 | 13.1 | 11.2 | 10.4 |
| Actual gearing factor (%) ² | 115.7 | 109.5 | 98.3 | 117.3 | 101.5 | 105.2 |
| Subscription share price (p) | – | – | 13.5 | 37.5 | 41.5 | 20.0 |
| Year ended 31st March | | | | | | |
| Gross revenue attributable to Ordinary shareholders (£'000) | 1,447 | 1,404 | 1,421 | 1,044 | 1,223 | 1,296 |
| Revenue loss per Ordinary share - diluted (p) | (2.14) | (1.29) | (0.98) | (1.45) | (1.11) | (0.42) |
| Total expense ratio (%) ³ | 1.54 | 1.80 | 1.99 | 1.96 | 1.96 | 1.87 |
| Rebased to 100 at 31st March 2007 | | | | | | |
| Ordinary share price total return ⁴ | 100.0 | 66.1 | 42.3 | 62.0 | 56.5 | 57.3 |
| Undiluted net asset value total return | 100.0 | 72.0 | 48.8 | 71.2 | 61.4 | 61.7 |
| Diluted net asset value total return ⁴ | 100.0 | 72.0 | 48.8 | 67.8 | 60.6 | 60.9 |
| Benchmark ⁵ | 100.0 | 80.9 | 78.9 | 100.7 | 103.9 | 110.2 |

A glossary of terms and definitions is provided on pages 56 and 57

¹The diluted net asset value per Ordinary share assumes that all outstanding dilutive Subscription shares were converted into Ordinary shares at the year end and any shares held in Treasury at the year end were reissued in accordance with the Board's policy on the reissuance of Treasury shares, where this has a dilutive effect

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

³Management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the month end net assets during the year (2009 and prior years the average of the opening and closing net assets)

⁴Source Morningstar

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

Ten Largest Investments

at 31st March

| Company and Japanese Company Code | Sector | 2012 Valuation | | 2011 Valuation | |
|---|------------------------------------|----------------|----------------|----------------|----------------|
| | | £'000 | % ¹ | £'000 | % ¹ |
| Konami (9766)³ Develops and sells consumer video games software and arcade games machines for amusement facilities. The company operates in the United States, France, Germany, the United Kingdom, Hong Kong, Singapore, Korea, and Brazil. Konami also develops liquid crystal displays for Pachinko and manages amusement facilities. | Information & Communication | 3,116 | 4.5 | – | – |
| Don Quijote (7532) Operates discount stores which sell consumer electronics, daily necessities, groceries, watches, and sporting goods. The company mostly operates small scale stores based in Tokyo. | Retail Trade | 2,768 | 4.0 | 2,273 | 3.5 |
| CyberAgent (4751)² Operates blog media website, Ameba. The company also operates an internet advertising agency, foreign exchange trading website, and also creates PC and mobile contents such as advertisements and games. CyberAgent invests in companies with internet related business. | Services | 2,360 | 3.4 | 1,305 | 2.0 |
| Trancom (9058) Provides freight transportation services in the Tokai region. The company transports products for Sharp Corp., other consumer electronics makers, cosmetics and food producers. Trancom also operates a warehousing business and offers distribution information services. | Warehouse & Harbour Transportation | 2,166 | 3.1 | 2,125 | 3.2 |
| Capcom (9697)³ Develops consumer video game software. The company also develops, manufactures, markets, and leases arcade games machines. Capcom also operates amusement facilities. | Information & Communication | 1,983 | 2.9 | – | – |
| Ship Healthcare (3360)² Mainly distributes medical equipment and physics and chemistry equipment. The company also sells equipment used for medical facilities and office automation. Ship Healthcare provides integrated consultation as well as maintenance services. | Wholesale Trade | 1,868 | 2.7 | 1,017 | 1.6 |
| Namco Bandai (7832)³ The company manufactures toys, stuffed animals, character goods, video games, commercial, and home use game equipment and software. Namco Bandai also operates video game arcades and theme parks. | Other Products | 1,772 | 2.6 | – | – |
| Musashi Seimitsu Industries (7220) Manufactures automotive parts such as ball joints, camshafts and gears. The company exports its products to North America, South America, Asia and Europe. | Transportation Equipment | 1,728 | 2.5 | 1,702 | 2.6 |
| Daido Metal (7245)² Manufactures bearings used in automobiles, ships, construction machinery, and other industrial items. The company has production facilities in the United States, Indonesia, and Thailand. | Transportation Equipment | 1,724 | 2.5 | 344 | 0.5 |
| F C C (7296) Manufactures and develops clutches and facings for motorcycles, automobiles, and lawn mowers. The company has its operating facilities in the US, Thailand, the Philippines, China, and the UK. F C C supplies its products to Japanese motorcycle manufacturers including Honda, Suzuki, and Yamaha. | Transportation Equipment | 1,704 | 2.4 | 2,013 | 3.1 |
| Total⁴ | | 21,189 | 30.6 | | |

¹Based on total investments of £69.3m (2011: £66.5m)

²Not included in the ten largest investments at 31st March 2011

³Not held in the portfolio at 31st March 2011

⁴At 31st March 2011, the value of the ten largest investments amounted to £20.7m representing 31.6% of total investments

Sector Analysis

| | 31st March 2012 | | 31st March 2011 | |
|------------------------------------|-----------------------------|----------------|-----------------------------|----------------|
| | Portfolio % ¹ | Benchmark % | Portfolio % ¹ | Benchmark % |
| Services | 16.7 | 1.9 | 14.6 | 4.4 |
| Transportation Equipment | 12.8 | 10.8 | 21.9 | 3.9 |
| Information & Communication | 12.1 | 6.1 | 2.6 | 3.9 |
| Retail Trade | 9.0 | 4.3 | 6.9 | 8.1 |
| Electric Appliances | 6.5 | 13.8 | 6.6 | 8.7 |
| Machinery | 6.3 | 5.1 | 16.5 | 8.6 |
| Wholesale Trade | 5.9 | 5.6 | 1.6 | 5.6 |
| Real Estate | 5.0 | 2.5 | 1.0 | 7.0 |
| Chemicals | 4.1 | 5.8 | 9.3 | 9.2 |
| Precision Instruments | 3.9 | 1.4 | 2.4 | 1.2 |
| Other Products | 3.7 | 1.6 | – | 2.7 |
| Warehouse & Harbour Transportation | 3.3 | 0.2 | 3.2 | 0.6 |
| Banks | 3.0 | 9.6 | – | 7.6 |
| Other Financing Business | 2.9 | 0.8 | 4.3 | 1.5 |
| Air Transportation | 2.1 | 0.3 | 2.7 | 0.1 |
| Land Transportation | 2.0 | 3.8 | – | 1.8 |
| Iron & Steel | 1.9 | 1.9 | 2.3 | 2.1 |
| Foods | 1.0 | 3.6 | 0.3 | 3.8 |
| Construction | 1.0 | 2.4 | – | 4.7 |
| Metal Products | 1.0 | 0.7 | – | 1.5 |
| Insurance | 0.7 | 2.4 | – | 0.1 |
| Securities & Commodity Futures | 0.2 | 1.2 | 1.1 | 1.0 |
| Pharmaceuticals | – | 4.8 | – | 2.3 |
| Electric Power & Gas | – | 3.0 | – | 0.4 |
| Nonferrous Metals | – | 1.2 | – | 2.3 |
| Glass & Ceramics Products | – | 1.1 | 2.2 | 1.7 |
| Textiles & Apparels | – | 0.9 | – | 1.9 |
| Rubber Products | – | 0.8 | – | 0.8 |
| Oil & Coal | – | 0.8 | – | 0.1 |
| Mining | – | 0.7 | 1.9 | 0.2 |
| Pulp & Paper | – | 0.4 | – | 0.9 |
| Marine Transportation | – | 0.4 | – | 0.2 |
| Fishery Agriculture & Forestry | – | 0.1 | – | 0.5 |
| Real Estate Investment Trusts | – | – | – | 0.6 |
| Net current liabilities | (5.1) | – | (1.4) | – |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

¹Based on total assets less current liabilities of £65.9m (2011: £65.6m)

List of Investments

at 31st March 2012

| Company and Japanese Company Code | Valuation £'000 | Company and Japanese Company Code | Valuation £'000 |
|--|--------------------|-----------------------------------|--------------------|
| Services | | Retail Trade | |
| CyberAgent (4751) | 2,360 | Don Quijote (7532) | 2,768 |
| United Technology (2146) | 1,457 | SUGI (7649) | 1,081 |
| So-net M3 (2413) | 1,445 | Ain Pharmaciez (9627) | 789 |
| Message (2400) | 910 | Asahi (3333) | 553 |
| Kanamoto (9678) | 701 | ARCS (9948) | 453 |
| Outsourcing (2427) | 686 | Cosmos Pharmaceutical (3349) | 310 |
| Aeon Delight (9787) | 680 | Total Retail Trade | 5,954 |
| Miraca (4544) | 670 | Electric Appliances | |
| Daiichikosho (7458) | 620 | U-Shin (6985) | 1,433 |
| Kakaku (2371) | 493 | Symex (6869) | 1,416 |
| JP (2749) | 360 | OKI Electric (6703) | 743 |
| World Intec (2429) | 290 | Anritsu (6754) | 707 |
| Universal Entertainment (6425) | 232 | Total Electric Appliances | 4,299 |
| Prestige International (4290) | 108 | Machinery | |
| Total Services | 11,012 | Disco (6146) | 1,235 |
| Transportation Equipment | | Nabtesco (6268) | 1,189 |
| Musashi Seimitsu Industries (7220) | 1,728 | Eagle Industry (6486) | 961 |
| Daido Metal (7245) | 1,724 | Tomoe Engineering (6309) | 491 |
| F C C (7296) | 1,704 | Aichi (6345) | 282 |
| Nissin Kogyo (7230) | 1,592 | Total Machinery | 4,158 |
| Unipres (5949) | 1,390 | Wholesale Trade | |
| Showa Aircraft Industry (7404) | 334 | Ship Healthcare (3360) | 1,868 |
| Total Transportation Equipment | 8,472 | Autobacs (9832) | 1,387 |
| Information & Communication | | Sanrio (8136) | 534 |
| Konami (9766) | 3,116 | Misumi (9962) | 110 |
| Capcom (9697) | 1,983 | Total Wholesale Trade | 3,899 |
| Itochu Techno Solutions (4739) | 1,228 | Real Estate | |
| Net One Systems (7518) | 986 | Tokyu Livable (8879) | 730 |
| GMO Payment Gateway (3769) | 670 | Sumitomo Real Estate (8870) | 684 |
| Ateam (3662) | 4 | Relo (8876) | 683 |
| Total Information & Communication | 7,987 | Industrial & Infra Reit (3249) | 658 |
| | | Arealink (8914) | 348 |
| | | Leopalace (8848) | 199 |
| | | Total Real Estate | 3,302 |

List of Investments continued

| Company and Japanese Company Code | Valuation £'000 | Company and Japanese Company Code | Valuation £'000 |
|---|--------------------|---|--------------------|
| Chemicals | | Land Transportation | |
| Nifco (7988) | 718 | Hitachi Transport System (9086) | 1,334 |
| POLA Orbis (4927) | 699 | Total Land Transportation | 1,334 |
| FP (7947) | 594 | Iron & Steel | |
| Kansai Paint (4613) | 368 | Yamato Kogyo (5444) | 1,256 |
| Sakai Chemical Industry (4078) | 295 | Total Iron & Steel | 1,256 |
| Total Chemicals | 2,674 | Foods | |
| Precision Instruments | | Toyo Suisan Kaisha (2875) | 653 |
| Nikkiso (6376) | 1,212 | Total Foods | 653 |
| Asahi Intecc (7747) | 1,012 | Metal Products | |
| JIN (3046) | 346 | Neturen (5976) | 649 |
| Total Precision Instruments | 2,570 | Total Metal Products | 649 |
| Other Products | | Construction | |
| Namco Bandai (7832) | 1,772 | Haseko (1808) | 626 |
| Fuji Seal International (7864) | 660 | Total Construction | 626 |
| Total Other Products | 2,432 | Insurance | |
| Warehouse & Harbour Transportation | | Lifenet (7157) | 458 |
| Trancom (9058) | 2,166 | Total Insurance | 458 |
| Total Warehouse & Harbour Transportation | 2,166 | Securities & Commodity Futures | |
| Banks | | Sawada (8699) | 106 |
| Suruga (8358) | 1,334 | Total Securities & Commodity Futures | 106 |
| Seven Bank (8410) | 649 | Total Portfolio | 69,273 |
| Total Banks | 1,983 | | |
| Other Financing Business | | | |
| IBJ Leasing (8425) | 1,442 | | |
| Mitsubishi UFJ Lease & Finance (8593) | 458 | | |
| Total Other Financing Business | 1,900 | | |
| Air Transportation | | | |
| Skymark Airlines (9204) | 1,383 | | |
| Total Air Transportation | 1,383 | | |

The portfolio comprises all equity investments

Board of Directors

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

A Director since 2003

Last reappointed to the Board 2011

Remuneration £28,000

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

Connections with Manager None

Shared directorships with other Directors Macau Property Opportunities Fund Limited

Shareholding in Company 15,000 ordinary shares and 2,000 subscription shares

John Gibbon (Chairman of the Audit Committee)

A Director since 2003

Last reappointed to the Board 2011

Remuneration £23,000

He is Chairman of BDT Invest Funds plc. He was Chief Investment Officer of BAE SYSTEMS Pension Fund from 1983 to 2001 and is now an advisor to a number of pension funds and charities and to Seven Investment Management Limited. He is also a member of the Central Finance Board of the Methodist Church.

Connections with Manager None

Shared directorships with other Directors None

Shareholding in Company 5,000 ordinary shares and 1,000 subscription shares

Bernard Grigsby

A Director since 2003

Last reappointed to the Board 2011

Remuneration £20,000

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

Connections with Manager None

Shared directorships with other Directors None

Shareholding in Company 50,000 ordinary shares and 10,000 subscription shares

Board of Directors continued

Chris Russell

A Director since 2006

Last reappointed to the Board 2011

Remuneration £20,000

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

Connections with Manager None

Shared directorships with other Directors Macau Property Opportunities Fund Limited

Shareholding in Company 60,000 ordinary shares and 6,000 subscription shares

Robert White

A Director since 2008

Last reappointed to the Board 2011

Remuneration £20,000

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

Connections with Manager None

Shared directorships with other Directors None

Shareholding in Company 10,000 ordinary shares and 11,000 subscription shares

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

Directors' Report

The Directors present their report and audited financial statements for the year ended 31st March 2012

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 for the year ended 31st March 2011. This is subject to review, should there be any subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify as an investment trust under the HM Revenue & Customs' qualifying rules.

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

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 2 to 4, and in the Investment Managers' Report on pages 5 to 8.

Objective

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

Investment Policies and Risk Management

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

The Company manages liquidity and borrowings with the aim of increasing returns to shareholders. The assets are managed by three Investment Managers, all based in Tokyo, supported by a 7 strong Japanese equity team.

The Board has set no minimum or maximum limit on the number of investments in the portfolio but in the year under review, the number of investments ranged between 64 and 83.

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

Investment Restrictions and Guidelines

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

- As an investment trust, the Company cannot invest more than 15% of its assets in any one investment, at the time of acquisition.
- The Company will not invest more than 5% of its total assets in any one individual stock at the time of acquisition.
- The Company's gearing policy is to operate within a range of 95%-115% invested in normal market conditions.
- All currency hedging transactions are subject to the prior approval of the Board. The Company did not enter any such arrangements during the year.

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

Performance

In the year to 31st March 2012, the Company produced a total return to Ordinary shareholders of +1.4% and a diluted total return on net assets of +0.5%. This compares with the return on the Company's benchmark index of +6.0%. At 31st March 2012, the value of the Company's investment portfolio was £69.3 million. The Investment Managers' Report on pages 5 to 8 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Gross Return, Revenue and Dividends

Total gross return for the year amounted to £1,821,000 (2011: £8,460,000 loss) and revenue after deducting interest, administrative expenses and taxation amounted to a deficit of £164,000 (2011: deficit of £434,000). There is no dividend for the year (2011: nil).

Directors' Report continued

Key Performance Indicators ('KPIs')

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

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

Performance Relative to Benchmark Index

Figures have been rebased to 100 at 31st March 2007

Source: Morningstar/Datastream (total return)

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

Five Year Performance

Figures have been rebased to 100 at 31st March 2007

Source: Morningstar/Datastream (total return)

- JPMorgan Japan Smaller Companies - Ordinary share price
- JPMorgan Japan Smaller Companies - diluted net asset value per Ordinary share
- Benchmark

- **Performance against the Company's peers**

The principal objective is to achieve capital growth. The Board monitors performance relative to both the benchmark and a broad range of competitor funds. A chart detailing the Company's performance against its peers and a number of Japanese smaller companies indices can be found on page 1.

- **Discount to net asset value ('NAV')**

The Board has a share repurchase programme which seeks to address imbalances in supply of and demand for the Company's shares within the market, and thereby seek to manage the volatility and absolute level of the discount to NAV at which the Company's shares trade in relation to its peers in the sector. In the year to 31st March 2012, the shares traded between a discount of 79% and 21.1% to the undiluted net asset value per Ordinary share.

Discount Performance

Source: Datastream (daily data)

- JPMorgan Japan Smaller Companies - share price discount to undiluted net asset value per Ordinary share

- **Performance attribution**

The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as sector allocation and stock selection. A performance attribution table can be found on page 6.

- **Total expense ratio ('TER')**

The TER represents the Company's management fee and all other operating expenses excluding financial costs, expressed as a percentage of the average of the month end

net assets. The TER for the year ended 31st March 2012 is 1.87% (2011 1.96%)

Share Capital

The Company has the authority both to purchase shares in the market for cancellation and to issue new shares for cash. In addition, the Company has authority to repurchase shares into Treasury and to reissue shares out of Treasury at a discount to NAV, subject to limits and restrictions, as authorised by shareholders at the 2011 Annual General Meeting.

During the year, the Company issued 4,476 Ordinary shares for a total consideration of £7,000 following the exercise of Subscription shares. Since the year end a further 33,417 Ordinary shares have been issued for a total consideration of £49,000 following the exercise of further Subscription shares.

The Company has not repurchased any shares for cancellation during the year or since the year end. During the year 35,000 shares were repurchased into Treasury for a total consideration of £48,000. Consistent with its policy of cancelling longstanding Treasury shares, the 419,500 shares held in Treasury at 31st March 2011, were cancelled on 20th May 2011. The Company did not issue any shares during the year other than those issued following the exercise of Subscription shares.

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

Subscription Shares

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

The remaining Subscription shares in issue may be exercised at any time up to and including 31st March 2014 at a price of 174 pence per share.

Further details on the Subscription shares, including the apportionments for capital gains tax purposes and how they

may be exercised, can be found on page 55 of this report and on the Company's website at www.jpmmjapan.com

Principal Risks

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

- **Investment and Strategy** An inappropriate investment strategy, for example excessive concentration of investments, asset allocation or the level of gearing, may lead to under-performance against the Company's benchmark index and peer companies, which may result in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on. JPMAM provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which shows statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board. In addition to regular Board meetings, the Board visits the offices of JF Asset Management in Tokyo and Hong Kong on an annual basis to discuss strategy and consider all other relevant aspects of the Investment Management operations.
- **Discount** In order to manage the Company's discount, which can be volatile, the Company operates a share issuance and repurchase programme.
- **Market** The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these three elements of market price risk is given in note 20(a) on pages 45 to 49 of this report, together with details of how the Board manages these risks.

Directors' Report continued

- **Liquidity** This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Details of how the Board manages these risks can be found in note 20(b) on page 49.
- **Credit** Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Company. Details of the Company's exposure to credit risk and how the Board manages this risk can be found in note 20(c) on page 50.
- **Accounting, Legal and Regulatory** In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Business of the Company' on page 16. Should the Company breach Section 1158, it may lose its investment trust status and, as a consequence, gains within the Company's portfolio would be subject to Corporation Tax. The Section 1158 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of The Companies Act 2006 (the 'Act') and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules may result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with the Act and The UKLA Listing Rules.
- **Corporate Governance and Shareholder Relations** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 23 to 27.
- **Operational** Disruption to, or failure of, JFAM's or JPMAM's accounting, dealing or payments systems or the custodian's records may prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JFAM, JPMAM and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on pages 25 and 26.
- **Loss of Investment Team** A sudden departure of several members of the investment management team could result in a short-term deterioration in investment performance. The Manager takes steps to reduce the likelihood of such an event by ensuring appropriate succession planning and the adoption of a team-based approach.
- **Political and Economic** Administrative risks, such as the imposition of restrictions on the free movement of capital.

Future Developments

The future development of the Company is much dependent upon the success of the Company's investment strategy in light of economic and equity market developments, the Investment Managers discuss the outlook in their report on page 8.

Management of the Company

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

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

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

Management Fee

For the first nine months of the Company's financial year, the management fee was charged at the rate of 1.25% per annum on the first £115 million of the Company's gross assets and 1.00% per annum on any amount exceeding £115 million of gross assets (save that in relation to cash and near cash assets above 125% of net assets, a reduced fee of 0.25% per annum was payable). From 1st January 2012 the Company reduced the management fee to 1.00% of the gross assets. A secretarial fee is paid to JPMAM out of this management fee. If the Company invests in funds managed or advised by JFAM, JPMAM or any of

its associated companies, those investments are excluded from the calculation and therefore attract no additional fee

Going Concern

The Directors believe that having considered the Company's investment objective (see page 17), risk management policies (see pages 45 to 51), capital management policies and procedures (see pages 50 and 51), nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts

Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by these terms. As at 31st March 2012, the Company had no outstanding trade creditors (2011: none)

Directors

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

| | 31st March 2012 | 1st April 2011 |
|----------------------------|--------------------|-------------------|
| Ordinary shares | | |
| Alan Clifton | 10,000 | 10,000 |
| John Gibbon | 5,000 | 5,000 |
| Bernard Grigsby | 50,000 | 50,000 |
| Chris Russell | 60,000 | 60,000 |
| Robert White | 10,000 | 10,000 |
| Subscription shares | | |
| Alan Clifton | 2,000 | 2,000 |
| John Gibbon | 1,000 | 1,000 |
| Bernard Grigsby | 10,000 | 10,000 |
| Chris Russell | 6,000 | 7,000 |
| Robert White | 11,000 | 11,000 |

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

Subsequent to year end, Alan Clifton acquired a further 5,000% Ordinary shares

In accordance with the Company's Articles of Association, the Directors retiring at the forthcoming Annual General Meeting will be Christopher Russell and Robert White who, being eligible, offer themselves for reappointment by shareholders. In addition, John Gibbon, who has served as a Director for longer than nine years, retires in accordance with corporate governance best practice and seeks reappointment

Director Indemnification and Insurance

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

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

Disclosure of information to Auditors

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

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

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

Section 992 Companies Act 2006

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

Capital Structure

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

Directors' Report continued

Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 16 to the Notice of Meeting on page 54

Environmental Matters, Social and Community Issues

Information on environmental matters, social and community issues is set out on pages 26 and 27. The Company has no employees

Notifiable Interests in the Company's Voting Rights

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

| Shareholders | Number of voting rights | % |
|--|-------------------------|------|
| Lazard Asset Management LLC | 6,726,110 | 17.0 |
| 1607 Capital Partners | 4,759,252 | 12.1 |
| Asset Value Investors | 4,355,742 | 11.0 |
| Miton Asset Management | 3,815,000 | 9.7 |
| JPMorgan Asset Management (UK) Limited | 3,648,556 | 9.2 |
| Legal & General Investment Management | 1,556,673 | 3.9 |

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

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

Independent Auditors

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

Annual General Meeting

NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial

advice from your stockbroker, bank manager, solicitor or other financial advisor authorised under the Financial Services and Markets Act 2000

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

(i) Authority to allot new Ordinary shares and to disapply pre-emption rights (Resolutions 7 and 8)

The Directors will seek renewal of the authority at the AGM to issue up to 1,579,592 new Ordinary shares for cash up to an aggregate nominal amount of £394,898, such amount being equivalent to approximately 10% of the present issued Ordinary share capital (including Treasury shares) as at the last practicable date before the publication of this document. This authority will expire at the conclusion of the AGM of the Company in 2013 unless renewed at a prior general meeting

It is advantageous for the Company to be able to issue new Ordinary shares to participants purchasing shares through the JPMAM savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. As such issues would only be made at prices greater than the net asset value ('NAV'), they increase the NAV per share and spread the Company's administrative expenses, other than the management fee which is charged on the value of the Company's net assets, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policies. The full text of the Resolutions can be found in the Notice of Meeting on pages 52 and 53

(ii) Authority to repurchase the Company's shares (Resolution 9)

The authority to repurchase up to 14.99% of the Company's issued Ordinary shares and Subscription shares, granted by shareholders at the 2011 AGM, will expire on 21st January 2013 unless renewed at the AGM. The Directors consider that the renewing of the authority is in the interests of shareholders as a whole, as, in the case of the Ordinary shares, the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining Ordinary shares. The repurchase of Subscription shares reduces the potential dilutive impact

Resolution 9 gives the Company authority to repurchase its own issued Ordinary shares and Subscription shares in the market as permitted by the Companies Act 2006 (the 'Act'). The authority limits the number of shares that could be purchased to a maximum of (i) 5,904,530 Ordinary shares, and (ii) 1,079,120 Subscription shares, representing approximately 14.99% of the Company's issued Ordinary shares (less Treasury shares) and issued Subscription shares respectively, as at

22nd June 2012 (being the latest practicable date prior to the publication of this document) The authority also sets minimum and maximum prices and will expire on 22nd January 2014 unless renewed at a prior general meeting

As at 22nd June 2012 (being the latest practicable date prior to the publication of this document), there were no warrants or options over Ordinary shares in the capital of the Company, other than the 7,198,978 Subscription shares in issue (each of which gives the holder thereof the right to subscribe for one new Ordinary share) which represent 18.2% of the Company's issued Ordinary share capital. If the authority to purchase the Company's Ordinary shares was exercised in full (and the authority to purchase Subscription shares not exercised at all) then the Subscription shares would represent 21.4% of the Company's issued Ordinary share capital.

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

Recommendation

The Board considers that Resolutions 7 to 9 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the Resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 140,000 Ordinary shares with voting rights representing approximately 0.4% of the voting rights of the Company.

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Directors' Responsibilities in Respect of the Accounts on page 29 indicates how the Company has applied the principles of good governance of the UK Corporate Governance Code and the AIC's Code of Corporate Governance. (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the

UK Corporate Governance Code, other than in respect of the provision relating to a Senior Independent Director, and the AIC Code throughout the year under review.

Role of the Board

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

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

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

The Board has procedures in place to deal with potential conflicts of interest and, following the introduction of the Bribery Act 2010, has adopted appropriate procedures to prevent bribery. It confirms that the procedures have operated effectively during the year under review.

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

Board Composition

The Board, chaired by Alan Clifton, consists of five non-executive Directors, all of whom, including the Chairman, are regarded by the Board as independent. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on page 15 and 16.

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

Directors' Report continued

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

Tenure

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

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

The Board confirms that Christopher Russell, Robert White and John Gibbon, who retire at this year's AGM, continue to be effective Directors and demonstrate commitment to their roles, and therefore recommends their reappointment.

Meetings and Committees

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

The table below details the number of Board, Audit Committee and Nomination Committee meetings attended by each Director. During the year there were 7 Board meetings, which included a private session of the Directors to evaluate the Manager and an overseas visit to the offices of JF Asset Management in Tokyo to discuss strategy, 2 Audit Committee meetings and 1 Nomination Committee meeting.

| Director | Board Meetings Attended | Audit Committee Meetings Attended | Nomination Committee Meetings Attended |
|-----------------|-------------------------|-----------------------------------|--|
| Alan Clifton | 7 | 2 | 1 |
| John Gibbon | 7 | 2 | 1 |
| Bernard Grigsby | 7 | 2 | 1 |
| Chris Russell | 7 | 2 | 1 |
| Robert White | 7 | 2 | 1 |

Induction and Training

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

Board Committees

Nomination Committee

The Nomination Committee, chaired by Alan Clifton, consists of all of the Directors, and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. The appointment process takes account of the benefits of diversity, including gender.

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

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

Audit Committee

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

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

Terms of Reference

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

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders quarterly each year by way of the annual report and accounts, the half year report and

two interim management statements. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's Ordinary shares.

All shareholders have the opportunity, and are encouraged, to attend the Company's AGM at which the Directors and representatives of the Manager and Secretary are available in person to meet with shareholders and answer their questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. During the year the Company's brokers, the investment managers and the Secretary hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries and consult major shareholders on an annual basis. The Directors may be contacted through the Secretary whose details are shown on page 61.

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

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

Internal Control

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

The Directors are responsible for the Company's system of internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be

Directors' Report continued

designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material mis-statement or loss

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

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

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

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

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

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

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

By the means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of internal control for the year ended 31st March 2012, and to the date of approval of this Annual Report & Accounts

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

Corporate Governance, Voting Policy and Corporate Social Responsibility

The Company delegates responsibility for voting to JPMAM. The following is a summary of JPMAM's policy statements on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board

Corporate Governance

JPMAM believes that corporate governance is integral to our investment process. As part of our commitment to delivering superior investment performance to our clients, we expect and encourage the companies in which we invest to demonstrate the highest standards of corporate governance and best business practice. We examine the share structure and voting structure of the companies in which we invest, as well as the board balance, oversight functions and remuneration policy. These analyses then form the basis of our proxy voting and engagement activity.

Proxy Voting

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

Stewardship/Engagement

JPMAM recognises its wider stewardship responsibilities to its clients as a major asset owner. To this end, we support the introduction of the FRC Stewardship Code, which sets out the responsibilities of institutional shareholders in respect of investee companies. Under the Code, managers should

- publicly disclose their policy on how they will discharge their stewardship responsibilities to their clients,
- disclose their policy on managing conflicts of interest,
- monitor their investee companies,
- establish clear guidelines on how they escalate engagement,
- be willing to act collectively with other investors where appropriate,
- have a clear policy on proxy voting and disclose their voting record, and
- report to clients

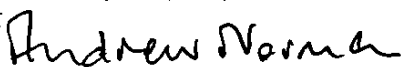
JPMAM endorses the Stewardship Code for its investments and supports its principles as best practice. We believe that regular contact with the companies in which we invest is central to our investment process and we also recognise the importance of being an 'active' owner on behalf of our clients.

Social & Environmental

JPMAM believes that companies should act in a socially responsible manner. Although our priority at all times is the best economic interests of our clients, we recognise that, increasingly, non-financial issues such as social and environmental factors have the potential to impact the share price, as well as the reputation of companies. Specialists within JPMAM's environmental, social and governance ("ESG") team are tasked

with assessing how companies deal with and report on social and environmental risks and issues specific to their industry. This analysis is then used to identify outliers which require further engagement.

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website <http://www.jpmorganassetmanagement.co.uk/Institutional/CommentaryAndAnalysis/CorporateGovernance>, which also sets out its approach to the seven principles of the FRC Stewardship Code, its policy relating to conflicts of interest and its detailed voting record.



By order of the Board
Andrew Norman, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
26th June 2012

Directors' Remuneration Report

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

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The auditors' opinion is included in their report on page 30.

Directors' Remuneration¹

| Directors' Name | 2012 £ | 2011 £ |
|-----------------|----------------|----------------|
| Alan Clifton | 28,000 | 28,000 |
| John Gibbon | 23,000 | 23,000 |
| Bernard Grigsby | 20,000 | 20,000 |
| Chris Russell | 20,000 | 20,000 |
| Robert White | 20,000 | 20,000 |
| Total | 111,000 | 111,000 |

¹Audited information

For the year under review, Directors' fees were paid at the fixed rate of £28,000 for the Chairman, £23,000 for the Chairman of the Audit Committee and £20,000 for the other Directors.

The total Directors' fees of £111,000 (2011: £111,000) were all paid to Directors and £nil (2011: £nil) paid to third parties for making available the services of the Directors.

The Board's policy for this and subsequent years is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board. The Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfilling those roles. As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Secretary, JPMAM, and industry research on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance-related. The Articles stipulate that aggregate fees must not exceed £150,000. Any increase in this amount requires both Board and shareholder approval.

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

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

Five year Ordinary share price and benchmark total return to 31st March 2012

Source: Morningstar/Datastream

— Ordinary share price total return
— Benchmark

By order of the Board
A K Norman, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
26th June 2012

Statement of Directors' Responsibilities

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

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

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

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

The accounts are published on the www.jpmsmallcompanies.co.uk website, which is

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

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report and Directors' Remuneration Report that comply with that law and those regulations.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and return or loss of the Company, and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board
Alan Clifton
Chairman

26th June 2012

Independent Auditor's Report

Independent Auditor's Report to the members of JPMorgan Japan Smaller Companies Trust plc.

We have audited the financial statements of JPMorgan Japan Smaller Companies Trust plc (the 'Company') for the year ended 31st March 2012 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 29, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on the Financial Statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31st March 2012 and of its net return for the year then ended.

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

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

Under the Listing Rules we are required to review

- the Directors' statement, set out on page 21, in relation to going concern,
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration.



Stuart McLaren (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
London, United Kingdom

26th June 2012

Income Statement

for the year ended 31st March 2012

| | Notes | Revenue £'000 | 2012 Capital £'000 | Total £'000 | Revenue £'000 | 2011 Capital £'000 | Total £'000 |
|---|-------|------------------|--------------------------|----------------|------------------|--------------------------|----------------|
| Gains/(losses) on investments held at fair value through profit or loss | | | | | | | |
| | 2 | – | 936 | 936 | – | (8,787) | (8,787) |
| Net foreign currency losses | | – | (411) | (411) | – | (896) | (896) |
| Income from investments | 3 | 1,295 | – | 1,295 | 1,223 | – | 1,223 |
| Other interest receivable and similar income | 3 | 1 | – | 1 | – | – | – |
| Gross return/(loss) | | 1,296 | 525 | 1,821 | 1,223 | (9,683) | (8,460) |
| Management fee | 4 | (873) | – | (873) | (945) | – | (945) |
| Other administrative expenses | 5 | (372) | – | (372) | (395) | – | (395) |
| Net return/(loss) on ordinary activities before finance costs and taxation | | 51 | 525 | 576 | (117) | (9,683) | (9,800) |
| Finance costs | 6 | (124) | – | (124) | (235) | – | (235) |
| Net (loss)/return on ordinary activities before taxation | | (73) | 525 | 452 | (352) | (9,683) | (10,035) |
| Taxation | 7 | (91) | – | (91) | (82) | – | (82) |
| Net (loss)/return on ordinary activities after taxation | | (164) | 525 | 361 | (434) | (9,683) | (10,117) |
| (Loss)/return per Ordinary share - undiluted | 8 | (0.42)p | 1.33p | 0.91p | (1 10)p | (24 55)p | (25 65)p |
| (Loss)/return per Ordinary share - diluted | 8 | (0.42)p | 1.34p | 0.92p | (1 11)p | (24 70)p | (25 81)p |

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

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

The notes on pages 35 to 51 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st March 2012

| | Called up share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Other reserve £'000 | Capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|--|--|---------------------------|---|---------------------------|------------------------------|-----------------------------|-----------------|
| At 31st March 2010 | 4,012 | 65 | 1,794 | 314,823 | (234,045) | (11,665) | 74,984 |
| Exercise of Subscription shares into Ordinary shares | (5) | 5 | – | – | – | – | – |
| Issue of Ordinary shares on exercise of Subscription shares | 51 | 640 | – | – | – | – | 691 |
| Net loss on ordinary activities | – | – | – | – | (9,683) | (434) | (10,117) |
| At 31st March 2011 | 4,058 | 710 | 1,794 | 314,823 | (243,728) | (12,099) | 65,558 |
| Repurchase of shares into Treasury | – | – | – | (48) | – | – | (48) |
| Cancellation of shares in Treasury | (42) | – | 42 | – | – | – | – |
| Issue of Ordinary shares on exercise of Subscription shares | 1 | 6 | – | – | – | – | 7 |
| Net return/(loss) on ordinary activities | – | – | – | – | 525 | (164) | 361 |
| At 31st March 2012 | 4,017 | 716 | 1,836 | 314,775 | (243,203) | (12,263) | 65,878 |

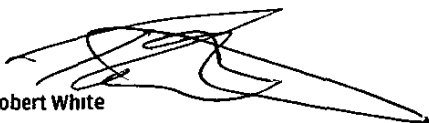
The notes on pages 35 to 51 form an integral part of these accounts

Balance Sheet

at 31st March 2012

| | Notes | 2012 £'000 | 2011 £'000 |
|---|-------|------------------|--------------------|
| Fixed assets | | | |
| Investments held at fair value through profit or loss | 9 | 69,273 | 66,513 |
| Current assets | 10 | | |
| Debtors | | 1,490 | 5,520 |
| Cash and short term deposits | | 554 | 5,593 |
| Creditors: amounts falling due within one year | 11 | 2,044 (5,439) | 11,113 (12,068) |
| Net current liabilities | | (3,395) | (955) |
| Total assets less current liabilities | | 65,878 | 65,558 |
| Net assets | | 65,878 | 65,558 |
| Capital and reserves | | | |
| Called up share capital | 12 | 4,017 | 4,058 |
| Share premium | 13 | 716 | 710 |
| Capital redemption reserve | 13 | 1,836 | 1,794 |
| Other reserve | 13 | 314,775 | 314,823 |
| Capital reserves | 13 | (243,203) | (243,728) |
| Revenue reserve | 13 | (12,263) | (12,099) |
| Total equity shareholders' funds | | 65,878 | 65,558 |
| Net asset value per Ordinary share - undiluted | 14 | 167.1p | 166 2p |
| Net asset value per Ordinary share - diluted | 14 | 164.0p | 163 2p |

The accounts on pages 35 to 51 were approved and authorised for issue by the Directors on 26th June 2012 and were signed on their behalf by


Robert White
Director

The accompanying notes on pages 35 to 51 form an integral part of these accounts

The Company's registration number is 3916716

Cash Flow Statement

for the year ended 31st March 2012

| | Notes | 2012 £'000 | 2011 £'000 |
|--|-------|---------------|---------------|
| Net cash outflow from operating activities | 15 | (59) | (239) |
| Returns on investments and servicing of finance | | | |
| Interest paid | | (125) | (260) |
| Net cash outflow from returns on investments and servicing of finance | | (125) | (260) |
| Capital expenditure and financial investment | | | |
| Purchases of investments | | (65,321) | (94,075) |
| Sales of investments | | 67,652 | 100,816 |
| Other capital charges | | (6) | (10) |
| Net cash inflow from capital expenditure and financial investment | | 2,325 | 6,731 |
| Net cash inflow before financing | | 2,141 | 6,232 |
| Financing | | | |
| Net repayment of loans | | (7,887) | (4,125) |
| Issue of Ordinary shares on exercise of Subscription shares | | 7 | 691 |
| Repurchase of shares into Treasury | | (48) | - |
| Net cash outflow from financing | | (7,928) | (3,434) |
| (Decrease)/increase in cash in the year | 16 | (5,787) | 2,798 |

The accompanying notes on pages 35 to 51 form an integral part of these accounts

Notes to the Accounts

for the year ended 31st March 2012

1. Accounting policies

(a) Basis of accounting

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

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments at fair value. The disclosures on going concern on page 21 of the Directors' Report form part of these financial statements.

The accounting policies applied in these accounts are consistent with those applied in the accounts in the preceding year.

(b) Valuation of investments

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

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

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

(c) Accounting for reserves

Gains and losses on sales of investments including the related foreign exchange gains and losses, realised gains and losses on foreign currency cash balances and loans and any other capital charges, are included in the Income Statement and dealt with in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments held at the year end, including the related foreign exchange gains and losses, are included in the Income Statement and dealt with in capital reserves within 'Investment holding gains and losses'. Unrealised gains and losses on foreign currency loans are included in the Income Statement and dealt with in capital reserves within 'Other revaluation reserve'.

(d) Income

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

Overseas dividends are included gross of any withholding tax.

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

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

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to revenue except for expenses incidental to purchases and sales of investments which are written off to capital. These expenses are commonly referred to as transaction costs and comprise mainly brokerage commission. Details of transaction costs are given in note 9 on page 40.

Notes to the Accounts continued

1. Accounting policies continued

(f) Finance costs

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

Finance costs are allocated wholly to revenue

(g) Financial instruments

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

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

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

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

(h) Foreign currency

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

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction. Assets and liabilities denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end

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

(i) Taxation

Current tax is provided at the amounts expected to be paid or received

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

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred taxation liabilities are recognised for all taxable timing differences but deferred taxation assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which those timing differences can be utilised

Deferred tax is measured at the tax rate which is expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date and is measured on an undiscounted basis

(j) Value Added Tax ('VAT')

Expenses are disclosed inclusive of the related irrecoverable VAT. Recoverable VAT is calculated using the partial exemption method based on the proportion of zero rated supplies to total supplies

(k) Repurchase of shares to hold in Treasury

The cost of repurchasing shares into Treasury, including the related stamp duty and transaction costs is charged to capital reserves and dealt with in the Reconciliation of Movements in Shareholders' Funds. Share repurchase transactions are accounted for on a trade date basis. Where shares held in Treasury are subsequently cancelled, the nominal value of those shares is transferred out of called up share capital and into capital redemption reserve.

Should shares held in Treasury be reissued, the sales proceeds will be treated as a realised profit up to the amount of the purchase price of those shares and will be transferred to capital reserves. The excess of the sales proceeds over the purchase price will be transferred to share premium.

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| 2. Gains on investments held at fair value through profit or loss | | |
| Gains on investments held at fair value through profit or loss based on historical cost | 837 | 1,703 |
| Amounts recognised in investment holding gains and losses at the previous year end in respect of investments sold during the year | (3,804) | (13,431) |
| Losses on sales of investments based on the carrying value at the previous balance sheet date | (2,967) | (11,728) |
| Net movement in investment holding gains and losses | 3,908 | 2,951 |
| Other capital charges | (5) | (10) |
| Total gains/(losses) on investments held at fair value through profit or loss | 936 | (8,787) |

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| 3. Income | | |
| Income from investments | | |
| Overseas dividends | 1,295 | 1,223 |
| Other interest receivable and similar income | | |
| Deposit interest | 1 | – |
| Total income | 1,296 | 1,223 |

| | 2012 £'000 | 2011 £'000 |
|--------------------------|---------------|---------------|
| 4. Management fee | | |
| Management fee | 873 | 945 |

Details of the management fee are given in the Directors' Report on pages 20 and 21.

Notes to the Accounts continued

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| 5. Other administrative expenses | | |
| Administration expenses | 212 | 235 |
| Directors' fees ¹ | 111 | 111 |
| Savings scheme costs ² | 24 | 23 |
| Auditors' remuneration for audit services | 20 | 21 |
| Auditors' remuneration for all other services | 5 | 5 |
| | 372 | 395 |

¹Full disclosure is given in the Directors' Remuneration Report on page 28

²These fees were paid to JPMAM for the marketing and administration of savings scheme products

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| 6. Finance costs | | |
| Interest payable on bank loans and overdrafts | 124 | 235 |

7 Taxation

(a) Analysis of tax charge in the year

| | 2012 £'000 | 2011 £'000 |
|---------------------------------|---------------|---------------|
| UK corporation tax | – | – |
| Overseas withholding tax | 91 | 82 |
| Current tax charge for the year | 91 | 82 |

(b) Factors affecting current tax charge for the year

The tax assessed for the year is lower (2011 higher) than the Company's applicable rate of corporation tax for the year of 26% (2011 28%). The factors affecting the current tax charge for the year are as follows

| | Revenue £'000 | 2012 Capital £'000 | Total £'000 | Revenue £'000 | 2011 Capital £'000 | Total £'000 |
|---|------------------|--------------------------|----------------|------------------|--------------------------|----------------|
| Net (loss)/return on ordinary activities before taxation | (73) | 525 | 452 | (352) | (9,683) | (10,035) |
| Net (loss)/return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 26% (2011 28%) | (19) | 137 | 118 | (99) | (2,711) | (2,810) |
| Non taxable overseas dividends | (337) | – | (337) | (342) | – | (342) |
| Non taxable capital (gains)/losses | – | (137) | (137) | – | 2,711 | 2,711 |
| Unrelieved expenses | 356 | – | 356 | 441 | – | 441 |
| Overseas withholding tax | 91 | – | 91 | 82 | – | 82 |
| | 91 | – | 91 | 82 | – | 82 |

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £3,573,000 (2011 £3,519,000) based on a prospective corporation tax rate of 24% (2011 26%). The reduction in the standard rate of corporation tax was substantively enacted on 21st March 2012 and is effective from 1st April 2012. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts.

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

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| 8. (Loss)/return per Ordinary share | | |
| (Loss)/return per Ordinary share is based on the following | | |
| Revenue loss | (164) | (434) |
| Capital return/(loss) | 525 | (9,683) |
| Total return/(loss) | 361 | (10,117) |
| Weighted average number of Ordinary shares in issue during the year used for the purpose of the undiluted calculation | 39,446,389 | 39,447,831 |
| Weighted average number of Ordinary shares in issue during the year used for the purpose of the diluted calculation | 39,134,213 | 39,203,987 |
| Undiluted | | |
| Revenue loss per share | (0.42)p | (1.10)p |
| Capital return/(loss) per share | 1.33p | (24.55)p |
| Total return/(loss) per share | 0.91p | (25.65)p |
| Diluted | | |
| Revenue loss per share | (0.42)p | (1.11)p |
| Capital return/(loss) per share | 1.34p | (24.70)p |
| Total return/(loss) per share | 0.92p | (25.81)p |

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

Notes to the Accounts continued

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| 9. Investments | | |
| Investments listed on a recognised stock exchange | 69,273 | 66,513 |
| Opening book cost | 60,472 | 71,427 |
| Opening investment holding gains | 6,041 | 16,521 |
| Opening valuation | 66,513 | 87,948 |
| Movement in the year | | |
| Purchases at cost | 65,384 | 92,202 |
| Sales - proceeds | (63,565) | (104,860) |
| Losses on sales of investments based on the carrying value at the previous balance sheet date | (2,967) | (11,728) |
| Net movement in investment holding gains and losses ¹ | 3,908 | 2,951 |
| | 69,273 | 66,513 |
| Closing book cost | 63,128 | 60,472 |
| Closing investment holding gains | 6,145 | 6,041 |
| | 69,273 | 66,513 |

¹During the year, prior year revaluation gains amounting to £3,804,000 have been transferred to realised losses as disclosed in note 13

Transaction costs on purchases during the year amounted to £59,000 (2011: £85,000) and on sales during the year amounted to £49,000 (2011: £87,000). These costs comprise mainly brokerage commission.

| | 2012 £'000 | 2011 £'000 |
|-------------------------------------|---------------|---------------|
| 10. Current assets | | |
| Debtors | | |
| Securities sold awaiting settlement | 831 | 4,918 |
| Dividends and interest receivable | 615 | 549 |
| Other debtors | 44 | 53 |
| | 1,490 | 5,520 |

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

Cash and short term deposits

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

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| 11 Creditors, amounts falling due within one year | | |
| Bank loan | 4,563 | 11,291 |
| Securities purchased awaiting settlement | 774 | 711 |
| Other creditors and accruals | 102 | 66 |
| | 5,439 | 12,068 |

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

The bank loan is secured by a floating charge over the assets of the Company and comprises ¥0.6 billion (2011: ¥1.5 billion) drawn down on a one year loan facility with Scotiabank. Further details of the loan facility are given in note 20(a)(ii) on page 47

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| 12. Called up share capital | | |
| Issued and fully paid share capital: | | |
| Ordinary shares | | |
| Opening balance of 39,451,925 (2011: 38,941,882) Ordinary shares excluding shares held in Treasury | 3,944 | 3,893 |
| Issue of 4,476 (2011: 510,043) Ordinary shares on conversion of Subscription shares | 1 | 51 |
| Repurchase of 35,000 (2011: nil) Ordinary shares into Treasury | (4) | - |
| Subtotal | 3,941 | 3,944 |
| 35,000 (2011: 419,500) Ordinary shares held in Treasury | 4 | 42 |
| Closing balance¹ | 3,945 | 3,986 |
| Subscription shares | | |
| Opening balance of 7,236,871 (2011: nil) Subscription shares of 1p each | 72 | 77 |
| Exercise of 4,476 (2011: 510,043) Subscription shares into Ordinary shares | - | (5) |
| Closing balance² | 72 | 72 |
| Total called up share capital | 4,017 | 4,058 |

¹Represented by 39,456,401 (2011: 39,871,425) Ordinary shares including 35,000 (2011: 419,500) Ordinary shares held in Treasury. During the year, 419,500 shares held in Treasury were cancelled.

²Comprises 7,232,395 (2011: 7,236,871) Subscription shares of 1p each. The Subscription shares were issued as a bonus issue to the Ordinary shareholders on 5th March 2009 on the basis of one Subscription share for every five Ordinary shares held. Each Subscription share confers the right (but not the obligation) to subscribe for one Ordinary share on any business day during the period from 1st April 2009 to 31st March 2014 (inclusive) when the rights under the Subscription shares will lapse. During the year, holders of 4,476 Subscription shares exercised their right to convert those shares into Ordinary shares at a price of 147 pence per share giving a total consideration received of £7,000. The remaining Subscription shares in issue may be exercised at any time up to and including 31st March 2014 at a price of 174 pence per share.

Notes to the Accounts continued

| | Capital reserves | | | | | | | | Total £'000 |
|---|--|---------------------------|---|--|--|--|--|-----------------------------|----------------|
| | Called up share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Other reserve ¹ £'000 | Gains and losses on sales of investments £'000 | Investment holding gains and losses £'000 | Other revaluation reserve £'000 | Revenue reserve £'000 | |
| 13. Reserves | | | | | | | | | |
| Opening balance | 4 058 | 710 | 1 794 | 314,823 | (249,761) | 6 041 | (8) | (12 099) | 65,558 |
| Foreign currency gains on cash and short term deposits | - | - | - | - | 748 | - | - | - | 748 |
| Unrealised foreign currency gains on loan | - | - | - | - | - | - | 108 | - | 108 |
| Net movement in investment holding gains and losses | - | - | - | - | - | 3,908 | - | - | 3,908 |
| Realised foreign currency losses on repayment of loans | - | - | - | - | (1,267) | - | - | - | (1,267) |
| Losses on sales of investments based on the carrying value at the previous balance sheet date | - | - | - | - | (2,967) | - | - | - | (2,967) |
| Unrealised foreign currency losses on loans now realised | - | - | - | - | (8) | - | 8 | - | - |
| Transfer on disposal of investments | - | - | - | - | 3,804 | (3,804) | - | - | - |
| Cancellation of shares held in Treasury | (42) | - | 42 | - | - | - | - | - | - |
| Repurchase of shares into Treasury | - | - | - | (48) | - | - | - | - | (48) |
| Issue of Ordinary shares on exercise of Subscription shares | 1 | 6 | - | - | - | - | - | - | 7 |
| Other capital charges | - | - | - | - | (5) | - | - | - | (5) |
| Net revenue loss for the year | - | - | - | - | - | - | - | (164) | (164) |
| Closing balance | 4,017 | 716 | 1,836 | 314,775 | (249,456) | 6,145 | 108 | (12,263) | 65,878 |

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

14. Net asset value per Ordinary share

| | 2012 | 2011 |
|--|-------------------|------------|
| Undiluted | | |
| Ordinary shareholders funds (£ 000) | 65,878 | 65,558 |
| Number of Ordinary shares in issue | 39,421,401 | 39,451,925 |
| Net asset value per Ordinary share | 167.1p | 166.2p |
| Diluted | | |
| Ordinary shareholders funds assuming exercise of dilutive Subscription shares and reissuance of any dilutive Treasury shares (£'000) | 76,510 | 76,893 |
| Number of potential dilutive Ordinary shares in issue | 46,653,796 | 47,108,296 |
| Net asset value per Ordinary share | 164.0p | 163.2p |

The diluted net asset value per Ordinary share assumes that all outstanding dilutive Subscription shares were converted into Ordinary shares at the year end and all shares held in Treasury at the year end were reissued, where this has a dilutive effect. During the year, the Company changed its policy on the reissuance of Treasury shares. Henceforth, Treasury shares will only be reissued at a premium to net asset value per share. Hence, the shares held in Treasury at 31st March 2012 have no dilutive effect.

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| 15. Reconciliation of total return/(loss) on ordinary activities before finance costs and taxation to net cash outflow from operating activities | | |
| Total return/(loss) on ordinary activities before finance costs and taxation | 576 | (9,800) |
| Add back capital (return)/loss before finance costs and taxation | (525) | 9,683 |
| Increase in accrued income | (66) | (33) |
| Decrease/(increase) in other debtors | 9 | (1) |
| Increase/(decrease) in accrued expenses | 38 | (6) |
| Overseas withholding tax | (91) | (82) |
| Net cash outflow from operating activities | (59) | (239) |

| | 2011 £'000 | Cash flow £'000 | Exchange movement £'000 | 2012 £'000 |
|--|---------------|--------------------|-------------------------------|---------------|
| 16. Analysis of changes in net debt | | | | |
| Cash and short term deposits | 5,593 | (5,787) | 748 | 554 |
| Bank loans falling due within one year | (11,291) | 7,887 | (1,159) | (4,563) |
| Net debt | (5,698) | 2,100 | (411) | (4,009) |

17. Capital commitments and contingent liabilities

At the balance sheet date there were no capital commitments or contingent liabilities (2011 none)

18. Transactions with J P Morgan

Details of the management contract are set out in the Directors' Report on pages 20 and 21. The management fee payable for the year was £873,000 (2011 £945,000) of which £39,000 (2011 £nil) was outstanding at the year end.

During the year £24,000 (2011 £23,000) was payable to JPMAM for the marketing and administration of savings scheme products, of which £nil (2011 £nil) was outstanding at the year end.

Included in other administration expenses in note 5 on page 38 are safe custody fees payable to JPMAM group subsidiaries amounting to £10,000 (2011 £11,000) of which £3,000 (2011 £3,000) was outstanding at the year end.

JPMAM carries out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length. The commission payable to J P Morgan Securities for the year was £6,000 (2011 £8,000) of which £nil (2011 £nil) was outstanding at the year end.

Handling charges payable on dealing transactions undertaken by JPMAM group subsidiaries on behalf of the Company during the year amounted to £5,000 (2011 £10,000) of which £1,000 (2011 £2,000) was outstanding at the year end.

At the year end, a bank balance of £554,000 (2011 £5,593,000) was held with JPMorgan Chase. A net amount of interest of £530 (2011 £490) was receivable by the Company during the year from JPMorgan Chase of which £nil (2011 £nil) was outstanding at the year end.

Notes to the Accounts continued

19. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 29 that are held a fair value comprise its investment portfolio. The Company currently holds no derivative financial instruments and its liabilities are not held at fair value.

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

Level 1 - valued using quoted prices in active markets

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

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

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

Details of the valuation techniques used by the Company are given in note 1(b) on page 35.

The following table sets out the fair value measurements using the FRS 29 hierarchy at 31st March:

| | 2012 | | | |
|--|------------------|------------------|------------------|----------------|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| Financial instruments held at fair value through profit or loss | | | | |
| Equity investments | 69,273 | – | – | 69,273 |
| Total | 69,273 | – | – | 69,273 |
| | 2011 | | | |
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| Financial instruments held at fair value through profit or loss | | | | |
| Equity investments | 66,513 | – | – | 66,513 |
| Total | 66,513 | – | – | 66,513 |

There have been no transfers between Levels 1, 2 or 3 during the year (2011: nil).

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

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

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

The Company's financial instruments comprise the following:

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

(a) Market risk

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

(i) Currency risk

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

Management of currency risk

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

Foreign currency exposure

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

Notes to the Accounts continued

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

(a) Market risk continued

(i) Currency risk continued

| | 2012 Yen £'000 | 2011 Yen £'000 |
|---|----------------------|----------------------|
| Investments held at fair value through profit or loss that are monetary items | – | – |
| Securities sold awaiting settlement, dividends and interest receivable | 1,446 | 5,467 |
| Cash and short term deposits | 447 | 5,559 |
| Bank loan | (4,563) | (11,291) |
| Securities purchased awaiting settlement | (774) | (711) |
| Creditors | (1) | – |
| Foreign currency exposure on net monetary items | (3,445) | (976) |
| Investments held at fair value through profit or loss that are equities | 69,273 | 66,513 |
| Total net foreign currency exposure | 65,828 | 65,537 |

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

Foreign currency sensitivity

The following tables illustrate the sensitivity of the return after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's foreign currency exposure at each balance sheet date and the income received in foreign currency and assumes a 10% (2011: 10%) appreciation or depreciation in sterling against the yen, which is deemed a reasonable illustration based on the volatility of exchange rates during the year.

If sterling had weakened by 10% this would have had the following effect

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| Income statement return after taxation | | |
| Revenue return | 130 | 122 |
| Capital return | (344) | (98) |
| Total return after taxation for the year | (214) | 24 |
| Net assets | (214) | 24 |

Conversely if sterling had strengthened by 10% this would have had the following effect

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| Income statement return after taxation | | |
| Revenue return | (130) | (122) |
| Capital return | 344 | 98 |
| Total return after taxation for the year | 214 | (24) |
| Net assets | 214 | (24) |

(ii) Interest rate risk

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

Management of interest rate risk

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

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company's gearing policy is to limit gearing within the range 95% to 115% where gearing is defined as investments expressed as a percentage of total net assets.

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

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

Interest rate exposure

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

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| Amounts exposed to floating interest rates | | |
| Cash and short term deposits | 554 | 5,593 |
| Creditors - amounts falling due within one year | | |
| Bank loan | (4,563) | (11,291) |
| Total exposure | (4,009) | (5,698) |

Interest receivable on cash balances or paid on overdrafts is at a margin below or above LIBOR respectively (2011 - same)

During the year, the Company extended its ¥2.0 billion multicurrency revolving loan facility with Scotiabank which expired on 4th October 2011. The new facility will expire on 4th October 2012. Interest is payable at LIBOR as offered in the market for the relevant currency and loan period plus a margin of 1.1% plus Mandatory Costs which are the Lender's costs of complying with certain regulatory requirements. At 31st March 2012, the Company had drawn down ¥0.6 billion on this facility, repayable on 27th April 2012 at an interest rate of 1.2%. At 31st March 2011, the Company had drawn down ¥1.5 billion on the preceding facility.

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

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| Maximum debit interest rate exposure to floating rates - net loan balances | (8,031) | (21,556) |
| Maximum credit interest rate exposure to floating rates - net cash balances | 4,059 | 6,331 |

Notes to the Accounts continued

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

(a) Market risk continued

(ii) Interest rate risk continued

Interest rate sensitivity

The following table illustrates the sensitivity of the revenue after taxation for the year and net assets to a 1% (2011: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's cash and loan balances held at the balance sheet date, with all other variables held constant.

| | 2012 | | 2011 | |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 1% Increase in rate £'000 | 1% Decrease in rate £'000 | 1% Increase in rate £'000 | 1% Decrease in rate £'000 |
| Income statement - return after taxation | | | | |
| Revenue return | (40) | 40 | (57) | 57 |
| Net assets | (40) | 40 | (57) | 57 |

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

(iii) Other price risk

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

Management of market price risk

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

Market price risk exposure

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

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| Equity investments held at fair value through profit or loss | 69,273 | 66,513 |

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

Concentration of exposure to market price risk

An analysis of the Company's investments is given on pages 13 and 14. This shows that all of the investments' value is in Japanese equities. Accordingly there is a concentration of exposure to that country. However, it should be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

Market price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2011: 10%) in the fair value of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee, but with all other variables held constant.

| | 2012 | | 2011 | |
|--|--|--|--|--|
| | 10% Increase in fair value £'000 | 10% Decrease in fair value £'000 | 10% Increase in fair value £'000 | 10% Decrease in fair value £'000 |
| Income statement - return after taxation | | | | |
| Revenue return | (87) | 87 | (83) | 83 |
| Capital return | 6,927 | (6,927) | 6,651 | (6,651) |
| Total return after taxation and net assets | 6,840 | (6,840) | 6,568 | (6,568) |

(b) Liquidity risk

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

Management of the risk

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

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities, working capital requirements and to gear the Company as appropriate. Details of the current loan facility are given in part (a)(ii) to this note on page 47.

Liquidity risk exposure

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

| | 2012 | | | 2011 | | |
|---|-------------------------------------|---|----------------|-------------------------------------|---|----------------|
| | Three months or less £'000 | More than three months but not more than one year £'000 | Total £'000 | Three months or less £'000 | More than three months but not more than one year £'000 | Total £'000 |
| Creditors - amounts falling due within one year | | | | | | |
| Bank loan including interest | 4 | 4,563 | 4,567 | 6 | 11,291 | 11,297 |
| Securities purchased awaiting settlement | 774 | - | 774 | 711 | - | 711 |
| Other creditors and accruals | 98 | - | 98 | 60 | - | 60 |
| | 876 | 4,563 | 5,439 | 777 | 11,291 | 12,068 |

Notes to the Accounts continued

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

(c) Credit risk

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

Management of credit risk

Portfolio dealing

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

Cash

Counterparties are subject to daily credit analysis by the Manager and trades can only be placed with counterparties that have a minimum rating of A1/P1 (2011: A1/P1) from Standard & Poor's and Moody's respectively.

Exposure to JPMorgan Chase

JPMorgan Chase is the custodian of the Company's assets. The custody agreement grants a general lien over the securities credited to the securities account. The Company's assets are segregated from JPMorgan Chase's own trading assets and are therefore protected from creditors in the event that JPMorgan Chase were to cease trading.

Credit risk exposure

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

There has been no stock lending during the year.

(d) Fair values of financial assets and financial liabilities

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

21. Capital management policies and procedures

The Company's debt and capital structure comprises the following:

| | 2012 £'000 | 2011 £'000 |
|-----------------------|---------------|---------------|
| Debt | | |
| Bank loan | 4,563 | 11,291 |
| Equity | | |
| Share capital | 4,017 | 4,058 |
| Reserves | 61,861 | 61,500 |
| Total equity | 65,878 | 65,558 |
| Total debt and equity | 70,441 | 76,849 |

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise capital return to its equity shareholders through an appropriate level of gearing. The Board's policy is to operate within a gearing range of 95%-115% in normal market conditions. Gearing for this purpose is defined as investments expressed as a percentage of net assets.

| | 2012 £'000 | 2011 £'000 |
|---|-----------------------------|-----------------------------|
| Investments held at fair value through profit or loss | 69,273 | 66,513 |
| Net assets | 65,878 | 65,558 |
| Gearing | 105.2% | 101.5% |

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

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

Notice of Annual General Meeting

Notice is hereby given that the twelfth Annual General Meeting of JPMorgan Japan Smaller Companies Trust plc will be held at Holborn Bars, 138-142 Holborn, London EC1N 2NQ on Monday, 23rd July 2012 at 11 30 a m for the following purposes

- 1 To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st March 2012
- 2 To approve the Directors' Remuneration Report for the year ended 31st March 2012
- 3 To reappoint Christopher Russell as a Director of the Company
- 4 To reappoint Robert White as a Director of the Company
- 5 To reappoint John Gibbon as a Director of the Company
- 6 To reappoint Deloitte LLP as Auditors to the Company and to authorise the Directors to determine their remuneration

Special Business

To consider the following resolutions

Authority to allot new Ordinary shares – Ordinary Resolution

- 7 THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot equity securities in the Company and to grant rights to subscribe for, or to convert any security into, Ordinary shares in the Company ('Rights') up to an aggregate nominal amount of £394,989, representing approximately 10% of the Company's issued Ordinary share capital (including shares held in Treasury) as at the date of the passing of this resolution providing that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2013 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired

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

- 8 THAT subject to the passing of Resolution 7, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 7 as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £394,898, representing approximately 10% of the total Ordinary share capital (including shares held in Treasury) as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 7, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers agreements or arrangements as if the power conferred hereby had not expired

Authority to repurchase the Company's shares – Special Resolution

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

PROVIDED ALWAYS THAT

- (i) the maximum number of Ordinary shares and Subscription shares hereby authorised to be purchased shall be 5,904,530 and 1,079,120 respectively, or if less, that number of Ordinary shares or Subscription shares which is equal to 14.99% of the Company's issued share capital (less shares held in Treasury) of the relevant share class as at the date of the passing of this Resolution,
- (ii) the minimum price which may be paid for an Ordinary share and Subscription share shall be 10 pence and 1 pence respectively,

- (iii) the maximum price which may be paid for a share shall be an amount equal to the highest of (a) 105% of the average of the middle market quotations for a share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is purchased, or (b) the price of the last independent trade, or (c) the highest current independent bid,
- (iv) any purchase of Ordinary shares will be made in the market for cash at prices below the prevailing NAV per share (as determined by the Directors),
- (v) the authority hereby conferred shall expire on 22nd January 2014 unless the authority is renewed at the Company's Annual General Meeting in 2013 or at any other general meeting prior to such time, and
- (vi) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of shares pursuant to any such contract notwithstanding such expiry

Andrew Norman

By order of the Board
 Andrew Norman, for and on behalf of
 JPMorgan Asset Management (UK) Limited,
 Secretary
 29th June 2012

Notes

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

- 1 A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attaching to different shares held by him
- 2 A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person. If you attend the Meeting in person, your proxy appointment will automatically be terminated
- 3 Any instrument appointing a proxy to be valid, must be lodged in accordance with the instructions given on the proxy form
- 4 You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share. If the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share
- 5 To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.00 p.m. two business days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.00 p.m. two business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the Meeting or adjourned Meeting

Notice of Annual General Meeting continued

- 6 Entry to the Meeting will be restricted to shareholders and their proxy or proxies with guests admitted only by prior arrangement
 - 7 A corporation which is a shareholder may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form) In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company provided that they do not do so in relation to the same shares It is therefore no longer necessary to nominate a designated corporate representative
Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed
 - 8 Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous AGM, which the members propose to raise at the Meeting The Company cannot require the members requesting the publication to pay its expenses Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right
 - 9 Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information
 - 10 Under Sections 338 and 338A of the 2006 Act members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the Meeting notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting A resolution may properly be moved or a matter properly included in the business unless (a) (in the case of a resolution only) it would if passed be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person or (c) it is frivolous or vexatious A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request
 - 11 A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person') The rights to appoint a proxy can not be exercised by a Nominated Person they can only be exercised by the member However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights
 - 12 In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM the total voting rights members are entitled to exercise at the AGM and, if applicable any members' statements members resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.jpmmjapan.com
 - 13 The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays Sundays and public holidays excepted) It will also be available for inspection at the Annual General Meeting No Director has any contract of service with the Company
 - 14 You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated
 - 15 As an alternative to completing a hardcopy Form of Proxy/Voting Direction Form, you can appoint a proxy or proxies electronically by visiting www.sharevote.co.uk You will need your Voting ID Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Direction Form) Alternatively if you have already registered with Equiniti Limited's online portfolio service, Shareview you can submit your Form of Proxy at www.shareview.co.uk Full instructions are given on both websites
 - 16 As at 22nd June 2012 (being the latest business day prior to the publication of this Notice) the Company's issued share capital consists of 39 389 818 Ordinary shares carrying one vote each and 7,198,978 Subscription shares with no voting rights Therefore the total voting rights in the Company are 39 389 818
- Electronic appointment - CREST members**
CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual See further instructions on the proxy form

Details of Subscription Shares

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

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

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

| | |
|---------------------|---------|
| Ordinary shares | 101.75p |
| Subscription shares | 7p |

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

The remaining Subscription shares in issue may be exercised at any time up to and including 31st March 2014 at a price of 174 pence per share.

Notice of the exercise of the Subscription share rights may be given at any time up to 31st March 2014 and the Ordinary shares arising on conversion will be issued within ten business days of the first business day of the calendar month following the month in which the relevant notices are received by the registrars. For further details on how to exercise the Subscription share rights please refer to the Company's website at www.jpmsmallcompanies.co.uk or contact the Secretary on 020 7742 4000.

Glossary of Terms and Definitions

Unit Return to Shareholders

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

A Unit comprises 5 Ordinary shares and 1 Subscription share

Return to Ordinary Shareholders

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

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

The diluted NAV per Ordinary share assuming that all outstanding dilutive Subscription shares were converted into Ordinary shares at the year end and all shares held in Treasury at the year end were reissued where this has a dilutive effect

Undiluted Return on Net Assets

Return on the undiluted Net Asset Value ('NAV') per Ordinary share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend

Diluted Return on Net Assets

Return on the diluted Net Asset Value ('NAV') per Ordinary share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend

Benchmark Return

Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested into 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 'track' this index and consequently, there may be some divergence between the Company's performance and that of the benchmark

Actual Gearing Factor

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

Total Expense Ratio ('TER')

The TER represents the Company's management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the month end net assets during the year

Share Price Discount to Diluted Net Asset Value ('NAV') per Ordinary Share

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

(Loss)/Return per Ordinary Share - Diluted

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

(Loss)/Return per Ordinary Share - Undiluted

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

Performance Attribution

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

Performance Attribution Definitions

Sector Allocation

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

Stock Selection

Measures the effect of investing in securities to a greater or lesser extent than their weighting in the benchmark, or of investing in securities which are not included in the benchmark

Gearing/Cash

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

Management Fee/Other Expenses

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

Exercise of Subscription shares

Measures the negative impact on the Net Asset Value ('NAV') per share arising from the exercise of Subscription shares into Ordinary shares at a price less than the NAV per share

Subscription Share Dilution Effect

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

Notes

Information about the Company

Financial Calendar

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

History

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

The Company changed its name to JPM Japan Smaller Companies Trust plc on 27th July 2010.

Company Numbers

Company registration number 3916716

Ordinary Shares

London Stock Exchange Sedol number O316581
 ISIN GB0003165817
 Bloomberg code JPS LN

Subscription Shares

London Stock Exchange Sedol number B3Q7DL7
 ISIN GB00B3Q7DL73
 Bloomberg code JPSS

Market Information

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

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

Website

www.jpjapansmallercompanies.co.uk

Share Transactions

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

Manager

JF Asset Management Limited

Company Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

Finsbury Dials
 20 Finsbury Street
 London EC2Y 9AQ
 Telephone 020 7742 4000

For company secretarial and administrative matters please contact Andrew Norman

Custodian

JPMorgan Chase Bank, N.A.
 125 London Wall
 London EC2Y 5AJ

Registrars

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

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

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

Independent Auditor

Deloitte LLP
 Chartered Accountants and Statutory Auditor
 2 New Street Square
 London
 EC4A 3BZ

Brokers

Cannacord Genuity Limited
 88 Wood Street
 London EC2V 7QR

Savings Product Administrators

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

A member of the AIC

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Your telephone call may be recorded for your security

www.jpmmjapanismallercompanies.co.uk